

# UCLG COUNTRY PROFILES

## Republic of Korea

(Taehan-min'guk)

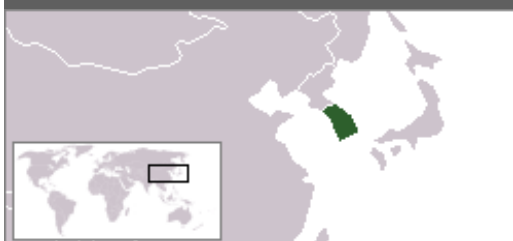


**Capital:** Seoul

**Inhabitants:** 48.462.144 (2007)

**Area:** 222.154 km<sup>2</sup>

### 1. Introduction



Korea lies adjacent to China and Japan. The Korean Peninsula extends about 1,000 kilometers southward from the northeast Asian continental landmass. The total area of the peninsula, including its islands, is 222,154 square kilometers of which about 45 percent (99,313 square kilometers), excluding the area in the Demilitarized Zone (In 1953, at the end of the Korean War, a new border was fixed at the Demilitarized Zone, a 4 kilometer-wide strip of land that runs along the lines of ceasefire from the east to the west coast for a distance of about 241 kilometers.), constitutes the territory of South Korea. There are about 3,000 islands belonging to Korea. The population of the Republic of Korea as of July 11, 2007 was 48,462,144. The population density of the country is 490 persons per square kilometer.

### 2. Territorial organization

Local Government Structure

The provincial level includes the Special Metropolitan City of Seoul (the capital of South Korea, is the largest urban center, having 10 million residents), 6 other metropolitan cities (Busan, the second largest city, with a population of over 4 million, Daegu, Incheon, Gwangju, Daejeon and Ulsan, in decreasing order, with more than 1 million) and 9 provinces (Gyeonggi, Kangwon, Chungbuk, Chungnam, Jeonbuk, Jeonam, Gyeongbuk, Gyeongnam, Jeju) of which Jeju Provincial Government became (1<sup>st</sup> July 2006) Jeju Special Autonomous Provincial government after local referendum, with annexation of the 4 municipalities into provincial sub-administrative units.

The current provincial jurisdictions were laid out 100 years ago, and there have been no major changes except sorting out metropolitan cities from provinces.

Metropolitan cities are urban areas separated from provinces, often former provincial capitals, after 1945, based on the rationale that the interests of urban areas are better served by their own governments; this despite strong provincial disapproval. The Seoul Special Metropolitan City differs much from its counterparts in that its mayor is equivalent to central government ministers, unlike provincial governors. The municipalities below these provinces are municipal cities and counties, both governed by political representatives (mayors and council



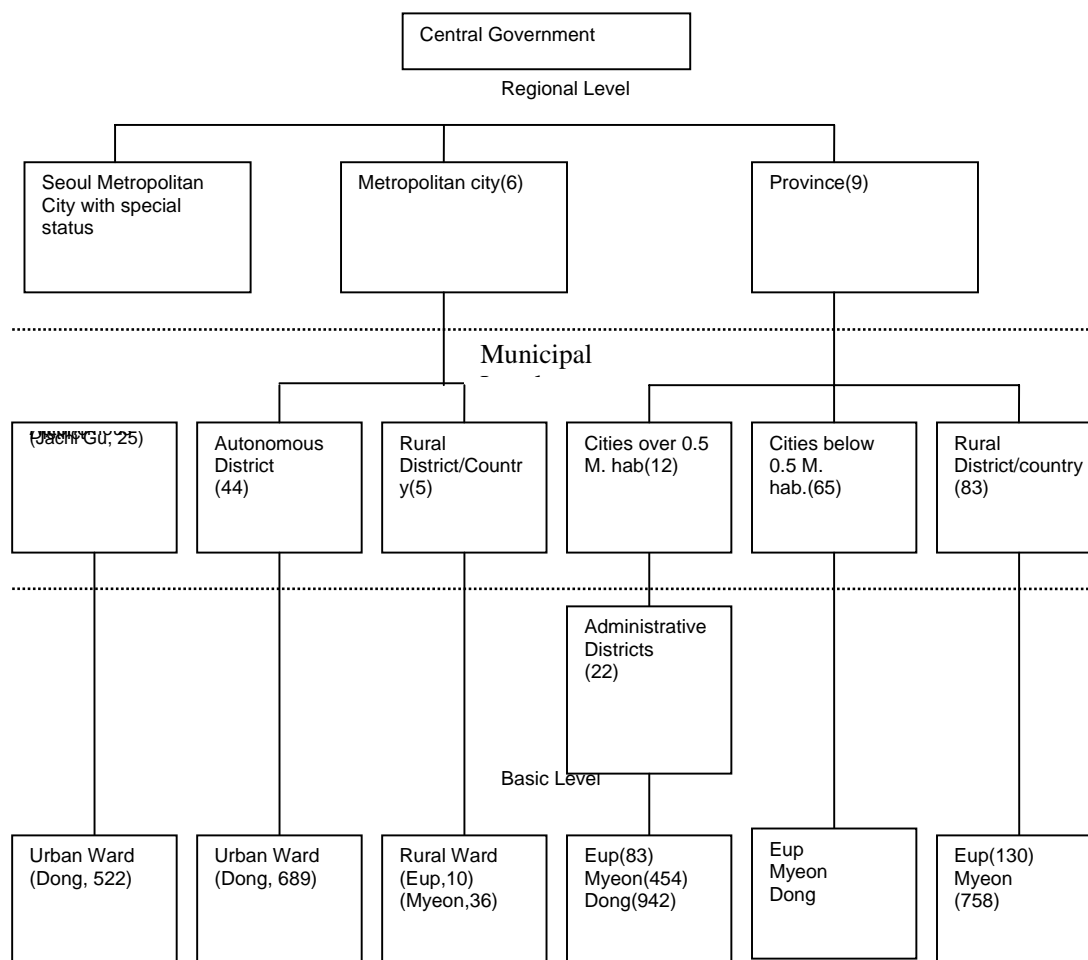
members). These counties and municipal-level cities comprise various administrative sub-units: Gun, Eup, Myeon, according to demographic criteria. When a Eup's population exceeds 50,000, it can change its status to a city and, with over one million inhabitants, become a metropolitan city. The metropolitan cities, including Seoul, have districts with municipal status. Actually, the local government system is based on Articles 2, 3 and 4 of the Local Autonomy Act, which, as well as making provision for municipalities and provinces, outline the basic principles underpinning their organization. The Korean constitution recognizes the right to local autonomy as a general principle of state organization laid down in Title VIII of the constitution. The constitution guarantees institution of the local councils (Article 118), stipulating the

democratic and representative nature of their governmental bodies. It does not provide for the existence of the province and metropolitan and municipal cities, but guarantees the right to implement local tasks under their own responsibility within the legislation concerned. The local government structure is determined by the Local Autonomy Act.

#### Decentralization

Local governments, according to Article 117 of the Constitution, "shall deal with matters pertaining to the well-being of local residents, shall manage properties, and may establish their own rules and regulations regarding local autonomy as delegated by national laws and decrees." This constitutional provision, however,

Figure 1: Local Government Structure





remained largely unfulfilled until July 1995, when the nation elected, for the first time in more than 30 years, governors and mayors for provincial and local governments. Until then local governments were no more than local administrative districts of the central government. The heads of local governments were appointed by the central government, and their capacity for autonomous decision-making was virtually nonexistent.

The functions of the elected local government according to the law include the following: any functions delegated by the central government; management of public properties and facilities; assessment and collection of local taxes and fees; provision of services and goods to residents; and management of other administrative affairs. Each of the local governments has a Board of Education for handling education and cultural matters within its jurisdictions. Local councils are also authorized to inspect and audit local governments.

#### Financial Indicators

The size of public sector in Korea has steadily grown last decades. The share of central government expenditure in GDP peaked in 2000 reaching 23.0%; since then it has declined to 20.4% of GDP. In 2005, the size of the local public sector represented 15.8% of the GDP (\$787.5 billion). The size of local government expenditures has grown much faster than the central government and has doubled since 1985. However, despite the significant size of local governments, the degree of local autonomy in Korea is quite limited. The functions of the central government and local governments are not clearly defined and many policy decisions are made at the central level. Especially in education, there is a large discrepancy between the size of local expenditure and the extent of local autonomy. The central government assumes the primary financial

responsibility for education while local governments deliver the educational services, acting as agencies of the central government.

### 3. Local democracy

#### Local Elections

With regard to local government election, the Public Official Election Act prescribes the right to vote for a anybody who is 19 years old or above and registered as a resident in the district under jurisdiction of the local government of which the local council member and the chief executive of the local government in the district are to be elected by universal, equal and direct vote. The chief executive of the local government includes mayor of metropolitan city, governor of Do(province), and head of Si, Gun, autonomous Gu.

Eligibility is a right of any national 25 years old or above who has registered as a resident in the district under jurisdiction of the local government concerned for sixty consecutive days or longer.

There is a mixed electoral system for City / Do (Province) and for Si/Gun/autonomous Gu council members. Part of them is elected at the proportional representation in the whole unit as a single electoral constituency. Another part of local council members is elected in local constituencies. The executive of a local government is elected in the territory under jurisdiction of the relevant local government as a unit.

The fixed number of the City/Do council members in a local constituency shall be two for each Si/Gun/autonomous Gu under its jurisdiction. In the case of Si of the urban and rural complex form by a Si and a Gun amalgamation, and for the first election of the City/Do council members after such consolidation the full number of the Do council members shall be two in each Si and Gun as existing before



amalgamation. In a Metropolitan City and a Do(Province) the number of councilors from local constituencies is at least 16.

The full number of the councilors elected at the proportional representation of City/Do(Province) councils shall be 10/100 of the full City/Do(Province) council and at least 3.

From May 31, 2006, there are 655 districts for metropolitan cities and provinces, and 1,028 districts for Si/Gun/autonomous Gu. With the creation of Jeju Special Autonomous Province on July 1, 2006, there is no more Si/Gun/autonomous Gu in this province.

The term of office is 4 years and no council member may concurrently hold any other office regulated by the Local Autonomy Act. Each councils holds a regular session twice each year. The chairman of the local council convenes the extraordinary session within fifteen days after receiving a request from the head of the local government or from one-third or more of all councilors.

There are over 3,600 elected council members (738 of upper-level and 2,888 of lower-level), 230 mayors and 16 Metropolitan and provincial executive presidents serving on 246 regional and local self-governments, having in average more than 200,000 inhabitants.

## Executive Arrangements

As for chief executive of local government, there are mayor, governor, and head position by government level in Korea. The Seoul Metropolitan Government and Metropolitan Cities have the mayor, and Jeju Special Autonomous Do and other Dos have the governor, respectively. The Si, Gun, and autonomous Gu have a position of the heads of Si, Gun, and autonomous Gu, respectively. The term of office is 4 years and the head of the local government can be re-elected for three terms at the maximum.

The head of the local government represents the local government and has the general control of affairs. Unless the affairs of central government are prescribed by the Acts and subordinate statutes, by delegation to the Mayor/Do governor and the head of Si/Gun/autonomous Gu, the affairs are administered in the City/Do and Si/Gun/autonomous Gu. The head of the local government controls and executes the affairs of the local government concerned and the affairs delegated to the head of the local government by Acts and subordinate statutes.

The head of the local government may delegate part of the affairs under his competence to its auxiliary organs, administrative organs under its control,

Table 1: Local elections

2006		mayor of metropolitan city, governor of Do(province)	head of Si, Gun, autonomous Gu.	the City/Do council members		Si, Gun, autonomous Gu council members	
				Local council members	Proportional members	Local council members	Proportional members
Result Of vote	The number of voters	37,064,282	36,652,420	36,207,648	37,064,282	36,581,991	35,111,347
	The number of votes	19,118,177	18,836,531	18,678,607	19,117,594	18,810,765	17,855,651
	The turnout of votes(%)	51.6	51.4	51.6	51.6	51.4	50.9



and subordinate administrative organizations under the conditions as prescribed by the Municipal Ordinances or Municipal Rules.

The head of the local government may delegate or entrust part of the affairs under his control to the competent local government or a public institution or its organ (including its office and branch office). The head of the local government directs and supervises personnel under his control taking charge of matters concerning appointment, dismissal, training, service, disciplinary sanction, etc. If a resolution of the local council exceeds its powers and violates the Acts and subordinate statutes, or is determined to be greatly detrimental to the public interest, the head of the local government may request reconsideration, specifying the reasons, within twenty days from the transferred date. If a decision of the local council is considered to include an expenditure that cannot be executed under the existing budget, the head of the local government may request reconsideration, specifying the reason, within twenty days after the resolution transfer.

#### Local Democracy

Since 2005, three main elements of renewing the institutional framework were introduced in the local political arena: from 2005, the Local Referendum Act confirmed the power of councils to hold referendums, from 2006, the Local Ombudsman Regime and Local Petition against the Abuse of Local Finance and from July 2007 the Local Recall System of Elected Mayors and Councilors will be effective. Elected local public officials may then be removed from office by the procedure of local vote. These reforms will certainly bring about a renewal of local democracy and greater participation.

#### 4. Central-local relationships

The head of a central administrative agency or the Mayor(mayor of the Seoul & 6 metropolitan cities)/Governor(governor of 9 provincial governments) may advise, recommend, or guide on affairs of the local government and, if necessary, s/he may request the local government to present materials. If financial or technical support is necessary for a local government to handle affairs of such local government, in the opinion of the central government or City/Do, the central government or City/Do may provide such financial or technical support to such local government. In the case of City/Do, the Minister of central government shall guide and supervise the affairs of central government handled by a local government or the head of it under entrustment. In the case of the Si/Gun/autonomous Gu, on the other hand, the affairs of central government shall be primarily guided and supervised by the Mayor/ Governor and secondarily by the competent Minister. Where the head of a central administrative agency and the head of a local government have a different opinion on the handling of affairs, a consultation/conciliation organization may be established under the Prime Minister in order to consult and conciliate it.

#### Dispute Resolution amongst the Local Governments

If a controversy arises due to different views on disposing of affairs among local governments or the heads of the local government, the Ministry of Government Administration and Home Affairs or the Mayor/Governor may, upon request of the parties concerned, mediate the dispute. In order to deliberate and resolve matters necessary for the mediation of any dispute and matters to be consulted, a local government central dispute mediation committee shall be established under the



jurisdiction of the Ministry of Government Administration and Home Affairs and a local government local dispute mediation committee under that of the City/Do.

The Constitutional Court has jurisdiction over Competence Disputes (hereinafter, "Competence Disputes") between government entities. If any controversy regarding the existence of jurisdiction occurs between organs of the State, between an organ of the State and a local government, or between local governments, an organ of the State or local government may lodge a claim to the Constitutional Court as to the respective competence. The case must be brought within one hundred and eighty days after the initiation of the cause. Upon such a claim, the Constitutional Court will decide on the existence or non-existence, and the scope of the jurisdiction of the specific organ of the State or local government which is subject to the judgment. A decision rendered in a Competence Dispute by the Constitutional Court binds all the organs of State and local governments.

#### Cooperation amongst Local Governments

A local government or the head of it may entrust part of the affairs under its competence to any other local government or the head of it to manage such part of its affairs. In this case, the head of the local government shall make a report to the Minister of Government Administration and Home Affairs and relevant central administrative agency if a party entrusted with such affairs is the City/Do or the head of it. Likewise, the head of the local government shall make a report to the Mayor/Governor if a party entrusted with such affairs is the Si/Gun/autonomous Gu or the head of it. In addition, if a local government receives a request to jointly manage affairs or to consult, mediate, approve or support the performance of affairs from another local government, then it shall cooperate with the other local

government within the limit of Acts and subordinate statutes.

If a controversy arises between local governments or the heads of them, the Ministry of Government Administration and Home Affairs or the Mayor/Governor may, upon their request, mediate the dispute. In order to deliberate and resolve matters necessary for the mediation of any dispute and matters to be consulted, a local government central dispute mediation committee shall be established under the jurisdiction of the Ministry of Government Administration and Home Affairs and a local government local dispute mediation committee under that of the City/Do.

#### Administrative and Consultive Council

A local government may form an administrative consultative council in order to handle jointly part of the affairs related to two or more local governments. In this case, the head of the local government shall report it to the Minister of Government Administration and Home Affairs and the head of central administrative agency concerned if the City/Do is a member of it. Likewise, if the Si/Gun/autonomous Gu is a member of it, the head of local government shall report it to the Mayor/Governor.

If it is necessary to handle jointly one or more affairs, two or more local governments may establish a corporative body of local government. Through a decision of the local councils concerned, the intergovernmental organization shall establish rules and obtain the approval of the Minister of Government Administration and Home Affairs in the case of the City/Do, or the approval of the Mayor/Governor in the case of the Si/Gun/autonomous Gu.



## 5. Local responsibilities (functions)

### The Principle of Local Government Functions

It is most likely that the Korean local government benefits from the Germanic principle of “self-government” (Selbstverwaltung). Local levels are on the one hand regulated by a framework law, the Local Autonomy Act, and their responsibilities are defined by legislation, but not clearly denoted enough to distinguish the provincial responsibilities from the municipal responsibilities. As a result, the scope of responsibilities among the two levels is extremely blurred and complex; a large number of tasks are shared (among the bulk of local government responsibilities, about two-thirds are exercised jointly by the upper-level local government and basic levels of local government). It may be due to the overlapping pattern of decision-making and roles for discharging the functions recited by the Local Autonomy Act, though the detailed distribution of responsibilities among sub-national levels is set out in further legislation.

On the other hand, Korean local government system is influenced by structures inherited from the French model which is based on the unity and indivisibility of the State, and on the uniformity of local government management structures.

Another characteristic is that, though local administrations are not “creatures” of the intermediate level, as is in the federal system, the provinces and metropolitan city governments enjoy great supervisory authority over the municipal-level local government (city, rural districts, and autonomous urban districts).

### Distribution of Functions

Article 117 of the Constitution lays down the basic function of sub-national

governments: local governments must promote the convenience and welfare of citizens while managing own affairs, should rationalize their organization and management, and should optimize their size. According to the Local Autonomy Act (art. 8~11), local governments should comply with legislation, subordinate statutes or bylaws of the metropolitan and provincial governments while discharging their functions. The Local Autonomy Act lists the functions of the provinces and metropolitan city governments and the basic level governments, and those that remain in the prerogative of the central government.

First, the Act stipulates responsibilities that by their nature belong only to the central government. The centre conserves a regulatory role through the setting of objectives. They include national planning and national land use, etc.

The second category of tasks are practically the exclusive functions of the intermediate level of local governments.”

The third category of tasks are those shared among the central, provincial and local governments. These are of two types: those shared between different tiers of local governments, and those shared between central and sub-national governments. They are closely related with the implementation of social (health, education, social assistance) or environmental policies. The sharing is intended to assign to each level part of the function in a given field or in a given dimension. Formal responsibility may be attributed to one level but, owing to more than 400 subsidies or other factors, responsibilities are blurred. The grey area induced by overlapping or complexity in task-sharing is not peculiar to the Korean system.

Article 11 of the Act specifies the responsibilities of the central government as follows: first, functions belong to the national sovereignty, e.g., diplomacy, defense, judicial system, tax





administration, etc.; second, those necessarily conducted by the nationally-uniformed means, price-policy, finance-policy, export-policy, etc.; and the responsibilities that require national standard and coordination, labor standard, weight and measurement system, and the like.

The tasks of the metropolitan and provincial governments are called “intermediary functions” which are : a) local affairs affecting more than two local governments’ jurisdiction; b) affairs requiring uniformity within the provincial and metropolitan areas; c) affairs being necessarily consistent with some unit of upper-level local government; d) affairs related to the inter-municipal coordination between the central government and the basic-level local governments within the jurisdiction; e) affairs managed according to the principle of subsidiarity on behalf of the lower level local governments; f) affairs appropriate to the regional government competences in consideration of the economy of scale; for example, in the fields of amenities, local public facilities jointly managed by more than two local governments.

As far as lower level municipalities are concerned, they normally take the general-purpose responsibility of local affairs except the functions affected to the regional governments. However, cities with a population of 500,000 or more can manage a portion of provincial affairs such as health care, local public enterprise, housing and zoning.

The Korean constitution does not give autonomous and general decision-making authority to sub-national governments. The scope of sub-national responsibilities is only under the safeguard of the law as in all unitary states.

While sub-national governments have decision-making authority in their fields of responsibility, they may not exercise general regulatory power. The classical analytical criteria by which “degrees of

autonomy” could be determined, like the theoretical distinction between intrinsic and delegated fields of authority, is no longer fully valid. Whereas the centre intervenes increasingly in the management of the “own” functions of sub-national governments, delegated functions may be exercised with increased independence in several fields.

#### Functions According to Local Expenditures

Article 9 of the Local Autonomy Act defines major sectors where local governments have a policy role according to the principle of local autonomy and where their activities are not confined to the implementation of policies decided elsewhere.

When expenditure is classified by function, a lot of revenue is spent for social development, which includes health, social security, housing, education and culture. As indicated in Figure 6, local governments in Korea have performed the major role for enhancing the welfare of the residents. The share of social development expenditure has increased from 46.5% to 51.4% since 1999, with the corresponding decrease in the share of economic development from 31.7% to 25.7%. These recent percentage changes of government functions reflect the policy stance of the current administration.

Local expenditure by government type are shown in Figure 7. In metropolitan cities & provinces, more than three-quarters of the revenue are spent for social development and economic development, while the share of general administration is much lower than in other types of governments.

In the 2007 budget, the share of capital expenditure accounts for 59.1% of local expenditure, which is 66.2 trillion Won.





## 6. Local finance and management

### Fiscal Year and Accounting System

Both central and local governments start their budget on January 1 of every year, closing all prospective spending on December 31. The accounting of local governments is classified into general account and special accounts. The general account is to monitor administrative activities of a local government. Special accounts are again divided into those for local public enterprises and for others. The public enterprise special account is for the operation results of utilities (tap water, sewage, land public development, local development fund, and subway).

### Local Revenues

The local revenues are composed of local taxes, non-tax revenues, Local Shared Taxes, subsidies, and borrowings including bonds and loans. These revenue items may be classified in various ways according to the government levels. Korean local revenues are characterized by three most referred features. First, the composition of revenues is complicated and diverse in styles. Second, the central government provides some fiscal assistance in the form of transfers. Significant discrepancies in fiscal capacity among regions require the central government to adjust them through fiscal transfers. Lastly, there are additional non-tax revenues featuring the user charge principle. As of the 2007 fiscal year, the

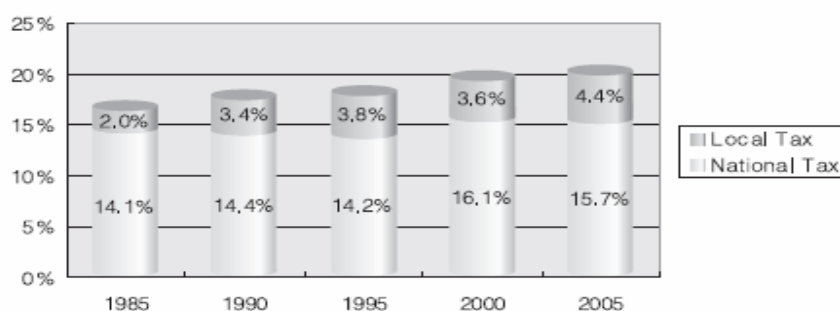
total size of local revenue (general accounts plus special accounts) amounts to about 112 trillion Won, composed of 34.0% with local taxes, 24.9% in non-tax revenues, 19.1% in Local Shared Tax, 18.9% in subsidies and 3.1% in borrowing. The trend of local revenues on the basis of general account demonstrates that there is no significant change in the shares of local revenues. Compared to 1985, however, the shares of local tax and Local Shared Tax have been decreased by 4.1 % point and 4.0% point respectively. On the other hand, revenues generated from local borrowing and other sources have been increased from 0% in 1985 to 6.2% in 2005

Figure 2. The Ratio of Local & National Tax to GDP

The local revenues include: local tax revenues, non-tax revenues, Local Shared Tax, national treasury subsidies, and local government borrowings. According to the 2007 budget, the size of total local revenue is 111.98 trillion Won (\$120.4 billion), of which general account revenue is 86.52 trillion Won. In 2007, local taxes amounted to 38.07 trillion Won, followed by non-tax revenues, Local Shared Tax, treasury subsidies, and local borrowings.

### Local Taxes

Figure 2: The Ratio of Local & National Tax to GDP



Source: Korea National Statistical Office DB



### Local Tax Breakdown

The local tax, imposed on residents and their properties under a given region of jurisdiction, is the single most important revenue source of local governments. Local taxes are levied and collected by local governments according to the principle of the tax law embedded in the constitution. However, there are several exceptions of the tax law, such as allowing local governments to use elastic tax rates or tax expenditures in their local taxation. There are a total of sixteen local taxes, of which eleven are general taxes and the other five are earmarked. Metropolitan governments, including Seoul Metropolitan City, can have 13 taxes whereas autonomous districts (Gu) have only three, such as the license tax, property tax, business firm tax. Provincial governments have seven tax items while cities (Si) and counties (Gun) are financed with 9 local taxes. Local taxes mostly depend on property related taxes.

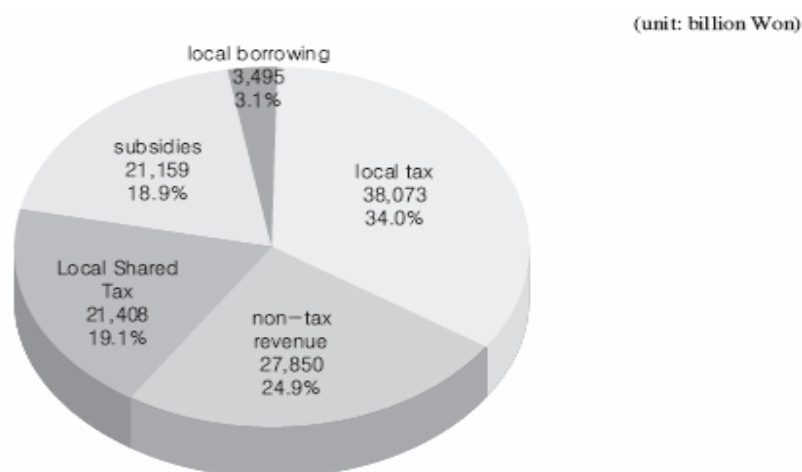
The fiscal year 2007 shows that the revenue from local taxes amounts to 38.07 trillion Won. General taxes occupy 80.3% and earmarked taxes contribute 18.1%. The revenues from the previous year comprised about 1.6%. The composition of revenue categorized according to tax items is as follows:

- registration tax: 17.8%;
- acquisition tax: 17.1%;
- resident tax: 15.1%;
- local education tax: 10.5%.

Major taxes such as those described four taxes contribute to local finance by about two-thirds. One notable concern is the regional imbalance of the size of the tax bases, not only between urban and rural areas but also between capital and non-capital regions. In fact, most tax resources are concentrated in urban areas, such as Seoul, metropolitan cities, and cities. Thus, as stated earlier, local governments in rural areas (this usually refers to provinces and counties) tend to depend on transfers from the central government for financial backing.

In Seoul and metropolitan cities, the top five taxes such as acquisition tax, registration tax, resident tax, local education tax and tobacco consumption tax cover three-quarters of local tax. In provinces, where resident tax and tobacco consumption tax are collected by municipalities (cities and counties), the share of tax revenue from acquisition tax, registration tax and local education tax accounts for approximately 90% of local tax revenues. In municipalities, property

Figure 3: Local Revenue Breakdown (Fiscal Year 2007)



Source: 2007 Budget Summary of Local Governments (MOGAHA)



based taxes play an important role, especially in autonomous districts where their share reaches at 79.7% of local tax revenue.

#### The Rates and Bases of Local Taxes

The Local Tax Law regulates the framework of the local tax system, including taxable items and their rates. In addition, individual tax systems are managed by local governments in consultation with the Local Tax Bureau of the Ministry of General Administration and Home Affairs. There is, therefore, little variety among the individual tax systems of local governments.

#### Non-tax Revenues

The non-tax revenue plays an important role in financing local governments because they are independent revenues, as local taxes. The share of non-tax revenue has remained between 23.6% and 25.1% in last two decades. There is a variety of non-tax revenue sources including user charges, fees, rents, etc. Local governments can increase or decrease non-tax revenues at their will as long as they abide by the related regulations. Non-tax revenues are easily collected as they are generated by providing public services unlike ordinary tax collection. However, it is difficult to forecast the size of non-tax revenues since there are various types of non-tax revenues.

#### Local Borrowings

According to Article 11 of Local Finance Act, the heads of local governments may issue bonds for capital investments subject to conditions: long-standing benefit to their local governments, need for urgent reconstruction after an accident... Heads of local governments may issue local government bonds, within the ceiling set

by the Presidential Decree, taking into account of the financial situation, the amount of liabilities, etc. Debts of local governments amounted approximately 17.4 trillion Won at the end of 2006. The size of local debts has not changed in recent years because of the strong control of local borrowings by the central government.

#### Local Government Personnel

According to the official statistics of 2002, the functions for which central Government takes the final decision are 73% of the whole governmental functions, whereas local governments take charge of only 24% of functions together with 3% of delegated functions assigned to local authorities by the central government. Local government in Korea employs over 338,000 agents and spends 100 trillion Won (roughly equivalent to 100 billion US dollars) a year, which accounts for around 55 per cent of public spending.

#### Park In-Soo