

# Responses of Regional Economies to Globalization

## – The Experience of Chungnam Province, Korea –



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### **I. Globalization and Transformation of the Korean Economy**

A foreign exchange crisis in late 1997 forced the Korean government to seek an IMF bailout. In response, the IMF and the World Bank required Korea to accept economic stabilization and structural adjustment policies. The Korean government's compliance with this request can be recognized as a sign that the country's economy had been touched by the neoliberal globalization .

The Korean economy has changed drastically since what has come to be known as the IMF financial crisis. First, there has been an increase in the country's external dependence. Korea's ratio of reliance on foreign trade stood at 82.2% in 2009 (exports: 43.4%; imports: 38.8%), which was much higher than the G20-nation average of 43.3% (exports: 22.6%; imports: 20.7%). Moreover, bilateral/multilateral free trade agreements (FTAs) promoted by the Korean government have opened up its economy to foreign capital. Since signing an FTA with Chile in 2004, Korea has concluded FTA negotiations with Singapore, the ASEAN countries and the EU. It engaged in FTA renegotiations with the US on December 3, 2010, and the agreement reached is currently awaiting ratification by the individual legislatures of each nation. FTA negotiations with Japan, on the other hand, have been suspended.

Second, the annual average GDP growth rate has decreased. It was 9.2% between 1985 and 1990, 7.5% between 1990 and 1995, 4.3% between 1995 and 2000, and 4.5% between 2000 and 2005. The GDP growth rate in 2009 in particular was as low as 0.2% under the influence of the global financial crisis.

Third, the problem of economic growth without a corresponding increase in employment has become more serious. In Korea, the unemployment rate was relatively low at 3.6% in 2009. However, the percentage of non-regular employees rose from 26.8% in 2001 to 34.9% (or upward of 50% according to an estimate by the Labor Union) in 2009. The employment inducement effect(number of employee increased by the investment of billion won) showed a significant drop from 24 in 1995 to 10.8 in 2005.

Fourth, regional differences have widened. With increasing concentration in and around the capital, 49.5% of the population, 71% of taxes and 92% of the top 100 large corporations are now

concentrated in this area. Throughout the nation as a whole, metropolitan cities and areas where export-related industries are concentrated are developing, whereas peripheral areas (i.e., small and medium cities and rural areas) are declining rapidly.

Fifth, the country has experienced widening polarization, such that seen in the industrial structure, that between large and small firms and the increasing concentration of *chaebols* (large-scale family-owned conglomerates). As of the end of 2006, five *chaebols* accounted for 42% of the country's assets and 51.0% of its sales. There was also widening polarization in terms of contribution to the macro economy between the export industry and domestic demand-oriented industry. In addition, polarization in earnings intensified: the GINI coefficient increased from 0.262 in 1997 to 0.294 in 2009, and the poverty rate rose from 13.2% in 2002 to 18.1% in 2009.

Sixth, Korea's birthrate has declined and its population has aged. The country's overall fertility rate was 1.26 in 2007 (well below the G20-nation average of 1.95), and fell as low as 1.15 in 2009. The population aging rate (ratio of population over 65 years old) increased sharply from 7.2% in 2000 to 9.1% in 2005, and subsequently to 11% in 2010.

Seventh, there has been a switch to an energy-consuming economy. In terms of carbon emissions per GDP, Korea was ranked seventh, behind Australia (ranked first) and the United States (ranked fifth). Energy consumption per capita in kilograms of oil equivalent (koe) increased from 2,178 in 1990 to 4,030 in 2000, and then to 4,483 in 2006 – well above the G20-nation average of 3,716 in 2006. Carbon dioxide emissions per capita in 2006 were 9.9 metric tons, which was higher than the G20-nation average of 8.7.

## **II. Present Status and Problems of the Chungnam Regional Economy**

Located in the western central area of Korea, Chungcheongnam-do (Chungnam Province) consists of seven cities and nine counties covering an area of 8,601 km<sup>2</sup> (8.6% of the national land area) with a population (2008) of 2.05 million (4.1% of the nation's total population).

GRDP (gross regional domestic product) per capita in Chungnam was 25.20 million won in 2008 (2005 constant price), which was 1.43 times of the national average and ranked second in the country. The average annual rate of increase in GRDP per capita between 1998 and 2007 in particular was 8.39%. This figure was much higher than the national average of 5.05%, and ranked first in the country.

The industrial structure in terms of the percentage of employed people (2008) showed that 19.5% were employed in the agriculture, forestry and fisheries industries, 17.4% in the mining and manufacturing industries, 5.7% in the construction industry, and 57.3% in service and other industries. However, when examined from the perspective of production value, the agriculture, forestry and

fisheries industries accounted for 7.2%, the mining and manufacturing industries 49.8% and service and other industries 43.0%, indicating a much higher percentage for the manufacturing industry compared with the national average (29.1%). The growth rate of the manufacturing industry over the last ten years was 13.9% – well above the national average of 7.7%.

The main enterprises leading the way in the growth of Chungnam's regional economy are the affiliates of Seoul-based chaebols, such as Samsung with its LCD factories in the display industry, Hyundai Motor Company, Kia Motors Corp. and other automobile parts manufacturers in the automobile industry, a petrochemical industrial complex in Seosan in the petrochemical industry and Hyundai Steel Company in Dangjin in the steel industry. Korea's display industry holds 46.6% of the world market share, of which 55.6% are produced in Chungnam. In particular, 52.3% of large LCDs, 59.9% of PDPs, 75.3% of small and medium LEDs, and 99.7% of OLEDs are produced in Chungnam. In the automobile industry, 450,000 finished vehicles are produced a year and approximately 40,000 people are employed by 700 to 800 auto parts-related companies in this province.

Although Chungnam has the highest economic growth rate of any province in Korea (mainly in the export industry), it faces a wide range of problems. The first of these is an extremely high level of external dependence. In terms of foreign reliance, GRDP's dependence on foreign trade was 144.7% in 2008 (export dependence: 85.7%; import dependence: 59%). Its dependence on the capital region is also remarkably high. Of the total production value of Chungnam, 37.2% is domestically imported from other regions, of which 45% is from the capital region. On the other hand, 43.7% of production in Chungnam is shipped to other domestic regions, with the capital region accounting for 50% of this.

The second is a serious problem of imbalance in economic growth among areas within Chungnam. Among the province's sixteen cities and counties, the four areas under the direct influence of the capital region (the cities of Cheonan, Asan and Seosan and Dangjin County) account for 68.1% of Chungnam's GRDP. Of the 3,219 businesses attracted to Chungnam between 2004 and 2008, 60.7% are located in these four areas in the northern region, and of the 158,963 people working for these businesses, 70.4% are employed by those located in the four areas. The average growth rate for these areas between 2000 and 2007 was 10% or more, while the corresponding figures for other cities and counties were between 1.8 and 5%.

The third problem is the gap between growth and employment, i.e., continuously increasing growth without a corresponding rise in employment. The average annual growth rate of Chungnam's GRDP between 2000 and 2008 was 9.0%, which was the highest in the nation. The rate of increase in employment in the province, however, was 1.1%, which was below the national average of 1.4%.

The fourth problem is the province's energy-consuming economy. Carbon dioxide emissions per capita in 2006 were 15.21 tons, which was 4.6 times the national average of 3.34 tons and ranked first in the country. Carbon dioxide emissions in relation to income were 0.51 tons/million won,

which was 2.7 times the national average of 0.19 tons and ranked second in the nation.

The fifth problem is a rapidly declining birthrate and an aging population. The average annual rate of increase in the population of Chungnam between 1998 and 2007 was 0.47%. This figure was lower than the national average of 0.53%. The population aging rate of Chungnam (17.12%), in contrast, was almost the same as that of other cities and counties throughout the nation (17.30%), but varied significantly between regions. The population aging rate in the northern region was 12.02%, whereas those in the inland region, the west coast region and the Geum River region were 18.06%, 20.88% and 21.64%, respectively. These regions are now entering into a super-aging society.

The sixth problem is a weak endogenous development capacity. The growth of Chungnam has been led by large enterprises that have relocated to the northern region due to regulations applied to the capital region. As these corporations rely on the capital region for high-level human resources and R&D functions, Chungnam specializes in industrial production. Consequently, R&D and innovative functions are weak in the province.

### **III. Chungnam's New Development Strategy**

#### **1. New recognition of regional economies**

When considering strategy for the development of regional economies, it is first of all necessary to recognize that the socioeconomic structure has changed since the onset of globalization. During the golden age of capitalism, the structure was generally a single-pole set-up with three sectors. This can be illustrated as national economy  $\leftrightarrow$  international economy + regional economy, and the main focus was on developing the national economy with the support of the international and regional economies. The national economy developed in this way was utilized to support economic development in backward regions. However, since the onset of neoliberal globalization, the socioeconomic system has been completely transformed to create a bipolar three-sector economy. This can be expressed as international economy + regional economy  $\leftrightarrow$  domestic economy, with the national economy no longer being as significant due to the globalization of capital, and instead merely serving as a medium between the international and regional economies. In this bipolar three-sector economy, the circular flow of regional economies is the polar opposite to that of the international economy. This flow can be enhanced with an increase in self-sufficiency by using the local resources found in each region.

As globalization progresses, regional crises become more common. The first of these is the serious problem of imbalance in development among regions, i.e., the prosperity of a few places (world cities and their satellite areas) and the marginalization of other traditional ones. Uncompetitive industries and regional economies based on them are collapsing.

The second crisis involves increasing concerns over the rights of workers, self-employed business, small and medium-sized enterprises and rural economies, due to a backdrop of competition and

market liberalization based on neoliberalism.

The third involves threats to the living standards of local residents stemming from the privatization and commercialization of social services, which leads to a decline in the public nature of housing, childcare, education, insurance, medical care, the environment and culture.

The fourth involves regions being forced to become autonomous and enhance their financial strength as a result of decentralization associated with neoliberalism. Consequently, the attraction of enterprises and various types of regional development result in environmental destruction and economic crisis among local governments.

The most important aspect of regional development strategy in response to globalization is the rediscovery of the region and its economy. First, individual regions are independent, and it is necessary to recognize that each one must determine its own destiny as a place where residents can live cooperatively with a sense of solidarity as a community.

Second, individual regions are autonomous. Regional economies can be recognized as new units for economic growth in the midst of a prolonged employment crisis and a stagnant economy. For instance, local foods and community businesses have recently attracted attention.

Third, individual regions should make alternatives. Three crises in globalization, i.e., economic crisis (banking and financial), resource crisis (oil and food) and environmental crisis (climate change) tend to come together and intensify. As no solutions are in place for these crises, answers should be sought through regional practices.

## **2. Chungnam's New Development Strategy: Practices of Endogenous Development**

Chungnam's new local government, which was formed in 2010, has shifted its development strategy from an exogenous to an endogenous approach. In other words, it has determined that increasing emphasis should be placed on development based on the resources and strengths of Chungnam instead of attracting enterprises and capital.

First, the development of agriculture, forestry and fisheries (which have long been cornerstones of Chungnam's economy) will be pursued. To this end, environmentally friendly farming will be expanded, and a system for local and slow foods will be established.

Second, local based industries will be nurtured. For this purpose, local specialties and industries as well as small and medium-size enterprises that recycle local resources will be developed.

Third, small and medium-size enterprises and self-employed small businesses will be protected. Special efforts will be made to revitalize conventional markets and appropriately control large



trading capital.

Fourth, the socioeconomic sector will be revitalized. Community businesses and social enterprises will be fostered, and a variety of activities engaged in by cooperative associations will be supported.

Fifth, a system for the development of local industry will be established to promote competition and cooperation among municipalities. In consideration of multiple coordinated and cooperative projects, an extensive economic zone will be established in the Chungcheong region (Chungnam, Chungbuk and Daejeon Metropolitan City), coordinated and cooperative projects involving municipalities in Chungnam will be implemented, coordination between the capital region and Chungnam will be promoted, and environmentally friendly vehicles will be developed through coordination among Chungnam, Gyeonggi, Ulsan Metropolitan City and other regions.

Sixth, soft power will be enhanced. The challenges at hand are to foster culture (education, academic study, arts, science, technology), create social capital, increase the welfare budget and actively introduce welfare programs, incorporate culture into daily life and recreate traditional culture.

Finally, the most important aspect is to foster regional leaders for the future and improve the competence of people in the province. It is essential to develop leaders who will strive to solve regional problems on their own and to develop human resources who will stay in their community through community-based education. More effort will be made to provide lifelong education in order to further democratic education and enhance the expertise of people in the province. Ordinary people in the private sector will be given chances to use their abilities and participate in the work of provincial and municipal governments.