

Asian Public Governance Forum on Regional Development for Inclusive Growth

- Forum Proceedings -



Background and Purpose

The OECD KOREA Policy Centre hosted an international forum on “Regional Development for Inclusive Growth” in Seoul on 22-23 March 2017. The purpose of the forum was to provide an open platform for international experts and country representatives to share regional development practices and experience across countries and to explore strategies for Asian countries in achieving inclusive growth in urban and rural areas.

The forum recognized that the unbalanced growth in regions is slowing down the national development of the countries. The emphasis on economic growth alone as the national development agenda has contributed to a “disconnect” between the quest for productivity and individual well-being. The forum acknowledged the productivity and inclusion challenges identified in the OECD Regional Outlook 2016, as well as its insights and lessons with policy recommendations to address them.

Each session had an expert moderator, two presenters and two discussants from various international organizations (OECD, ADB, and CIRDAP) and associations from different countries (Indonesia, Ireland, Japan, Korea, Malaysia, Mongolia, New Zealand, and Slovenia).

The meeting was attended by more than 118 participants from 23 countries. The audience included representatives from Korean ministries and subsidiary research institutes, country delegates from embassies to Korea, participants to the capacity building program on regional development from the National Academy on Governance (Mongolia) and global leadership program hosted by the Local Government Officials Development Institute of Korea.

Opening Session



Ms. KIM Junny, Director General of the Public Governance Programme, OECD KPC welcomed the participants on behalf of the organisers. Ms Kim noted the importance of the forum as regional development is an indispensable topic for achieving sustainable growth and inclusive societies in all countries. She raised concerns for the increasing domestic regional gap between OECD countries and regional disparities among Asian countries; leading to regional poverty, population drainage to cities, and local extinctions which would require high social costs. She added that the ultimate

goal of regional development policies should not be about perfect equalization or convergence of all regions; instead it is about realizing sustainability with its own unique strength in building productive economies and ensuring inclusive societies with sense of belonging and community. She encouraged seeking for better alternatives and ended her remark by expressing her hope for the forum to provide a platform for promoting local competitiveness, revitalization of rural areas and urban regeneration.

Mr. Rolf ALTER, Director of the Public Governance and Territorial Development Directorate, OECD delivered his congratulatory remarks and noted how the event built upon the OECD's long engagement in the development of data and policies in many issues related to regional development, including its works in the Asian region at both the national and subnational level (especially on green growth in cities). He highlighted the following three points in his video message in broad, yet simple questions: *why to invest, where to invest, and how to invest.*



- **Go beyond national averages.** In order to make the most out of our growth potential, it is not enough to look at economic performance at the national level alone but to examine and analyze policies taking place also at the lower levels of government.
- **Invest to cities of all sizes, not just metropolitan areas.** Productivity in cities is an important factor for determining overall performance of countries at the national level. While investing in cities can bring good for both cities and rural areas around the cities, it should not be just about improving conditions for productivity gains but also about avoiding negative external effects including pollutions and transportation bottlenecks etc.
- **Mobilize public investment across levels of government.** Lower levels of government are key investors in regions and cities, and knowing how to invest is to include all stakeholders (those that are spending and those that are being affected) in the process of coordination in making plans and implementing public investment. The OECD recommendations on public investment¹ can be a useful instrument.

Mr. Joaquim OLIVERIA MARTINS, Head of the Regional Development Policy Division, OECD provided an overview of the OECD's work on regional development policies in his keynote address. The OECD Regional Outlook 2016 found that GDP per capita dispersion is now greater within countries than between countries of the OECD with persistent territorial inequalities. While

¹ Recommendation of the OECD Council on Effective Public Investment Across Levels of Government: <http://www.oecd.org/gov/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm>

this can be explained through the increase in productivity gap between frontier and lagging regions, the research also showed that catching-up regions plays an important role for national productivity growth as they are characterized by a stronger intensity of the tradable sectors. This is to say that regional and rural development policies are important for national productivity growth, and policies should enable the use of specific regional assets, create complementarities that fulfill local needs across sectors, and make use of multi-level governance mechanisms to be properly integrated in the structural policy package for inclusive growth.

Session 1: The Importance of Regional Development



The session was structured to frame the importance of regional development under several important global challenges induced by fiscal crisis in key economies and profound political and social instabilities. The session discussed increasing productivity gaps, challenges in growth with inclusiveness and territorial inequalities, and government responses to address them in country-specific context with placed-based policies.

Moderator: Ms. KIM Soon Hee, Professor, KDI School of Public Policy and Management, Korea

Presenters:

- Mr. Mick DUNFORD, Professor, Chinese Academy of Sciences and University of Sussex, United Kingdom
- Mr. SO Jin Kwang, President, Korea Saemaul Undong Center, Chairman, Saemaul Undong Global League

Discussants:

- Mr. Paul CONWAY, Director, Economics and Research, New Zealand Productivity Commission
- Ms. Eva Benita A. TUZON, Director, Pilot Projects Division, Centre on Integrated Rural Development for Asia and the Pacific (CIRDAP)

“Economic growth is one that makes opportunity for all segments of the population and distributes the fruits of prosperity in different aspects across society.” – Mr. Mick Dunford. Chinese Academy of Sciences and University of Sussex, UK



Key messages:

Mr. DUNFORD explained the definition of productivity and what innovation in new technology versus replication of existing ones would mean for productivity growth in relation to capital and labour inputs. He mentioned about implications of secular stagnation, neoliberal rules of the game that increase inequality, dysfunctional governments, private oligopolies and lack of investment on skills development of the workforce attributing to slow growth on a longer term. He shared China’s case of regional policies with its commitment to reducing the gaps of rural and urban disparities through coordinated national development mechanisms including land-use quota system, functional zoning policies, and prioritized urbanization strategies per regions. He added that, although territorial justice may not necessarily imply social justice, tackling spatial inequality could make an important and cost effective contribution to combating social inequality.



Mr. SO pointed out the success factors of the Korean rural development movement in his presentation by presenting the case of Saemaul Undong, which cultivated community social capital and empowered community members including women, and improved community governance. Its incentive system promoted fair competition among villages and motivated people to change for the better. The movement is regarded as a powerful example which contributed to the inclusive growth in Korea through increased social capital, sustainability, and citizen and gender empowerment.

Mr. CONWAY shared the New Zealand case in exploring growth opportunities by conducting data analysis on the tradability of firms operating in regions. New Zealand being an island nation in the southwestern Pacific Ocean, many of its firms are focused on their local market which are small with limited competition. This results in lower country productivity in comparison to other OECD countries. This is only to highlight that an effective policy requires a deep understanding of the causes of special productivity variation. By such analysis, the country can monitor and focus primarily the regions with most percentage of laggard tradable firms and non-tradable firms to realize growth potential.



Ms. TUZON, as a delegate from CIRDAP which represents 15 member countries in the region, acknowledged that the ‘variety’ of best practices shared by the OECD and other developed countries are supported by sufficient ‘volume’ of reliable information that can be customized for developing countries. But it would require ‘velocity’ of collective response by the countries, and she addressed the urgency of establishing a resource-based knowledge sharing system,

strategic decisions on investments, and decision mechanisms for prioritizing development agenda. She has further encouraged that we look into “leadership and governance” instead of “corruption and rents” as one of the seven principal policy domains (pillars) that translates growth in reference to the Inclusive Growth and Development Framework by the World Economic Forum.

Session 2: Good Governance Practices for Regional Development

The session was reminded with the Mr. Alter’s key messages around the three questions – *why to invest, where to invest, how to invest* – and highlighted governance implications of effective regional policy and challenges concerning subnational governments including on public investment and regional development.

Moderator: Mr. Enrique GARCILAZO, Head of Rural Policy Unit, Regional Development Policy Division, OECD



Presenters:

- Mr. Chris MCDONALD, Policy Analyst, Regional Development Policy Division, OECD
- Mr. Gambhir BHATTA, Technical Advisor, Governance Thematic Work, Asian Development Bank

Discussants:

- Mr. Blake SHEPHERD, Principal Policy Advisor, Ministry of Business Innovation and Employment, New Zealand
- Mr. Joko Tri HARYANTO, Senior Researcher, Fiscal Policy Agency, Ministry of Finance, Indonesia

Key messages:



Mr. MCDONALD emphasized that public investment carries important governance implications across levels of government as a shared responsibility. Countries are often faced with governance challenges concerning coordination, capacity, and national framework. The OECD recommendation on effective public investment across levels of government was introduced as it promotes good practices in the area of multi-level governance of public investment with a systematic approach in providing countries the recommendations to support horizontal and

vertical coordination, strengthen capacities and stakeholder engagement, and ensure sound fiscal framework conditions. Governance issues were identified as key regional development challenges in the recent OECD analysis of the Asian countries, namely India, Indonesia, Japan, and China.

Mr. BHATTA pointed out that the lack of governance is the greatest challenge in Asia. As a technical advisor to ADB, he shared the importance of institutional governance when dealing with subnational governments; as such shall not be regarded simply as organizational matter but the rules of the game. He explained how to mitigate the governance risks by increasing capacities, resource mobilization, devolution of power, aligning global agenda, and localizing SDGs. He also mentioned that there are issues of moral hazards, credible commitment lapse, information asymmetry leading to transaction costs, hard and soft budget constraints. He encouraged participants to think about municipal finance and changes financing mechanisms of cities with urbanization, and how to cope with sovereign lending operations targeted to subnational financing bodies including SOEs as a way of forward-thinking on the financing and institutional mechanisms.



Mr. SHEPHERD presented the governance lessons from New Zealand with its diverse, yet very centralized governance structure with local perspective often being missed. He explained the country's Regional Growth Programme, and how it ensures effective multi-level coordination through the creation of Senior Regional Officials coming from a range of central government agencies with key point of contact for the regions to help building the whole-of-government approach. He emphasized the importance of involving regional key stakeholders and

building own capabilities in achieving regional revitalization since it will occur and ensue if and when the regions themselves drive their economic development. Few governance focus areas to improve include reducing sub-regional self-interest, being mindful of regional priorities, and attracting more influential investors in order to maximize public investment returns.



Mr. HARYANTO began his presentation by highlight the importance of resource when discussing governance; where it is not everything but without it one cannot do anything. He presented the country’s decentralization story since 2001, although local levels are left with low fiscal spaces. His past research on Indonesian government revealed an interesting result of a positive correlation between decentralization and corruption; which led to his key message that it is not how much you decentralize but how much space you give to local municipalities with systems of incentive and monitoring in place to reduce rent captures from central to local level.

Session 3: Rethinking Rural Development, Utilizing Innovative Approaches

The session was structured to revisit the OECD trends in rural policy development and relevant national strategies available in order to build effective and sustainable rural-urban partnerships under several important themes including innovation, capacity building and skills development at local level, community participation, and public-private partnerships and rural-urban linkages.



Moderator: Ms. KIM, Soon Hee, Professor, KDI School of Public Policy and Management, Korea

Presenters:

- Mr. Enrique GARCILAZO, Head of Rural Policy Unit, Regional Development Policy Division, OECD
- Mr. Katsuhiko YAMAUCHI, Counsellor for Regional Affairs, Ministry of Agriculture, Forestry and Fisheries, Japan

Discussants:

- Mr. Peter WOSTNER, Delegate of Slovenia to the OECD Regional Development Policy Committee and Chair of the OECD Working Party on Rural Policy
- Mr. Mohamad Razali ISMAIL, Deputy Director, Regional Development Section, Economic Planning Unit, Prime Minister’s Department, Malaysia

Key messages:



“Rural policy paradigm has evolved over the years. This is not a cookbook formula- instead it’s a summary of case studies of countries moving forward.” – Mr. Enrique Garcilazo. Regional Development Policy Division, OECD

Mr. GARCILAZO introduced several OECD reports on regional and territorial development, and pointed out that the definition of ‘rural’ matters when figuring out right development strategy. The OECD defines rural areas by functionality, and the researches have shown that

low density regions of countries, especially the rural that are close to cities that are particularly dynamic, display a convergence trend with higher growth potential. In summary, he noted that there is no systematic evidence of rural paradox and that sustainability is possible through drivers such as tradable activities and enabling factors such as skills and accessibility. Referencing the OECD Rural Paradigm – Rural Policy 3.0, he highlighted the importance of having an integrated rural development approach which includes exploring special complementarities (‘matching’), building an enabling environment for rural-urban partnerships (‘engagement’), and clarifying the objectives and related measures in partnership (‘learning’). He emphasized that demographic trends should be understood with forward-looking policies in addressing long-term, cost-enhancing efficiency in service provision.

Mr. YAMAUCHI shared rural development experience and emerging issues in the context of the Japanese society (e.g., aging and declining population). Having a focus on prosperity rather than population increase for productivity growth (‘smart shrinking’) is a noble insight being reflected in its National Spatial Strategy 2015. The Strategy aims to invigorate and revitalize rural areas through creating jobs, strengthen linkages between communities (‘compact and networked’), and promote interaction between rural and urban regions. He acknowledged ‘bottom up’ approach (e.g., collective decision making, community-based strategy) that reflects local assets and resources to realize effective rural development against future challenges and opportunities. He further added that this would require changing people’s mindset and way of thinking.



Mr. WOSTNER presented a case of Slovenia for sustainable growth as one of the world’s leading green destinations. He marked that rural is much about industry than agriculture. Thus he emphasized partnerships and interactions with private sector in propelling creativity, innovation, and entrepreneurs through interdisciplinary approach of art, design, science, and engineering; all of which would allow a country to maximize its full potential in regional development and growth. He highlighted that it takes both ‘top down’ and ‘bottom up’ at the same time to

achieve rural innovation which is the only way forward, and that international cooperation plays a critical role.

Mr. ISMAIL shared Malaysia’s Rural Transformation Programme (RTP) which aims to attract private investments, create employment and economic activities. He noted the importance of involving younger generation in building rural-urban linkages, particularly through improved connectivity and economic integration of the rural areas. He added that this would need investments from public and private as well as a mobilization of various drivers of growth (e.g., human capital, entrepreneurship, innovation, technology and private sector participation) with a combination of vertical and horizontal communication through effective leadership.



Session 4: Urban Development Challenges and Urban Rural Linkages

The session featured discussion on cities, large or small, as a place for opportunities and interactions but also a place that generates cost with social polarization and pollution. In the discussion highlighted the importance of understanding cities relate to rural areas with a greater recognition of the complementarities and connections. The session focused on how can Asian countries be better equipped for urbanization in a way that is sustainable and inclusive which would lead to productivity benefits to national economies.



Moderator: Mr. Chris MCDONALD, Policy Analyst, Regional Development Policy Division, OECD

Presenters:

- Mr. KIM, Jeong Ho, Professor, KDI School of Public Policy and Management, Korea
- Mr. Joaquim OLIVEIRA MARTINS, Head of the Regional Development Policy Division, OECD

Discussants:

- Mr. LEE, Dong Ok, Director General, Department of Planning and Policy, Presidential Committee for National Cohesion, Korea
- Ms. BYAMBASUREN Enkhbaijali, Professor, Department of Management, National Academy of Governance and Mr. DAMIRAN Tsedev, Vice Rector, National Academy of Governance, Mongolia

Key messages:



Mr. KIM's presentation explored mutual cooperation among localities for local development. He pointed out that the improving administrative fragmentation can reduce cost and increase efficiency as exemplified in the shared cases of Korea. Nurturing expertise, creativeness, negotiating skills of public officials and gradually introducing “Chief Administrative Officer” that can help to promote public-private integrated management was deemed essential. He suggested restructuring legal and institutional system that encourages competition and cooperation for inclusive development of cities and regions, and establishing locally

initiated mutual development forum as a first step to change local development and service delivery paradigm. He emphasized that mutual cooperation system based on shared values and trust is a must, and efforts should be in place to drive regionally balanced development as the national development agenda through cooperation dialogues, collective intelligence and horizontal integration.

Mr. OLIVEIRA MARTINS shared the importance of cities in national policy issues. Rural and urban areas are interconnected through different linkages (commuting, provision of amenities, transportation, economic transactions etc.), and how they are governed has an impact on the economic development and people's wellbeing in both rural and urban communities. While the proximity and connectedness to cities benefit surrounding regions, the recent OECD research revealed that rural regions close to cities grow



more than predominantly urban. Thus better understanding of interdependencies of the regions would help to design an effective governance solution that facilitates an integrated approach towards improved rural-urban partnerships.



Mr. LEE shared his reflection on the previous presentations and commented in relation to the Korean case. He shared a case of “Sunshine Peaches” where 4 cities from 2 provinces (Gyeonggi and Chungcheong Provinces) have joined together as a cooperative in branding their local produce to ensure stronger market competitiveness nationwide together than individually. He noted that we should think about what is more efficient: the coordination between local governments or coordination between local and upper government. He also

noted the importance of wise management in municipalities of large cooperation which is quite complex and costly.

Ms. BYAMBASUREN resonated that the regional development should be both top-down and bottom-up, though highlighted that top-down approach is more desirable since it eliminates duplication and competition in a sense. What is important is the respect for diversity and different inputs from different regions. She mentioned that technology is intensive only in big cities; therefore rural areas need competently different policy. With no knowledge and information diffusion between similar countries or regions, we cannot diversify planning. She urged that we pay more attention and have deep understanding of diversification when discussing urban-rural linkages as every region is unique.



Mr. KONG, Director of the Public Governance Programme of the OECD KOREA Policy Centre, has provided a comment on how much of the discussion today at the forum focused on “development.” He raised a question whether small cities with high population is suitable for inclusive growth versus the emergence of megacities that are already growing in numbers.



Study Visit to the Incheon Free Economic Zone (IFEZ)

On the second day of the forum, the invited participants gathered for a wrap-up session and National Museum of Korean Contemporary History Tour. The participants visited Incheon Free Economic Zone as a study case of regional development in Korea. The study visit included the Compact Smart City (Incheon Urban Planning Center), the IFEZ Center, and the IFEZ U-City Operation Center.

