

Local Development Initiative through Inter-local Mutual Cooperation

Prepared for ADB-ADBI Conference

Professor Jeongho Kim
KDI School of Public Policy and Management

This is not an ADB material. The views expressed in this document are the views of the author/s and/or their organizations and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy and/or completeness of the material's contents, and accepts no responsibility for any direct or indirect consequence of their use or reliance, whether wholly or partially. Please feel free to contact the authors directly should you have queries.

Local Development Initiative through Inter-local Mutual Cooperation

Contents

- 1. The Need for Mutual Cooperation among Localities**
- 2. Current State and Problems of Mutual Cooperation**
- 3. How are other Countries Doing?**
- 4. Conditions for Mutual Cooperation and Areas in Need of Cooperative Approach**
- 5. Need for Governance-based Cooperation**
- 6. Measures to Activate Mutual Cooperation**

1. The Need for Mutual Cooperation among Localities

► Why is “mutual cooperation” necessary?

- Being defined as situation in which local activities are undertaken and managed in mutually beneficial and cooperative manner
- Reasons for cooperation;
 - 1) to achieve **scale economies** in producing and consuming local goods and services
 - 2) to reduce average **costs of service delivery**
 - 3) to mitigate **problems arising from externalities and free riders**
 - 4) to share the **risks associated with local developments**, e.g., investment in infrastructures, tourism facilities, manpower training, etc.
 - 5) to pursue “**mutually reinforcing growth**”
 - 6) to promote **efficiency in resource utilization** (e.g. energy, water, and land)
 - 7) to **protect environment and prevent natural disaster** region-widely, and
 - 8) to help **lagging regions catch up rapidly**

1. The Need for Mutual Cooperation among Localities

▶ Expected benefits of mutual cooperation

- **‘Economy of scale and scope’ in service delivery** helps reduce average and marginal costs, thus improving local fiscal condition
- A larger number of people can enjoy **a variety of public facilities**, resulting in efficiency in facility use and higher level of satisfaction
- **Reduction of ‘externalities and free rider’ problems**, thus, minimizing inefficiency in public service provision
- **Strengthening bargaining power and leverage** when negotiating to attract firms and capital from outside
- **Synergy effects** when participating localities foster what each one of them does best in their respective areas such as tourism, education, technology, business, etc.
- Helping **lagging regions to grow via agglomeration and trickle-down effects**

1. The Need for Mutual Cooperation among Localities

► Areas of mutual cooperation

- **Joint management of locally owned assets and infrastructure facilities**
- **Joint production and delivery of public goods and welfare services**
- **Joint efforts to prevent crime, upgrade environmental quality, and prevent natural disaster etc.**
- **Avoiding duplication of cultural, athletic and other community facilities**
- **Joint efforts to search and attract private investments and viable businesses**
- Collaborative efforts to **reduce risks and uncertainty when jointly promoting local development**, especially real estate, commercial, industrial and tourism developments
- **Sharing educational and training facilities** and tools pertaining to human resource and technology development

2. Current State and Problems of Mutual Cooperation

- Cases of Kangwon Province -

▶ **Chi-ak-san Administrative Council**

- Est. in September, 1995; Consists of 6 cities and counties such as Wonju, Hoengseong, Yeongwol, Yeoju, Yangpyeong, Jecheon etc.
- Primarily focuses on issues of water management, especially that of upper basin water quality

▶ **Seo-ra-ksan Administrative Council**

- Est. in March, 1995; Consists of 4 cities and counties such as Sokcho, Inje, Goseong, Yangyang
- Primarily interested in tourism development in and around Seorak Mt.; afterwards, discussions extended to early construction of Dongseo highway, community service center, and exhibitions.

▶ **O-dae Mountain Business Development Council**

- Est. in May, 2011; Consists of 4 cities and counties such as Gangneung-si, Pyeongchang-gun, Hongcheon-gun, Yangyang-gun
- Primarily interested in Winter Olympics event related businesses, with Odae Mt in the center, activating local economy by developing Olle trail, advertising meditation therapy, and promoting medi-care, local culture and specialty

2. Current State and Problems of Mutual Cooperation

- Cases of Kangwon Province -

▶ **Chuncheon Area Cooperation Council**

- Est. in May, 2008 ; Consists of 5 cities and counties such as Chuncheon, Hongcheon, Gapyeong, Yanggu, Hwacheon
- Primarily interested in joint management of newly built Seoul-Chuncheon railroad, emission control, water quality management, domestic and international tourism marketing, and local festivals

▶ **Baek-du-dae-gan (Mountain Range) Administrative Council**

- Est. in June, 2008 ; Consists of 5 cities and countries such as Taebaek-si, Yeongwol-gun, Jeongseong-gun , Pyeongchang-gun , Samcheok-si
- Primarily interested in produce imports upon market opening with FTA, WTO, DDA etc. and especially in ways to improve competitiveness of horticultural industry

▶ **Mayor and Magistrate Council for the Border Region**

- Est. in October, 2007; Consists of Ganghwa, Ongjin, Paju , Gimpo, Yeoncheon (in Gyeonggi Province), Cheorwon, Goseong, Inje, Yanggu, Hwacheon (in Gangwon Province)
- Primarily interested in jointly responding to government policies and programs pertaining to the border area (38th Parallel Area), including measures of development control and land use

2. Current State and Problems of Mutual Cooperation

- Cases of Kangwon Province -

► Problems

- Councils, used simply as a channel of communication for local politicians and **very few 'follow-up actions or programs'** in the absence of 'statutory organization' to back them up; known as **NATO (No Action, Talks Only)**
- More attention is paid to collecting information regarding what the neighboring localities are doing 'to keep in check and balance', **instead of discussing substantive issues** of joint efforts to reduce welfare delivery costs; to manage public facilities efficiently; to share the risks involved in attracting firms and capital for local developments; and to minimize advertisement and marketing costs for local events and festivals
- Politicians are more likely to be conscious of vote counting and **use such an opportunity to exercise political clout**
- Meetings are **held informally** and called upon when issues are brought up, **rather than regularly and formally**
- **Limited access to knowledge and information** on the subjects
- **Existence of distrust in, and conflicts on, mutual cooperation**

3. How are other Countries Doing?

► The United States

- Strongly encouraged for mutual cooperation and collaboration among localities:
 - . **Council of governments:** for communication, consultation, planning and programming (e.g. ABAG, SCAG, MTC, BCDC in California)
 - . **Special Districts:** for education, water, sewage, garbage collection, bridge, transit
 - . **Joint programs:** human resource development, welfare programs for infants, the elderly, the handicapped and the poor, metropolitan transit system, etc.
 - . **Joint venture/investment:** business promotion, tourism development, mass transit (e.g. BART, Metro), environmental facilities (waste disposal and sewage reprocessing, sanitary landfill and NIMBY facility such as incineration plant)
- Special status: such organizations as **special districts and councils are authorized to raise taxes if necessary, to prepare and execute budgets, and to operate as a separate entity**
- **Non-profit corporations such as CDCs and RDCs** are also urged to collaborate when pursuing regional development and promoting regional businesses

3. How are other Countries Doing?

- ▶ **Areas of cooperation and collaboration in the US**
 - **Quasi- public businesses, being subject to scale economies and facilities with large external effects** such as roads, metro, gym, education, tourism business, water, sewage, refuse disposal etc.
 - **Facilities: the costs to be reduced by joint installation & management** such as cultural, medical sports and welfare service centers
 - **Non-rivalrous and non-excludable public services:** in that individuals, regardless of their statutory residence, can't be excluded from use
 - **Large scale regional development and infrastructure projects:** result in cost savings and synergies if jointly developed.

3. How are other Countries Doing?

▶ Other countries

- The United Kingdom:

- . **Help organize RDAs in a large scale**, dealing with mutually beneficial facilities and development of profitable businesses
- . Also allowed to form public corporations, special enterprises, and joint ventures with local contents and mandates

- Japan:

- . The government is authorized to legally and financially support those local governments that form regional governments to cooperate with each other in pursuing mutually inclusive common interests and promoting people's welfare

- Germany:

- . Encourages localities to form '**Horizontal Syndicate**' when managing businesses that expose '**large externalities**' and '**spillovers**'
- . Offers various incentives for voluntary cooperation in running publicly organized businesses

3. How are other Countries Doing?

. **France:**

- . Encourages localities to **form ‘inter-communalities’** (federation of local governments) when providing utility services jointly
- . Strongly supports inter-urban cooperative approach to city planning, education, and environmental quality, and provides financial assistance if such efforts are compatible and consistent with national goals

► **Support System**

- In the US, both **CDA (Community Development Act)** and **ICA (Inter- government Cooperation Act)** support mutually cooperating businesses of localities in various forms
- In France, financial supports are made selectively through **‘development contracts’**
- In Japan, both legal and financial supports are made for programs and projects being listed in **‘Enumerative Delegation of Power’**
- In Germany, both investment and financial supports are made via **‘Cooperative Sovereignty (Kooperationshoheit)’** particularly for those that expose strong externalities

3. How are other Countries Doing?

► Implications

- Priorities placed on **‘enhancing citizens’ convenience, welfare and satisfaction of public service’** being realized into actions
- Pursue **‘rationality’ and ‘efficiency’** in seeking inter-governmental cooperation and collaboration
- **Separating politics from (service)administration**, e.g. excluding **‘politicization of administration,’ avoiding self-centeredness of localities such as NIMBY and NIMFY, and preventing ‘Tragedies of various Commons.’**
- Emphasis on market price/cost and valuing public opinion in decision making, and reliance on bottom-up approach
- Co-ownership prevails; even if facilities are owned separately, many of them are collectively used and jointly managed.

4. Conditions for Mutual Cooperation and Areas in Need of Cooperative Approach

► **Conditions for mutual cooperation**

- **Rationality** : efficiency, effectiveness, reciprocity, willingness to share the risks, etc.
- **Legitimacy**: just and inclusiveness in providing public goods and services
- **Equity and fairness**: equitable distribution and allocation of both benefits and costs
- **Leadership**: community leaders equipped with communication and negotiation skills, who know how to persuade and convince peer politicians, local leaders and participating communities

4. Conditions for Mutual Cooperation and Areas in Need of Cooperative Approach

► Areas for cooperative approach

- **Welfare facilities:** welfare services, education, employment, job training and placement, public transportation, public safety measures etc.
- **Innovative technology and human resource development:** mostly in collaboration with local universities and colleges
- **Infrastructure development and management** such as water, sewer, transit, rec. & sports facilities, and NIMBY facilities such as crematorium
- **Green/clean energy businesses** such as solar, wind, thermal, bio etc.
- **Hosting events and games**, both national and international, tourism and festival product development, and promotion and marketing
- **Local produce/livestock and seafood**, with unified brand name and marketing (economies of scope)
- **Economic and industrial development**, inc. selection of leading industry, strategic industry, industrial complex and fund-raising to support it

5. Need for Governance-based Cooperation

- ▶ **“Governance,” essential to prepare for Hyper-Democracy of the 21th Century (S. Welch)**
- **Mutual cooperation among localities will accelerates ‘de facto’ decentralization**
 - . **Purpose of co-op: build-up** ‘welfare communities’ via knowledge/information/education and spirit of integration
 - . **Pursued Value:** rationality/reasonableness, fairness, trust, socio-economic integration and inclusiveness, civic mind and democratic citizenship
 - . **Dynamic co-op structure:** ‘check-and-balance’ for (self)government, market, well-defined citizen’s right/responsibility in civic society, honoring contracts and agreements, due process in decision making
- **Success comes when co-op(goal) is based on governance(means)**
 - . Governance can be realized through communication, compromise and conflict resolution
 - . **Conflict management**, viewed as investment, not as a sunk cost and as a process, not as a goal
- **For successful governance?**
 - . **Networking** among localities, which will governance (M. Porter)
 - . **Trust-based negotiation and respect for the outcomes;** “Trust begets speed.” (S. Covy)
 - . Use **‘collective intelligence’ and regional leader’s integrative mindset**
 - . Role of central gov’t in promoting region-wide cooperation: facilitator and/or enabler; persuasion rather than arbitration (PRD)

5. Need for Governance-based Cooperation

- ▶ **Success in Governance through “Collective Intelligence”**
 - **“21st century is the generation ruled by the governance of ‘collective intelligence’ rather than government and company” (J. Atali)**
 - . **Collective Intelligence:** ‘intelligence capability of a group’ achieved through cooperation and competition
 - . **Idea Storm of Dell, Innovation Jam of IBM, and I-Series of Apple** are resulted from ‘creative collective intelligence’
 - . By the same token, locally initiated mutually cooperative organizations will perform better when they rely on **‘knowledge-based management’ while resorting to collective intelligence and horizontal integration**
 - **How to achieve collective intelligence?**
 - . Establishment of **“Social Capital”** based on **trust, honesty, unity and openness** (Fukushima)
 - . **Open culture, creativity, network** and mindset of communication-negotiation-compromise for joint interest.
 - . **Fostering ‘smart human resources,’** respecting innovative-creative ideas and overthrowing the traditional bureaucracy (M. Porter)

6. Measures to Activate Mutual Cooperation - Preliminary Steps -

► **Recognition of the obstacles to overcome**

< Obstacles >

Conflicts arising from differences in value system/opinion/interests

Lack of awareness and will among the community leaders

Suspicion and distrust in other local governments

Lack of information and excessive competition

Differences on financial/administrative capability and clientele group

Difficulties in resolving conflicts in the absence of arbitration mechanism

► **Conceivable forms of mutual cooperation to be initiated**

- Elevate the status of administrative council **to incorporated body** (Local Gov't Law Article 152)
- **Union** (Article 159) or local firm(jointly funded)
- Allow for operating **a joint program** for social services
- Allow for **special districts** to jointly operate special programs and projects as related to education, utilities and parks/rec facilities

6. Measures to Activate Mutual Cooperation - Preliminary Steps -

- ▶ **“Cooperative” thinking within local gov’t administration and management to be promoted**
 - **Raise awareness of the need for open-mindedness and mutual cooperation among localities in a region**
 - . Persuade local publics, regarding the benefits of cooperation, both monetary and socio-psychological.
 - . Separate politics from management/administration and adopt professional manager system
 - . Start with businesses that can succeed with mutual cooperation approach in order to build up trust and then, gradually expand such an approach over a larger area and more complex programs and projects
 - **Establish/operate branches within local gov’ts, dealing primarily with inter-governmental cooperative affairs and businesses**
 - . Frequently review legal, administrative, financial situations to determine when and how projects can be undertaken in a manner that is mutually cooperative among neighboring cities and counties
 - . Monitor the collaboration processes, assess the level of public acceptance and evaluate the results when designing and promoting various forms of cooperative initiatives
 - **Nurture expertise, creativeness, negotiating skills of public officials and gradually introduce CAO (Chief Administrative Officer) system**
 - **When promoting a local economic development business jointly to maximize synergy effects, public/private integrated management is essential!**

6. Measures to Activate Mutual Cooperation - Institutional Changes Contemplated -

- ▶ **A New Law of “Mutually Cooperative Regional Development Act” to be conceived (tentatively named)**
 - **Review the current relevant laws and determine if they require amendment or necessitate a new legislation**
 - . Framework Act on the Nat'l Land **Article 3 paragraph 3**
 - . Special Act on Balanced Development of Nat'l Land **Article 39 paragraph 2:**
 - . Act on Regional Balanced Development and Fostering Small Businesses **Article 4 and 5**
 - . Act on Plans and Usages of Nat'l Land **Article 12 and 45**
 - **The current laws seem to be declaratory, lacking ‘substantive elements’ to activate mutual cooperation among localities**
 - **What the new law should contain?**
 - . A set of detailed “**Guidelines**” to promote cooperation and transfer of rights to localities in decision making
 - . Establishment of in-advance discussion and follow-up system for co-op businesses
 - . **Lists of businesses** allowed for and conditions for budgetary and financial supports
 - . **Lists of other types of assistances** – organizational, technical, legal, and institutional
 - . Streamline the **block grant system** in way that encourages competition and cooperation among localities
 - **Restructure legal and institutional system that can permanently guide “inclusive development of cities and regions” and can help achieve sustainable decentralization, not as a temporary remedial measure**

6. Measures to Activate Mutual Cooperation - Institutional Changes Contemplated -

- ▶ **‘Locally Initiated Mutual Development Forum’** (tentatively named) **be set up as a step to change local development and service delivery paradigm**
 - **Value to Pursue:** “Mutually beneficial/profitable cooperative development” and service delivery system based on economies of scale and scope
 - **Local Development Strategy:** creation and development of a greater, region-wide, economic bloc while **valuing** such concepts as **‘Specialization’**, **‘Decentralization’**, **‘Networking’** and **‘Integration’**

***Anticipated Effects:**

- 1) creation of an atmosphere for voluntary/self-sustaining local development
 - 2) spread-out of the growth momentum throughout the nearby local areas and regions
 - 3) **ultimately contributing to balanced regional development and national competitiveness**
- ▶ **Let the Forum serve as center of discourse among member localities, leading the 4th generation of local development**
 - Establish **mutual cooperation system based on ‘shared values and mutual trust’**
 - Enhance efforts for regionally balanced development, being perceived as the national development goal

6. Measures to Activate Mutual Cooperation - Institutional Changes Contemplated -

- ▶ **“Regional Development Committee” (RDC) as platform to activate cooperative and inclusive regional development**
 - **Extend financial supports for co-op projects/programs as thoroughly assessed and approved by the RDC (a la ‘DATAR’ in France)**
 - . RDC should review documents such as MOU, joint development plans, business focus, budget, organizational structure and especially impacts on regional development
 - . RDC approval should qualify the reception of various supports from relevant ministries
 - . **“Cooperative Business Assessment Subcommittee”** (tentatively named) ought to be set up to review and assess respective programs and projects, and to recommend the types of supports and various conditions thereof, so that relevant ministries can refer the assessment results when allocating government budget
 - **RDC monitors progress of approved businesses, assesses the accomplishments and prepares reports in collaboration with relevant ministries before reporting to the president.**
 - **RDC must be reorganized to perform such functions in coordination with relevant ministries, being positioned as promotor and enabler of region-wide mutual cooperation**

6. Measures to Activate Mutual Cooperation - Government Supports Required -

▶ **Criteria for government supports – financial or otherwise**

- **Types of cooperation:** functional, program, technical, financial, business etc.
- **Objective:** overcoming regional self-centeredness and achieving mutually beneficial and profitable outcomes, conflict arbitration and resolution
- **Form of cooperation:** horizontal co-op(governance)
- **Structure and nature of cooperative business promotion:** public corporation, joint programs, union, special district, semi-official corporate body, public/private corporation etc.
- **Operation:** cooperative structure, command/control, CEO, methods of operation and management, expertise in particular fields, participation, governing board, decision making system, managing staff, budget and audits etc.
- **Expected benefits vs. costs:** vitalization of regional economy, enhancement of public welfare, improvement of regional growth potential, income and employment generation, population growth, infrastructure development, business promotion – both private and public etc.
- **Monitoring and assessment:** monitor progresses and analyze economic and financial benefits/costs
- **Establish a set of criteria** for funding and other supports, taking into account all the elements stated above
- **Emphasis on 'commonly unique,' encompassing both competition and cooperation**