

Regional Development Policies of Korea and Policy Suggestions for Azerbaijan

Sabuhi Yusifov Associate Professor, Azerbaijan Technological University, Academy of Sciences of the Republic of Azerbaijan, Institute of Economics, The Republic of Azerbaijan (s.yusifov@atu.edu.az)

I. Introduction

Regional development has long been on the agenda of the international community as a means of alleviating the negative impacts of urbanization, creating more employment and raising the standards of living in the region, and to encourage the industrial and economic development of regions, etc. Regional development is a general effort to reduce regional disparities by supporting employment and wealth-generating economic activities in regions.¹

Regional development has been an increasing priority in the development strategy of Korea. Korea's development experience offers good lessons for developing countries in search of sustainable development. It indicates what is applicable or not applicable, taking into account each country's own unique situations. In fact, the study of Korea's economic and social transformation offers a unique opportunity to better understand the factors that drive development. In a short period of time, Korea has

managed to transform itself from a poor agrarian society to a modern industrial nation. The central government played a leading role and the institutional framework was successfully institutionalized in the process of planning and implementation. Objective analysis of the current situation, proper goal planning, and an effective means of mobilization were the basic goals for a successful national plan or policies. The country's shifting balances, compensation and competitiveness approaches set a very impressive example of the right approach to the development process. Specific programs targeting regions created incentives for business development through fostering inter-provincial collaboration as well as stakeholder involvement into the process. The setting of clear targets and effective coordination to achieve them is a distinguishing characteristic of Korean development strategies, regardless of its highly centralized legacy in policy approaches. Consequently Korea's success story of rapid and extensive development can offer valuable lessons and knowledge to be shared with the rest of the international community.

An oil-rich country, Azerbaijan has made great progress due to its substantial oil profits.

¹ Karimov Rovshan, Development of Non-Oil Sector in Azerbaijan: Tendencies and Opportunities, Journal of Business & Economic Policy, Vol. 2, No. 2; June 2015

However, like Korea, it also faces the problem of urban-rural disparity and is applying numerous regional policies to tackle the issue. Korea's "learning by doing" regional development experience provides valuable lessons for Azerbaijan in terms of not repeating the same mistakes. The aim of this paper is to shed light on the paradigm shift in the regional development of Korea and Azerbaijan, and to draw some policy options for Azerbaijan to upgrade its regional development strategies.

II. Korean Regional Development Policies: What Has Changed?

Territorial planning policies and their implementation have been largely neglected in Korea. However, the country rapidly caught up in the policy paradigm compared with other countries.² Korea's prudence was in choosing the right path to start from education. Since the mid-1950s, the entire society focused on education as an important component of development, which resulted in an abundance of educated professionals. Later on they formed highly educated organizations to offer their technical expertise at the highest level. As a result, the planning process became more scientific and thorough in regards to solving the problems. The development of the regional policy in Korea is associated with the regional policies of the Korean government and have evolved incrementally from the 1960s from the perspective of space and regions. In the 1960s and the 70's, the development centers created by the Korean government promoted industrialization in the country. It was an export-oriented and centrally organized heavy

industrialization policy. Industrial complexes in Seoul, Incheon and Ulsan supported increased industrial production and numerous roads, dams, ports, electricity systems, etc., were built. Regional policies in the 1970s mainly concentrated on industry location policy, regulation policy of the Seoul capital region, and rural development policy. The industry location policy in the 1970s was not a specific regional policy but an integral part of national economic policies. That is, the national macroeconomic policy provided a framework for determining a provincial regional policy. The central government determined the location of heavy industries, including shipbuilding, automobile, electronics, petrochemicals, and steel. Efficiency and effectiveness were not the sole criteria in this process of locating industries. Interestingly, the strong regionalism in Korea affected the development policies as well, leading to some regions receiving more investment and growing faster than others. Consequently, regionalism had strong inter-relationships with regional economic disparities.

Regional inequalities became the main issue of regional policy. To fight with regional disparities, the Korean government redesigned its policy goals to promote an equal regional development model. Policies to restrain over-concentration of the metropolitan area were implemented and subsidies were given out to promote growth of under-developed rural areas. At the same time the Capital Region Readjustment Act was adopted in 1982 for the controlling and monitoring of the capital region. The range of land use, the heights of buildings, and the number of students enrolled in the universities in the capital region were strictly regulated and restricted. Following the Asian Financial Crisis and the decrease in labor-intensive industries in the 1990s, regional policies stressing the importance of regional

² OECD, Industrial Policy and Territorial Development: Lessons from Korea, Development Centre Studies, OECD Publishing, 2012

competitiveness and economic efficiency have been introduced to tackle problems.

Regional policy in Korea has been distinct across the various administrations. In other words, changes in presidential leadership led to significant shifts in regional policy. We can classify the evolution of these policies into three periods, as shown in Table 1.

As seen from the table, in the first phase of 1998-2003, the regional policy of the government targeted strategic industries in a few selected provinces through the implementation of specific programs. The Ministry of Commerce, Industry, and Energy introduced the Regional Industrial Promotion Program (RIPP), introduced with the aim of developing industrial clusters outside the Seoul metropolitan area (e.g. machinery in Gyeongnam, textiles in Daegu, optical electronic industries and photovoltaics in Gwangju and footwear in Busan).³

Balanced development was a top national priority for the government throughout the second phase of 2003-2008. More decentralized policy approaches followed the legal framework for the national policy on regional development. Reduction of interregional imbalance through stimulation of deconcentration outside the capital region was a main focus of this program. Techno parks were the major policy tools.

In the third phase of 2008-11, mobilization of growth in regions was the main focus of regional development policy. The government devoted more resources for regional development and designed new programs to promote

cross-regional collaboration, mainly managed by the Ministry of Knowledge Economy. Bottom-up initiatives and development planning in regions were supported through newly introduced Economic Regional Committees.

Today regional policy aims to mobilize unused sources of growth and systematize innovation potential in all regions by stimulating bottom-up initiatives and networks. A distributional approach in policies has replaced the previous discriminatory approach, with the aim of embracing all regions but in a differentiated way according to their potentials and challenges. The new paradigm seems more promising as it offers a larger space for private sector development and local government actions.

The Presidential Committee on Regional Development (PCRD) in Korea identified four relevant scales for policy action according to the type of intervention.

- Five Supra-Economic Regions have been identified to support infrastructure development projects and to foster cross-provincial collaboration in technological development.
- 5+2 Economic Regions are composed by provinces and have at least 5 million inhabitants, with the exception of Jeju and Gangwon.
- Provinces: specific programs are developed to target all Korean provinces (13, excluding the three which form the capital region).
- 163 Local Areas have been identified as targets for investment to support local development in counties, excluding those located in the seven Metropolitan Cities (Seoul, Busan, Daegu, Incheon, Gwangju, Daejeon, and Ulsan).

³ OECD, "Regional development policy in Korea", in Industrial Policy and Territorial Development: Lessons from Korea, 2012

Population, industrial connection, and the historical and cultural homogeneity of each region, plus 30 leading industries, were the main criteria in designing the “5+2 economic regions.” Strengthening industrial competitive-

ness was the main focus and the government carried out diverse regional policies such as promotion of regional strategic industries.⁴

Table 1. Evolution of Policies for Regional Development in Korea

KOREA		1998-2003 Kim Administration	2003-08 Roh Administration	2008-12 Lee Administration
National development strategy	Main growth Model	Export led growth – focus on the knowledge economy		
		Globalisation	Balanced growth	Green growth
Regional development policy (RDP)	Phase	Origins of RDP specialized policy targeting specific industries in specific regions.	Expansion of RDP and creation of legal framework.	Consolidation, focus on economic regions.
	Rationale	Finding new sources of growth, Consolidation of democracy at provincial and local level.	Promoting balanced growth, Addressing excessive concentration in capital region.	Supporting regional competitiveness.
	Main targets	Promotion of industrial development in four selected provinces.	Promotion of industrial development in all Korean provinces.	Promotion of industrial development by targeting functional regions (economic regions, provinces and local areas).
	Governance	Central government initiative	Establishment of the Presidential Committee on Balanced National Development (PCBND) Creation of Regional Innovation Agency (RIA).	Creation of Presidential Committee on Regional Development (PCRD) Establishment of Economic Region Development Committees (ERDC).
	Plan and Resources	No major institutional changes for addressing regional development.	5-Year Plan for Balanced National Development (2004-08) Special Account for Balanced National Development.	5-Year Plan for Regional Development (2008-13) Special Account for Regional Development.
	Policy programmes	Regional industry promotion	Regional industry promotion	Leading Industries

⁴ OECD, Ibid

	and tools	program (RIPP) (4 major specialized industries in 4 metropolitan cities and provinces).	program (RIPP) (in the 4 provinces and support to additional 9 provinces) Techno parks.	(5+2 Economic Regions) Strategic Industries (provinces) Region Specific Industries (local areas).
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Source: OECD Development Centre

The five economic regions are: the capital region, the Chungcheong region, the Honam region, the Daegyeong region, and the Dongnam region. The population of each economic region is more than five million. The two special economic regions are the Gangwon region and Jeju region, with populations of around one million each. The government created a standing regional agency to make regional economic development plans and to promote inter-regional cooperation.

The introduction of the Special Account for Regional Development in 2004 is another good example offered by the Korean experience. The Special Account was introduced to increase resource transfer to regions and target specific national programs at non-capital regions. It is comprised by the Mega Region Account, which is distributed to different ministries for implementing regional targeted programs in 13 provinces, excluding the capital region; the Regional Development Account, which is transferred directly to all provinces; and finally the Jeju Account which is addressed to only the island province of Jeju.

Understanding that promotion of regional innovative capacity is possible through the endogenous bottom-up approach, the Korean government made a paradigm shift in development strategy from the top-down approach and gave more chances for local voices to be heard. It was presumed that regional innovation capacity was fundamentally related to

several factors: building cooperative networks and stimulating the interaction between local authorities, the industrial sector, universities, R&D agencies, financial institutes, and the other local non-governmental organizations.

The latest era of regional development lies with the Park Geun-hye administration, which focused on enhancing the quality of life and also the continuation of previous national policies, whereas enhancing competitiveness was the foremost goal for the previous administrations. The governance system also evolved from the central government-led, top-down approach to a bottom-up approach and the collaboration of various regional and local governments beyond jurisdiction. As for the financial support and other forms of assistance from the Korean government, these used to be individually implemented by each ministry without much coordination. Now, they are much more coordinated with "policy packages" directed at the target region. Happy Living Zones Policy, Urban Regeneration, High Tech Urban Industrial Complex, the Leading Investment zones and the Demand Driven Customized Assistance are policies of the Park administration devised in order to achieve the two goals of improvement of the quality of life and the strengthening of regional competitiveness.

III. Current Issues and Challenges in Regional Development Policies of Azerbaijan

Since its independence Azerbaijan has made significant progress in terms of socio-economic development. At the time of independence in 1992 Azerbaijan suffered not only from the aggression of neighboring Armenia, but also from the collapse of the economy. Azerbaijan's economy grew fast over the last decade and made substantial progress in reducing the nation's poverty. The signing of the Contract of the New Century in 1994 on the exploitation of the oil reserves marked a new stage in Azerbaijan's economy after which huge amounts of international investment flew into the oil and gas sector. Azerbaijan has received \$60 billion in foreign investment in its oil and gas sector over the past 16 years. The country's oil and gas revenues are expected to reach \$200 billion by 2024. From 2001 to 2009 as Azerbaijan started to seriously develop its oil and gas sector, GDP growth averaged 16% a year. To support regional development the Azerbaijani government adopted the following documents: "Azerbaijan 2020: look into the future" (concept of development places the economic diversification agenda at the heart of the government's socio-economic policy); the State Programs for Socio-Economic Development of the Regions of Azerbaijan for 2004-2008, 2009-2013, 2014-2018; the State Program of Poverty Reduction and Sustainable Development for 2008-2015; Azerbaijan's National Employment Strategy for 2006-2015 and the State Program of Implementation of the Employment Strategy for 2011-2015.

The State Program on Regional Development addressed issues of both national and regional

scale with specific attention paid to the capital region and following economic regions: Absheron economic region, Aran economic region, Upper Shirvan economic region, Ganja-Gazakh economic region, Guba-Khachmaz economic region, Lenkaran economic region, Nakhchivan economic region; Kelbejer-Lachin economic region (under Armenian occupation), Upper Garabagh economic region (under Armenian occupation). Central and local authorities are responsible for implementation of the State Program.

Picture 1. Economic Regions of Azerbaijan



High growth rate was achieved in macro-economic indicators of the country as a result of successful implementation of The State Program on Socio-Economic Development of Regions for 2004-2008 years. Over the past five years, the real volume of GDP increased by 2.6 times to reach 38 bln. AZN, and nominal per capital GDP rose by five times to amount to 4,440 AZN. Moreover, the non-oil sector grew by 1.8 times and share of private sector in GDP was 84.5% according to 2008 data. Over the last five years capital investment in the non-oil sector increased by 6.2 times and its share in the structure of overall

investment rose from 26.8% in 2003 to 69% in 2008. National industrial and agricultural production increased by 2.5 times and 25.2%, respectively

The provision of entrepreneurs with soft credits was one of the main directions of state support for entrepreneurship during the implementation period of the State Program. 323.4 mln. AZN worth of loans were allocated to 6,991 business entities through funds of the National Fund for Entrepreneurship Support within the Ministry of Economic Development over 2004-2008 in order to boost entrepreneurship activities and increase state care in this sphere.

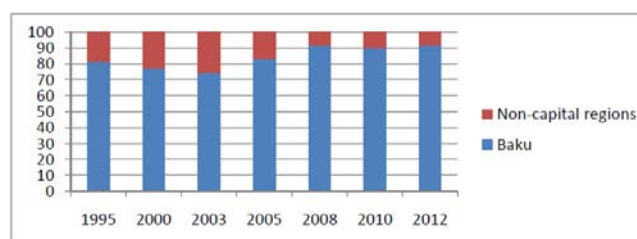
During the implementation of the Second Program on Socioeconomic Development, which covered years 2009-2013, the amount of investments in economic and social spheres of Azerbaijan amounted to 101.8 billion AZN, including 51.2% by state-owned sectors and 48.8% by private entities. Fixed capital was funded at 9.3 billion AZN. Of the total investment, 54.5% was spent for manufacturing, and 45.5% for services. In 2003-2013, 32.5% of total investments into fixed capital were available due to foreign sources, and the remaining 67.5% at the expense of internal potential. The increase of financial potential becomes evident by the fact that in 2013, 26.8% of funding was managed at the expense of domestic sources whereas in 2003 this figure was 62.5%. In the first half of 2013, 75% of the new jobs were created in the non-capital regions of the country. Azerbaijan shares four-fifths of the state budgets in the Caucasus. In 2004-2013, investments of domestic sources rose by 14.6 times, whereas the corresponding growth shown in the non-oil sector totaled 12.9 times as much.

On February 27, 2014, the President of Azer-

baijan issued an order on the realization of the State Program on Social and Economic Development of the Regions in 2014-2018. The implementation of this third Program is underway. As with the previous program, it consists of groups of socioeconomic measures classified as “of state importance,” “of regional importance” and under the names of each of the 10 economic regions.

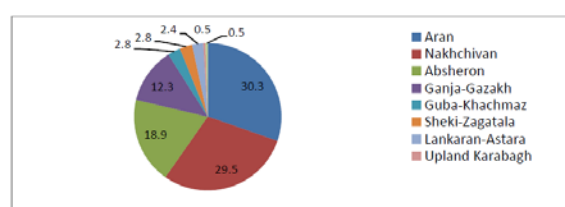
Despite these positive macroeconomic indicators today, Azerbaijan faces a difficult challenge in terms of redistributing economic growth from Baku and the Absheron region, which account for about 90 per cent of all oil and non-oil investments in the country. As mentioned earlier, regional disparities have been addressed in the wider national framework defined by the State Program for Poverty Reduction and Economic Development for 2003–2005, the State Program for Poverty Reduction and Sustainable Development for 2008–2015, the State Program for Socio-Economic Development of Azerbaijan’s Regions for 2004–2008 and the State Program for Socio-Economic Development of Azerbaijan’s Regions for 2009–2013. These programs have created more jobs, social services and utilities. Importantly, the government has achieved a remarkable reduction in the poverty rate, from 50 per cent in 2005 to 13% in 2008. These four programs also link up with broader international program related to sustainable development, poverty reduction and social equality, most notably the Millennium Development Goals.

Figure 1. The Dynamics of Industrial Production in Capital and Non-Capital Regions



Source: Industry of Azerbaijan. 2013. Yearbook of Azerbaijan Statistical Committee, Baku, 2013

Figure 2. The Share of Non-Capital Regions in Industrial Production



Source: Regions of Azerbaijan, Baku, 2014

The above figures reveal that despite overall macroeconomic achievements, the gap in the level of development between different regions remains significant. For instance, in the Absheron region alone, strong economic growth occurs alongside widening socio-spatial disparities, deteriorating housing and infrastructure, and increasing environmental problems. The Absheron region also stands out with regard to the abovementioned national program; it has attracted 1,424 out of 2,426 new enterprises nationally. The region takes up only 3.9 per cent of Azerbaijan's territory, but it produces 80 per cent of overall industrial output while the socioeconomic potential of many regions in Azerbaijan remains untapped.

Enhancing the density of the central city of each economic region, reducing the economic distance between cities and rural areas, and getting rid of the barriers to cooperation between provinces are the keys for the efficiency

and the effectiveness of the ERDP.

A centralized approach allowed the country to successfully catch up but it might not be the best framework for the country to sustain its development path and achieve its development potential. Supporting the development of SMEs, fostering basic research and improving social equity are key challenges for Azerbaijan. The nation's regional disparity is linked to limited access to top quality higher education and a shortage of opportunities for entrepreneurial development in the regions. The country has been able to deliver infrastructure and public services, such as healthcare, to citizens reasonably evenly across the country through effective national development programs, but education and business opportunities are still highly concentrated in the capital region.

IV. Policy Suggestions for Azerbaijan

The Korean experience is shaped by several unique factors. There is no single response to development challenges. Each country needs to identify its current opportunities and challenges, establish its own priorities and develop its own strategy, matching continuity in efforts with experimentation of new policies when new challenges emerge, as Korea has been doing. However, the Korean experience might be helpful for developing countries, and Azerbaijan as well, which are in the process of fostering industrial development and catching up.

In the light of the Korean experience, the following could be considered in the next phase of regional development policies in Azerbaijan:

- Regional Development Policy Approaches: Assigning development of specific industries

to existing economic regions based on their expertise and historical background

Historically each economic region is based on either a specific industry or agriculture. A systematic new approach is needed for each region to utilize its potential through supporting both large industrial complexes and SMEs. More attention to knowledge-based production and creative economy is needed. An effective legal framework that allows actions to be taken, clear guidelines on different actions required to achieve the objectives, and efficient information diffusion that clarifies the assignment of targets and responsibilities should be established.

- The Design of Mechanisms to Target Resources to Regions: Introducing a special account for designated industries in economic regions to be managed by the specific division under the Ministry of Economy

Priorities in the regions need to be identified based on discussions held with all necessary stakeholders. Strong coordination between line ministries is needed to make synergies and effectively address the needs for regional development. Specific incentives such as tax redemptions, tax refund or tax exemption should be applied to businesses to open up or relocate in the regions in order to control congestion in the Absheron region. Relocation of main universities and government offices into the different regions is another option to reduce congestion in the capital region and speeding up regional development. In Korea, the Sejong administrative city with 36 central government offices, including nine ministries, and 16 state-run organizations is an excellent example of reducing congestion in the capital city.

- Gradual and Complementary Policy Approach to Increase Spaces for Bottom-Up

Initiatives

Guaranteeing continuity in public support and planning actions on a multi-annual basis is essential to achieve policy goals in industrial and regional development. However strengthening local governments by identifying clear assignments and avoiding duplications in local service provision is a necessity. Local governments should be provided with specific and matching grants addressed to local infrastructure development projects. Improving public participation channels and considering local voice in local development plans are also important to collect various opinions from experts and civic groups. Regions should receive more resources to implement regional development plans and can, to a certain extent, decide on their own priorities by choosing from a menu of regional development programs offered by the central government. Increasing the space for bottom-up initiatives requires investing in capacity building at the local level too.

- The Identification of Mechanisms to Target Functional and Economic Regions

The regional economic development plans need to be redesigned to promote platforms for local economic growth by concentrating resources and capacity based on unique characteristics of each region and by promoting local networks between various innovative stakeholders (businesses, universities, government institutions, research institutions etc). Investments should be targeted to areas where they are most needed or where they would create the highest spillover effects

- Use of Monitoring and Evaluation as Learning Tools

Evaluation of applied programs should be

conducted not only on a national scale but also at a regional scale to effectively monitor improvements in each region. Through timely monitoring, necessary adjustments to programs will be taken in order to achieve maximum results. Plans alone are not a guarantee of success. It is implementation, monitoring and evaluation that make the impact. **KIEP**

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