

**CHARLES UNIVERSITY IN PRAGUE
FACULTY OF SOCIAL SCIENCES
INTERNATIONAL ECONOMIC AND
POLITICAL STUDIES**

MASTER'S THESIS

**THE DEVELOPMENT OF
FISCAL DECENTRALIZATION
IN REPUBLIC OF KOREA
(SOUTH KOREA) SINCE 1987**

Author	Jung Hyup Yeou
Subject:	IEPS
Academic Year:	2009/2010
Supervisor:	MUDr. Petr Hava, CSc
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DECLARATION:

I hereby declare that this thesis is my own work, based on the sources and literature listed in the appended references. The thesis as submitted is keystrokes long (including spaces), i.e. manuscript pages.

Junghyup Yeou

26th May 2010

ABSTRACT

The topic of this study is the fiscal decentralization (FI) in Republic of Korea (Korea). As a world-wide trend, FI has also been adopted and implemented in Korea, particularly since the democratization of 1987. As a redistribution of limited resources between national and sub-national government (SNG), FI is essentially political in that various political actors interact to achieve more resources.

With the research problem of the fiscal tensions between SNGs and national government, the objective of this thesis is to assess the process of FI in Korea in its contexts since 1987. Research questions are: (1) why FI happened; (2) how national government and SNGs have interacted and how institutionalization has been devised; (3) how the outcomes can be interpreted in terms of socioeconomic development.

The qualitative methodology is adopted in that it can describe phenomena in contexts and explore dynamic processes and find sequential patterns, which is relevant for the objective of this thesis. The specific methodology is interdisciplinary approach combining case, history, policy process, and institution approach.

The main findings are; (1) democratization and globalization are the main driving factors of FI. (2) The policy process became more plural with the resistance against FI. As outputs, the institutionalization of intergovernmental relation is low and the fiscal measurements are mainly intergovernmental transfer, rather than tax transfer. (3) As outcomes of FI, SNG has high expenditure and intergovernmental transfer with weak tax revenue. Although the expenditure in social sector increased, it is attributed to the control of national government. In regional society, FI decreased regional disparity but the regional gap of income social protection expenditure became larger. Cross-country comparison tells that Korea needs more social investment through further FI.

Keywords: Decentralization, Fiscal decentralization, Republic of Korea

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1. INTRODUCTION

The topic of this study is the fiscal decentralization in Republic of Korea known as South Korea (hereafter Korea). Decentralization is a world-wide trend. Not only Korea but also many countries around the world have commonly introduced and implemented decentralization in order to satisfy ‘the pressure for greater democracy and meet the increasing demands of local citizens’ (Jones and Yokoyama 2005, 4).

Meanwhile, decentralization has diversity in that the driving effects, scopes, and contexts of decentralization in each country are so various and complex (Boadway and Shah 2009, 122-3). This is the main reason why various academic fields such as sociology, politics, economics, and public administration have dealt with decentralization. Overall theoretical arguments have focused on why decentralization happens, how its process develops, and what its impact is. Empirical arguments have mainly dealt with whether or not decentralization has positive relation with dependent variables such as economic growth, social welfare. Current literatures point out that ‘the outcomes of decentralization on governance will depend on many country-specific social, cultural, political, and other institutional factors’ (Rodden et al. 2003, 6).

Fiscal decentralization as a redistribution of limited resources between national and sub-national government (SNG) has important implication theoretically as well as practically. First, it is the core of various decentralization policies in that full political and administrative autonomy of SNG can be realized by its sufficient fiscal capacity. Some principles such as efficiency, equity, and stability should be considered in order to introduce fiscal decentralization. Secondly, it is essentially political in that various political interests and actors are involved in it. Some actors, mainly most SNGs demand

more fiscal decentralization. On the other hand, some actors, mainly most central ministries, hesitate or even protest against fiscal decentralization with fear that it can deprive them of their powers and resources which guarantee their organizational identity.

Therefore, in the process of fiscal decentralization, it is crucially important to institutionalize the harmonization of explicit or potential confronting interests systemically in order to eliminate or reduce inefficiency which may be caused through unfair or meager arrangement. That is why most countries institutionalize intergovernmental relation in various norms such as constitution or acts. Meanwhile, institutionalization itself reflects the result of compromise between political actors as well as various contextual factors of each country such as historical legacies or social and economical identities. Fiscal decentralization, once institutionalized, can affect SNGs directly due to reformation of their administration and finance. Moreover, it can impact regional society through the change of public service provisions.

1.1. Research Problem

Korea has experienced significant political and economic changes since its foundation in 1945. From ‘one of the poorest countries in the world with poor resource endowment,’ it dramatically changed into the 13th largest economy in the world, accomplishing full democracy in 1987.¹ In order to consolidate democracy in regional level, decentralization has been adopted by political leaders and implemented through various institutional and fiscal measurements. Recently, decentralization policy has provided SNGs with much more resources such as political, administrative and fiscal competency than before democratization. Most SNGs, however, are still claiming more

¹ U.S. Department of State. <http://www.state.gov/r/pa/ei/bgn/2800.htm>

fiscal resources.

With such implication and various contexts of fiscal decentralization, the research problem of this thesis is mainly about the political and fiscal tensions between SNGs and national government. Major concerns are, through the process of decentralization, why decentralization happened, how national government and SNGs have interacted, what how institutionalization has been devised, and how the outcomes can be interpreted in terms of socioeconomic development.

1.2. Research Objective and Questions

The objective of this study is to assess the process of decentralization in Korea in its contexts since 1987. Not only the public policy process in which related political actors participate under various institutions, but also the effects of decentralization on regional society are focused. On the base of the research objective, research questions are discussed as below:

1. What are the main driving factors of fiscal decentralization in Korean government since 1987?
2. What are the characteristics of successive Korean governments in terms of policy process and what are the outputs in institutional and fiscal aspect since 1987?
3. What are the outcomes of fiscal decentralization in SNG and regional society in the prospects of economic and social development in Korea since 1987?

1.3. Methodology and Data Collecting

1.3.1. Methodology

The research methodology needs to be applied to fit for the purpose of research. In this study, mainly qualitative methodologies are applied in that they can ‘describe, in rich detail, phenomena as they are situated in contexts’ and ‘explore dynamic processes and find sequential patterns’ by qualitative methodology (Fischer, Miller, and Sidney 2007, 424). In this thesis, among various qualitative methodologies, more appropriate methodology is applied according to each of research parts.

Case Approach

A case study may be understood as ‘the intensive study of a single case where the purpose of that study is – at least in part – to shed light on a larger class of cases’ (Gerring 2007, 20). The thesis itself is the case study of Korea which can provide meaningful implications in that it is still transmitting from a developing country where decentralization often failed, to a developed country.

Historical Approach

Historical research is a tool to ‘analyze historical sequences and processes over time’ (Mahoney and Rueschemeyer 2003, 12). It is applied to the process and development of fiscal decentralization policy through successive governments in order to find out certain characteristics of each government.

Public policy Approach

Public policy analysis is concerned with ‘understanding and analyzing the whole process of public policy in terms of contexts, agenda setting, decision making, and implementation’ (Hudson and Lowe 2004, 3). In this study, decentralization is mainly

understood by one of public policies. Therefore, by public policy analysis, the process and outcomes of decentralization can be explained appropriately (Knoepfe et al 2007, 33).

Institutional Approach

In order to assess the interaction between institutions and political actors, institutional approach is also necessary. In this study, institution as ‘the humanly devised constraints that structure human interaction’ includes informal institutions such as conventions as well as formal institutions. Informal institutions can not be easily transformed due to its rigidity, compared with formal institutions (Chavance 2009, 45). Particularly, it is focused on how institutional framework as ‘a mixed bag of institutions’ condition related actors and organizations and how they react against this.

1.3.2. Data Collecting

In this study, data are extracted from the relevant literatures such as internet sources or print sources. Relevant data are also collected by secondary sources such as political documents, social and economic indicators, legal norms, statistics of related organizations such as Korea statistic office, and media data

1.4. The Outlines of Thesis

Following Chapter 2 introduces theoretical backgrounds of fiscal decentralization and devises the conceptual framework for analysis. Based on the conceptual framework, following chapters assess the major aspects of fiscal decentralization. Chapter 3 and 4 provide the contexts, institutions and organizations which are related to fiscal decentralization. Chapter 5 discusses the policy process of decentralization, focusing on the characteristics of process and outputs. In Chapter 6, the empirical results about the outcomes of decentralization are presented.

2. THEORETICAL BACKGROUND

2.1. The Concept of Fiscal Decentralization

Literally, decentralization is ‘a process of transferring power to popularly elected local governments’ (U.S. AID 2000, 6). And it also is a multi-dimensional concept in that it is ‘the assignment of fiscal, political and administrative responsibilities to lower levels of government’ (Litvack et al 1998, 4). Most literatures categorize decentralization as three aspects: political, administrative, and fiscal decentralization (Kim, 2008, 4). Political decentralization can be similar to local democracy, guaranteed by constitution and laws, whereby chiefs and council members of SNGs are elected by their residents. Administrative decentralization indicates that SNGs have authorities of their spending activities even if most taxes are raised nationally. Fiscal decentralization focuses on the authorities of SNGs to fund their own revenues and spend them without any control of national government. In practice, however, fiscal decentralization is a problem of the extent in that even most developed countries share fiscal authorities with SNGs (Blöchliger 2006, 33). Such multidimensional aspect of decentralization suggests an implication in that it can ‘affect a wide range of issues such as service delivery to macroeconomic stability’ (Litvack et al 1998, 30).

Three varieties of fiscal decentralization may be distinguished, corresponding to the degree of independent decision-making exercised at the local level (Bird and Vaillancourt 1998, 3). First, deconcentration means the dispersion of responsibilities within a national government to regional branch offices. Second, delegation refers to a situation in which SNGs act as agents for the national government, executing certain functions on its behalf. Third, devolution refers to a situation in which not only implementation but also the authority to decide what is done is devolved to SNGs.

2.2. The Background of Fiscal Decentralization

The gradual decentralization of fiscal responsibilities from national government to SNGs has been a common theme in many countries. Although the process has differed and reflected each institutional, political, and historical feature, there are some common factors that drive fiscal decentralization (Boadway and Shah 2009, 59-60).

2.2.1. Democratization

According to Huntington (1993, 7), democracy exist when ‘most powerful collective decision makers are selected through fair, honest, and periodic elections in which candidates freely compete for votes and in which virtually all the adult population is eligible to vote’. He also defined a wave of democratization as ‘a group of transitions from nondemocratic to democratic regimes that occur within a specified period of time and that significantly outnumber transitions in the opposite direction during that period of time.’ Democratization involves ‘the end of an authoritarian regime; the installation of a democratic regime; and the consolidation of the democratic regime’ (Huntington 1993, 34). There have been three waves of democratization in world history. The current wave, namely the third wave occurred since mid- 1970s in Portugal and has dispersed around all round world (Huntington 1993, 15).

Such democratization implicates the declining credibility of the centralized state (Litvack et al 1998 4). The national government’s declining credibility was mainly attributed to economic failure (Sharma 2004, 5). Consequently, such political changes have local demands and local communities more important (Litvack et al 1998, 4). The logic that decisions made at the local level better reflects the resident’s need has been a common assumption for more fiscal decentralization (Ahmad and Tanzi 2007, 17).

2.2.2. Globalization

The second background is the enormous pressure arising from globalization, accompanied by rapidly emerging developing economies and the revolution in communications. Globalization is related to decentralization in an ambiguous way: on the one hand, in many countries decentralization has been introduced due to the need for more flexible and adaptable decision-making (Jun and Wright 1996, 4). On the other hand, the competitive pressure globalization has produced has led to ‘individualization, atomization, and a loss of solidarity’ (Stohr, Edralin, and Mani 1996, 7).

2.2.3. International Agencies and Paradigms for Decentralization

Besides megatrends such as democratization, globalizations, real actors with ideology for decentralization have had some countries (particularly developing or transitional countries) implement decentralization as one of important public policies implicitly or explicitly. For instance, the International Monetary Fund (IMF) or the World Bank (WB) are the crucial forces working behind the trend (Sharma 2004, 11). The main norms which IMF and WB follow implicitly may be ‘Washington Consensus’ which is known for its distrusting in national governments’ capacity and supporting decentralization of state power (Sharma 2004, 5).

Meanwhile, in most of developed countries, decentralization has also been adopted as one of public policies, supported by the New Public Management (NPM) as one of the dominant paradigms for public management across the world, which advocates managerial autonomy by reducing national agency controls. The WB or the Organization for Economic Co-operation and Development (OECD) are also important advocates of the NPM reforms across the world (McLaughlin et al. 2002, 181).

2.3. The Process of Decentralization

How is decentralization devised or implemented? In this part, three approaches are introduced: functional, institutional, and policy approach. First, functional approach focuses on functional assignment such as expenditure or revenue between governments and fiscal principles. Secondly, institutional approach focuses on institutional setting or incentives for decentralization. Finally, policy approach focuses on the policy sequences of devising and implementing decentralization.

2.3.1. Functional Approach

Much of the literature on decentralization reflects fiscal federalism which is defined as ‘a system whose purpose is to permit different groups living in various states to express different preferences for public services; and this, inevitably, leads to differences in the levels of taxation and public services.’ (Ahmad and Brosio 2006 6-8). Driven by the Musgravian principles of efficiency, equity, and stability, it is concerned with assigning expenditure responsibilities, raising revenues and designing intergovernmental transfers (Kim 2008, 11-16). Expenditure functions should be assigned first. Assignment of expenditure functions can broadly follow the subsidiarity principle which means that ‘process and decisions which can best be performed at local or regional levels should be executed there and only those which cannot be satisfactorily performed at these levels should be delegated to higher levels’ (Stohr, Edralin, and Mani 1996, 5).

Once expenditure functions are determined, revenues should be assigned to different levels of government to ensure that services can be financed and there are no unfunded mandates. Local revenues will come from a combination of intergovernmental transfers and local taxes. The transfers should address both vertical imbalances and horizontal

inequities, but assigning at least minimal tax instruments to local levels is an important part of accountability. The combination of transfers and taxes should cover local recurrent expenditures. Sub-national borrowing should serve as the last source of finance for the capital budget (Litvack et al 1998, 15). Such functional approach provides theoretical and normative standards for assessing the structure of one country, particularly in terms of financial principles. It has, however, some limitation in that its 'functional' approach which means non-historical or non-contextual can have some difficulty when finding out why certain decentralization happened in certain country.

2.3.2. Institutional Approach

Institutions as 'the informal or formal rules of the game in society' provide incentives and constraints that influence human behavior (Ahmad and Tanzi 2007, 17). Organizations are made up of 'groups of individuals bound by some common project to achieve objectives' (Chavance 2009, 51). Organizations and institutions influence each other. The institutional framework conditions the type of organization that will be created. On the other, the organizations also try to change the institutions (Chavance 2009, 51).

According to Litvack et al (1998), five institutional factors that shape the design of decentralization and influence its economic outcomes: the regulatory framework such as keeping the fiscal and financial system separate, the organization of service delivery such as distinguishing between public delivery of services and public financing of services, information systems on finance of SNGs and competition which guarantee accountability for citizens, the potential for asymmetric decentralization, and the need for policy synchronization. Taken together with the traditional functional perspective of public finance, these factors reflect an approach to decentralization that is based on the

design of institutional incentives and rules of governance as instruments for better economic management (Ahmad and Tanzi 2007, 16).

2.3.3. Policy Approach

Bahl and Jorge (2006) suggest the 'six steps' of implementing decentralization. Their model is a normative approach to sequencing fiscal decentralization based on case studies of several countries (Bahl and Jorge 2006, 3). As a result, it can provide a relevant framework for decentralization policy process in other countries.

The actual fiscal decentralization process begins with a national debate involving the key stakeholders. The second step is the design of the fiscal decentralization program by a policy paper. Step three is to draft and pass the decentralization law(s). Step four is to adopt a set of implementing regulations that prescribe the detailed procedure of implementation. Step five is implementation, which involves a multitude of tasks. Step six involves feedback which monitors, evaluate outcomes (Bahl and Jorge 2006, 3-5).

They also analyze the related actors. There are three types of actors according to each actor's interest or role: supports, detractors and ambivalent actors. Supports for decentralization are voters, elected politicians such as president and parliament, and external donors and advisors such as the WB. Most of ministries such as the Ministry of Finance, Economy, and other ministries could be significant detractors in that they commonly advocate central discretion except the Ministry of Home affairs which usually regulate SNGs but can also be an advocator for decentralization. SNGs usually favor fiscal decentralization, but the rich and poor will have very different opinions about the detailed. The more well-off local areas will favor increased fiscal discretion and the poor will prefer a redistributive system which guarantees their revenue stably. (Bahl 1999, 18-20).

2.4. The Outcomes of Fiscal Decentralization

The outcome of fiscal decentralization is so-called ‘a debate about the costs and benefits of decentralization’ (Rodden, Eskeland, and Litvack 2003, 3). It is about whether or not fiscal decentralization affects positively on dependent variables such as economic growth or social welfare. Various normative and empirical literatures have tried to assess the relationship between decentralization and socio-economic variables.

2.4.1. Theoretical Arguments For Fiscal Decentralization

Supporters argue that fiscal decentralization will lead to decisions that reflect local needs and preferences better and thus improve efficiency, as long as externalities and economies of scale are tolerable. However, the assumptions are different. The scholars of fiscal federalism such as Musgrave, Samuelson assume that governments are run by ‘benevolent policy makers’ who intend to maximize the welfare of their communities (Ahmad and Brosio 2006, 6-8). Therefore, government failures cannot derive from pursuing their personal interest, but only from lack of expertise and knowledge (Rodden, Eskeland, and Litvack 2003, 3).

Even selfish governments, however, would efficiently provide public goods with vertical and horizontal competition if residents are free to move to the jurisdiction that best provides to their preferences by Tiebout’s ‘voting with one’s feet’ (Boadway and Shah 2009, 35). Otherwise, if national government is restricted to implement policies uniformly, small jurisdictions are more efficient since denationalized government can then differentiate policies among jurisdictions by Oates’ ‘decentralization theorem’ (Boadway and Shah 2009, 5)

2.4.2. Theoretical Arguments Against Fiscal Decentralization

Arguments against decentralization are based mainly on the irrelevances of assumptions of pro-decentralization arguments by focusing on the costs of decentralization. *Uncorrected externalities* such as horizontal or vertical externalities would undermine decentralization (Boadway and Shah 2009, 29). The one example of vertical fiscal externalities is the *soft budget constraint problem* when SNGs believe that the national government will accommodate and share SNG's excessive expenditures (Fischer, Miller and Sidney 2009, 5). Fiscal decentralization might also fail due to other costs such as *information costs* which would arise if oppositions and media at more junior levels of governments are weaker than at higher levels or *coordination costs* would arise by spillover effects (Ahmad and Tanzi 2007, 1-2).

2.4.3. Conditional Arguments on Fiscal Decentralization

Conditional arguments on decentralization focus on the conditions under which decentralization enhances or undermines efficiency and accountability, and emphasize the incentives resulting from political and other institutions (Rodden, Eskeland, and Litvack 2003, 6). It is not important whether decentralization itself works or not. Rather pre-conditional factors are more important and should be studied (Litvack et al 1998, 3, 26). If conditions for decentralization are insufficient particularly in developing countries, decentralization would aggravate the situation. The insufficient conditions can be the lack of SNG's capacity, resident's information and pressure on SNGs, civic cultural tradition, and fiscal equalities among regions (Khan and Hildreth 2004, 169-70).

2.5. Conceptual Framework

In previous chapter, the driving factors, process, and outcomes of decentralization are discussed theoretically. In this part, after assessing related literatures on Korean decentralization, a conceptual framework is designed for the research problem.

2.5.1. Literatures on Decentralization in Korea

It can be said that there are two main streams of study on decentralization in Korea (Table 1). One is the study about how decentralization affect on various aspects such as economic growth, regional income or welfare policy. Another is the study about how decentralization has developed on base of qualitative methods. Although they commonly provide significant implications theoretically, missing from them is holistic, historical and policy approach which is necessary to assess the process and outcomes of fiscal decentralization.

Table 1 Examples of Korean Literature on Fiscal Decentralization

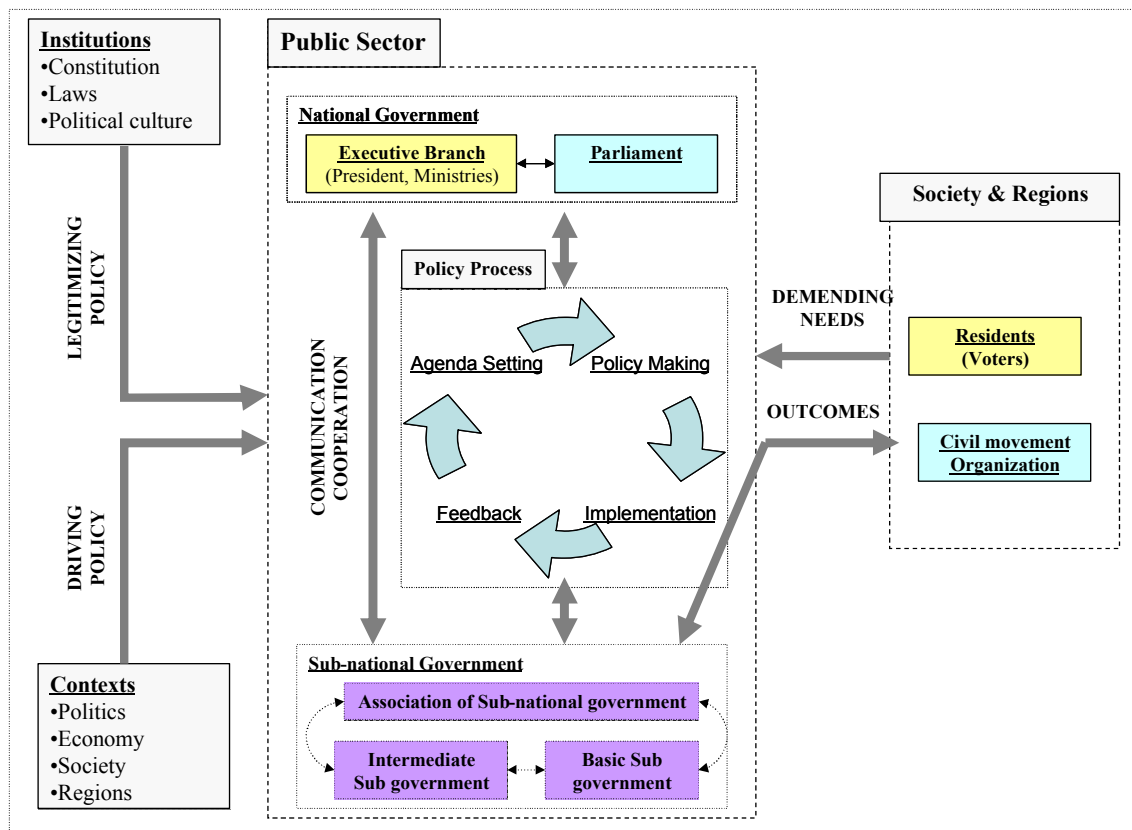
Literature	Focus	Method	Argument (Contents)
Yijaeun (2002)	The local tax reform for decentralization	Descriptive	It is necessary to introduce the local income tax and local consumption tax for enhancing the real local autonomy
Osung Kwon (2002)	The effects of fiscal decentralization on public spending	Regression analysis	Fiscal decentralization may play a role in improving the fit between provision of public goods and citizens' demand in Korea
Euijune Kim, Sung Woong Hong, Soo Jung Ha (2003)	The Impact of decentralization on regional income disparity in Korea	Regression analysis	The regional income fluctuated until the early 1980s but stabilized during the 1990s.
Choi, Ho-Young (2004)	Comparing the characters of decentralization in the 'National Government' and in the 'Participatory Government'	Second literature review	Describing the types, scopes and methods of decentralization
Hyun-A Kim (2006)	The impact of decentralization on the growth of regional income.	Regression analysis	From 1990 to 2003, a significant positive relationship between fiscal decentralization and growth in Korea.

Source: Author

2.5.2. Conceptual Framework Setting

The theoretical approaches to fiscal decentralization which are introduced above have strengths and weakness in that each approach mainly focus on certain aspect of fiscal decentralization. Therefore, in order to assess the development of decentralization, in this study, a combined policy analysis model is devised. Framing the political process as a continuous process of policy-making allowed assessing the cumulative effects of the various actors that interact in the policy process and shape its outcomes (Fischer, Miller and Sidney 2007, 44). In this model (Figure 1), important analytic aspects are contextual factors, policy process, and actors. In terms of Easton’s input-output model, contextual factors work as inputs. Policy cycle and political actors work in process. Outcomes work as outputs.

Figure 1 Conceptual framework



Source: Author

Contextual factors work as broad issues that shape driving factors of fiscal decentralization in political, economic, social and regional aspect. Secondly, institutions are formal or informal norms legitimizing decentralization (Litvack et al 1998, 16).² Public sector consists of national and sub-national level actors. According to Fischer et al. 2007, 53), a policy is implemented by policy process which consists of sequential stages as:

- Agenda-setting as a certain demand is selected for public action
- Policy-making as transforming the demand as a set of objectives and measurements
- Implementation as the enforcement of the policy
- Feedback as appraising outcomes against intended objectives.

Actors are organizations or individuals whose authorities are prescribed by institutions (Knoepfel, Varone, and Hill 2007, 41). They represent their interests with the resources under the institutional context that influences their individual and collective behavior (Knoepfel, Varone, and Hill 2007, 39). A fiscal decentralization impacts on SNGs directly by redistributing financial structure and process of SNGs and society and regions by influencing social and economical situations. It also can yield unintended outcomes or side-effects.

² Of course, some formal or informal norms can legitimize anti-decentralization reversely.

3. THE CONTEXTS OF DECENTRALIZATION IN KOREA

In this part, the contexts of decentralization in Korea are assessed on the base of historical approach. The contexts function as driving factor of decentralization policy. As discussed in the background of decentralization, democratization and globalization are also broad issues which shape the demands for decentralization in Korea (Hudson and Lowe 2004, 6). However, in this part, the contextual factors are assessed according to main sectors: politics, economics, societies and regions in order to find more detailed mechanism.

The modern Korean history can be divided by before and after 1987, in that the full democracy was accomplished in institutional perspective in 1987. The 1987 democratization is a major event when there was a switchover from an authoritarian system to a democratic system. Therefore, it is noteworthy that how Korean societies changed before and after 1987 which is as a diverging point (Huh 2001, 9).

3.1. Politics

The characteristic of Korean politics can be represented as a continuing process of democratization and consolidating it. Although Western styled democratic institutions had been introduced and adapted before 1987, the reality was often 'president-centric, with the undemocratic dictatorship at the apex of authoritarian bureaucracy' (Park 2008).

Before 1987

According to Huntington (1993, 18), after the Second World War, a second wave of democratization which was promoted by allied occupation through the inauguration of democratic institutions in Korea in 1948. The First Republic under the first president

Rhee Syngman, who undermined democracy in late 1950s, was toppled in 1960 by the Student Revolution. The Second Republic did not last long, ending with the military coup by Park Chung Hee on May 16, 1961 (Kil and Moon 2001, 34). This new 'semi-authoritarian' regime was legitimated by election in 1963 but abruptly changed itself as 'a full-scale highly authoritarian system' in 1973 (Huntington 1993, 20)

During the third wave of democratization, confronting explosive protest movement of Korean citizens demanding democracy, the despotic government yielded proclaiming a plan for democratization including a direct presidential election and the resumption of local autonomy (Huh 2001, 9).

After 1987

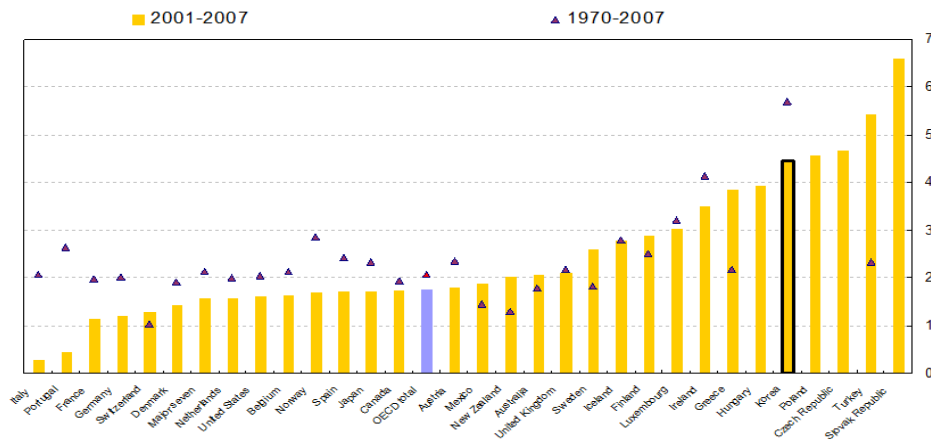
In 1987 the authoritarian government submitted Roh Tae-wo as its candidate for president and he won (Huntington 1993, 23). Roh government had formal legitimacy but Roh's former military career and strong opposition parties made his government impotent. In 1993, Kim young-sam took presidency as the first non-militant by direct election since 1960s. His government attributed to consolidating democracy by radical reforms such as depoliticizing the military but suffered a serious shortage of foreign exchange in 1997. In 1998, Kim Dae-jung government, which is inaugurated by the first peaceful turnover of political power from ruling conservative party to an opposition, succeeded in leading Korea out of financial crisis. Kim Dae-jung's successor, Roh Moo-hyun endeavored to dismantle the old authoritarian structure dominated by bureaucratic elites, corporate power and the rich on the basis of popular participation (Park, 2008). His radical reforms, however, was often frustrated by the opposition party or interest groups. As Lee Myung-bak followed Roh, his political party, the oppositional party during Kim dae-jung's and Roh mu-haeon's government, became the ruling party again

in 10 years. Although there were some political or economical unrest after democratization, it is apparent that in Korea, democracy has been consolidating since 1987 by fair, democratic and periodic elections without any halt of constitution.

3.2. Economy

Korea has undertaken economic development in earnest since 1962. Over the period from 1970 to 2007, the average growth rate of Korea went over 4%. In the second half of the 1990s, Korea also experienced high rates of growth in GDP per capita (Figure 2).

Figure 2: Growth in GDP per capita as Percentage change, annual rate (Unit: %)



Source: OECD

Before 1987

Korea could achieve outstanding economic growth by launching ‘a state-led and outward-oriented strategy for development’ (Burnell and Randall 2005, 503). While the Western styled market system was adopted as the principle of the economy, government intervention facilitated its effective growth (Kil and Moon 2001, 15). Such strategy, however, caused a concentration of economic power in the *chaebols*. By 1997, production portion of ‘thirty’ *chaebols* accounted for ‘40’ per cent of total manufacturing (OECD 2001, 32).

After 1987

Political democratization was followed by economical democratization. Korean people did not want “rapid growth at any cost” any more and demanded for better welfare and higher wages (OECD 2001, 32). Globalization also deeply impacted economy through the Uruguay Round (1994) and joining the OECD in 1995 (OECD 2001, 32). The integration with world economy, however, revealed some weakness of Korean economy, confronting financial crisis in late 1997.

3.3. Society

Before 1987

While the economic growth raised income and the standard of living, the public welfare was relatively weak compared with economy. Instead, ‘the informal, private and family welfare system’ functioned as the substitute of public welfare (OECD 2001, 175). Korean people thought that ‘supporting industrial and agricultural production would generate the income to support the needy, and relied upon the family for distribution’ (Burnell and Randall 2005, 507).

After 1987

Such economic priority, however, caused serious inequality between classes and regions since late 1980s. Particularly, the financial crisis made Korean people realize that ‘economic development cannot be socially sustainable without social policy measures’ (OECD 2001, 175). As a result, the policy emphasis shifted to promoting welfare and enhancing equality, which led to the legislation of the Minimum Wage Act (1986), the Equal Employment Act (1987) and the Act on Employment Promotion and

Vocational Rehabilitation for the Disabled (1990) as well as other measures.³ In the early 1990s, in order to systematically cope with unemployment problems caused by a slowdown in economic growth, Korean Government passed several major laws, including the Employment Insurance Act (1993), the Basic Employment Policy Act (1995) and the Vocational Training Promotion Act (1997), setting a foundation for employment policies.⁴ After the financial crisis in 1997, the Government strengthened the social safety net to cope with unemployment by extending the coverage of employment insurance to all workers, including part-time and temporary workers (1999). Individual Action Plans (IAPs) for recipients of unemployment benefits have been also expanded to cover both young people and the elderly as a means of encouraging them to look for jobs more actively.⁵

3.4. Regions

One of the most distinguishing characteristics in Korea's regional aspect is spatial disparities between regions. The Capital Region which consists of *Seoul*, Korean capital city and its neighbor SNGs, *Incheon* and *Gyeonggi*, has more than 21 million residents, a little less than a half of the total population. The number is considerably large when comparing to figures with other OECD countries such as Japan, France, and England, whose population share of the capital region are 31.9 %, 18.5 %, and 11.8 % respectively (Lee 2007, 2-3). The capital region also increased its share of manufacturing employment in the 1960s and peaked in 1975, with 48.3 percent (Huang and Boocchi 2009, 324-5). The over-concentration of the population in the Capital Region is attributed to the remarkably fast economic growth and government's

³ The official website of Korea. <http://www.korea.net>

⁴ *Ibido*

⁵ *Ibido*

unbalanced regional development strategy since the 1960s (Lee 2007, 2-3).

Such spatial disparities were inevitable in early stage of economic development; however, they have caused serious economic and social problems, although the authorities have endeavored to mitigate the disparities through redistribution policies in industry, education and administration.

3.5. Interim Conclusion

Before 1987, Korea was mainly state, economy, and center-led countries. Without sufficient resources or capitals, it might be an inevitable alternative. Such uneven structure between center and peripheral regions, and economic priority yielded outstanding economic growth during short period. However, after 1987, democratization and globalization demanded the old regime to be more democratic and open to global market. This means that national government's role weakened and other actors including SNGs who had been subordinate began to claim their rights.

4. INSTITUTIONS AND ACTORS (ORGANIZATIONS)

In this part, the current institutions and organizations of decentralization in Korea are assessed. Institutions as the rules of the game in society provide the incentives and constraints for actors (Litvack et al 1998, 16). Under such institutional constraints and incentives, Actors cooperate and confront yielding outcomes of decentralization.

4.1. Institutions

4.1.1 Formal Institutions

The Korean legislative system consists of the Constitution as the paramount law, Acts to realize the constitutional notions, and administrative legislation including Presidential Decrees, Ordinances of Ministries and so forth to effectively implement the Acts.⁶

Constitution

The principles for the autonomy and the structure of sub-national governments are stated in the Constitution. It states in two articles under the title of “Local Autonomy”:

- **Article 117:** (1) Sub-national governments shall deal with administrative matters pertaining to the welfare of local residents, manage properties, and may enact provisions relating to local autonomy, within the limit of Acts and subordinate statutes. (2) The types of sub-national governments shall be determined by Act.
- **Article 118:** (1) A sub-national government shall have a council. (2) The organization and powers of local councils, and the election of members; election procedures for heads of all governments; and other matters pertaining to the organization and operation of sub-national governments shall be determined by Act.

⁶ Korea Legislation Research Institute website (<http://elaw.klri.re.kr>)

The Constitution, however, does not give autonomous and general decision making authority to SNGs. The national government departments hold substantial prerogative regarding the distribution of competences. The amount of autonomy enjoyed by SNGs depends, according to the Local Autonomy Act, on the power conferred on them by the Statutes, or Presidential Decree (PCGID 2007, 133).

Acts on fiscal decentralization

Several Acts reified the Constitution as below (Lienert and Jung 2004, 291):

- The Local Autonomy Act 1945, as the basic Act of SNGs, defines the structure and functions of SNGs. It also regulates the operation of local governments and the basic relationships between the national and SNG
- The Local Tax Act 1949 defines the tax bases and standard rates for local taxes.
- The Local Finance Act 1963 provides SNGs with autonomous budget procedures.
- The Local Share Tax Act 1961 and the National Treasury Subsidies Act 1963 govern intergovernmental fiscal relationship.
- The Educational Local Share Tax Act 1971 establishes a local educational share tax to be used exclusively for expenditures of local education unlike other OECD member countries
- The Special Act on Regional Balanced Development 2003, establishes a special fund for regional development.

4.1.2 Informal Institutions

In this part, political culture is dealt as a main informal institution in that it is more related to fiscal decentralization than others. Political culture can be defined as a patterned value system, composed of political ideology, ruling norms and political symbols, which influence the political systems and individual behaviors (An 2003, 18)

One of the most significant political cultures in Korea is hierarchical authoritarianism which originated since Chosun dynasty. Even in modern history, with the exception of 1960, South Korea was never able to escape from the grip of autocracy and authoritarianism for four decades (Kil and Moon 2001, 3). Another one is the centralistic bureaucratic state. Under authoritarian rule, an effectual system of checks and balances did not exist. The executive branch has always prevailed over the legislative and judiciary branches. This severely damaged democratic political processes by excluding the citizens (Kil and Moon 2001, 3-4). Therefore, local autonomy is relatively new concept to the Korean society (OECD 2001, 64). Compared to formal institutions, informal institutions such as political culture easily do not change (Chavance 2009, 51). Even after democratization, many bureaucrats of national ministries still regard SNGs as their subordinates.

4.2. Main Actors

4.2.1. President

Korea has a presidential system, in which the President is the head of State. The Constitution states that executive power is vested in the executive branch headed by the President (Art. 66) (Kil and Moon 2001, 289). The President, elected by nationwide, equal, direct and secret ballot, stands at the apex of the executive branch. The President is also the chief administrator who enforces the laws passed by the legislature while issuing orders and decrees for the enforcement of laws.⁷ The President serves a single five-year term, with no additional terms being allowed. This single-term provision is a safeguard for preventing any individual from holding the presidential power, which is

⁷ The official website of Korea. <http://www.korea.net>

due to the long history of dictatorships whereby all most decisions were made by the President as a single (Kim 1997, 146).

However, such single-term provision often yields side-effects. Korean presidents have little time or impetus for consensus building or compromise because they're forced from the inauguration to focus on legacy issues, not re-election (Lee 2008). Moreover, it may create a 'lame-duck phenomenon,' which could later diminish reform efforts and bureaucrats' compliance (Kim 2000, 91).

4.2.2. Prime Minister and Ministers

The Constitution establishes the State Council as the highest decision making orgn in the executive (Art. 88) (Kil and Moon 2001, 289). The State Council, whose head is the President, comprise the Prime Minister, Ministers, and deliberates on important fiscal policies that fall within the power of the executive including draft budgets, settlement of accounts (Art.89).

National government organization, including ministries, are established and their roles are defined according to the provisions of the Government Organization Act 1948 (GOA), as amended (Kil and Moon 2001, 289). As for local finance, the Ministry of Public Affairs and Security (MOPAS) is primarily responsible for local finance and administration (GOA, Art. 29). Other ministries are related to specific earmarked grants which are drafted and overseen by them. Local share tax as a non-earmarked grant⁸ and earmarked grants are finally approved by Ministry of Strategy and Finance (MOSA) in ministry level before submitting them to the State Council within the Executive branch (GOA, Art. 23).

⁸ However, its approval is formal in that the amount of local share tax is guaranteed as certain level by Local share tax Act.

According to Boadway and Shah Shah (2007), institutional arrangement for policy and administration of fiscal relations between different levels of government is crucial for creating a credible and stable fiscal system. Among four broad categories, Korea belongs to the 'national/central government agency model,' in that the MOPAS as a national agency assumes main responsibility for policy making and implementation for fiscal relations. However, despite of its formal authority, some of important fiscal decentralization policies were led by Presidential Commissions which were regarded as more impartial than the MOPAS.

4.2.3. The National Assembly and Political Parties

Legislative power is vested in the National Assembly, a unicameral legislature. In the authoritarian era, the National Assembly was a fairly weak form of marginal legislature with executive dominance in the legislative process. The legislature neither rejected executive proposals nor modified them to a significant extent with being called a 'handmaid' of the executive (Norton and Ahmad 1999, 73). This is partly due to three decades of protracted authoritarian rule and partly due to the constitutional design of the presidential system (Kil and Moon 2001, 182).

However, democratic transition since 1987 have increased legislative oversight over executive branch and the division among three branches has become more clear and concrete (Kil and Moon 2001, 182). As for fiscal decentralization, the role of National Assembly is to monitor and approve the drafts of executive branch.

The political parties of Korea were formed with very low institutionalization. The average life of Korean political parties has not been long. New ruling and opposing parties were formed with each change of regimes. They did not play a national role in politics (Hudson and Lowe 2004, 159). Under military dictatorship for thirty years,

ruling parties were no more than election organization or propaganda organization. Even after democratization, political parties are weak, divided along regional lines, and organized around cliques (Lim 2009, 93).

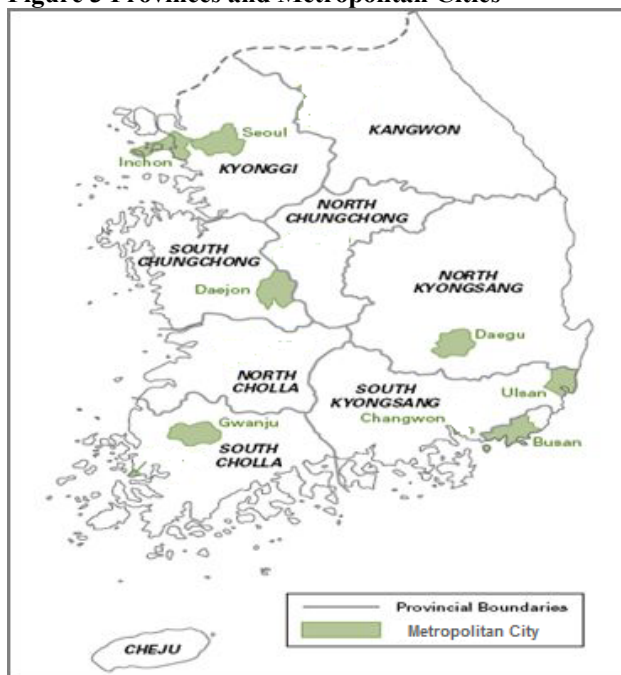
4.2.4. Sub-National Government

SNGs refer to ‘specific institutions or entities created to deliver a range of specified services to a relatively small geographically delineated area’ (Boadway and Shah 2009, 3). Korea has multi-tiered governments based on a unitary constitution which places a greater premium on uniformity and equal access to public services than it does on diversity (Boadway and Shah 2009, 6).

Structure

There are basically two levels of SNGs in Korea.⁹ The provincial level includes the Seoul Special Metropolitan City, and 6 other Metropolitan cities, and 9 Provinces (Figure 3).

Figure 3 Provinces and Metropolitan Cities

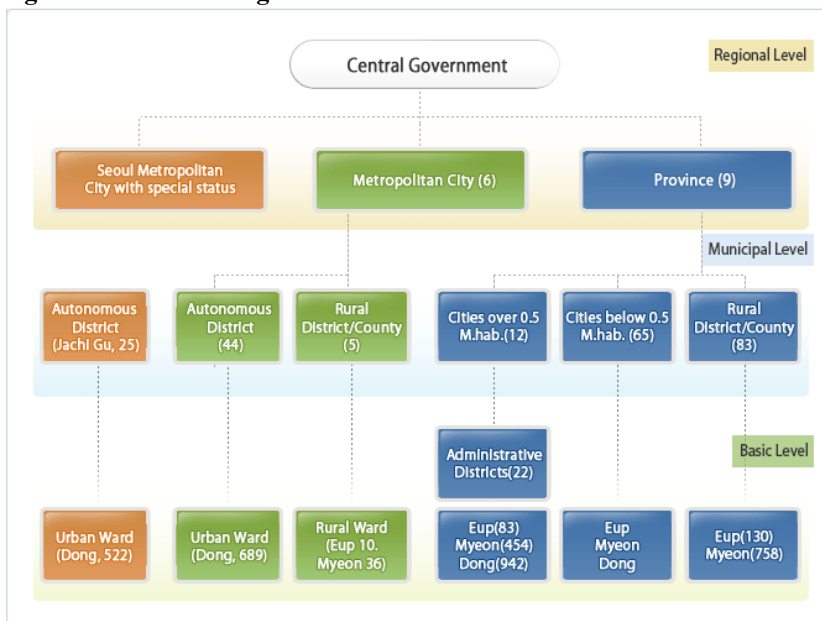


⁹ KRIA. <http://www.krila.re.kr/english/?code=govern&subp=0201>

Source: modified from Huang and Bocchi (2009)

Metropolitan cities are urban areas separated from provinces, often former provincial capitals, after 1945, based on the rationale that the interests of urban areas are better served by their own governments. The municipalities below these provinces concern the municipal cities (*Si*), counties (*Gun*), and autonomous wards (*JachiGu*) which are governed by political representatives, who include mayors and council members (Figure 4). These counties and municipal-level cities comprise various administrative sub-units: administrative wards (*IlbanGu*), towns (*Eup*), villages (*Myeon*), and neighborhood (*Dong*) according to demographic criteria. Authority for education is located in the Offices of Education in the provincial and metropolitan governments.

Figure 4 Sub-national government Structure



Source: MOGAHA (2006)

Functions

The Local Autonomy Act lists the functions of the provinces and metropolitan city governments and the basic level governments. The tasks of the metropolitan and

provincial governments are characterized by the intermediary functions.¹⁰

On the base of the constitution and the Local Autonomy Act, the basic level governments handle *autonomous affairs* such as its organization and management, promotion of citizens' welfare, industry promotion, and local development and management of facilities such as roads and water supply, etc. The national government is to maintain only a passive role in these autonomous affairs.

Meanwhile, there are also *delegated functions*, which are entrusted either to SNGs or to local chief executives. Responsibilities delegated to SNGs, such as vaccinations and the maintenance of national roads and public health centers, are subject to specific laws (Jones and Yokoyama 2005, 6). According to two complete surveys on the distribution of government's affairs (Kim 2002, 1), the rate of national affairs and autonomous affairs is about 75:13 in 1994 and 73:15 in 2002 (Table 2).

	1994	2002
Total affairs	15,774 (100%)	41,603 (100%)
National affairs	11,744 (75%)	30,240 (73%)
Delegated or Shared functions*	1,920 (12%)	5,057 (12%)
Autonomous affairs	2,110 (13%)	6,306 (15%)

Note: Shared function* means functions that national, regional or local government share responsibilities
Source: the Presidential Committee of Promoting Devolution

Organizations of SNG

SNGs have both legislative and executive powers. Legislative power is the authority of local assemblies, and executive power is held by local chief executive and their subordinates (OECD 2001, 64).

Size of SNG

Korean municipalities appear to be remarkably large compared to other OECD countries although the average size of the lowest SNG unit varies considerably among

¹⁰ KRIA. <http://www.krila.re.kr/english/?code=govern&subp=0201>

OECD Member countries (Table 3).

Table 3 Lowest territorial units in OECD Member countries

	Number of units	Average size of population	Average size of area in km ²
Korea			
Si	72	254 000	498
Gun	91	66 000	656
Gu	69	343 000	51
<i>Total</i>	232		
France			
Communes	36 000	1 700	15
Germany			
Gemeinde	16 000	3 400	22
Japan			
Shi, Machie and Mura	3 200	36 500	115
Switzerland			
Gemeinde/Communes	3 000	2 400	14

Source: OECD (2001), OECD territorial reviews: Korea

Expenditure

In principle, the expenditure of autonomous functions is financed by SNG's self revenue. Meanwhile, the expenditure of delegated functions is financed by earmarked grants, with the national authorities playing an active role in their implementation often restricting SNGs with strict and detailed standards (Jones and Yokoyama 2005, 6).

Revenue

SNG's budgets are composed of local (self) revenue and intergovernmental (local) transfer. Local revenue is composed of local taxes, local non-tax revenues and revenues from local bond issues. Intergovernmental transfer consists of Local share tax which is set at a fixed share of national tax revenue based on the Local Share Tax Act and earmarked grant based on the National Treasury Subsidies Act (Jones and Yokoyama 2005, 6).

Main Characteristics of Local Finance

Wide Fiscal Gap between SNGs

There is a wide variation in the financial capacity between SNGs. This is caused mainly by the concentration of population and industries on the Capital region and rural areas. This implies somewhat paradoxical situation of fiscal decentralization in Korea.

According to the fiscal federalism, the ideal fiscal arrangement is to enhance tax autonomy. In Korean context, it is difficult in that it can aggravate the current regional disparity.

A complex local tax system

The local tax system, which has accounted for about 20% of total tax revenue in Korea during the past decade, is relatively complicated with 16 local taxes. A basic principle of Korea's tax system is the separation of tax bases between national and SNGs to avoid excessive taxation on particular items (Jones and Yokoyama 2005, 11). One of the earmarked taxes, the Local Education Tax, is a major revenue source. It was introduced in 2001 as a surcharge on five local taxes, but is transferred directly to local education governments and thus does not enhance the autonomy of local general governments. Property taxes account for about half of local tax revenue. However, taxes on consumption, business and personal income and social security and payroll taxes were relatively insignificant compared to other OECD countries (Jones and Yokoyama 2005, 11).

The limited use of tax-rate flexibility

Local Tax Act allows SNGs to adjust tax rates, by as much as 50% above or below the standard rate, for 11 of 16 local taxes. However, this power has been rarely used by SNGs. At the provincial/metropolitan city level, only four of 16 jurisdictions had changed a tax rate from its standard rate as of 2004, and only ten of the 250 lower level SNGs. In contrast to the limited use of tax flexibility, SNGs grant tax reductions and exemptions as part of regional development policy. The limited use of tax-rate flexibility in Korea conflicts with the principles of fiscal federalism and the situation in some other OECD countries (Jones and Yokoyama 2005, 11).

Large intergovernmental transfers

Transfers from the national government fund another 40% of SNG expenditure. They thus play an extensive role in closing the gap between SNG spending responsibilities and revenue capacity, as well as narrowing the large variation in fiscal capacity between SNGs. Among these transfers, the largest is the Local Share Tax. National Subsidies, earmarked grants provide funds for a wide range of local public services. The Local Transfer Fund, a block grant fund was introduced in 1991 to promote balanced regional development and to supplement local investment (Jones and Yokoyama 2005, 17).

Associations of SNGs

Individual SNG has limit for communicating with national governments. Therefore, it is advantageous for SNGs to organize one organization to co-operate and communicate collectively with national government about matters of common interests (Kim 2004). Currently, there are four associations of SNG: the Governors' Association of Korea, the National Association of Mayor, the Association of Metropolitan and Provincial Council Chairs, the National Council Association of Chairmen. Such associations were established based on Article 165 of the Local Autonomy Act. The role of the Associations became larger due to their position linking national government and SNGs.

4.3. Interim Conclusion

The Constitution and related Acts guarantee local democracy that is political decentralization. The reality is, however, SNGs have not sufficient fiscal authorities. The asymmetric distribution of administrative affairs also shows the imbalanced intergovernmental relations. Therefore, it is necessary to assess the detailed process of decentralization in the following chapter to find out the origin of such problems.

5. THE POLICY PROCESS OF DECENTRALIZATION

5.1. Before 1987

Contextual factors

The contemporary challenge of the first republic (1948-60) was to build a new nation based on democracy including local democracy under the Constitution. However, the President Rhee Syngman's desire for a prolonged one-man rule undermined democracy following severe protests of students and citizens. With the exception of the second republic (1960-1961), local democracy had halted for nearly 30 years by authoritarian governments. However, with the response to the demand of civil society for democracy, 'the Democratization and reform Declaration' was announced by the ruling party in June 29, 1987. Together with direct presidential election system and strengthening all basic rights in the new constitution, local autonomy was also guaranteed (Oh 1999, 98-100).

The characteristics of policy process

Highly Centralized Policy process

Authoritarian governments insulated the policy process from civil and political society. Although political parties and the parliament were set up as decision-making institutions, their influence over policy process has been fundamentally limited (Kil and Moon 2001, 180). Up until the early 1980s, government restructuring was imposed from above, mostly by specific political motivations of the ruling group apart from the general interests of the people. Reforms did not start from the bottom, and so failed to reflect social and economic developments of the Korean society and popular demands (Kil and Moon 2001, 181).

Hierarchical intergovernmental relation

Not only the participation of local residents but also that of SNGs are limited in the policy process which was ruled by national government. Considerations on local peculiarities for economic and social development are easily disregarded (Kil and Moon 2001, 190). The national government could not know the complex variety of factors that affected the success of programs and projects in local communities throughout the country. Rather, it increased the number of local branches of the national administration. This became a source of conflict between SNGs and national government that still remains today (Kil and Moon 2001, 181).

Policy Outputs

Institutional arrangement

Based on the Constitution, the Local Autonomy Act was enacted in 1949 and local councilors were elected by direct vote. Indirect election of the chief executives of lower-tier local authorities was replaced by direct election through the Second Amendment in 1956. In 1958, the Fourth Amendment substituted the direct election of local chiefs with an appointment system, which is mainly due to the President Lee's intention to control all SNGs. The 2nd Republic (1960-61) passed the Fifth Amendment in 1960 so that both local chiefs and councilors were directly elected to realize the full fledged local autonomy.

The military coup in 1961, however, suspended it abruptly. Since then, the system of local autonomy had been completely abolished and SNGs functioned as merely subordinates to national government. In order to control all regions and mobilize local resources for economic development, local administration system was transformed as centralized one. In 1961, the Local Autonomy Act was replaced with 'the Provisional

Measures for Local Autonomy' by which all local councils were dissolved and elected chiefs were fired. Instead, both governor and mayor were appointed by the president.

The smallest units of local government, such as towns (Eup), villages (Myeon) and neighborhoods (Dong), are excluded from the status of SNG eligible for self-governance just remaining administrative organizations (Lee 2002, 13). That is why current Korean basic level governments are remarkably large compared to other OECD countries. It is problematic that particularly villages had been a natural community in rural area with which emotional identification of belongingness (Kim 1997, 154). Unlike other OECD countries, the authorities of local education and police were seized by national government.

An attached clause of the *Yusin* (Revitalization) Constitution, amended in 1972, even institutionalized the suspension of local assembly, stating that the local assembly should not be constructed until the reunification of Korean peninsula was achieved (Huh 2001, 11). The Constitution of 5th Republic in 1981 was also provisional. Although it guaranteed local democracy, it stated in supplementary provision that 'local councils shall be established on an incremental basis, taking into account the degree of local financial self-sufficiency' (Kim 1997, 150).

Fiscal arrangement

Although halting local autonomy, the authoritarian regime enacted most of important fiscal Acts during their rules: the Local Share Tax Act 1961, the Local Finance Act 1963 and the National Treasury Subsidies Act 1963. However, during the authoritarian regime, local finance became dependent on national government. Before 1963, local taxes were mainly based on surtaxes on the national tax. By tax reform in 1963, local tax was separated from most general taxes such as income tax and value added tax which

became entirely allocated to the national government (Lee 2002, 15). As such measurements aggravated local finance; national government filled the fiscal gap by Local share tax.

5.2. From 1988 to 1992 (Roh Tae-wo government)

Contextual factors

Even though Roh Tae-wo won the presidential election in late 1987, the gap between other candidates was slight. In addition, his militant career which had been suspected that he was deeply involved in military coup of 1980 and bloody oppression of Kangju made his government's legitimacy much weak even since the inauguration (Kleiner 2001, 224). Furthermore, a few months after his inauguration, in the National Assembly election, the ruling party, the Democratic Justice Party (DJP) holds 125 seats of the total 299 seats (41.8%) and failed to hold the majority of seats, which was the first in the history of Korean politics.

The President, directly elected by the people, had to get along with a Parliament dominated by the opposition. After confronting seriously in the National Assembly, on January 1990, Roh announced that he reached an agreement with some opposition party leaders, Kim Young-sam and Kim Jong-pil to join forces and merge the DJP, the Party for Reunification and Democracy and the New Democratic Republican Party into a new Democratic Liberal Party (DLP). The New Party, the DLP, had a two-thirds majority in the National Assembly (Kleiner 2001, 224).

The characteristics of policy process

After democratization, the political arena transformed from the President and executive to the parliament and opposition parties. Meanwhile, the process of

decentralization did not smoothly proceed due to the conflicting political interests of each political party. The National Assembly had an obligation to enact a law to reify the local autonomy article of constitution amended in 1987. Moreover, throughout the presidential campaign in 1987 after democratization, the restoration of local autonomy was one of the biggest campaign pledges of the then-ruling party. However, the ruling party and the opposition parties did not agree the amendment of the Local Autonomy Act instantly, which retarded the institutionalization of decentralization.

Policy Outputs

Institutional arrangement

On April 6, 1988, the government initiated a revision of the Local Autonomy Act. By the law, SNGs were no longer the branches of national government. In March 1991, the national government finally held a direct election for lower-level local council members. In June 1991, another election for upper-level local council members was held (Park 2006, 85). However, the chief election was postponed due to the disagreement between political parties. ‘The Administrative Reform Commission’ which was established in 1988 and it recommended decentralization preparing for local autonomy (Park 2006, 85). ‘The joint committee for devolution’ was established in 1991 for the devolution of national government’s functions to SNGs. From 1991 to 1998, it deliberated 3,701 affairs and decided 2,008 affairs to be devolved to SNGs. The committee, however, was not founded on law so its legal foundation was so weak and some ministries protested to devolve their affairs (Na 2004, 60). Although the formal initiatives of devolution were done by the demands of SNGs, the actual devolution was executed on base of the convenience or interest of central ministries. Sometimes SNGs protested to the devolutions which were not supported by fiscal arrangements (Park 2006, 85).

Fiscal arrangement

After democratic revolution in 1987, the national government altered the local tax system to enlarge local tax revenues. For instance, Tobacco Sales Tax was transferred from national tax base to local tax base in December 1988. The immediate outcome of this change on local finance was that SNGs' tax revenue share of total local revenues increased from 30% in 1988 to 39% in 1989. For other instances, a Horse-race Tax in 1988, a Fire-fighting Facilities Tax in 1991, and a Regional Development Tax in 1991 became part of the province tax base (transferred from county/city tax to province tax). Additionally, the amendment of Local Tax Act that was passed by the National Assembly in 1991 allowed SNGs to set tax rates within certain boundaries (usually plus/minus 50%). Before the pass of this Local Tax Act, the head of SNGs who attempted to alter tax rates must get approved by the minister of Ministry of Home Affairs. However, through the amendment of the Local Tax Act, SNGs became to have discretionary power to set tax rates by the decision of local assembly (Huh 2001, 64).

In 1991, the Local transfer fund Act was also enforced. The local transfer fund Act stipulates that a portion of certain national taxes will be entirely or partially redistributed to the local level (OECD 2001, 74).

5.3. From 1993 to 1997 (Kim young-sam government)

Contextual factors

During the presidential campaign in 1992, all candidates pledged themselves to establish full-fledged local autonomy. Just before the local election date, June 27, 1995 which was set by the Law, some politicians especially in the ruling party tried to delay the local election once again. But they could not go against the stream of the times (Kim 1997, 155). The major tasks of the Kim Young-Sam Government are to root out the

legacy of the authoritarian state and to realize the goals of democratization. This involves devolving power to the lower levels of government, coupled with deregulation.

In addition, globalization began to sweep Korea. Kim government had to cope with the World Trade Organization framework and OECD membership requirements which were mainly financial liberalization and extending full local democracy. Decentralization was conceived of as a composite policy response to the decreasing effectiveness of national control and intervention, economic and fiscal constraints, and growing claims for local democracy and citizen rights (Kim 2002, 1).

The characteristics of policy process

Democratization complicated governance in Korea. Explicit or implicit resistance from ministries poses a significant obstacle to the President's efforts to implement his economic reforms fully. The resistance has come in various forms, including vested-interest groups, bureaucratic inertia and institutional constraints. In fact, the most significant change in the policy process since democratization has been the growth of inter-ministerial conflicts. Democratization brought many new voices in political parties into the legislature. The lack of consensus among parties in the legislature and the divided government in the presidential system often led to the abandonment of reform measures (Lim 2009, 93).

Policy Outputs

Institutional arrangement

The national government amended the Local Autonomy Act once more on March 16, 1994 and held elections for both local council members and the chief executives in June 1995. Though the chief executives and councilors were to be elected to a four-year term in 1995, the second local election was held in June 1998 for the arrangement of the

National Assembly election cycle. Local administrative heads of government are elected for a four-year term for a maximum of three terms (Huh 2001, 12).

Kim government did not institutionalize any organization exclusively for decentralization. The joint devolution committee for devolution' which was established in 1991 continued to exist during Kim government. One of the most outstanding outputs in Kim government is the reform of reorganizing basic level SNGs, mainly the municipal cities (*Si*) and counties (*Gun*). In 1995, 41 cities and 39 counties were merged into 40 cities and the administrative areas for three Metropolitan cities were revised in order to reduce disparity by integrating urban and rural areas into the existing communities (OECD 2001, 79-80).

Fiscal arrangement

During Kim government, the revenue of Local transfer fund was extended and some rural development programs were added in order to prepare for the Uruguay Round Multilateral Negotiation in 1995 (Im 2003). Except the extension of the Local transfer fund, there were hardly any significant fiscal arrangements for local finance (Geum 2009, 15). This could be explained partly because main fiscal arrangements were already set before Kim government.

5.4. From 1998 to 2002 (Kim Dae-Jung government)

Contextual factors

The financial crisis in late 1997 forced Korea to seek a rescue loan from the IMF in November 1997. The IMF's first step was to drastically reshape Korean economic policies. Kim Dae-Jung won the Presidential election in 1997 under the coalition between his party, the Millennium Democratic Party (MDP) and the United Liberal

Democrats (ULD) of Kim Jong-Pil who was the Prime minister of Park Chung-hee's military government. Although there were ideological differences between them, Kim was the first Korean president elected from the opposition party in 50 years of modern Korean politics (Park 2008).

Kim government planned to reform virtually every facet of society by focusing on four major sectors: finance, business, labor, and the public sector (Kim 2000, 82). In public sector, decentralization was adopted as one of national strategies (Park 2006, 138). The rearrangement of the functions of national and SNGs was also adopted as one of 'the 100 policy agenda' of government (Kim 2002, 1).

The parliament, however, was not favorable to Kim. In April 1999 general election, the ruling party, the MDP did not get a legislative majority. Final results of the polls reported that the main opposition Grand National Party (GNP), previous ruling party won 133 parliamentary seats, four seats short of a simple majority (44%), while the ruling MDP secured only 115 (38%). The main opposition GNP often attempted to slow the pace of President Kim's reform drives. Consequently, the ruling MDP will once again promote an alliance with the splinter opposition the ULD and use independents to press ahead with policy initiatives.

The characteristics of policy process

The objectives of public sector reforms of Kim government are similar with the NPM trend whose paradigm is characterized such as devolving authority, developing competition and improving the quality of regulation in that Kim government had an ambitious administrative reform agenda designed to create a 'smaller but more efficient government' (Kim 2000, 82-3).

At the National Assembly, the conflict between the small ruling party, the MDP and big opposition party, the GNP as well as the limitation of a coalition government between the MDP and the ULD made it difficult to pass important reform bills. In addition, ‘Lame-duck phenomenon,’ of one-term Presidency also diminished reform efforts and bureaucrats’ compliance (Kim 2000, 91).

Since 1995, some civil movement association asserted the necessity of special commission for decentralization such as ‘the Decentralization Commission’ in Japan. Kim Dae-Jung adopted such claim as one of major election pledges and established ‘the Presidential Committee of Promoting Devolution’. In March 2001, around one hundred and fifty civil movement organizations participated in pronouncing ‘the Declaration of Local Democracy.’ In September 2001, around thirty thousand intellectuals including professors participated in ‘the national intellectuals’ declaration for decentralization.’ Such movements were commonly based on the recognition that national government persistently resisted full decentralization despite of the constitution’s guarantee of local democracy so civil society should coerce national government to give up its vested interests (Kim 2000, 91).

Policy Outputs

Institutional Arrangements

In order to overcome the limitations of ‘the joint devolution committee for devolution 1991-1998’, ‘the Presidential Committee of Promoting Devolution’ was newly established based on ‘the Act on Promoting Devolution’ which was enforced in 1998. This committee has decision-making authority for devolution to enforce ministries to devolve their affairs. Since its establishment, significant administrative functions became devolved to local authorities by the decisions of committee (Kim 2002, 1).

Fiscal Arrangements

In 1999, Kim government raised the rate of Local Share Tax from 13.275 percent of internal taxes to 15 percent in order to fund local finance and reduce the fiscal gap between SNGs. Although such measure was a breakthrough in local finance in that the rate, 13.275 had kept unchanged nearly for twenty years since 1983 (Geum 2009, 15). Kim government, however, did not any measures to reform local tax system fundamentally (Na 2004, 62-3). Such relatively passive approach of Kim government in local finance can be explained by the fact that the fiscal constraints which were caused by the financial crisis in 1997 overwhelmed the demands of expanding local finance (Geum 2009, 15).

5.5. From 2003 to 2007 (Roh Mu-haeon government)

Contextual factors

The presidential election of 2002 observed quite interesting confrontation of major candidates: Lee Hoi-chang, the candidate of the main opposition party, the Grand National Party and Roh Moo-hyun, the candidate of the ruling party, the Millennium Democratic Party. Lee was supported mainly by conservative old generation meanwhile Roh was supported by progressive young generation. Most people did not expect Roh's victory because he was a high school graduate without a college education, becoming a human rights lawyer by passing a difficult bar exam. He was the epitome of the self-made man and a champion of the weak and the poor, an image that appealed to the young generation (Kim 2009, 9).

Therefore, his inauguration as the 16th president foreshowed the fundamental and unprecedented reforms thorough almost all sectors of Korean society including

decentralization policy. In addition, before being the President, in 1993, Roh established ‘the Institute of Practical Research for Local democracy’ where he studied local democracy and devised the policy orientation for decentralization and balanced regional development. Such career partly contributed to forming the policy agenda of his government.¹¹

After the inauguration of presidency, the fraction of the MDP which followed Roh set up the new Uri (‘ours’) Party after failure of reform in MDP. Uri won a narrow overall majority in the National Assembly in 2004. However, Uri lost its majority as a few deputies defected to other parties. And as the Presidential term of Roh was drawing to an end (2007), Uri was beset by intense factional disputes as rivals looked beyond 2007 (Burnell and Randall 2005, 505).

The characteristics of policy process

During the 16th presidential election, civil groups in Korea concentrated on campaigns to recommend progressive decentralization policies to the candidates. In November 2002, just one month before the new Presidential election, civil movement organizations established ‘the National Civic movement for Local democracy and Balanced regional development (NCLB)’ and campaigned for adopting decentralization as a national agenda during the Presidential election. After Roh who proposed radical decentralization as one of major catchphrases won the election, he pronounced ‘Decentralization and Balanced Regional Development’ as one of national agenda and promised to implement assertively. When the reform bills such as ‘the Special Act of decentralization was debated in the National Assembly in late 2003, the NCLB also persuaded the related parliament men to enforce them to agree to the bills together with

¹¹ The official website of Roh Mu-haeon. <http://www.knowhow.or.kr>

four associations of SNGs. Such civil groups' activities for decentralization are significant in policy process in that they function as pushing a policy agenda based on 'bottom-up' demands. However, their institution-oriented approach had some limitation in that expansion of social capital and citizen's participation are relatively neglected (Jang 2003, 5).

As discussed above, Bahl and Jorge (2006)'s 'six steps' of implementing fiscal decentralization has theoretical relevance for explaining the decentralization policy of Roh government as follows:

- Step 1: A national debate involving the key stakeholders. During the Presidential election, decentralization was one of the most issues among the candidates as well as civil society and academia. Until 'the Special Act on Decentralization' being enforced, the necessity and ways of decentralization was continuously discussed and it was mainly led by 'the Presidential Committee on Government Innovation & Decentralization (PCGID)', reaching the consensus to the decentralization policy.
- Step 2: The design of the decentralization program. Soon after the inauguration, Roh government pronounced 'the roadmap for decentralization (Box 1), which was a framework and timetable of decentralization policy.

Box 1 The Roadmap for Decentralization in Korea

1. Reallocate authority between national and local governments

- Overhaul laws concerning decentralization to establish clear criteria for allocating responsibilities between national and local governments.
- Implement an extensive transfer of national government authority to local levels.
- Enhance local autonomy in education through increased linkages between local general government and educational authorities and participation by residents.
- Introduce a local police force system.

- Consolidate the special local administrative offices, which hamper local government autonomy.

2. Implement sweeping fiscal decentralization

- Expand local financing capacity, in part by transferring national taxes to the local level, and correct interregional imbalances.
- Overhaul local tax administration and promote more active use of the scope for tax-rate flexibility.
- Strengthen autonomy in local public finances by reforming the grant system and eliminating the requirement for case-by-case approval of local bond issues.
- Ensure the transparency and soundness of local fiscal management.

3. Enhance local government's capacity for autonomy

- Strengthen the legal framework for local government autonomy, including urban planning.
- Increase the quality of the local civil service through education, training and personnel exchanges.

4. Revitalise local legislatures and overhaul the local election process to reverse declining turnout

5. Strengthen accountability in local governments

- Balance increased autonomy with greater accountability through democratic oversight and an improved evaluation system.

6. Revitalise civic society and expand their participation in local civic affairs

7. Secure co-operative intergovernmental relations

- Strengthen collaboration between national and local governments and between local governments and improve mediation to resolve intergovernmental conflicts.

Source: Presidential Committee for Government Innovation and Decentralization (2003).

- Step 3: The decentralization law. 'The Special Act on Decentralization' was enforced in 2004.
- Step 4: Adopting a set of implementing regulations. The PCGID set up the Five-year Decentralization Plan on the basis of 'the Special Act on Decentralization.'
- Step 5: Implementation and Step 6: Monitoring. Related ministries implemented decentralization by enforcing and amending norms. The committee monitored their tasks regularly and reported the result to the President.

Although such exemplary decentralization implementation yielded significant outputs, it could not overcome some constraints. First, the powerful presidential committee distorted the formal policy process and raised bureaucratic resistance. The PCGID was established under the President like the impartial organizations of former governments.

However, the committee had a significant number of experts and executive staffs who came from related ministries and research institutions unlike those of former governments. Furthermore, the system of direct reports to the President carcassed the State Council, the highest policy decision making organization. Moreover, the PCGID often conflicted with ministries in the stage of implementing because the roadmap for decentralization was made without sufficient discussion with related ministries. Secondly, on the basis of the roadmap for decentralization, Roh government planed to enforce ‘the Omnibus Governing Authority Transfer Act’ in order to transfer national government’s affairs without amending each related acts in various standing committees of the National Assembly. It was, however, frustrated by the National Assembly which rejected it on grounds that the exclusive deliberation of affairs in just one standing committee could violate the deliberation right of each related standing committee.

Policy Outputs

Institutional Arrangements

On the base of the roadmap for decentralization, numerous institutions had been enacted. First, to realign authority between the national government and SNGs, ‘the Special Decentralization Act’ was enacted in January 2004. It contained the basic principles, priorities, and establishment of promotion organization and procedures as an important legal guideline for legislative or administrative matters (PCGID 2007, 124).

Jeju Island had needed more autonomous system than other regions to match its distinctive geographical character. To accomplish this, a special law on the establishment of the Act on Jeju Special Self-Governing Province and International Free City was passed in the National Assembly in February 2006 (PCGID 2007, 126-7). To promote administrative independence of SNGs, ‘the Total Labor Cost System’ was

introduced in 2007 with the substantial abolition of the national government's authority to approve of SNG's organizations and quorums. It allowed SNGs to freely manage administrative bodies and quorums based on related labor costs and expenditures of each SNG (PCGID 2007, 126-7). 'The Citizen Suit System' and 'the Citizen Recall System' was also introduced in 2005 and 2006 respectively in order to strengthen the accountability of SNGs.

Despite such outstanding accomplishments compared with former governments, there were some limitations. First, the scope of roadmap for decentralization is too broad to implement and control (Park 2006, 211). Restructuring of local special administrative organizations of national miseries was frustrated mainly due to the resistance of bureaucrats and related interest groups. Secondly, in order to establish cooperative intergovernmental relationship, Roh government planned to hold regular meetings between the president and representatives of the heads of SNGs and the Associations of SNGs. Although it allow SNGs to participate in the policy process of the national government and to strengthen the role and functions of the four Associations of SNGs, it was not institutionalized by any formal institutions.

Fiscal Arrangements

In order to enhance fiscal autonomy, the transfer of financial resources from the national government to SNGs with functional adjustments, the abolition of Local transfer fund, establishment of Balanced National Development Special Account, and improvements in the Local shared tax were institutionalized (PCGID 2007, 157-165).

From mid-2003 to February 2004, the PCGID categorized the national subsidies into three types. The first type is the national subsidy project where local transfers are desirable. The second is the project which is desirable to be adopted into the Balance

National Development Special Account (BNDSA). The last is the project which is desirable to be maintained based on subsidies. As a result, 163 projects (worth 1.1 trillion won) have been transferred to SNGs (PCGID 2007, 157-165). By the amendment of the Local shared tax Act in January 2004, the local shared tax rate was increased from 15% (8.4 trillion won) in 2000 to 19.13 % in 2005 and went up to 19.24% in 2006 (PCGID 2007, 157-165). The structure of Local shared tax was also changed being categorized into three groups: the general shared tax, the special shared tax, and the shared tax for decentralization. The Local Transfer Fund, a block grant fund introduced in 1991 to promote balanced regional development was abolished and its main revenues were merged to the BNDSA.

5.6. From 2008 up to now (Lee Myung-bak government)

Contextual factors and Ideological orientation of governments

Lee Myung-bak, the candidate of the main opposition Grand National Party (GNP) during Kim Dae-Jung and Roh Mu-haeon governments, won the 17th Presidential Election with 48.7% turnout in late 2007.¹² The re-seizure of the Presidency of more conservative party foretold the significant changes such as privatization and marketization of public services in all most sectors (Yang 2008).

Meanwhile, the decentralization policy orientation of Lee Myung-bak's government was much similar to Roh Mu-haeon's government. Rather, it was more fundamental in that it included structural reform agenda such as reorganizing current two tier structure of SNGs. Among 'the 100 policy tasks' of Lee Myung-bak's government, decentralization related tasks are:

¹² National Election Commission. <http://www.nec.go.kr>

1. Reorganizing local administrative system
2. Transferring Government power to local governments
3. Expanding the financial resources of local governments
4. Introducing municipal police¹³

The political environment of Lee government was also more favorable for decentralization than previous governments. First, the President himself is the former mayor of Seoul Metropolitan city (from 2002.7 to 2006.6) as well as the second chairman of Governors Association of Korea (GAOK) during Mayor's tenure.^{14 15} Such career distinguished himself from previous Presidents who were commonly pure politicians and had no experience in SNGs. Secondly; the GNP won the 18th National Assembly Election in April 2008 with seizure of 169 seats out of a total 299 seats (57%). Holding majority meant that it became possible to process most bills without any compromise with opposition parties. Unlike the previous governments which had confronted a strong opposition in National Assembly, the current government has much more possibilities to pass important reform bills including decentralization.

The characteristics of policy process

The process of decentralization in Lee government is still continuing. Therefore, the overall assessment might be not appropriate until the end of Lee government. In this part, nevertheless, it is assessed on the base of current outputs.

Among decentralization tasks of Lee government, some tasks such as transferring government power to SNGs and expanding the financial resources of SNGs had already been implemented during previous governments although most SNGs are still

¹³ The Office of the President. <http://www.president.go.kr/kr/index.php>

¹⁴ Seoul Metropolitan Citygovernment. <http://www.gaok.or.kr>

¹⁵ Governors Association of Korea. <http://www.gaok.or.kr>

discontent with the extent. Introducing municipal police was also tried to introduce during Roh government but failed. However, reorganizing local administrative system is a fundamentally challenging task in that former governments tried to implement it but failed due to the extreme interest conflicts between SNGs, disagreement of academia, or political disagreement of opposition parties.

In spite of re-organization of national government in February 2008, the old actors of previous governments survived transforming their shape. The previous MOGAHA which was responsible for local finance was integrated to the Ministry of Public Administration and Security (MOPAS) with the Civil Service Commission, the National Emergency Planning Commission and national informatization strategy functions of the Ministry of Information and Communication.¹⁶ The previous the MPB which was responsible for national budget was merged to the Ministry of Strategy and Finance (MOSF) with the Ministry of Finance and Economy (MOFE).¹⁷ Meanwhile, the re-organization of previous presidential commissions was delayed due to the administrative arrangements. Even under the new Commission, the resistance of ministries and stake-holders has still existed protesting the relevance of Commission's decision of devolving some affairs of Ministries. For example, the deliberation of devolution of some fire fighting affairs which are the authority of the National Emergency Management Agency (NEMA) and provinces to basic level SNGs confronted severe protests of NEMA and provinces. The NEMA and provinces have not announced disagreement officially. But individual servants appealed the media that basic level SNGs had not sufficient capacity to execute fire fighting affairs and the budget necessary for devolution would cost more than 1.5 trillion won (Lim 2010).

¹⁶ MOPAS. www.mopas.go.kr

¹⁷ MOSF. www.Mosf.go.kr

Policy Outputs

Institutional Arrangements

‘The special Act on Decentralization’ was amended as ‘the special Act on Promoting Decentralization’ in February, 2008. A new commission based on the amended Act was established in December, 2008. The new ‘Presidential Commission for Decentralization (PCD)’ merged the previous PCGID and ‘the Presidential Committee on Promoting Devolution’ which were established which was established during Roh and Kim government respectively.¹⁸

Since the establishment, the decentralization policy has been led by the PCD. But the PCD was organized almost one year after Lee government inaugurated. With such a reason, main decentralization policies were devised and discussed in related ministries. The MOPAS, as the leading minister for SNGs, initiated all most of decentralization policies. However, as for Reorganizing local administrative system, the National Assembly has also involved in it by establishing ‘the special committee for reorganizing local administration.’ in September 2009.¹⁹ While various opinions being suggested, in April 2010, the special committee passed ‘the Special Act for reorganizing local administration’ which prescribed some principles of reorganization which includes the abolishment of Metropolitan City Councils.²⁰

Fiscal Arrangements

In September 2009, Lee government decided to introduce ‘the Local Consumption

¹⁸ The Presidential Commission for Decentralization. <http://www.pcd.go.kr>

¹⁹ The National Assembly. www.assembly.go.kr

²⁰ The National Assembly. www.assembly.go.kr

Tax' (LCT) and 'the Local Income Tax (LIT)' in order to enhance SNG's tax autonomy. The LCT will be established by the converting 5% of Income tax, one of national taxes. Meanwhile, the LIT would be created by the change of the current Income Levy Inhabitant Tax, one of local taxes. While the policy process of new local taxes, the MOPAS confronted with the MOSF which hesitated to agree to the introduction of new local Taxes, insisting the possibility that only 'rich' SNGs may benefit from it. When the president recalled the situation, he commented that 'it was a determination for enhancing the competitiveness of SNG' (Lee 2009).

5.7. Interim Conclusion

There are similarities in the institutionalizations of decentralization policy through the governments despite of different ideological orientations (Table 4). All most governments established an organization for decentralization. Particularly since Kim dae-jung government, its role has become much important by being established under the President. Whenever new government was inaugurated, new institutions were established, although there are no significant differences between them. This could be explained by that new government wants to differentiate it from the previous governments. Meanwhile, recurrent institutionalization retarded the overall reform schedule due to time-consuming for legal and administrative arrangements.

Table 4 The change of decentralization policy

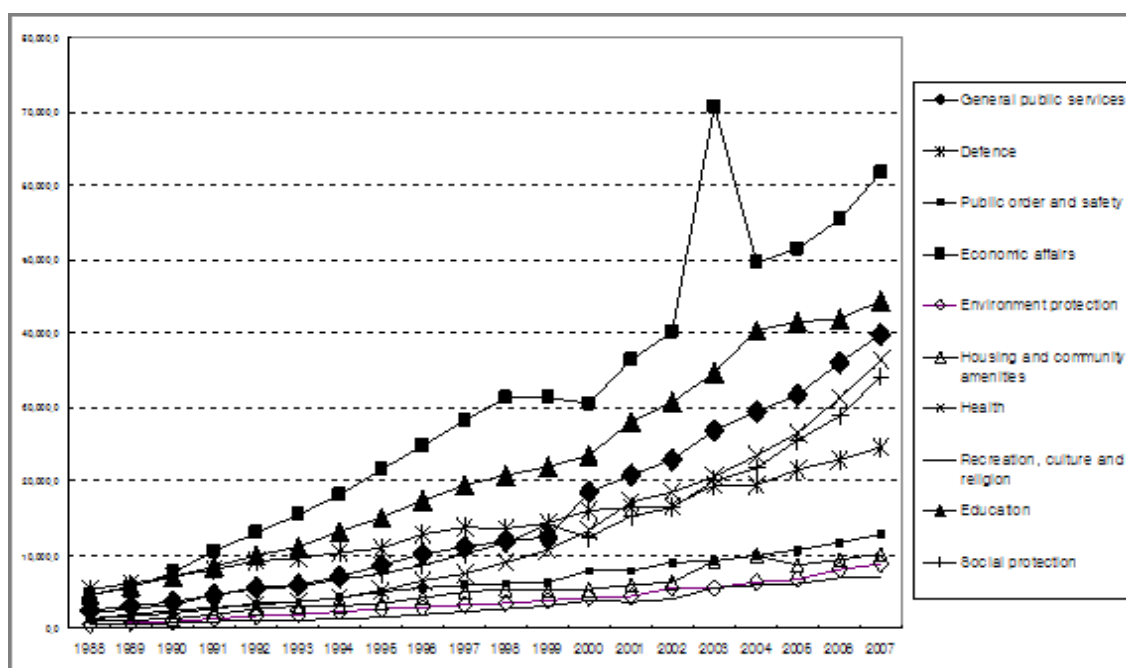
Period (President)	Contextual factors & Ideological orientation	Reform Agenda	Institutions, Main actors & Reforms
Before 1987	- The priority of economic development - Right	- decentralization is claimed intermittently but merely rhetoric	- Constitution had suspended local autonomy - governor, mayors appointed by national government
1988 to 1992 (Roh Tae-wo)	-Rapid Democratization - Right	- Political decentralization	- 1988 new constitution gurantee local autonomy - Opposition party struggled for full local autonomy (including chiefs elections)

1993 to 1997 (Kim young-sam)	-Rapid Democratization - Right	- Political decentralization	- 1995 governors and mayors election President, Opposition party
1998 to 2002 (Kim Dae-Jung)	- Hormanization of democracy and market economy - Left	- Adminstrative decentralization	- 1998, devolution law - President - Independent commission
2003 to 2007 (Roh Mu-haeon)	- Focusing on welfare - Left	- Comprehensive decentralization including fiscal decentralization	-.2003 decentralization - President - Civil movement organization - Independent commission
2008 to now Lee Myung-bak's government)	- Focusing on economy - Right	- Fundermental reforms (Restructuring)	-President -Related Ministries - Independent commission

Source: Author

After democratization, the distribution of general government expenditure (including SNGs) shows also similar patterns through successive governments despite of different policy orientation, particularly from 1998 to 2007 when more progressive Kim Dae-Jung and Roh Mu-haeon seized presidential power (Figure 5).

Figure 5: Selected Outlays of General Government by Function (at Current Prices, Annual)

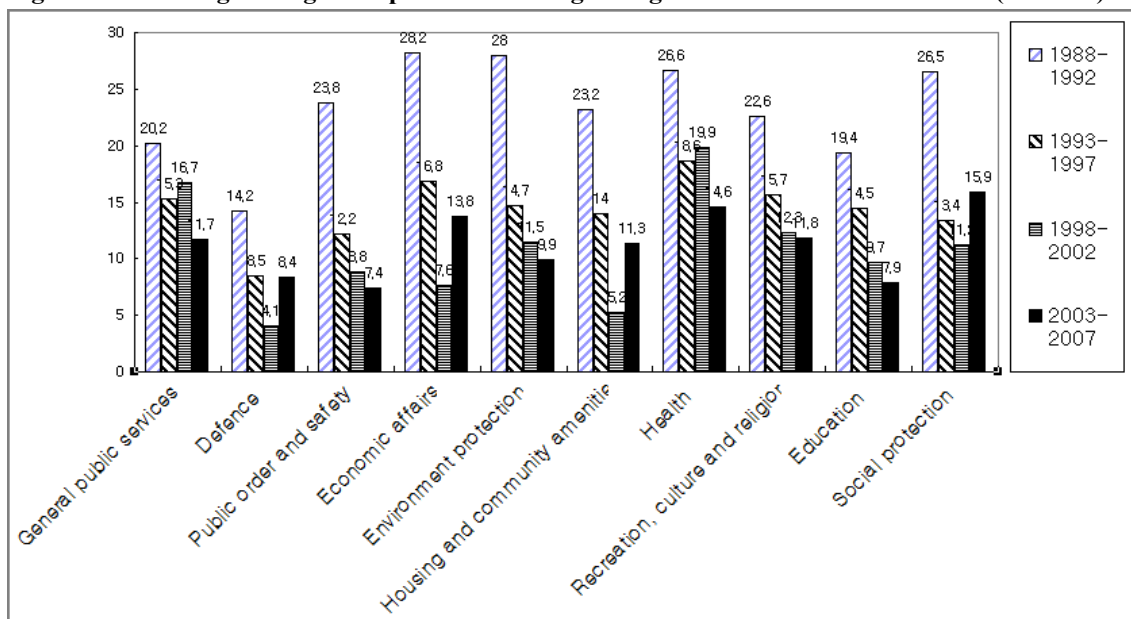


Source: The Bank of Korea

Economic priority had continued followed by education, general public service, health and social protection in sequence. Meanwhile, the average change of expenditure during each government implicates the policy orientation of each government (Figure 6).

Overall the average growth of expenditure during Roh Tae-wo government (1988-1992) is higher than any following government. This may be attributed to the economic affluence and less fiscal constraint than other governments. The expenditures of general public service, public order & safety, environment protection, recreation, culture & religion, health, and education have fallen through successive governments with the exception of health increase during Kim Dae-Jung government.

Figure 6 the average change of expenditure during each government (Unit: %)



Source: The Bank of Korea

Meanwhile, the expenditure of defense, economic affairs, housing community & amenities, and social protection increased during Roh Mu-haeon government. Despite of Kim Dae-Jung government's progressive orientation, there is hardly any difference to previous conservative government. This may be mainly attributed to the fiscal constraints which were caused by financial crisis in late 1997. Meanwhile, Roh Mu-haeon government increased the expenditure of social protection although it is less than during Roh Tae-wo government. This may be interpreted that Roh Mu-haeon government endeavored to balance the economic growth and social protection.

Through the governments, the relationship between national government and SNGs was gradually moving from unilateral relationship to cooperative one. However, the extent of formal institutionalization was significantly low mainly due to the national government's preference to administrative arrangement such as informal and irregular meetings.

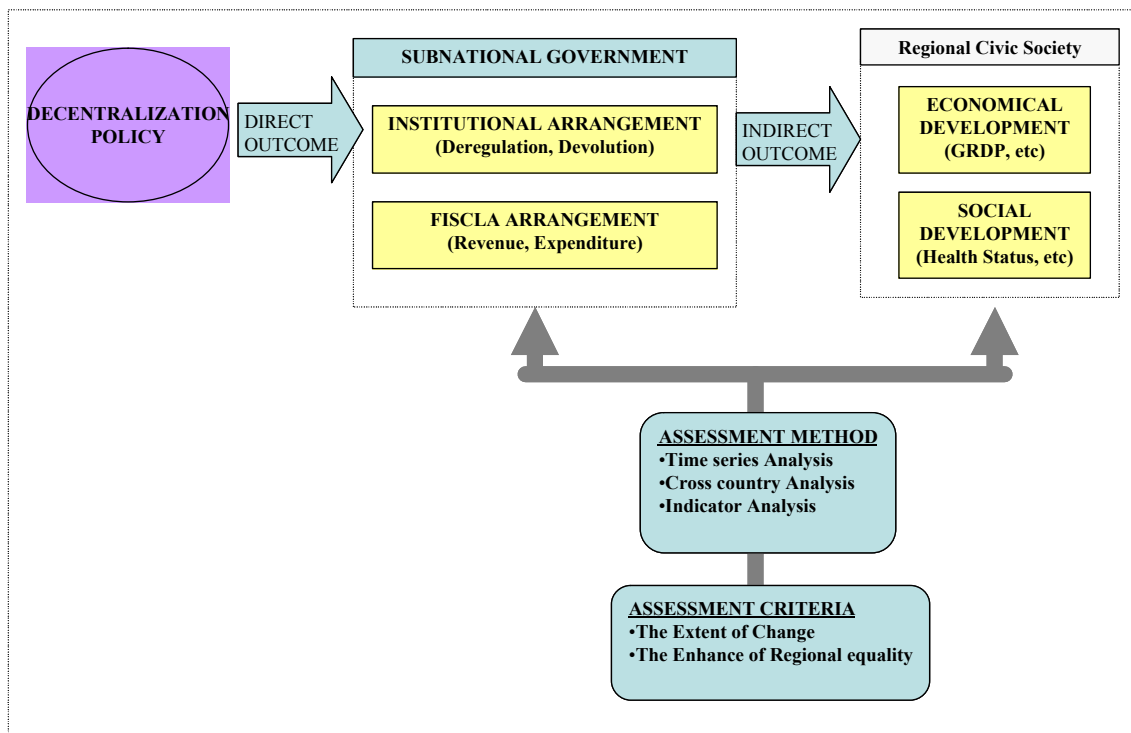
In fiscal aspect, the funding of local finance of each government was mainly based on intergovernmental transfer rather than local taxes, and ad hoc rather than systemic with few exceptions. After democratization, only one national tax, Tobacco Sales Tax, was transferred to basic level SNGs in 1988.

Although Horse-race Tax in 1988, a Fire-fighting Facilities Tax in 1991, and a Regional Development Tax in 1991 became part of the province tax base, this was just rearrangement which was transferred from county/city tax to province tax. National government raised Local share tax or introduced a new type block grant, Local transfer fund. The main reason which national government prefers intergovernmental transfer funding is that it is concerned with the unequal distribution of tax bases between SNGs. Moreover, while devolving national affairs, there were not sufficient fiscal arrangements, which was problematic in that it violated one of fiscal federalization's principles that revenue should follow expenditure. In fact, it is quite difficult to calculate exact amount of budget which is necessary for devolving a national affair. Moreover, 'revenue reform is a more manageable issue, and more likely to yield visible, short-term results' (Bahl 1999, 7)

6. THE OUTCOMES OF FISCAL DENATIONALIZAITON IN KOREA

As a complex multilevel phenomenon, encompassing a number of political, fiscal and administrative dimensions, decentralization also is difficult to measure (Saltman, Bankauskaite, and Vrangbaek 2007, 15). With such consideration, in this chapter, the outcomes of decentralization are assessed as Figure 7.

Figure 7 Framework of Assessment of Decentralization Outcome



Source: Author

As a policy, decentralization is implemented through SNG. Decentralization policies could impact SNGs directly through the change of their current revenue and expenditure. Spontaneously, decentralization polices impact regional society through the change of public provisions. Fiscal decentralization is one of policy tools for accomplishing socio-economical development. In this study, ‘sustainable development model’ is referred as the main criteria of socio-economical development. Sustainable development can be defined as “as a process of managing a portfolio of assets to preserve and enhance the

opportunities people face” (Soubotina 2004, 114). Sustainable development includes not only economical aspects such as GDP per capita but also social aspects such as social aspects such as health status. Based on such consideration, the indicators are like Table 5.

Table 5 Measurement of Outcomes of Fiscal Decentralization

Target	Aspects	Sub-aspect	Indicators (example)
SNGs	Institutional Aspect	Restructuring intergovernmental relations	<ul style="list-style-type: none"> • Redistribution of Affairs • The change of national government’s monitoring approach to SNGs (Deregulation)
		Fiscal aspect	<ul style="list-style-type: none"> • Revenue • Expenditure
			<ul style="list-style-type: none"> • The Change of Revenue scale • The Composition of Revenue • The Change of Expenditure scale • The Composition of expenditure
Regional Society	Economic Aspect	Income	<ul style="list-style-type: none"> • GDP per capita • GRDP (Growth Regional Domestic) • Distribution of income tax base
			<ul style="list-style-type: none"> • Unemployment
	Social Aspects	Health Status	<ul style="list-style-type: none"> • Life expectancy • Infant mortality rate
		Social welfare	<ul style="list-style-type: none"> • Public Social Expenditure
		Education & Information	<ul style="list-style-type: none"> • public spending on education • Enrollment rates • Digital Opportunity Index
		Quality of Life	<ul style="list-style-type: none"> • Life satisfaction

Source: *Author*

6.1. The Outcomes of Fiscal Decentralization in SNGs

Fiscal decentralization impacts on various aspects of national and SNG relationship (Kim 1997, 153). Among them, in this study, two dimensions are focused. First, institutional dimension includes redistribution of affairs and types of national control. Second, fiscal dimension is concerned with the scale and compositions of revenue and expenditure in SNG. The assess methods are based on the time-series analysis and comparison of other OECD countries.

6.1.1. Institutional Dimension

Redistribution of National and Autonomous Affairs by Devolution

Since the Constitution guaranteed local autonomy in 1987, various institutional measures have been devised. In terms of institutions, the main achievements are devolution of national government's affairs and the change of approach of national government's monitor on SNGs.

The scope of functions which SNGs must have depends on the context of each country such as historical, political and socio-economic environment (Kim 1997, 157). The outcome of redistribution policy in Korea, however, is not substantial compared with the increasing role of SNGs. Unlike most OECD countries, critical local services are not included in the functional inventory of Korean SNGs. Particularly, the basic level SNG doesn't have any right and responsibility for education, crime control, fire prevention and traffic regulation which are essential for managing its region. The devolution of national government's affairs has been led by the Presidential Committee of Promoting Devolution (PCPD) since 1998. Despite of its endeavor, the rate of national affairs and autonomous affairs is 73:15 in 2002 compared with 75:13 in 1994.

This means that national government has still substantial affairs compared to SNG. Out of total 41,603 units of administrative affairs, the PCPD devolved or redistributed only one percentage (1481 units) of them (Table 6).

Moreover, even the resolutions of devolution have not been implemented effectively because of the hesitancy and resistance of national ministries the delay of legal arrangement in the National Assembly. In order to deal with the problem of delayed implementation by some national ministries, Roh Mu-haeon government submitted a special law that deals with the already resolved functions en bloc but failed due to the hesitance of the National Assembly.

Table 6 Devolution decision and Implementation **Unit: number**

	Total	2000	2001	2002	2003	2004	2005	2006	2007
Resolution*	1,481	185	176	251	478	53	203	80	55
Implementation**	1,189	2	92	146	164	204	436	43	102

Note: Decision* indicates the number of final devolution decision by the Committee

Implementation** indicated the number of institutional arrangement after devolution decision

Source: the Presidential Commission for Decentralization

Roh Mu-haeon government tried to implement more fundamental redistribution policy such as restructuring of local special administrative organizations of national miseries or introducing municipal police but frustrated by the severe protests of stake holders.

Changing of National government's control approach

Although the basic intergovernmental relation has not changed significantly due to the maintenance of the Constitution and related Acts, the approach to regulating or monitoring of SNG by national government has changed significantly. As the ministry which is responsible for policy making, implementing and monitoring of local finance, the Ministry of Public Affairs and Security (MOPAS) has changed its approach to SNGs.

In fact, the Ministry of Home Affairs (MHA), the predecessor of MOPAS had been notorious among SNGs and opposition political parties for its unilateral and oppressive control of SNGs and regional society during authoritarian regime. That is why Kim dae-Jung argued its abolishment during the Presidential campaign. The MHA regulated organizational or fiscal operations of SNGs on ex ante and case-by-case base.

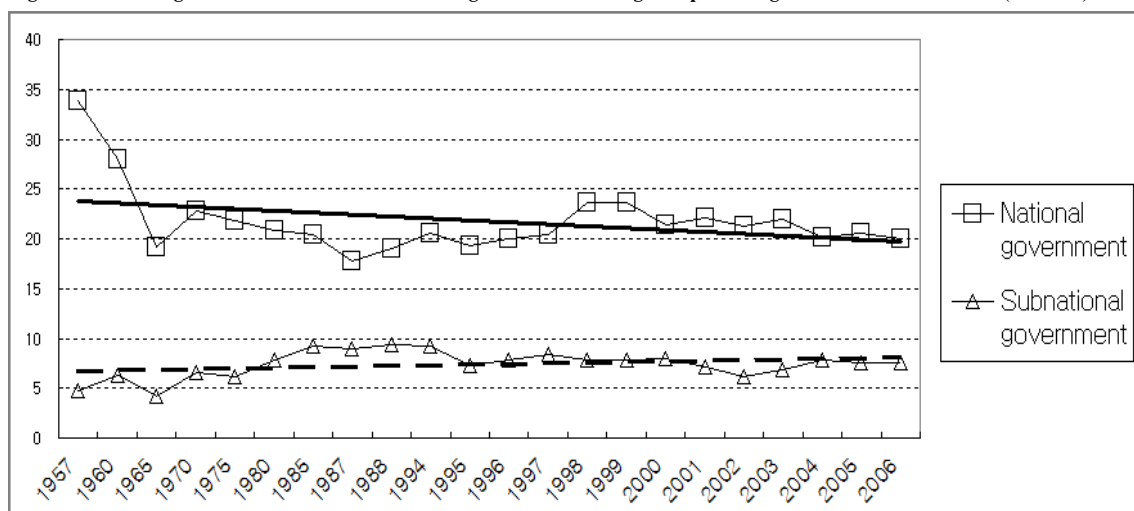
Democratization and its consolidation, however, changed its regulation approach as ex-post and objective one. For example, it transformed the regulation of local borrowing from approval system on a case-by-case basis to objective debt limit system under Roh Mu-haen government. Now SNGs can issue local bonds under each limit which is set by objective criteria.

6.1.2. Financial Dimension

The Change of Scale of Budget

As seen in Figure 8, overall trend shows that the rate of SNG' budget as percentage to GDP become larger than national government's budget. Such trend also tells that SNG will have much important role in national economy in long term.

Figure 8 the Change of National and Sub-national government's budget as percentage to GDP (Unit: %)



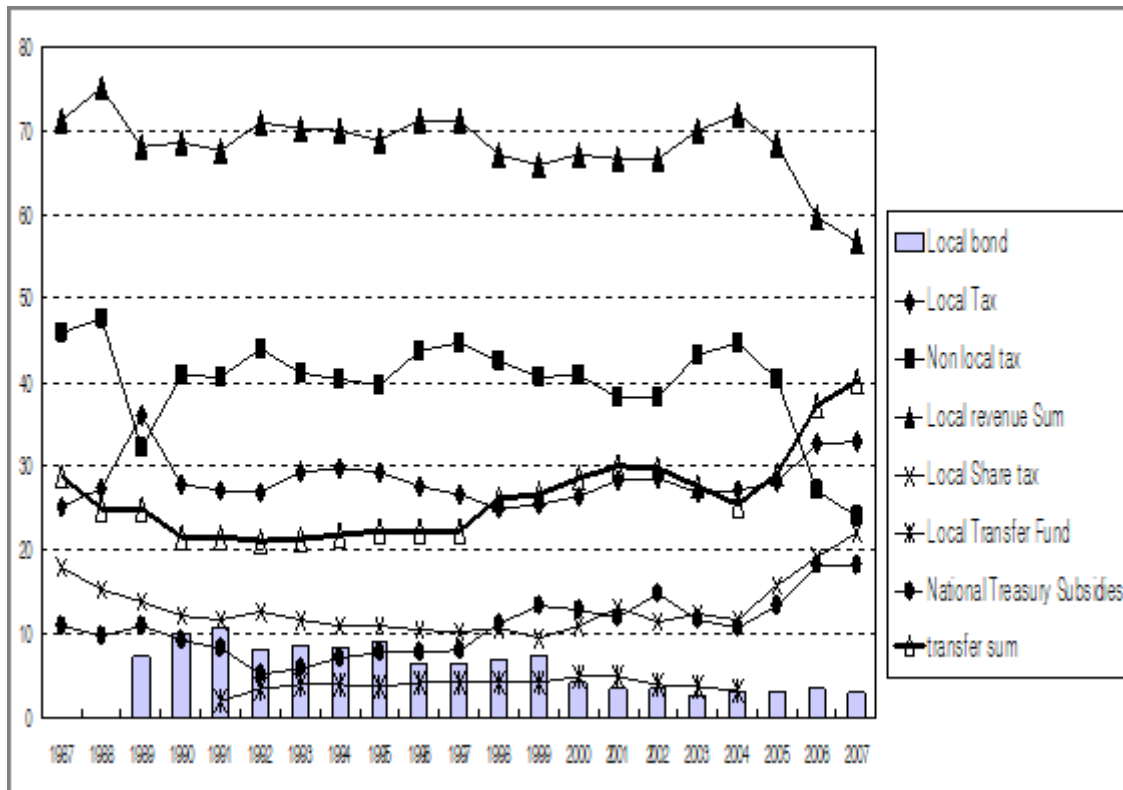
Source: KOSIS (www.kosis.kr)

Revenue Aspect

Growing dependency on national government

Overall, the rate of local (self) revenue (as sum of local tax and non-local tax) kept steadily by 1997 but since 1998 it decreased except 2003 and 2004 (Figure 10). Meanwhile, the trend of Local (intergovernmental) transfer (Local Share Tax, Local Transfer Fund, and National Treasury Subsidies) shows opposite trend to that of local revenue. Such phenomenon can be observed not only in Korea but also other OECD countries, which is somewhat paradoxical in that ‘more decentralization coincides with more dependency on national government resources’ (Blöchliger 2006, 6). Such fact also reflects that the decentralization policy of Korean government, particularly since 2003 has been based on approach to guaranteeing stable revenue flow rather increasing SNGs’ fiscal discretion by increasing tax autonomy (Bahl 1999, 18-20).

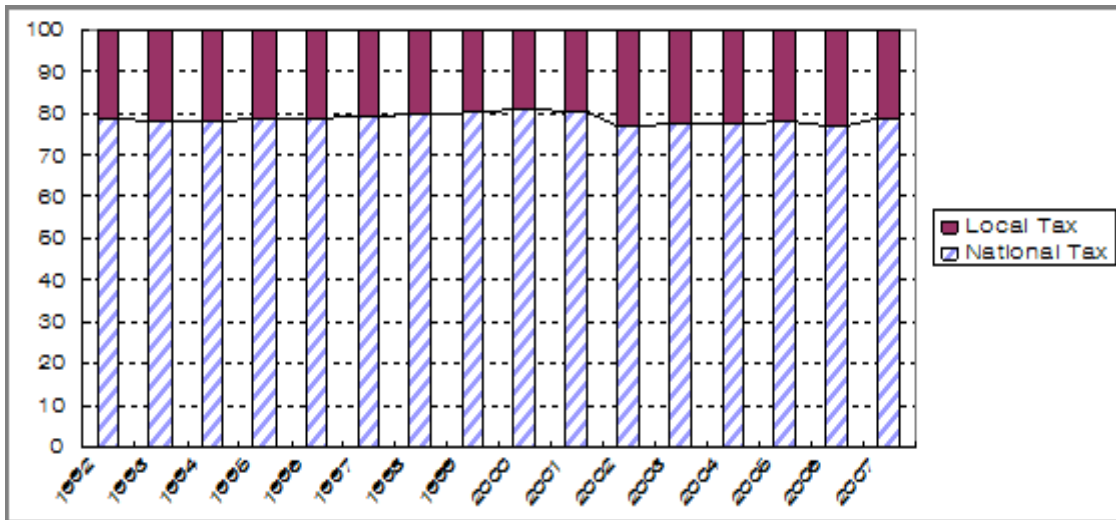
Figure 9 the change of revenue of sub-national government as percentage to total revenue (Unit: %)



Source: Ministry Of Public Administration and Security

Meanwhile, local tax is weak compared to national tax (Figure 10). The rate of national and local tax has kept approximately as 80:20 although there are increases intertemporally.

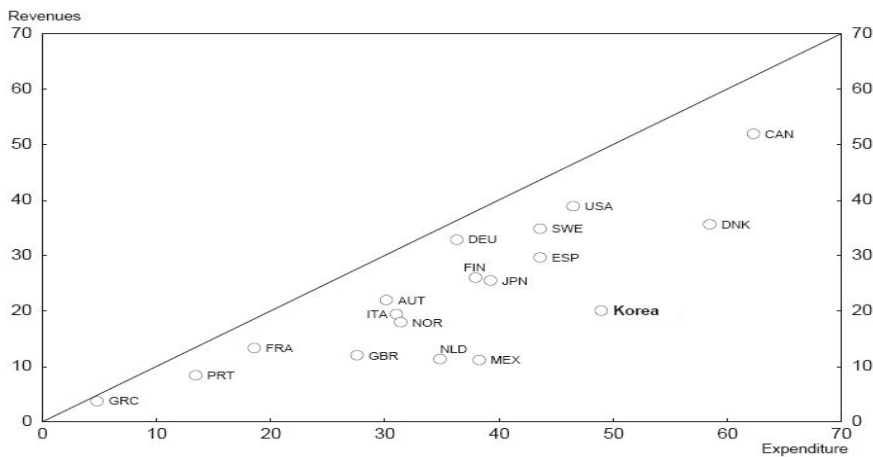
Figure 10 the Composition of National and Local Tax (Unit: %)



Source: Ministry Of Public Administration and Security

The comparison with other OECD countries shows that Korea has also relatively low local tax despite of its high expenditure (Figure 11). It is mainly due to substantial national government’s ‘delegated functions’ and its budgets (Jones and Yokoyama 2005, 4). Therefore, it is more realistic approach to include the intergovernmental transfer when the exact situation of SNG’s fiscal capacity is measured in Korea.

Figure 11 Sub national government share in general government revenues and expenditure in 2003 (Unit: %)

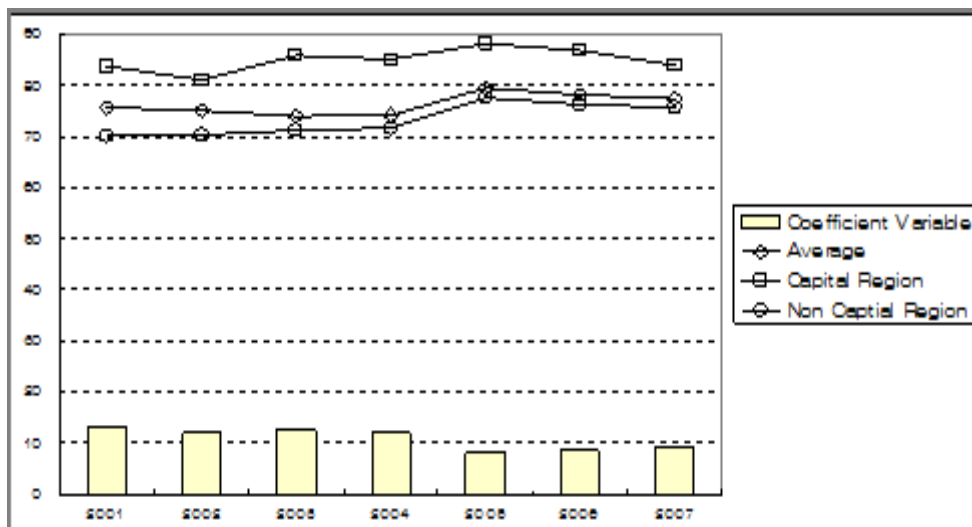


Source: Jones, R. S. and T. Yokoyama (2005)

The degree of revenue autonomy including non-local tax and non-earmarked grant

The degree of revenue capacity of SNG can be measure by ‘the degree of fiscal autonomy (*Jaejung Jajudo*)’. According to the MOPAS, it is devised to measure the total revenue which a SNG can manage under its discretion including non-earmarked grants from national government or regional government such as Metropolitan City Revenue Sharing or Province Revenue Sharing.²¹ Its formula is {[Self revenue (local tax + non-local tax revenue) + ‘Autonomous revenue’ (Local Share Tax+ Metropolitan City Revenue Sharing+ Province Revenue Sharing)]/ total revenue} x 100. The degree of fiscal autonomy in 2007 increased averagely compared with 2001. The fiscal disparities between SNGs (indicated by coefficient variable) decreased overall.

Table 7 the degree of fiscal autonomy (Unit: %, value)



Source: KOSIS (www.kosis.kr)

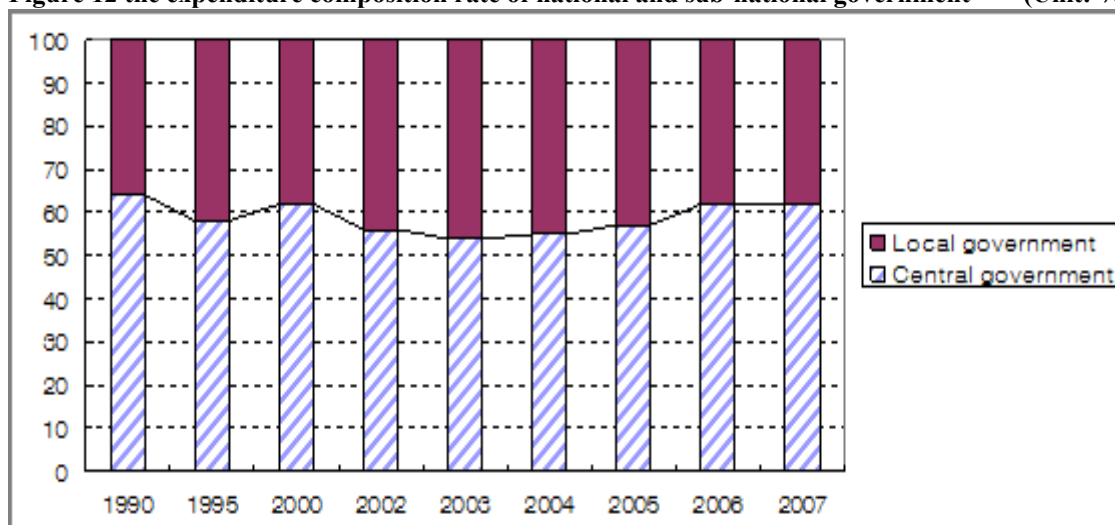
Expenditure Aspect

High expenditure compared with Other OECD countries

The expenditure composition rate of national government and SNG is approximately 60:40 although there are up and downs intertemporally (Figure 12).

²¹ Local finance information system (<http://lofin.mopas.go.kr/>)

Figure 12 the expenditure composition rate of national and sub-national government (Unit: %)



Source: KOSIS (www.kosis.kr)

Such high expenditure with low local tax revenue distinguishes Korea from other OECD countries (Jones and Yokoyama 2005, 4).

Social development's share has expended

Korean local public expenditures consist of five categories according to the use of funds, and they are (i) general administration, (ii) social development, (iii) economic development, (iv) civil defense, and (v) support and other expenditure.²² The sub-categories of each categories are like Table 8

Table 8 The categories of local public expenditure

Category	Sub-categories
General administration	Legislation & Election, General Administration
Social development	Education & Culture, Health & Amenities, Social Security, Housing & Development of Local Community
Economic development	Agriculture & Fishery, Regional Economy Development, Preservation Development of Resources, Transport
Civil defense	Civil Defence, Fire Service
Support and other expenditure	Local Debt Repayment, All Other Expenditures

Source: Ministry Of Public Administration and Security

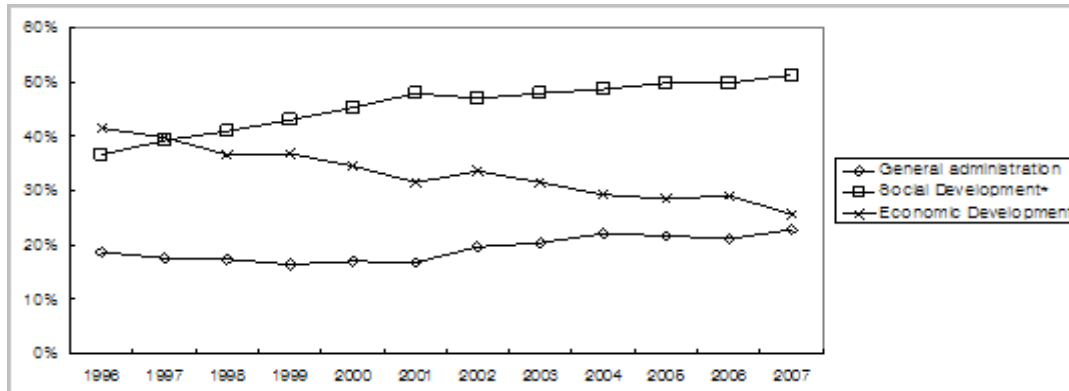
Among such five categories, the portion of general administration, social development, and economic development is larger than others. Figure 15 shows the change of main

²² Local Finance Information System. <http://lofin.mopas.go.kr/>

three expenditures (general administration, social development, and economic development) as percentage of SNGs' total expenditure 1996 to 2007. Since 1998, the social development increased than other expenditures and the gap became much larger.

This is mainly due to the political consideration to focus on social development.

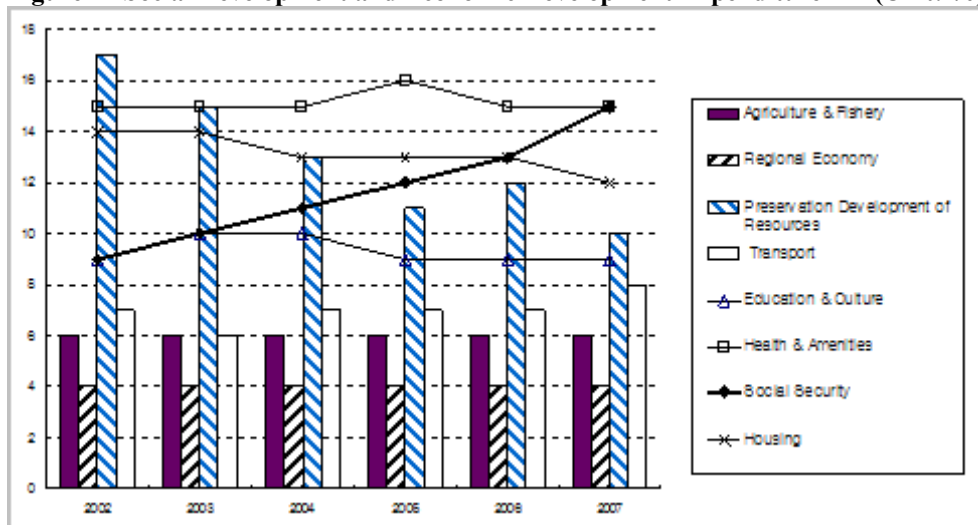
Figure 13 the selected expenditures of SNG as percentage of total budget (Unit: %)



Source: Ministry Of Public Administration and Security

Figure 13 shows a closer look of sub-categories of social development (lines) and economic development (bars) as each percentage of total expenditure 2002 to 2007. Among sub-categories of social development expenditure, the rate of social security is 9% in 2002 but rose up to 15% in 2007. Meanwhile all sub-categories of economic development expenditure kept steadily or decreased.

Figure 14 Social Development and Economic Development Expenditure (Unit: %)

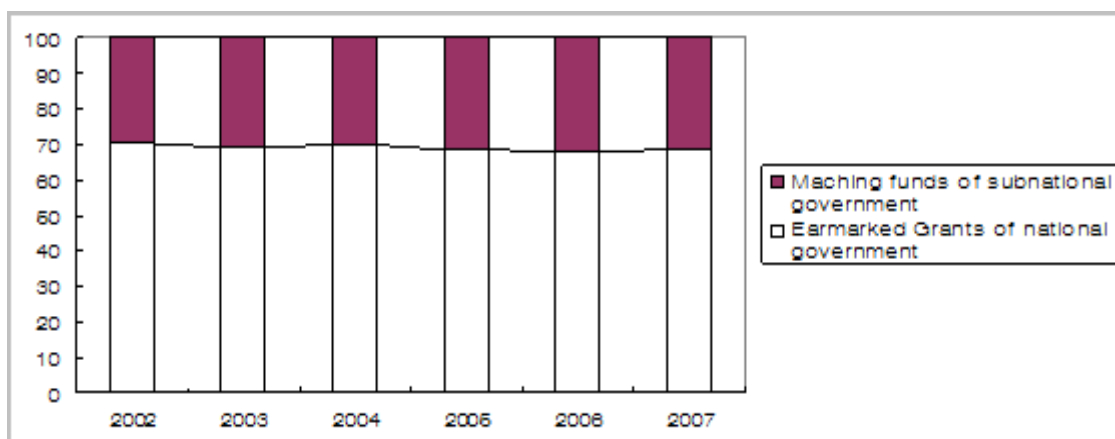


Source: Ministry Of Public Administration and Security

Such result demand a closer look on social security expenditure. It could be desirable to increase the budget of social welfare in that it is still lower than that of other OECD countries. However, the side effect is that social welfare budgets increased without consideration of funding arrangement between governments.

After democratization in 1987, institutionalization for social development and its expenditure increased rapidly. Most public services of social welfare in Korea are implemented under control of national governments. Moreover, as new social welfare programs such as ‘the Long-term Care Security for the Elderly’ and ‘the Basic Old-age Pension’ were introduced in 2008, the burden of SNGs will be much higher than before. The funding is mainly matched by sharing of national government and SNGs. The matching rate is about 70:30 between national government and SNGs (Table 9). Such finance structure could cause serious budget deficits in SNGs which do not have sufficient funding for matching fund (Lee 2007, 108).

Figure 15 Earmarked Grants and matching funds of Social welfare budget (Unit: %)

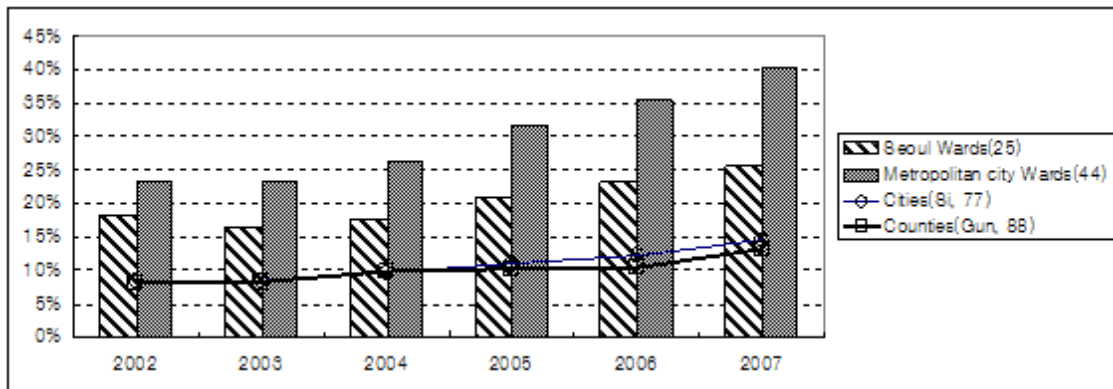


Source: Ministry Of Public Administration and Security

Figure 15 shows social security expenditure of basic level SNGs as percentage of each total budget from 2002 to 2007. Among basic level SNGs, the budget of Metropolitan city Wards has increased much more than other governments. It increased

over 40% in 2007. This is mainly attributed to the characteristic of population distribution of Metropolitan city Wards where the beneficiaries of social policies such as elder people concentrated much more than in other governments (Lee 2007, 108).

Figure 16 Social Security Expenditure of basic level SNGs as percentage of each total budget (Unit: %)

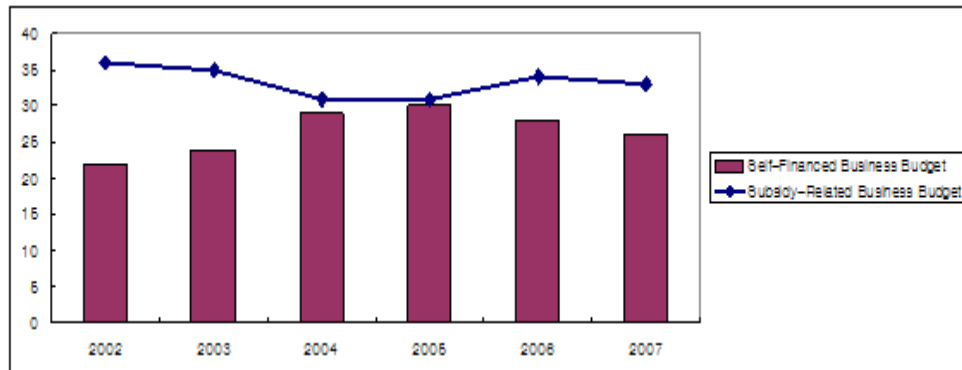


Source: Ministry Of Public Administration and Security

Budget which SNGs can spend at their own discretion was unstable

‘Self-financed business budget’ can be defined as business budget excluding earmarked granted business budget.²³ The concept is used to measure the amount of budget which SNGs can spend at its own discretion. It increased until 2005 but began to decrease steeply since 2006 (Table 10). This is attributed mostly to the change of national government’s policy orientation which decided to concentrate on social expenditure since 2004 and subsequent expenditure increase of SNGs (Lee 2007, 108).

Figure 17 Composition of Business budget of SNG as percentage of total budget (Unit: %)



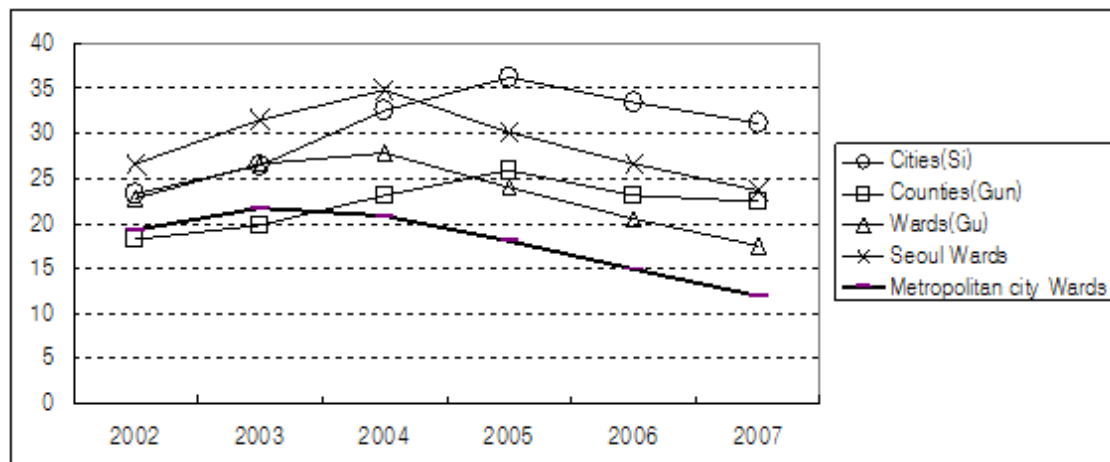
Source: Ministry Of Public Administration and Security

²³ Local Finance Information System. <http://lofin.mopas.go.kr/>

The problem is more serious in basic level SNGs. Since 2006, in all basic level SNGs, the self-financed business budget decreased (Figure 18). Particularly, Metropolitan City Wards had already decreased since 2004 and more steeply decreased than others. In 2007, the average rate of self-financed business budget of Metropolitan City Wards is just 14.8%. This means that such governments have hardly any budget for their own business after spending budget on uncontrollable expenses such as wages or matching fund of earmarked grants. Moreover, cities (*Si*) and counties (*Gun*) whose functions are much more than those of wards (*Gu*) also confront with decreasing self-financed business budgets. This means that the capacity of SNG for regional development is reducing. Most of all, self-determination, the essence of local democracy, might be impotent if such trend continues (Lee 2007, 110).

Figure 18 Self-Financed Business budget as percentage to total budet

(Unit: %)



Source: Ministry Of Public Administration and Security

The discrepancy between the spending responsibilities and funding capacity in education

Unlike most other OECD countries, in Korea, general SNG and educational SNG are separated in terms of institution arrangement. Education Boards and Offices of Education, located at the provincial and metropolitan city level have responsibility for

primary and secondary education.²⁴ Although the head of each Office is elected directly by residents since 2007, the dual representative system of general and education SNG still has a fiscal problem. Despite of separated responsibility, SNG has to provide 19% of total budget of educational entities by related laws thorough the Local Education Tax and a fixed share of local tax revenue. Such discrepancy between the spending responsibilities and funding capacity has limited the development of autonomy in education and discouraged financing efforts by SNGs (OECD 2005, 75).

6.2. The Outcomes of Decentralization in Regional Societies

The outcomes of decentralization in regional societies has significant implications in that it can be one of the most important criteria of whose argument are more relevance about whether decentralization has a positive outcomes on socio-economical development of regional societies. However, it should be noted that it is not simple work to evaluate the pure effects of decentralization on regional societies. The main reason is that the outcomes of decentralization can be intervened by some factors such as income and other national or SNG's policies. Therefore, the outcomes should be taken as the proxy to measure the effect of decentralization.

In this study, the change of objective indicators such as GRDP (Gross Regional Domestic Products) and the subjective effects such as Social Survey of Koran Statistics Office are evaluated. The basic unit of analysis is the province: 9 provinces and 7 major cities (Seoul and the mega cities), making 16 units. The 16 basic units of provinces and cities are classified into 2 regions: Capital Region which consists of *Seoul, Incheon,* and *Kyonggi* and Non-Captial region which consist of other provinces and major cities in

²⁴ Ministry Of Education, Science and Technology. <http://www.mest.go.kr>

order to assess whether or not the regional disparity decrease. As already discussed, the inequality between regions is one of the main issues in Korea, it is meaningful to assess whether or not regional disparity enhance.

The main methods how to measure the change in regional societies are two. The first one is whether the average level is higher by arithmetic mean average. The second one is whether spatial disparity is smaller by measuring a coefficient of variation which is the value of standard deviation divided by the average.

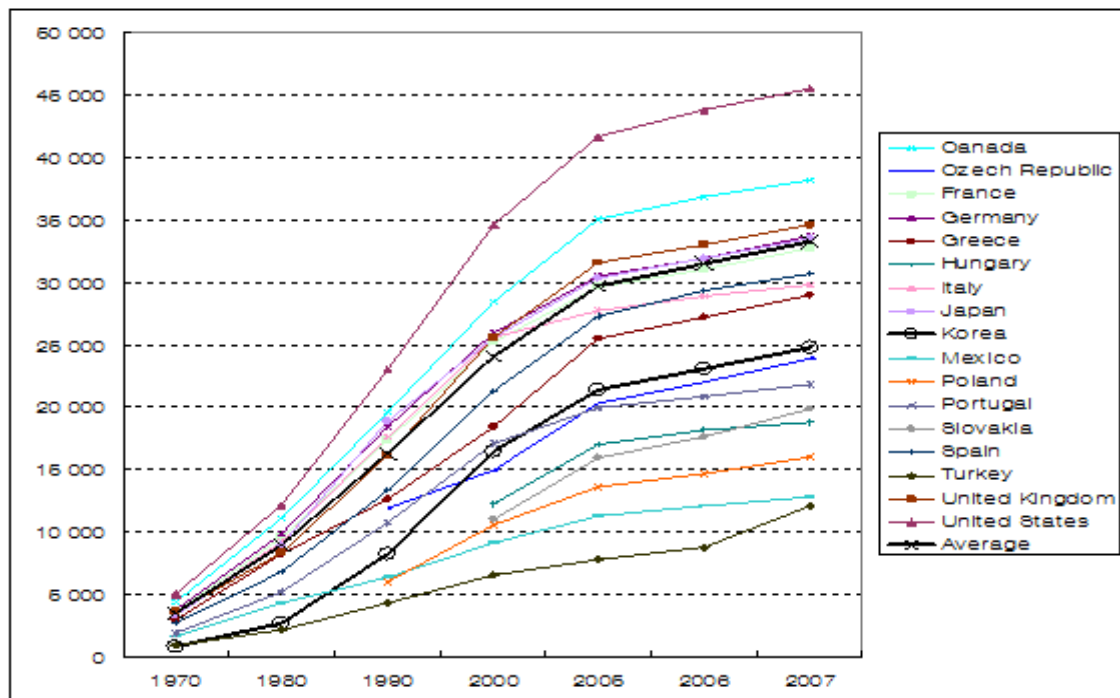
6.2.1. Economic Aspect

Cross-country Comparison by GDP per capita

The GDP per capita of Korea is lower than that of OECD average through the time (Figure 19). It rapidly increased narrowing the gap of OECD average rate until 2000. But since 2000, it kept steadily not narrowing the gap.

Figure 19 GDP per capita

(Unit: US dollar, PPP)

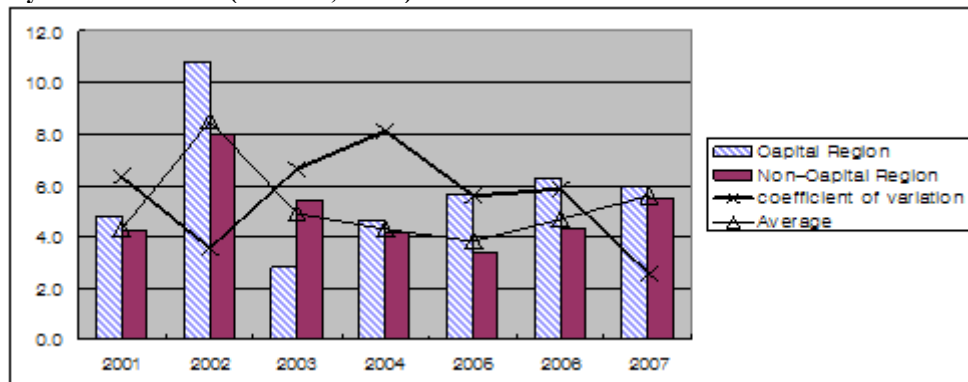


Source: National Accounts of OECD Countries, OECD (2008).

Cross-regional Comparison by Growth of Regional Domestic Product (GRDP)

From 2001 through 2007, the GRDP of Capital Region was higher than that of Non-Capital Region except 2003 (Figure 20). However, the spatial disparity (standard deviation) decreased due to the increase of growth in Non-Capital Region and decrease of growth of Capital Region. The result was partly attributed to government's spatial policy. Beginning in 2002, Roh Mu-haeon government offered diverse incentives for industries to locate in provinces other than the capital region, on the one hand, and imposed strong restrictions on the expansion of economic activities in the capital region, on the other (Huang and Bocchi 2009, 329).

Figure 20 GRDP of Capital Region and Non-capital Region as Rate of Change of GRDP compared to year 2005 (Unit: %, value)

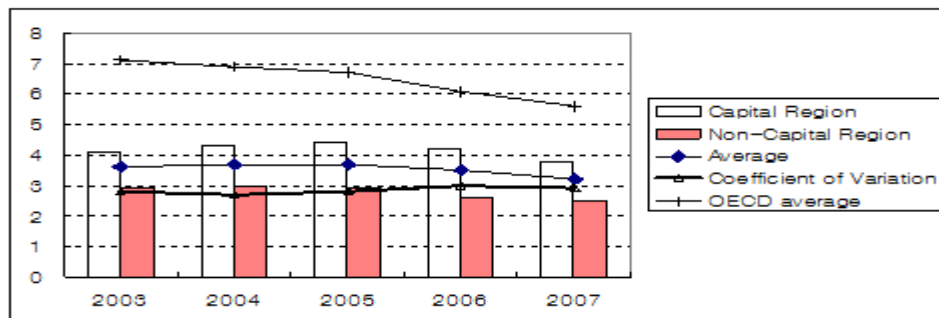


Source: KOSIS (www.kosis.kr)

Unemployment

The unemployment rate of Capital Region and Non-capital Region has decreased through 2000s and the gap became narrower. The average of total region is lower than that of OECD countries. (Figure 21)

Figure 21 Unemployment Rate (Unit: %, value)



Note : Unemployment rate is the ratio of number of persons unemployed and the number of persons in the labour force which is the sum of the numbers of persons employed and unemployed.

Source: KOSIS (www.kosis.kr), OECD (2008), OECD Main Economic Indicators

6.2.2. Social Aspect

Income distribution

Cross-national Comparison by Gini Coefficient

Despite of economic growth, the income distribution as shown by Gini Coefficient exacerbated in Korea compared to other OECD countries (Table 9).

Table 9 Gini Coefficient (Unit: Value)

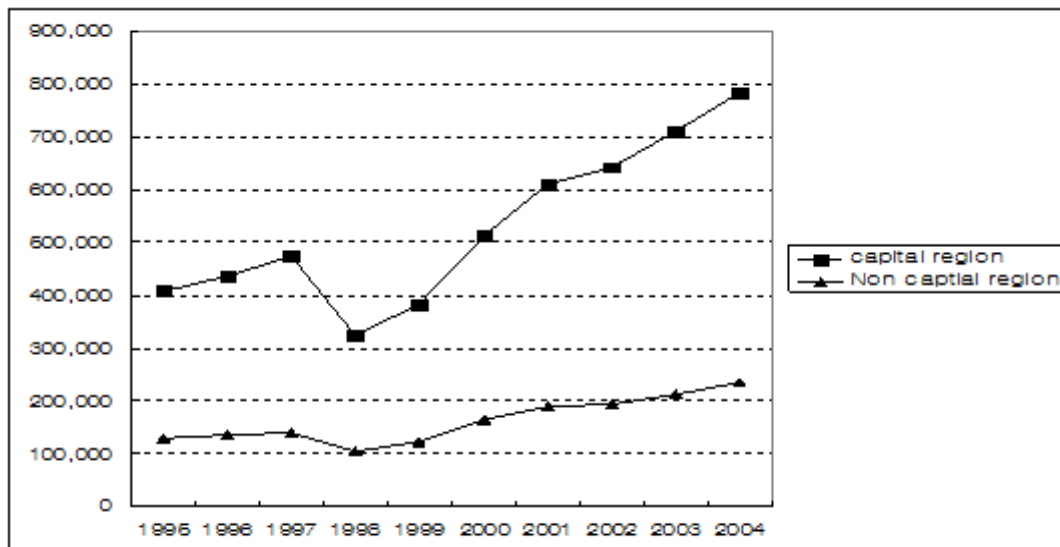
	Mid1990s	Early 2000s	Mid 2000
Korea	0.264	0.272	0.312
OECD Average	0.309	0.306	0.311

Source: KOSIS, OECD (2008), OECD Main Economic Indicators

Cross-regional Comparison by income tax collection

The income disparity between regions which is measured by the collection of general income tax is growing in Korea (Figure 22).²⁵

Figure 22 Amount of General Income tax collection (Unit: million won)



Source: KOSIS (www.kosis.kr)

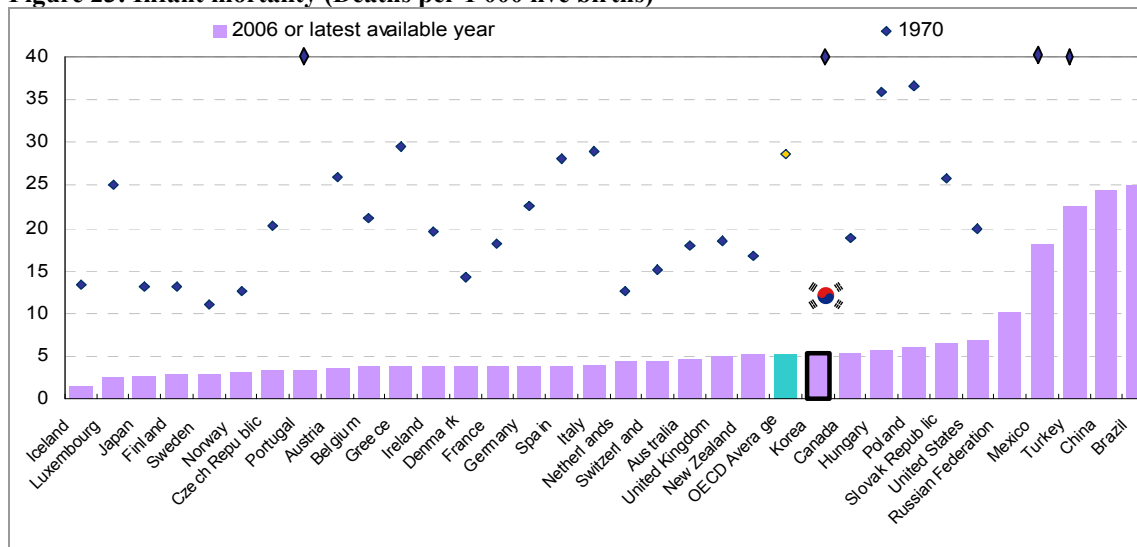
²⁵ The Gini Coefficient of each region is officially not announced in Korea.

Health Status

Cross-national Comparison by Infant mortality and Life expectancy

Within OECD area, Korea is one of the most countries whose infant mortality reduced since 1970. In 1970, the rate is 45 meanwhile it reduced as 5.3 in 2002 (Figure 23).

Figure 23: Infant mortality (Deaths per 1 000 live births)

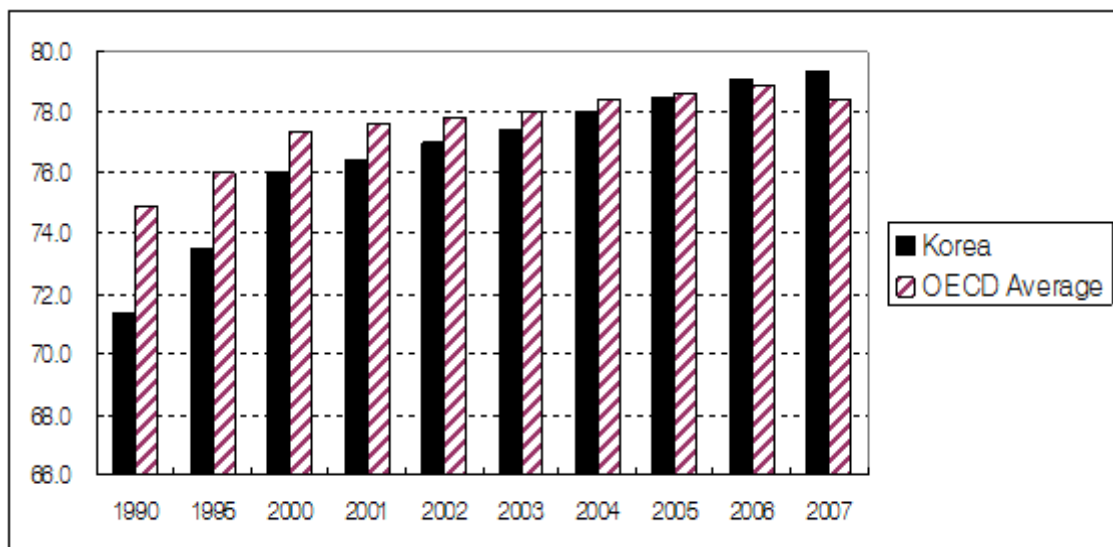


Source: OECD

In Korea, life expectancy at birth for women and men combined increased steadily and became higher than that of OECD average since 2006 (Figure 24).

Figure 24 Life expectancy at age 0

(Unit: age)



Source: OECD Health Data 2009, June 2009

Cross-regional Comparison by infant mortality and Life expectancy

The infant mortality of Capital Region was higher than that of Non capital region from 1996 through 2006. However, the spatial disparity decreased and the overall level of 2000s enhanced much more than that of 1990s (Table 10).

	1996	1999	2002	2006
Average	7.7	6.2	5.3	4.1
Standard Deviation	0.9	0.8	0.8	0.7
Coefficient of Variable	0.12	0.13	0.15	0.16
Capital Region	7.1	5.1	4.9	4.0
Non-Capital Region	8.3	6.8	5.8	4.5

Source: Ministry of Health and Welfare, various years

The life expectancy at birth for women and men combined of Capital Region was higher than that of Non capital region in 2005 and 2008 (Table 11).

Table 11 The life expectancy at birth for women and men in Korea (Unit: age)

	2005	2008
Average	78.37	79.75
Capital Region	79.35	80.81
Non-Capital Region	78.15	79.50

Source: KOSIS (www.kosis.kr)

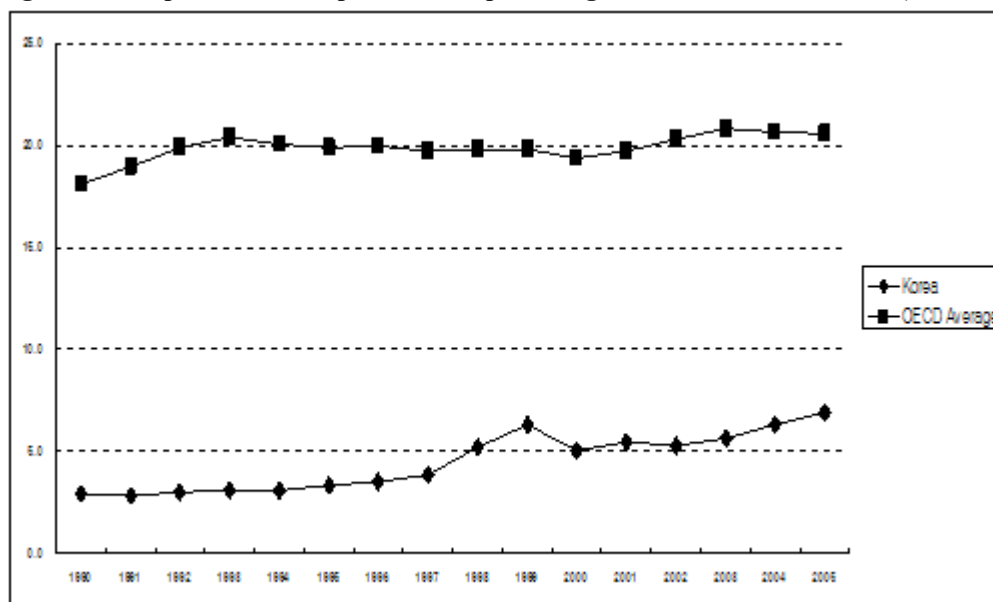
Public Social Expenditure

Cross-national Comparison

Although the public social expenditure increased in Korea since late 1990s, it is significantly lower than the average of OECD (Figure 25)

Figure 25 The public social expenditure as percentage of GDP

(Unit: %)



Source: KOSIS (www.kosis.kr)

Cross-regional Comparison by the expenditure of social protection

The social expenditure of SNG increased. However, the gap between Capital and Non-Capital region also increased (Table 12).

Table 12 The expenditure of social protection in sub-national government as percentage of total general budget

(Unit: %)

	2004	2005	2006	2007
Average	14.73	15.98	17.77	19.35
Coefficient of Variable	0.22	0.25	0.28	0.27
Capital Region	17.93	20.13	23.04	24.65
Non-Capital Region	14.00	15.02	16.55	18.13

Source: KOSIS (www.kosis.kr)

Education and Information

Cross-national Comparison by Education Expenditure, School enrollment, Informatization

The overall rate of public expenditure is still lower than that of OECD. Meanwhile the private expenditure is much higher than that of OECD (Table 13).

Table 13 Education Expenditure as percentage to GDP**(Unit: %)**

	2000	2001	2002	2003	2004	2005	2006	2006 OECD Average
Public expenditure	4.3	4.8	4.2	4.6	4.4	4.3	4.5	4.9
Private expenditure	2.8	3.4	2.9	2.9	2.8	2.9	2.9	0.8

Source: OECD, Education at a Glance (2006)

The enrollment rate of population aged from 5 to 29 is higher than that of OECD average. Meanwhile, that of population aged from 3 to 4 and 4 and over is lower than that of OECD average (Table 14).

Table 14 Enrollment rates, by age (2004)

	4 and under as a percentage of the population aged 3-4	5-14 as a percentage of the population aged 5-14	15-19 as a percentage of the population aged 15-19	20-29 as a percentage of the population aged 20-29	30-39 as a percentage of the population aged 30-39	40 and over as a percentage of the population aged 40 and over
OECD average	66.3	98.3	80.5	24.7	5.6	1.6
Korea	20.3	93.5	85.2	27.4	1.9	0.4

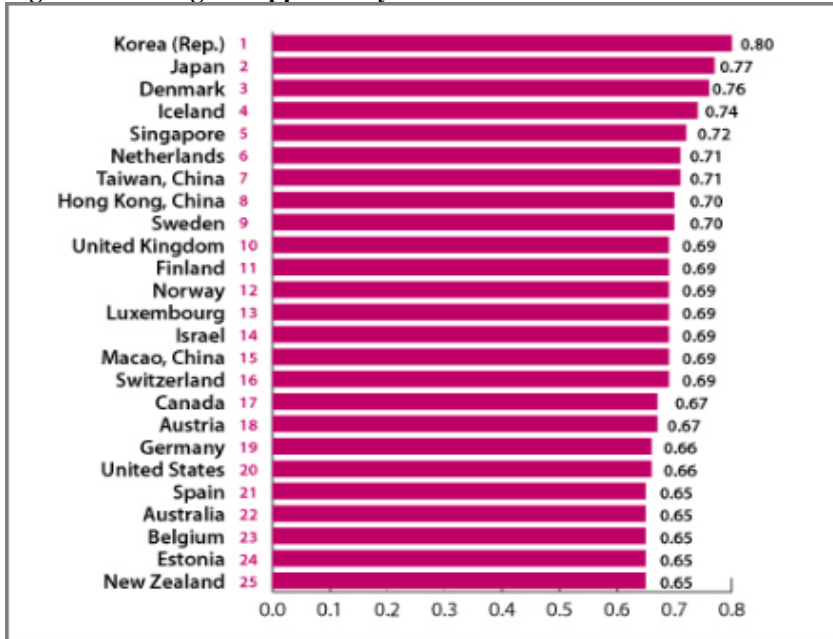
Note: Full-time and part-time students in public and private institutions

Source: OECD, Education at a Glance (2006)

The DOI is an index devised by International Telecommunication Union for measuring the Information Society. Korea is one of the leading countries in information technology, industry and utilization²⁶ (Figure 26).

²⁶ International Telecommunication Union <http://www.itu.int>

Figure 26 the Digital Opportunity Index in 2006



Source: ITU (International Telecommunication Union)

Cross-regional Comparison by the number of university and Internet usage

The number of university or college in rate Capital Region was higher than that of Non-Capital Region (Table 15).

Table 15 the number of university or college (Unit: number)

	2006	2007	2008
Average	22	21.8	21.5
CV	0.70	0.69	0.70
Capital Region	41.0	40.0	40.0
Non-Capital Region	17.6	17.5	17.2

Source: KOSIS (www.kosis.kr)

The internet usage rate in Capital Region was higher than that of Non capital region in 2005 and 2008 (Table 16). However, the spatial disparity decreased.

Table 16 Internet usage rate (Percentage of internet user to all people) (Unit: %)

	2003	2004	2005	2006	2007
Average	63.8	68.4	71.1	72.7	73.2
CV	0.10	0.09	0.08	0.08	0.07
Capital Region	69.5	74.1	76.6	79.0	79.7
Non-Capital Region	62.5	67.1	69.8	71.3	71.8

Source: KOSIS (www.kosis.kr)

Subjective indicators

Cross-country Comparison

According to the World Values Survey, the level of Life satisfaction of Korean people is lower than that of OECD average (Table 17).

Table 17 Life satisfaction (1999-2004) (Unit: %)

	Gender		Age				Level of education			Level of income		
	M	F	<25	25-50	51-64	65+	Low	Middle	High	Low	Middle	High
Korea	45.4	44.6	44.9	44.0	45.2	56.8	32.9	46.2	45.9	60.3	47.5	32.7
OECD Average	59.5	59.2	61.4	58.9	58.8	59.8	55.3	60.7	64.4	67.1	59.4	51.3

Source: OECD Society at a Glance 2006, The World Values Survey, wave 1999-2004

Cross-regional Comparison

In this study, Social Survey of Korean Statistics Office (SS) in 2007 is used as subjective indicators. SS has been carried out since 1997 updating survey methods and indicators. In 2007, three areas such as Welfare, Culture and recreation, Income and consumption are selected for the survey. The surprising result is that subjective quality of life in Capital Region is not as high as its objective superiorities (Table 18).

People in Non-capital region satisfied with the overall living condition including medical care service more than people in Capital Region. However, the level of economical satisfactions of people in Capital Region and Non-capital regions are similar. Moreover, those are lower than social satisfactions.

Table 18 Rate of satisfaction with living condition and income

(Unit: %)

	Changes in Living Conditions*			Level of Satisfaction with Income**	Opinion on Income Distribution***
	Overall Living condition	Medical Care Service	Social Security System		
Capital Region	27.8	28.8	17.3	10.0	2.3
Non-Capital Region	29.4	35.4	21.8	10.3	2.3

Note: *The rate is the percentage of people who answered as “get better (much, a little)”

** The rate the percentage of people who answered as “get better (very, moderately)”

*** The rate the percentage of people who answered as “equal (very, moderately)”

Source: Social Survey of Korean Statistics Office (2007)

As for welfare services which should be needed to expand, people in Capital Region and Non-capital regions responded the priorities commonly; the aged care service, supporting service for children in dual income family and single parent family, self-reliance supporting service for children in low income family, the disabled care service Mother-infant care service (Table 19).

Table 19 Welfare Services Needed to Expand

(Unit: %)

	Capital Region	Non-Capital Region
1. The aged Care service	42.3	44.6
2. Supporting service for children in dual income family & single parent family	25.5	23
3. Self-reliance supporting service for children in low income family	13.5	13.5
4. The disabled care service	6.5	6.7
5. Mother-infant care service	5	4.6
6. Others	20.7	21.2

Source: Social Survey of Koran Statistics Office in 2007

6.3. Interim Conclusion

Despite of Korean government's endeavor, the overall outcomes of fiscal decentralization in aspect of SNG is insignificant. It is mainly constrained by current institutions which restrict SNGs' autonomy. The reforms launched to change the formal institutions were often frustrated by the interruptions of national bureaucrats and interest groups. The long history of centralism still exists in political actors and civil servants.

In fiscal aspect, it can be characterized by: heavy dependence on intergovernmental transfers, weak tax autonomy, and centralized provision of public services despite of SNG's fiscal expansion. The overall process of fiscal decentralization was controlled by national government, rather than initiatives of SNGs. As discussed above, the outcomes of fiscal decentralization as high social development expenditure can be assessed as desirable in that Korea has weak social development compared with other OECD countries. However, its side-effect of insufficient funding is constraining fiscal autonomy of SNGs.

The outcomes of fiscal decentralization in regional society have some various results. In the comparison with other OECD countries, Korea have relative better results in economic aspects (GDP per capita, unemployment), health status (infant mortality, life expectancy), education (school enrollment), and informatization (DOI index). Meanwhile, the income distribution (Gini Coefficient), public social and education expenditure, and the subjective life satisfaction are lower than the average of OECD.

The result of regional comparison is quite similar to the cross-country comparison. The regional gap between Capital and Non capital region in GRDP, unemployment, infant mortality, life expectancy and information capacity (internet usage) decreased and the average rate enhanced. The comparison in subjective life also tells that Non capital

region is higher than Capital region. Meanwhile, the gap became larger in income distribution (income tax collection) and social welfare (social protection expenditure), which tells that population including the beneficiaries of social policies such as elder people still concentrated in Capital region. If it is taken into consideration that the redistribution of population is relatively long-term issue, the outcomes of decentralization for reducing regional disparity can be assessed as relatively positive. Again, however, such result is mainly attributed to the policy initiatives of national government, rather than the voluntary selection of SNG.

7. CONCLUSION

This study has investigated the development of fiscal decentralization in Korea by interdisciplinary approach which combines methodology of case, history, policy process, and institution. Such holistic and comprehensive framework pursued *genetic* method whereby the systemic study of the causes, process, and interpretation of outcomes is possible. On the base of such framework, this study explored three research questions.

The first question is what the main driving factors of fiscal decentralization in Korean government are since 1987. The research result answers that democratization and globalization are the main driving factors, which means theoretical arguments on the causes of fiscal decentralization have also relevance to explain Korean's case. As Huntington (1991) exemplifies Korea as one of the third democratized countries, democratization is the crucial factor that has driven the fiscal decentralization in Korea.

Despite of outstanding economic growth, over-centralized authoritarian regimes could not endure the demands from civil society. Democratization implicated that civil society, social welfare, peripheries, and SNGs have more voice than state, economy, center, and national government. Since 1987, successive governments, particularly presidents have supported decentralization in order to achieve political supports from regions and civil society.

Globalization has also driven the fiscal decentralization. The direct election of local chiefs in 1995 may be a pre-arrangement for the OECD membership which needs accomplishment of full political decentralization. Since the financial crisis in 1997, globalization also impacted as the background of various reforms including decentralization.

The second question is what the characteristics of successive Korean governments are in terms of policy process and what the outputs are in institutional and fiscal aspect. Since 1987, successive governments have supported fiscal decentralization and tried to institutionalize and implement it through various measures. They have similarities in that: (1) independent organizations were established and most of decentralization initiatives were launched by those; (2) among policy actors, the will of president was the most significant factor which impact on whether decentralization policy succeed or not. Meanwhile, they have differences in that: (1) the contents of decentralization have differed from merely rhetoric to significant one; (2) the outputs are different mainly to the extent of political supports, particularly of the parliamentary.

The overall policy process of successive governments shows developmental aspect which became close to that of developed countries where plural actors communicate and comprise. In the stage of policy agenda, the role of civil society and SNGs (and its associations) become significant although the initiatives are still hold by national government. In the stage of decision making and policy implement, related ministries and their supporters intervened and often frustrated policies. The parliamentary also plays an important role in that most successive parliamentary have strong opposition political parties.

The outputs in institutional and fiscal aspect have achievement and limitation at same time. First, in institutional aspect, intergovernmental relations become gradually moving from unilateral relationship to cooperative one. However, the extent of formal institutionalization was significantly low mainly due to the national government's preference to administrative arrangement such as informal and irregular meetings. In fiscal aspect, the funding of local finance of each government was mainly based on

intergovernmental transfer rather than local taxes, and ad hoc approach rather than systemic approach with few exceptions.

The final question is what the outcomes of fiscal decentralization are in SNG and regional society in the prospects of economic and social development in Korea since 1987. The one of the outstanding characteristics of outcomes in SNG is the structure of high expenditure and intergovernmental transfer with low tax revenue compared with other OECD countries. The main reason is that despite of Korean government's endeavor for devolution of national affairs of national government to SNG, it still is much larger than autonomous affairs of SNG as the rate of national affairs and autonomous affairs has kept 73:15 in 2002 compared with 75:13 in 1994. Among the national affairs, much of national affairs are delegated to SNG with earmarked grants.

Such functional disparity reflects on the fiscal structure as 80: 20 (total expenditure: tax revenue) and the rate has kept steadily. The rigid disparity of functional assignment between national government and SNG is mainly attributed to the fail of reforms for reassigning of national government and SNG such as transferring of local special administrative organizations of national government to SNG or introducing municipal police system by the interruptions of bureaucrats of related ministries and interest groups. This result implicates that the long history of authoritarianism as one of informal institutions overwhelmed the reform of formal institutions.

The overall process of expending was also controlled by national government, rather than initiatives of SNGs. Although the high social development expenditure of SNG is desirable, it is mainly accomplished by the centralized provision of public services, constraining fiscal autonomy of SNGs by insufficient funding.

The outcomes of fiscal decentralization in regional society show are quite equivocal. The economic growth is still outstanding compared with OECD other countries. The gaps between regions in GRDP become narrower than before. The outcomes in health status, life expectancy, infant mortality, education, and information capacity also are outstanding. However, regional disparity in income become larger and public social and educational expenditure is still low than OECD average. Most of all, the subjective indicators show that average Koreans think themselves unhappy than other OECD. Such results implicate that SNGs should reflect residents' needs and demands on their policy process more, which can be possible through transferring more administrative and fiscal responsibilities from national government to SNGs.

Decentralization is still going on in Korea. The current government has been challenging the more fundamental issues such as rearranging territorial structures which is much debatable even among SNGs. However, what is the most important is sufficient argument and comprise rather than just impetuous unilateral decision. For this, further formal institutional reforms toward cooperative intergovernmental relations and endeavors to change informal institutions such as centralism should be necessary for consolidating democracy and facilitating more fiscal decentralization in Korea.

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Thesis Project(Revision)

- **The original title of thesis**

- Fiscal decentralization and local government policy orientation in Czech and South Korea

- **The revised title of thesis**

- **The Development of Fiscal decentralization in Republic of Korea since 1987**

- **The reason of revision**

- While having been studied under the original title, the scope of study is broad unexpectedly. As a result, it can be expected that it is not possible to accomplish a meaningful thesis within the given time.

- Therefore, it is desirable to concentrate on more specific topic.

- The arguments and knowledge which have been gained by discussing with the thesis supervisor will not be abandoned and maintained even under the revised topic.

- **The Objective of revised topic**

- The objective of revised topic is to examine the process of decentralization in Korea in context of globalization and democratization and its effects on regional economic and social development since 1990s.

- **The Potential Chapters**

- 1. Introduction**

- 2. Objective**

- Assessing the process of decentralization in Korea in context of globalization and democratization and its effects on regional economic and social development since 1987.

3. Research Questions

- Why decentralization has happened in South Korea?
- Is decentralization caused by internal factors like democratization or external factors like globalization?
- Is there any change in the driving factors of decentralization?
- Who has claimed for or against decentralization?
- What are the outcomes, risks, questions, discourses, and debates which are related to decentralization?

4. Methodology

- Policy process analysis, Morphology oriented analysis, Comparative analysis, Policy network analysis, Economic and social indicator analysis

5. Theoretical background: literature review

6. The history of decentralization in Korea

7. The process of decentralization in Korea

8. The impacts of decentralization in Korea

9. Conclusion

• The potential bibliography of thesis

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