

A Paper prepared for the Conference on Institution and National Competitiveness, The Korean Institution and Economic Associations (KIEA), August 17-20, 2009.

## Governing Mega Economic Regions: Towards Multi-level Governance in Korea

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### Abstract

This study proposes a directional change of governance system of Mega Economic Region (MER) program in Korea. We first assess the various modes of governance, which have emerged to meet the exigencies of regional governance and the socio-economic environment thereof. Based on the understanding of particular challenges confronting the Korean MER governance system, we propose the institutionalization of multi-level regional governance. The major directional changes proposed in this study are the following: first, to grant autonomous or semi-autonomous status to the MER; second, to institutionalize negotiated agreement as the major means of coordination; and third, to allow more flexibility in achieving democratic accountability of MER program.

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## I. Introduction

The legacy of globalization continues. While we increasingly witness the dwindling sovereign authority of nation-states, the importance of region as a governing entity is permeating all parts of policy-making decisions. Region not only has become the focal point, on which the prosperity of nation-states is largely dependent, but also it began to function as a critical nexus between central and local authorities, and on a wider scale, between government and civil society. With this ever-increasing recognition of region's importance, policy-makers worldwide have been striving to establish "regional governance": the European countries with the heritage of European integration; the United States with new initiatives to devise new governing mechanisms, which would handle the emerging mega regions defined by the U.S regional planning association; adjacent countries, such as Japan and China, with increasing ardor to experiment with diverse modes of regional governance.

South Korea is no exception. The Korean government recently launched nationwide development scheme, or "mega economic region development program" (hereafter denoted as MRDP), which would cost approximately 50 trillion won until 2013. The key facet of the scheme is to create 5+2 regional districts and to empower them to initiate economic development in regional scale, which in turn would reconcile diverse interests of central and local governments, as well as private sectors. The mainstream view of policy makers is that this development program, if properly implemented, will enhance both national competitiveness and social cohesion.

Although the government proposal details the development strategies of the mega economic regions (hereafter denoted as MERs), it remains vague as to the governance of the MERs. This is a regrettable fact, because the creation of the MERs, by adding a new layer to administrative units, necessitates good governance arrangement. Good governance arrangements not only are precondition of smooth collaboration between central government, regional government and municipalities, in terms of policy making, financial responsibility, investment decisions, but also the only means by which private investments can be made and conflicts among multiple decision making units can be avoided - the two crucial elements for the success of the MRDP.

Considering the task facing Korea, this study attempts to propose the optimal direction for governance of the MERs, which can contribute to the successful implementation of the MDRP. To this end, this study first describes various governance modes being practiced in the current globalized socio-economic environment. Secondly, this study examines the changing patterns found in aforementioned regional governance. Thirdly, this study introduces the Korean MDRP stipulated in recently amended the National Balanced Development Law and makes a preliminary evaluation of the MRDP. Fourthly, this study proposes alternative directions for change, focusing on institutionalizing multi-level governance system in Korea. Finally, the study concludes by examining possible implications of such policy modifications.

## II. Variety of governance

The recent changes in new governance arrangements have taken place fundamentally in the location of authority, the style of coordination, and the dimension of accountability. In terms of spheres and levels of governance, shifts have also occurred in private, semi-private and public spheres, and encompassing local, regional, transnational and global levels. Proper understanding of the emergence of various types of governance requires examining and assessing these shifts.

### 1. Shifts in Governance

In investigating the shifts of governance, we focus on three analytical dimensions of governance: first, the location of authority, drawing distinction between centralization and dispersal of the sites and levels of governance, and between public and private governance; second, coordination mechanism; third, the dimension of democratic accountability, or the degree to which governance ultimately responds to the wishes of those who are governed.

First, the shifts in the location of authority in various governance modes can be easily detected. The locational shifts of authority have occurred in two directions: vertical and horizontal. Vertically, there are ostensible upward shifts of authority from nation-states to international institutions

such as the EU, the WTO, or the NFTA. Vertical shift from national to international governance occur in less conspicuous ways: the international markets, multinational corporations, agencies that regulate international economic transactions, international standardization bodies such as those found in telecommunications, rating agencies such as Standard's and Poor's. Interestingly, there also has been downward vertical shifts from national to sub-national units such as regions, provinces, and municipalities, tantamount to one of most conspicuous phenomena worldwide. Both developing and industrialized countries have experienced significant downward shifts of authority.

Horizontally, the shifts in the location of authority have occurred in many directions as well. Horizontal shift of the location of authority occurs from government to semi-public organization. Some of government tasks are delegated to more autonomous semi-public organizations in order to achieve greater efficiency and effectiveness. There is also horizontal shift in the public sector from executive and legislative body to judiciary. Both in numerous states and in international institutions, the court is assuming a more active role in rule interpretation, and often de facto rule formulation. Horizontal shift has occurred in private sector, whose coordination is increasingly dependent on networks rather than market. Additionally, the change has also occurred in private sector from association (trade association, cartels) to large business firms, or from competitive markets to monopolies or oligopolistic ones.

Secondly, with the changes in the location of authority, the style of governance, i.e., coordination mechanism has changed as well. As the structure of governance becomes more complicated and assumes forms of network, traditional approaches of command and control have become less effective. New forms of coordination mechanism began to replace them, such as negotiation and management of information network. These new forms also include the comparison of information and of performance scores, exemplified in the increasing popularity of benchmarking and the comparison of best practices, first in the private and now also increasingly also in the public sector (Kersbergen et al., 2004).

Finally, it is important to note the change in the dimensions of democratic accountability – the degree to which governance ultimately responds to the wishes of those who are governed. With the emergence of

new forms of governance, the issues of accountability have frequently been raised and framed in terms of the so-called democratic deficit. Direct electoral accountability, however, is not the only relevant form for the newly emerging governance. Accountability can be enhanced by rule, which independent organizations and by courts can monitor (Caporaso 2003; Keohane and Nye, 2003), or accomplished through market and publicity. In fact, various forms of accountability have been instituted in ways that give the public more influence on policy and that enhance the legitimacy of new forms of governance.

## 2. Four Governance Modes

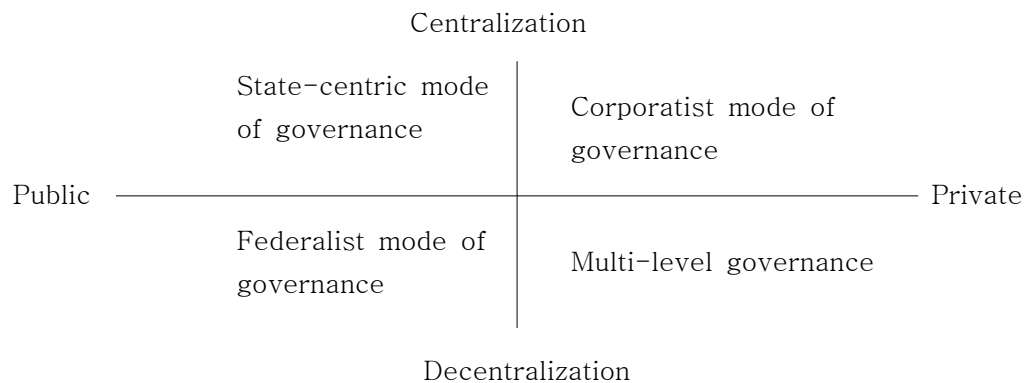
Among the numerous governance types produced by the shifts in governance, we may identify four representative modes of governance. <Figure 1> describes the four governance modes differentiated by the two directions in which the shifts of governance have occurred. Along vertical axis, concentration of power ranges from high, in which the power of central government is strong, to low, in which that of local government is similar or stronger. The horizontal axis ranges from high, in which the role of government is extremely prominent, to low, in which the role of state is low and private activities are more prominent. The resulting quadrants define four modes of governance that have evolved in the process of the shifts in governance. <Table 1> summarizes the key features of each governance mode.

The first quadrant points the state-centric model of governance. This mode is characterized by the centralization of power in the hand of national government and a low level authority in local government and private sectors. Under this mode of governance, coordination of decisions may not be an important issue, since the central government is the only actor who exercises the authority in collective decision making. As the decision making is driven by one sole authority, electoral accountability is the touchstone by which democratic accountability can be measured. In some case, where the central government delegates the authority to other governments or semi-public entities, then hierarchical accountability<sup>1)</sup> is also applicable.

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1) Hierarchical accountability occurs by the process in which principal can remove agents from office, constraint the agent's room for discretion, and adjust rewards

<Figure 1> Type of Governance Modes



The second quadrant highlights the corporatist mode of governance. This governance tends to focus on intermediation between interests, by linking organized interests such as labor, business sectors and the state. Such organized interests are then incorporated into the policy-making process, both in terms of the negotiation of policy and of securing compliance from their members with the agreed policy. This mode uses joint decision making<sup>2)</sup> or negotiated agreement<sup>3)</sup> as the coordination mechanism. Both electoral and hierarchical models may achieve accountability under this mode of governance.

The third quadrant indicates the location of federalist mode of governance. This mode of governance underlies a system of the government

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for service.

2) Joint decision making combines aspect of intergovernmental negotiation and centralized decision making. Under this system, it sub-national units are united in their opposition to central government policy or if highly salient regional interests are strongly divergent, central solutions will be blocked, regardless of the involvement of the regional representatives in the parliament.

3) Under negotiated agreement, each agents' policies are coordinated or standardized by agreements at the higher level, but each agents remain in full control of the decision process, non of them can be bound without full control of the decision process, none of them can be bound without its own consent, and the transformation of agreements into policies and their implementation remain fully under their control.

in which sovereignty is constitutionally divided between a central governing authority and constituent political units (like states or provinces). Under this system, the power to govern is shared between national and state governments. The coordination mechanisms under this mode of governance are joint decision making and negotiated agreement. The types of accountability sought under this mode are electoral and hierarchical accountability.

<Table 1> Major Features of Governance Modes

Mode of governance	State-centric	corporatist	Federalist	Multi-level
Actors to make decision	Central government	<ul style="list-style-type: none"> <li>• Central government</li> <li>• Organized business sector</li> <li>• Organized labor</li> </ul>	<ul style="list-style-type: none"> <li>• Central government</li> <li>• State government</li> </ul>	<ul style="list-style-type: none"> <li>• Central government</li> <li>• Local governments</li> <li>• International organizations</li> <li>• NGOs</li> </ul>
Coordination mechanism	Hierarchical direction	<ul style="list-style-type: none"> <li>• Joint decision making</li> <li>• Negotiated agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Joint decision making</li> <li>• Negotiated agreement</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiated agreement</li> <li>• Mutual adjustment</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>• Electoral accountability</li> <li>• Hierarchical accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Electoral accountability</li> </ul>	<ul style="list-style-type: none"> <li>• electoral accountability</li> </ul>	<ul style="list-style-type: none"> <li>• Electoral accountability</li> <li>• Legal accountability</li> <li>• Reputational accountability</li> </ul>

The final form of governance is multi-level governance. This governance seeks to incorporate both increasingly complex patterns of policy making and authoritative decision making in a tightly integrated and globalized world (Stein, 2008). It encompasses the broader scale and scope of decision making, the marked increase in numbers and types of decision makers,

including private sector actors such as corporation and unions, non-governmental organizations, members of social movements, and individuals in civil society, and the multiple levels and tiers of decision-making. This mode of governance employs such coordination mechanism as negotiated agreement and mutual adjustment.<sup>4)</sup> Accountability can be achieved by various ways, encompassing conventional electoral models to other types, such as legal<sup>5)</sup> and reputational accountability.<sup>6)</sup>

### III. Regional Governance

Regional governance involves the pattern of coordination and cooperation in authoritative decision-making in regional context where both numbers and types and levels and tiers of decision-making increased markedly and became complex. Because regional development entails cooperative tasks, and numerous actors tend to be involved in regional development issues, regional governance is the area where variety of governance modes have emerged. To lay groundwork for understanding the governance system of Korean MRDP and identifying the directions for change, we examine the changing pattern of regional governance revealed through the experiences of several countries.

#### 1. Challenges to Regional policy

The fact that regional governance has brought about by challenges facing

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4) Mutual adjustment implies that each agents continue to adopt their own policy for their jurisdictions, but they do so in response to, or anticipation of, the policy choices of other agents.

5) Legal accountability occur through judicial or quasi-judicial process. Agents can be sued, fined and jailed; administrative law in democratic countries provides for procedures such as notice and comment, by which parties that are not hierarchically superior to the agents promulgating rules can appeal to legal processes to request changes.

6) Reputational accountability occurs through publicity. The media enhance necessary transparency, and can also produce the sanction of embarrassment and damage to reputation. The examples are the transnational corporations are subject to naming and shaming campaign by NGOs, and market-rating reorganizations can help policy the credibility of companies, banks, and countries.

regional policy compels to examine the nature of such challenges. Traditionally, regional policy was managed by central government through state-centric mode of governance. The major purpose was to promote equality between regions by redistributing economic activities to problematic areas by means of carrots and sticks. Infrastructure development and financial subsidy are the policy measures commonly applied. Regional policy, however, has recently undergone significant directional change. Regional policy tends to be tailored for each individual region, primarily aiming to improve regional competitiveness. For implementation, softer policy measures were applied, comprising network development, industrial cluster formation, and institutionalization of coordination mechanism, etc.

With the change of policy goals, regional policy has faced new difficulties arising from the participation of various actors in policy arenas. The actors involved in regional policy include not only representatives of government and public sector organizations, but also private firms and societal interest groups. Although the focus of regional policy is to realize collectively the goal of regional development, the increased number of the participants brought about distributive conflicts in policy arenas. The traditional state-centric mode of governance cannot properly deal with these conflicts, because it often leads to stalemate due to coordination failure. In resolving such conflicts, regions are increasingly out on their own. According to the endogenous regional development paradigm, regions become policy arenas in which sectoral policies and group interests are to be concentrated. The resulting demands foster the regionalization of specific policies such as industrial development, labour market, local transport, and research promotion.

On balance, this means that regional policy has to take greater coordinative responsibility with fewer powers at its disposal. Political processes have also become more difficult because new actors have come to the fore. With limited resources for endogenous regional development, benefiting groups or sub-regions are must be prioritized. The regional policy paradigm led by the central government is often less effective, it ignores the stark realities in which regional policy has to face new tasks, adapt to framework condition, and deal with new actors. New paradigm is required to cope with the new tasks arising from socio-economic structural changes.

## 2. Changing Pattern of Regional Governance

Facing the new tasks of regional policy, regional governance has evolved in many directions. In this section, we will examine specific narratives of different countries, which could well represent the changing pattern of regional governance. Such cases are selected on the basis of the traditional forms of governance: the state-centric, the corporatist, and the federalist mode. Despite their original mode of governance, most countries have moved towards multi-level form of regional governance.

Bache (2005) refers to the Great Britain, as the exemplary case of state-centric governance mode. He argues that even in highly centralized country like Britain, Europeanization has promoted multi-level regional governance over the past 15 years. Britain has veered to the multi-level governance since 1997 after the Labor government took the power. In addition to Scotland and Wales, 9 English regions were created as the unit of regional governance. Especially in England, regional development authority (RDA) is created as the key regional actor responsible for developing regional development strategies; as the monitoring agencies, regional assembly were created although their members are not elected by vote. In England, multi-level governance has been particularly strengthened in horizontal dimension through the partnership governance, which has become embedded in domestic practice across increasing number of policy fields.

Second, the shift to multi-level regional governance has also occurred in the countries with corporatist governance tradition. Baldersheim and Stahberg (2003) analyze and compare the cases of four Nordic countries such as Denmark, Sweden, Finland and Norway. They argue that in these countries, the methods of central-local coordination increasingly reflect incidences of multi-level and multi-layer governance. They also point out that the emerging central-local relations are considered multi-level, not because they include interactions across levels of government, but because dynamic co-ordinations are taking places among actors, agencies and institutions with different interests.

Third, federalist countries have also experienced similar changes. While recognizing diverse structures of multi-level governance in Germany, Benz

(2000) argues that the trend towards multi-level governance reveals a particular logic of intergovernmental relations of Germany, which is characterized by simultaneous process of differentiation and loose coupling of policy arenas, of making communication inclusive and keeping decision making exclusive, of combining negotiation and cooperation with hierarchy and competition. Traditionally in Germany, conflicts have often arisen in the allocation of resources during the negotiation process. This is because joint planning committee of federal and state governments was responsible for regional policy-making and its main coordination device was joint decision-making. Under multi-level regional governance, however, regional administrative structures have been split up into autonomous service units in the course of restructuring (Benz, 2000). As a result, such conflicts could be divided into separately manageable parts; the occurrence of the conflicts has been substantially reduced.

### 3. Understanding the country experiences

#### 1) Regional entity

Although most countries we examined have more or less moved towards multi-level regional governance, the features of the governance in each country are markedly different. Particularly, new regional entities were created to assume the role of policy making and implementation in most countries. Such newly created regional entity has very diverse character, depending upon the political and institutional circumstances of each country. Two types of regional entities can be identified. The first is the regional entity with the characteristics of general purpose jurisdiction. This type of regional entity is often created newly, but it could also be existing administrative unit. In Britain, this type of regional entities was created in Scotland and Wales; in Germany, they are created in Stuttgart and Hannover regions. In Nordic countries, on the other hand, a large regional entity was not created because of its relatively small population size, hence some kind of alternative association of local governments assume such roles.

The second is the regional entity with the tasks of specific jurisdiction. This type of regional entity is not aligned on just a few levels but operates at numerous territorial scales, serving task-specific rather than general

purposes. It is further differentiated depending on the numbers of tasks to accomplish. While some entities are responsible for a single task, others assume multiple tasks. The number of tasks are not as diverse as those the general purpose jurisdictions accomplish. In Britain, this type of regional entity was created in England; in Germany, it was created mainly for the metropolitan areas by the associations of local governments; in the Nordic countries, these types of special districts were also created through the similar bottom up process.

## 2) Coordination mechanism

While the types of regional entity created in each country may differ depending on the institutional and political situations, other dimensions of multi-level governance in these countries are surprisingly similar. As for coordination mechanism, both traditional hierarchical direction and joint decision-making have become unfashionable. Instead, negotiated agreement and mutual adjustment have gained popularity.

As the hierarchical direction lost its popularity in Britain, negotiated agreement tends to be used more frequently through various forms of public-private partnership. Baldersheim and Stahberg (2003) notes that regional actors tend to establish joint programs and policies which aim to meet the needs of both local and national constituencies, as the governance becomes multi-level in Nordic countries. In Germany, in order to escape from the problem of joint decision making trap, which have stricken in the federalist governance, negotiated agreement and mutual adjustment have become more common in the decision making of metropolitan areas (Benz, 2000).

## 3) Accountability

As decision-making by negotiations and networks becomes more common, a tension between existing institutions and regional governance becomes visible. This is because this transition raises the question of the accountability of decision-making. Accountability problems arise when politics bypasses elected office holders or representative assemblies, when regional assemblies or town and city councils can no longer ratify them. To

ensure accountability, transparent procedures and the effective supervision of those exercising power are required.

In the case of regional governance, it is almost impossible to secure electoral accountability, because of the proliferation of regional entities and the increase in the number of actors in various decision-making arenas. Policies cannot be democratically legitimized simply through elected assemblies; cooperative policy-making is also not democratic per se. What is therefore needed are participation by the greatest possible number of societal groups in policy networks, adequate negotiation procedures, transparent decision-making process, and precise allocation of decision making competence. A combination of institution and networks is particularly indispensable for improving the democratic quality of regional governance.

Thus most countries tend to use a combination of diverse measures to solve the problems of accountability. For instance, Britain with its long tradition of centralized governance, still tends to resort to hierarchical accountability. The chief executive of RDA was appointed by the ministry of central government; they also established a separate governmental unit for each region, i.e., Government Office (GO) and allowed them to supervise all decisions made in RDA from the view of central government. The case of Nordic countries are rather different. While these countries has strong tradition of central dominance, these countries adopted the measures of legal accountability in addition to electoral accountability. Germany also applied legal accountability measures and market accountability which result form the competition among the regions newly created.

#### IV. Governance of Mega-economic Region in Korea

Given the understanding on the changing pattern of regional governance, we are now equipped to examine current governance system of MERs in Korea and to propose directions for change. The current system introduced here is the governance system for MERs stipulated in the amended Special Law on the National Balanced Development. The system is evaluated in reference to the three dimensions of governance we previously discussed. Some limitations inherent the governance system of Korea MERs are discussed and directions for changes are proposed.

## 1. Key features

The governance system of MERs has some distinctive features in a few areas. First, we focus on newly created regional entity and new actor who is in charge of operating the new entity. In the MRDP, 7 regional entities are newly created to comprise 5 mega economic regions and 2 special economic regions. These regions are special districts designated by the central government of Korea, combining existing sub-administrative units. In demarcation, the central government purports to have paid a particular attention to population size, levels of infrastructure and industries, historical and cultural characteristics, and regional sentiments. For each region, a special committee called "MER development committee" is created. Each of these committees is composed of 15 members who are regarded to have a fair amount of experience in regional development fields: 12 of the committee members are recommended by the committee chair and 3 of them by the chair of the Presidential Committee on Regional Development.

Second, the governance system of MERs can be characterized by its complex policy making and implementation process. Numerous steps are involved in the MER policy making process. It starts with development of guideline for policy making by the Ministry of Knowledge Economy. Given the guideline, the MER committee develops policy proposal for each MER. In the process, the committee has to consult with central government ministries, if policy has any bearing to the work of concerned ministries. The committee then has to report its policy proposal to the Presidential Committee for Regional Development. If there is a gap between policy proposal and the national development plan prepared by the presidential committee, then the MER committee has to revise policy proposal for coordination purpose. Finally, policy proposal can be finalized only after the approval by the president.

The governance system of MER has a peculiar implementation scheme. The policy developed by the MER committee can be implemented through various development projects. The committee can develop several projects for implementation of the policy, but the types of projects are pre-determined by the Ministry of Knowledge Economy. Two types of projects are normally included in the implementation plan. One is the "regional leading projects" and the other "regional strategic projects." As for

the regional leading projects, the ministries of central government are in charge of the implementations.<sup>7)</sup> Unlike the regional leading projects, the responsibility of the regional strategic projects rest with metropolitan or provincial government. They are also responsible for the implementation of the projects which requires cooperation of more than one province.

Finally, we examine control mechanism built in the governance system of MERs. There are several control mechanisms to be identified in the Korean system: presidential approval and evaluation and more traditional parliamentary inspection. While presidential approval is required before MER policy made by the MER committee is to be finalized as we discussed previously, the presidential evaluation applies to implementation stage of MER policy. The Presidential Committee for Regional Development is the key actor responsible for the evaluation of MER policy. Each year, the presidential committee prepares and distributes guideline for evaluation to the concerned parties. The MER committee has to report a self-assessed preliminary evaluation to the presidential committee. The central government ministries also report a self-assessed preliminary evaluation to the presidential committee. The presidential committee combines and reports the result of final evaluation to the president. Parliamentary inspection can also be applied to the MRDP, since the president is finally responsible for the program. Central government ministries have to report progress of MER policy to the parliament; the report will be examined in the regular parliamentary inspection of government offices.

## 2. Anatomy of Korean system

### 1) Regional entity

Given the characteristics of the Korean system, we can anatomize the governance system of MERs with respect to three dimensions. The first dimension has to do with the scope of region's autonomy. The scope of

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7) If the projects are related to the infrastructure development, the Ministry of Land and Ocean is responsible for the implementation. If the projects are related to the industrial development, the Ministry of Knowledge Economy is responsible for the implementation. If the project has something to do with human resource development, the Ministry of Education and Science is responsible for the implementation.

autonomy can normally be analyzed based on three criteria: its existence as an organized entity, government character, and financial and administrative independence substantial autonomy (Forster, 1997). But the MER does not satisfy any of these criteria. The MER cannot be considered an organized entity, because it does not have the right to develop and negotiate contractual obligation, and to conduct activities such as holding regular board meetings and raising revenue. Nor does it have government character since the MER has neither an elected board of officials, nor the financial right to tax and acquire debt. Finally, as we discussed previously, the MER does not have financial and administrative independence, and thus no autonomy. Considering these features, the MER appears to have very little sovereignty over administrative and financial affairs. The MER can be at best considered special district designated by central government for the implementation of its regional development policy.

## 2) Coordination mechanism

The second dimension is concerned with the mechanism to coordinate decision made by many actors. The major coordination mechanism used in the mega economic regions is hierarchical direction. Hierarchical direction is applied to coordinate among the related plans. According to the law, it is required that regional development plan made by the mega region committee corresponds to the upper level plans: the National Land Development Plan, the National Financial Plan, and the National Development Plan for Regions. In case where there are some disagreement, the law requires that the content of MER plan be adjusted.

Hierarchical direction is also used to coordinate investment decisions made by the agencies responsible for implementation of the plan (Law 20:1). Any mayors of metropolitan governments and governors of provinces who are interested in cooperation with other provinces or central government in the regional investment has to make some kind of regional investment agreement. To do so, it is required that the governor reports the proposal of joint implementation to the Ministry of Knowledge Economy. The ministry then confers about the plan with the other ministries and the Presidential Committee on Regional Development. When the new budget is necessary, the concerned ministry has to consult the report with the Ministry of Planning and Finance. After the deliberation by the presidential committee,

the Ministry of Planning and Finance will make the final agreement report for the joint regional development investment.

### 3) Accountability

The third dimension is concerned with the issue of accountability. The first mechanism used to secure accountability in the governance system of MER seems electoral accountability. Since all the decisions made in relation to the MERs have to be approved by the president and are subject to parliamentary investigation, the presidential and parliamentary elections are considered to be the primary measure to secure accountability. In addition, there are indirect and implicit mechanisms as well. Hierarchical accountability is the mechanism to be applied in the governance of MERs. This is very typical in the extremely centralized polity in which the key mechanism to secure accountability is electoral accountability. The president is the one who is primarily responsible for the MER policy; the president as principal can remove agents from office, constraint the room for discretion and adjust rewards for their performance.

### 3. Limitations of Korean system

As we have examined, the MERs in Korea seem to be governed by the state-centric mode of governance. This mode of governance may not be effective for MRDP, because the major goal of MRDP is not to lessen regional disparity, but to improve regional competitiveness and to create institutional environment suitable for endogenous regional development. In addition, the number of actors concerned with MRDP has increased significantly, including MERs, local governments, business firms, universities and NGOs. Furthermore, responsibility of policy making has moved away from government department to semi-autonomous public body. In this circumstances, the governance of MERs may require different type of governance mode; the most suitable mode of governance would be multi-level governance. Such is the overriding trend that we have observed number of countries such as Britain, Germany, and some Nordic countries.

In addition to the inadequacy of governance mode, the system has inherent drawbacks. The monopoly of power in the hands of president

renders this system particularly susceptible to political influences. As is well known, regional policy is the area where problems of pork barrel occur frequently. Political actors from specific MERs may have strong incentive to influence policy-making and implementation process in favor of their region. As a result, policy direction of MERs can be altered in favor of strong political power.

It is also noted that the governance system of MER appears to harbour built-in conflicts, stemming from the concentration of financial power in the hands of central government ministries. The Ministry of Knowledge economy is responsible for the selection of the projects for implementation of MRDP; the Ministry of Finance and Planning is responsible for distribution of financial resources for such projects. Of course, the president can also influence the distribution. In this circumstance, financial resources are often regarded as a kind of common property resource. Participants in MRDP may be involved in fierce competition over the distribution of financial resources. When they regard the distribution of financial resource as unfavorable to them, they may involved in strong opposition of the distribution plan. Furthermore, they may exercise political influences on those responsible for the distribution. The MRDP can thus be subject to stalemate.

Finally, it is not clear whether democratic legitimacy of MRDP could be achieved adequately under present institutional setting. Since the governance system of MRDP tends to rely on indirect electoral accountability, the agents involved in policy making and implementation may be unresponsive to eventual principles, i.e., the residents of MERs. Under the present system, those in charge of plan making and implementation are more or less accountable to the president, who may sometimes has to compromise the goal of regional development with other pressing goals. Thus, democratic accountability of MRDP can be easily evaded.

## V. Towards Multi-Level regional governance in Korea

Given the discussions thus far, the major direction for reform is to institute multi-level governance system for the MRDP. In order to do so, we will first draw some principles to consider and then propose the direction for change with respect to three key dimensions of governance.

## 1. Some Principles

In designing multi-level regional governance system, we first need to identify underlying principles concerning good regional governance. Hatkier (2006) identified major characteristics of ideal type of regional entity by examining over 30 cases of regional entities applied in EU countries. According to him, the ideal type of regional entity is situated outside the mainstream government apparatus and its political sponsors. That is, the regional entity should have a functionally distinct competence which can be easily hive off and insulated. In this way, externalities among jurisdictions are minimized; more importantly, all significant costs and benefits can be internalized within the districts. In addition, the regional entity has to be designed with respect to a particular set of policy problems, not particular communities or constituents.

Second, with the establishment of regional entity, coordination mechanism needs to be determined. On balance, we may need a mechanism more flexible than the traditional coordination mechanism such as hierarchical direction. Because of semi-autonomous nature of regional entity, it is particularly important to use negotiated agreement as the major coordination mechanism. To institutionalize negotiated agreement, the number of autonomous actors who have to be coordinated must be limited. Alternatively, we may limit the interactions among actors by slicing competencies into functionally distinctive units. At the same time, no parties with significant interest in the regional governance should be left out in the negotiation process.

Finally, the changing nature of regional entity requires different way to secure accountability. In terms of accountability, scholars often apply the input-output model to address the accountability issues. On a abstract level, the concept stipulates that political decisions can be legitimized if they take into account the preference of citizens and if they effectively solve problems that are on the agenda. In order to be qualified as a democratic entity, a decision or a political system must meet both criteria, those concerning the input and the output side (Scharpf, 1997). Scharpf formulated this conceptional debate among German scholars on complexity and democracy in the late 1960s (Scharpf, 1975) and he revived it in his studies

on EU multi-level governance (Scharpf, 1999). Recent example of applying this concept in the case of multi-level governance are Benz (2005) and Kersbergen and Waarden (2004).

## 2. Direction for change

Considering the principles suggested above, we propose directions for change as follows. First, it is important to provide a proper role and status to newly created MERs. We propose to grant autonomous or semi-autonomous status to the MERs. It will enable the MERs to coordinate the decisions of various actors. It is also important to allow the MERs to be responsible for managing simultaneously a few related policies. With these characteristics, MERs become similar to the special districts in U.S. Such administrative structure acknowledges the fact that local governments and MERs serve not only different but also complementary roles. The resulting administrative structure would be a fluctuating number of relatively self-contained, functionally differentiated regional governance entities alongside more stable population of general-purpose, nested type local governments. In this way, political autonomy of the governance system of MER can be achieved, and regional policy goal can be better obtained.

Second, if MERs are equipped with such characteristics described above, it is possible to employ negotiated agreement as a key coordination mechanism. In order to apply negotiated agreement, we need to create adequate policy arenas friendly to negotiations, such as "regional assembly" responsible for making policy for each MERs as well as monitoring MERs. Two points need special attentions. For one, it is crucial that regional assembly includes all major representatives of the groups interested in regional economic development, such as representatives from central government, local governments in the MERs, businesses, universities, and NGOs. For another, we need to set the boundary of issues under negotiation. If redistribution were the major policy problem, negotiations or any other form of unanimous or consensual decision-making would not be a good mode of coordination (Scharpf, 1997). If the policy problems were some kind of positive sum game, however, negotiation is in principle capable of providing welfare-maximizing solutions. Thus, the functions served by each MERs need to be limited to economic growth of the regions. Any

issues bearing to the redistribution must be done by the general purpose government. If we bestow the MER with such functions, then the issues under negotiation are congruent and may have less elements of conflict. In this way, negotiation will be more easily done in the MRDP.

Finally, we need to identify the ways to secure accountability. The type of accountability is indispensably contingent upon the type of regional assembly that we wish to create. If regional assembly is created by direct election, then electoral accountability can be applied. Regional assembly, on the other hand, is not composed of directly elected members, but often of members of local assembly, central government officers, and business sectors. On balance, the new governance system need to rely more on other accountability mechanisms other than traditional ones, such as market and legal accountability. In order to utilize the market accountability, the policies must strive to enhance the competition among MERs, and take into account economic performances and growth of each region. This can be feasible only when each regions have enough authority to make policy and implement. Some kind of legal accountability can also be utilized. Anyone who feel the work of the committee is not appropriate can resort to various legal control mechanism, instead of political or administrative accountability.

## VI. Conclusion

So far, we identified major direction for changes of governance system of MERs in South Korea. To this end, we examined various governance modes that have emerged in current changing socio-economic environment, and the pattern of changes in regional governance. To delineate some principles and direction for change, this study described the current MRDP recently introduced recently by the amended National Balanced Development Law and made some preliminary evaluations. Based on the analysis of key features of governance system of MERs and of reasoning behind their operation, this study proposed multi-level regional governance system for Korea.

The major aspects of directional changes are to provide adequate role and responsibility to the nascent regional entities. This study proposed to provide them with autonomous or semi-autonomous status and the characteristics of special purpose government. Also, negotiated agreement is proposed to be the major coordination mechanism. As for the accountability,

this study proposed to rely more on alternative accountability types rather than their traditional counterparts. Particularly, this study emphasized the use of more flexible mechanisms such as market accountability and legal accountability.

A final comment is in order. It is important to note that for successful institutional change, the government has an important role as partner and facilitator of reform. But top-down reforms may be difficult to achieve because of lack of adequate local knowledge and lack of appropriate incentives for the existing administrative structures to reform themselves. The result, therefore, may be disappointing. What is required is that a major changing agents can take an initiative that others are then compelled to follow. For instance, media, professionals specialized in the field, and various NGOs must strive to increase such awareness.

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