

# 7

## *Globalization and Urbanization in the Republic of Korea*

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The Asian economic crisis vividly illustrated the vulnerability of a country or a region to the forces of global capital. Many firms, and even governments, have been forced to restructure their organizations. Firm closures and restructuring have resulted in massive unemployment in Asian cities. Urban infrastructure building is in jeopardy because of the shortage of funds resulting from the financial crisis. This was perhaps the first time that ordinary citizens of Asia had felt the impact of globalization to such an extent. However, this does not mean that globalization has suddenly come to Asia. The Republic of Korea and other Asian countries have been globalizing for the past two or three decades in the sense that they have been integrating their economies with the world economy. Indeed, increased trade and investment was the force behind Korea's rapid economic growth in the 1970s and 1980s. Rapid economic growth in turn drove a rapid urbanization process, which has, on the whole, been a positive impact of globalization. Korea has liberalized its trade regime and adopted policies receptive toward foreign direct investment (FDI). However, globalization has taken a different track in recent years, involving a greatly broadened scope and velocity of capital (the speed with which it can be transferred from one country to another), especially finance capital.

While globalization can be defined in such economic terms as increasing trade and investment, it has other dimensions, for example, the globalization of production and consumption. The rise of transnational corporations has been phenomenal in the last decade or so. They have been creating and integrating global systems of production, distribution, finance, and consumption. Their rise has been also accompanied by the spread of dominant cultures and institutions. Consumption patterns in remote villages tend to converge with global patterns. Business practices and institutions across the world now follow global standards, at least on the surface. In sum, globalization is a process marked by historical transformations leading to new configurations in economic organization; in the relationships between the state, civil society, and capital; and in the industrial landscape.

In Korea's (and perhaps also in developing Asia's) economic transformation, globalization has two aspects: externalization (internationalization) of the Korean economy, where Korea has been successful, and internalization of global challenges and pressures within the Korean economy, where Korea has been less successful. In other words, Korea's economy and social institutions have not been flexible and open enough to accommodate global changes. This latter aspect was the principal cause of Korea's economic crisis. During Korea's economic development and social transformation, both aspects of globalization took place in sequence. The externalization of the economy in terms of increasing trade dependence and external orientation occurred during the earlier stages of development, until the 1980s, whereas the internalization process, which includes import liberalization, market opening, and the adoption of global standards, has been taking place at a much slower pace during later stages of development.

The urbanization consequences of globalization have two facets, negative and positive. The former includes the acceleration of urbanization and megacity growth, which have been creating so many problems that no government has been able to deal with them successfully. Another is the breakdown of the urban economic base, which was dominated by the labor-intensive export sector and nontraded service industries, while a new economic base has not yet emerged. However, there are also positive

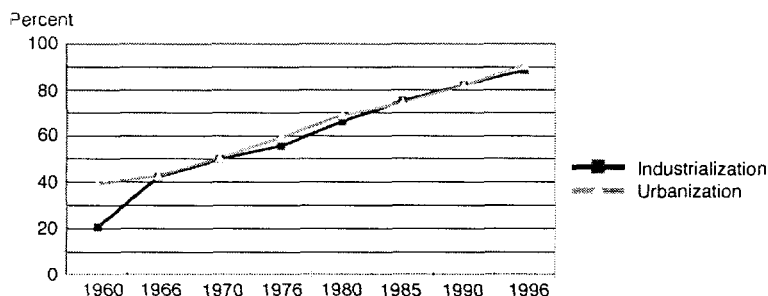
impacts of urbanization. They include the speeding up of the restructuring of inefficient industrial and administrative systems that have blunted the competitive edge of countries and cities. A crisis mentality after the International Monetary Fund bailout in late 1997 has made it easier to begin reforming stubborn labor-business relations, bureaucratic red tape, and the insolvent banking system in Korea.

Urbanization can be seen as corresponding to changes and new configurations wrought by both aspects of globalization. In other words, urbanization and globalization have become interdependent. As the globalization process deepens, this interdependency grows and becomes more complex, moving from simple trade interdependence to a complicated interdependence of global production, distribution, consumption, and finance. The confluence of globalization and urbanization is more pronounced in East Asia, where urbanization has been taking place in a compressed time span. Based on Korea's and other Asian countries' experience, globalization has created three prominent features of urbanization, even though the cause and effect relationship between globalization and urbanization cannot be readily established. These features are the dominance of large cities in the national urban hierarchy, spatial polarization and the formation of mega-urban regions, and the internationalization of cities and urban restructuring. This chapter looks at these features in the context of global-local interplay.

### Korea's Urbanization Path

Korea is a country whose speed of urbanization may be unprecedented, as indicated by a sharp increase of the level of urbanization from 39 to 91 percent in less than four decades (figure 7.1). Korea's rapid urbanization was made possible mainly because of a drastic change in its economic structure from an agrarian economy to an industrial economy: 80 percent of the labor force was employed in the agriculture sector in 1960, but by 1996 this figure has fallen to 12 percent. In 1960, per capita gross national product was less than US\$100, with the agriculture sector accounting for 45 percent of gross domestic product. That same year, the total value of exports accounted for only 1.5 percent of gross domestic product. The country's leaders perceived that the only available development path was to promote exports using Korea's comparative advantage in cheap and relatively well-educated labor. The growth of labor-intensive manufacturing was phenomenal during the 1960s and 1970s. The abundant supply of rural labor supported Korea's rapid structural transformation and relative neglect of agricultural development, in contrast with Taiwan, China's accelerated rural to urban migration. Industrialization and urbanization often reinforce each other.

Figure 7.1. Urbanization and Industrialization, 1960–96



Note: Industrialization is the combined proportion of manufacturing and service industries in total national employment.

Source: Author.

Labor transfer from one sector to another inevitably involves changes in residence. Rural to urban migration or mobility is in general premised upon wage differentials and income opportunities (Lewis 1954; Todaro 1969). Higher wages in urban areas than in rural areas are explained by the productivity differential between sectors. The productivity differential hypothesis, which states that labor moves from the low-productivity agriculture sector to the high-productivity manufacturing sector, applies well to the case of Korea. The rapid growth of employment in manufacturing during Korea's labor-intensive growth phase of the 1960s and the early 1970s triggered massive rural to urban migration, primarily to large urban centers. Most rural migrants settled in Seoul and the southeastern coastal cities, where more jobs were created by the concentration of the labor-intensive manufacturing sector.

### *Dominance of Large Cities*

The export-oriented growth strategy had placed a premium on large cities and port cities, resulting in their rapid growth. The large cities of Seoul, Pusan, and Taegu were magnets for rural migrant labor. Seoul's population more than tripled between 1960 and 1980, while the population of Pusan and Taegu more than doubled. In 1960, two cities of more than 1 million inhabitants each, Seoul and Pusan, accounted for about 39 percent of the total urban population. The magnitude of rural to urban migration was enormous. During the 25 years from 1961 to 1985, 19 million people moved from rural to urban areas. In the 1960s, Seoul alone absorbed 60 percent of the total net rural to urban migration (Hong 1997).

During this labor-intensive phase of economic growth, globalization in terms of capital mobility and trade liberalization did not have a significant and direct impact on the pace of urbanization. Rather, the process was essentially driven by internal forces of industrialization linked with exports. In other words, the industrialization process was conditioned upon the requirements of the world market. In this sense, the earlier phase of Korea's urbanization was linked to globalization.

Korea's capital-intensive growth phase during the late 1970s and the early 1980s can be seen as a period that was partially driven by an import substitution strategy. Heavy and chemical industries were regarded as the new pillar of the economy in addition to the labor-intensive industries such as apparel, textiles, and footwear. Naturally, the drive for heavy and chemical industries gave locational preference to such port cities as Inchon, Masan, Changwon, Ulsan, and Pohang, which to some extent mitigated the trend of population concentration in cities of a million or more inhabitants.<sup>1</sup> However, the continued growth of labor-intensive manufacturing and the rise of service employment in large cities during the 1970s and 1980s contributed to the dominance of large cities in Korea's urbanization process. In 1980, for example, six cities of more than 1 million people accounted for 53 percent of Korea's urban population. Table 7.1 shows the distribution of cities in terms of size. The relative decline of smaller urban centers (less than 100,000 people) was a notable feature of Korea's urbanization process, even though their absolute numbers and population total did not decrease until the 1990s.

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<sup>1</sup> Heavy and chemical industries, such as petrochemicals and steel, have to rely on imported raw materials of iron ore and oil, and therefore port locations are preferred over inland locations because of the savings in transport costs.

**Table 7.1. Distribution of Cities by Size, Selected Years**

Number of inhabitants	1960			1970			1980			1990			1996		
	Number of cities	Percent of		Number of cities	Percent of		Number of cities	Percent of		Number of cities	Percent of		Number of cities	Percent of	
		Population (thousands)	urban population		Population (thousands)	urban population		Population (thousands)	urban population		Population (thousands)	urban population		Population (thousands)	urban population
5 million +	0	0	0.0	1	5,536	35.0	1	8,367	31.3	1	10,628	29.5	1	10,470	24.6
1-5 million	2	3,609	39.1	2	2,963	18.7	3	5,852	21.7	5	10,051	27.9	5	11,374	26.7
0.5-1 million	1	676	7.3	2	1,149	7.3	2	1,379	5.1	5	3,054	8.5	10	6,899	16.2
0.1-0.5 million	6	1,291	14.0	13	2,209	14.0	29	5,514	20.5	29	6,369	17.7	53	11,028	25.9
Less than 0.1 million	101	3,653	39.6	106	3,952	25.0	211	5,805	21.6	213	5,899	16.4	133	2,874	6.7
Total urban population	110	9,229	100.0	124	15,809	100.0	246	26,917	100.0	253	36,001	100.0	202	42,645	100.0
Urbanization rate (percent)		36.9			50.3			70.6			82.9			91.8	
Total national population		24,989			31,435			38,124			43,390			46,430	

*Note:* The number of cities has been reduced because of rural-urban integration implemented in 1995. The urbanization rate is the proportion of the population living in cities and towns.

*Source:* Ministry of Administration and Local Government (1971, 1981, 1991, 1997).

Why is Korea's urban system skewed toward large cities? Conventional urban theory suggests advantages of large cities in terms of agglomeration economies (economies of scale and scope, a large pool of skilled labor, better infrastructure, and so on) (Mills and Hamilton 1984). In addition, large cities are often gateways to the world through which new information and technology first arrive and are then disseminated. In other words, cities' global connections are an important merit (Friedmann 1995; Sassen 1991). Although Seoul's population began to fall in absolute terms in the early 1990s, its dominant position in the economy is not challenged. Localization economies or urbanization economies are an important factor in explaining the dominance of large cities (Moomaw 1988).<sup>1</sup> However, we should add another factor that is unique to some Asian countries with a long tradition of a centralized political system, including Korea and Thailand. The centralization of power in the capital city and the social reward system emphasizing higher education are additional reasons for the primacy of Seoul in Korea.

### *Spatial Polarization and the Formation of Megacities*

The megacity region, as well as the so-called extended metropolitan region (Ginsberg, Koppel, and McGee 1991), which is emerging in Pacific Asia, is a result of the interdependency between globalization and urbanization. The expansion of Seoul into the surrounding areas accelerated during the 1980s and the early 1990s. It was this spatial polarization of population and industries in one or a few large city regions (table 7.2), rather than skewed urban size distribution, that aroused policymakers' concern in Korea and in high-performance economies in Pacific Asia. Korea's policy of population dispersal to relieve population concentration in Seoul and then in the capital region began in the early 1970s.

**Table 7.2.** *Distribution of Cities by Region, Selected Years*

Region	1960		1970		1980		1996	
	Number of cities	Urban population (thousands)	Number of cities	Urban population (thousands)	Number of cities	Urban population (thousands)	Number of cities	Urban population (thousands)
Cheju	3	108	4	196	8	403	9	486
Chonbuk	10	547	10	688	19	1,065	15	1,703
Chungbuk	7	287	8	389	13	662	13	1,095
Kangwon	12	488	14	758	29	1,165	26	1,275
Kwangju-Chonnam	19	957	20	1,299	36	1,969	34	2,706
Pusan-Kyongnam	16	1,826	19	2,870	28	5,007	23	7,479
Seoul Metropolitan region (capital)	12	3,160	14	6,853	41	11,904	35	20,387
Taegu-Kyongbuk	17	1,242	18	1,829	46	3,253	26	4,823
Taejon-Chungnam	14	614	17	927	26	1,489	21	2,692
Total	110	9,229	124	15,809	246	26,917	202	42,646

Source: Ministry of Administration and Local Government (1971,1981, 1997).

<sup>1</sup> Localization economies arise from the agglomeration of firms in the same industry in a city. Major benefits of agglomeration include better access to research and development facilities and a skilled labor pool. Urban concentration of firms across an industry, by contrast, provides extra benefits to firms through easy access to a larger market, pools of managerial and special talents, and advanced services. This is called urbanization economies.

The Seoul Metropolitan Region, which includes the provinces of Seoul, Incheon, and Kyonggi, had an urban population of about 3.2 million in 1960, which had increased to 11.9 million by 1980, or 44.2 percent of the total national population. In 1996 the capital region, with a population of more than 20 million, was home to almost one out of two urban Koreans. In other words, 20.4 million people live in an area of 11,675 square kilometers. The capital region is also home to numerous cities. In 1996 there were 35 cities with a combined population of 19 million, accounting for 48 percent of Korea's total urban population.

Such a massive agglomeration in the capital region is comparable to Tokyo and other emerging megacity regions of Asia, namely, Hong Kong-Guangzhou, Jakarta, and Shanghai. The essential process behind the formation of megacities is growth spillover. As the size of the central city grows, spatial expansion occurs and functional differentiation deepens. In other words, the growth spillover of Seoul has spread to adjacent areas, while creating a network of cities centering around Seoul. This trend of extended urbanization was enhanced during the 1980s and 1990s by increased car ownership and rising incomes. However, housing shortages and the saturation of urban land in Seoul helped disperse the population within the capital region, but away from Seoul.

Many low value added activities with relatively large land requirements have moved out of Seoul. Routine manufacturing functions relocated to smaller cities and people moved out to satellite towns where they could obtain better housing at a lower price, while still maintaining close links with Seoul. However, with increased globalization, the centralization of headquarters functions, advanced services, and international activities in Seoul intensified during the 1980s and 1990s.

### *Internationalization of Cities and Urban Restructuring*

A widely recognized feature of contemporary globalization is the centralization of global command functions in a few urban centers (Friedmann 1986; Scott 1996). The growth of transnational corporations with their concomitant global networks of production and distribution requires a complementary urban system to effect global management. Competition among Asian cities to host global functions and become world cities has been increasing in recent years. Korea's large cities are no exception. Even if not aspiring to become a world city, every city is striving to obtain a share of global investment. As investment becomes footloose and transportation costs have declined, a city's comparative advantage has shifted from its natural resource base and past industrial history to a new focus on created assets, such as highly skilled and professional workers, advanced transportation and communication infrastructure, and cultural amenities. This tendency was intensified with the decentralization of the political system. In 1995, for the first time in more than three decades, Korea introduced use of the popular vote to elect city mayors and council members. Urban boosterism and coalitions of politicians and citizens launched an ambitious drive for globalization. All major cities want to host certain kinds of international events, establish international organizations, and build intercity networks that extend beyond Korea's national borders. In sum, cities offer themselves to segments of global capital using investment in the built environment as way to both capture and sustain the presence and benefits of investment. Korea being selected to host the World Cup in 2002 has led to a virtual war among Korean cities. International cultural events, such as movie and animation festivals, have become the favorite agenda items in local politicians' and citizens' globalization drive.

Increased competition among cities is accompanied by physical, economic, and social restructuring. The industrial structure of major Korean cities has changed from one centered on manufacturing to a service-centered one (Kim, Kwon, and Lee 1997). Seoul is the forerunner of this structural transformation. During 1981-95, the share of manufacturing employment in Seoul's total employment declined from 30.4 to 18.9 percent, whereas the share for the service sector, especially in finance, insurance, and producer services, has increased significantly, from 61.4 to 80.9 percent. This is similar to Tokyo's industrial restructuring during the 1970s. The difference, however, lies in the still high proportion of employment in the wholesale and retail trade sector (Fujita 1991). However, with the overall decline of the manufacturing sector, the industrial mix within the sector has changed substantially. In 1975, labor-intensive industries

such as textiles and apparel and the assembly of electrical and electronic goods were the main ones in Seoul's economy. Fifteen years later, the importance of textiles had declined, while the apparel industry had gained significance. This industrial restructuring occurred with spatial decentralization. The suburban areas of Seoul saw significant industrial growth in assembly-type manufacturing, including electrical and electronics industries. On the whole, the trend reveals Seoul's industrial specialization in fashion-oriented apparel, printing, the assembly of electrical and electronic products, and machinery, which has been common to all the large, advanced cities in Korea (Park 1995).

Pusan and Taegu, Korea's second and third largest cities, have followed Seoul's pattern. Like Detroit and Pittsburgh in the 1970s, Pusan and Taegu are having difficulties in industrial restructuring. Both cities' main industries are labor intensive and they face competition from firms in China and Southeast Asian countries with access to low-wage labor. Nike, which once had its major shoe production base in Pusan, has relocated its production facilities to China, Indonesia, and Thailand where production costs are cheaper (Lim 1995). The flight of transnational capital from one city to another can have substantial effects on the urban economy. To prevent capital flight or to attract capital, cities in Korea and in Asia as a whole are refurbishing their infrastructure, and even trying to improve their hostile labor-management relations.

Large city regions equipped with modern infrastructure, professional workers capable of speaking two or three languages, advanced business services, and cultural amenities are definitely the winners of intercity competition, further enhancing the dominant position of large cities in domestic and international urban networks. Indeed, megacity regions in Asia, including the Seoul megacity region, are the powerhouses of the Asian economies and disproportionately attract global functions and capital. To succeed in the intercity competition, many countries plan to embark on large, new projects such as building international airports, convention centers, and high-tech parks (Douglass 1998). Financing these projects often strains the government treasury, and the recent economic crisis delayed many of these projects or put them on hold.

Naturally, these regions are where FDI is usually concentrated. In Korea's case, Seoul takes the lion's share of incoming FDI. However, Korea is different from other developing economies in that it did not depend to any large extent on FDI for its economic growth (table 7.3). FDI during the 1970s and 1980s was primarily in the manufacturing sector, although the share of FDI in the service sector increased in the 1990s. In other words, transnational corporations no longer view Korea as a cheap production site for transnational companies. Foreign investors are more interested in Korea's potential as a market. The service sector, especially nontraded service industries such as restaurants, beauty parlors, and neighborhood general stores, which had been thought of as a safe niche for domestic income generation and employment, has seen encroachment by multinational chains since the early 1990s. Local restaurants now have to compete with KFC, Coco's, and McDonalds. The arrival of Walmart has resulted in a virtual panic among domestic shopping outlets.

While incoming FDI did not play a significant role in the national economy, Korean firms' outgoing investment has been increasing since the late 1980s. Korean multinational companies began to make overseas investment, mostly in China and Southeast Asia, and mainly to cut production costs. Wage hikes and labor disputes in the late 1980s were the primary reasons for the surge in overseas investment. Naturally, the focus of both inward and outward FDI has been large cities. With the trend toward the service economy, large cities are subject to earlier economic restructuring than smaller cities because of their global connections. Just before Korea's financial crisis in 1997, there was great concern about de-industrialization, or even the industrial hollowing out of large cities in Korea, as happened in Hong Kong (China) and Singapore. It is this dimension of globalization that will cause urban change in Korea in the coming years.

## **Policy Responses**

The three prominent features of urbanization in Korea and elsewhere in Asia have been partly the result of globalization. Initial conditions and domestic political and economic factors also help shape each

country's urbanization path and urban system. Korea has had and still has numerous policies that affect the urban process. These policies more or less correspond with the aforementioned three features, namely, spatial polarization, dominance of large cities, and urban restructuring; however, policies implemented during the last two or three decades address some of problems arising from these features. The policies are designed to achieve the goals of balanced regional development, optimal urban growth, and efficient urban service provision.

*Table 7.3. FDI into Korea and Overseas Investment by Korea, 1962–97*

<i>Year</i>	<i>FDI</i>		<i>Overseas investment</i>	
	<i>Number of contracts</i>	<i>Amount (thousands)</i>	<i>Number of contracts</i>	<i>Amount (thousands)</i>
1962–80	1,440	1,713	400	251
1981	44	153	64	109
1982	56	189	54	121
1983	75	269	67	83
1984	104	422	49	67
1985	127	532	43	219
1986	203	355	73	364
1987	362	1,063	109	367
1988	343	1,284	250	475
1989	336	1,090	368	943
1990	296	803	515	1,611
1991	286	1,396	527	1,511
1992	233	895	631	1,206
1993	273	1,044	1,049	1,876
1994	414	1,317	1,946	3,581
1995	556	1,941	1,561	4,949
1996	596	3,203	1,795	6,220
1997	638	6,971	1,579	5,822
<b>Total</b>	<b>6,382</b>	<b>24,640</b>	<b>11,079</b>	<b>29,774</b>

*Note:* The number of contracts refers to new contracts, while the amount is sum of both new and expansion investment.  
*Source:* Ministry of Finance and Economy, Investment Promotion Bureau data.

Policies to combat the polarization tendency of urban growth have targeted the decentralization of population and industry away from the capital region. An attempt to develop centers that would attract people away from Seoul in the late 1960s and the early 1970s was a failure. The attractiveness of the capital region was so enormous that repeated policy attempts to decentralize population and industrial activities away from the capital region have failed. However, the central government has not given up. The capital region's growth restriction policies may be the most elaborate in Asia. The establishment of manufacturing plants is strictly controlled in the congested areas of the capital region and other activities that would increase the population are discouraged by such means as tax penalties and the outright withholding of development permits.

The central government introduced the First Capital Region Management Plan (1984–96) to combat the concentration of population and industrial activities in the Seoul Metropolitan Region. The plan defined the jurisdictions of the Seoul Special City, the City of Incheon, and the Province of Kyonggi as the capital region, and subjected it to the Capital Region Management Law, which overrides all other laws related to development activities in the region. The major tools of the plan were laws and decrees



regulating development activities. The region was divided into five zones with varying degrees of development control.<sup>2</sup> In addition to this broad zoning designation, two important policy instruments were adopted: congestion charges and an aggregate development ceiling. Congestion charges are levied on those development activities that are likely to bring about population concentration in the congestion relief zone. Offices, department stores, and public facilities above a certain size are subject to congestion charges, usually 10 percent of total construction costs.

The aggregate ceiling system is designed to control the growth of industrial activities. With an aggregate ceiling of factory construction set by the Capital Region Management Review Committee at the beginning of the year, a portion of this total development ceiling is allocated to different localities, and then local governments screen applications and allow factory construction.

These policies have been criticized on the grounds that they are ineffective, while creating unnecessarily high costs of urban development. Critics also cite the construction of unregistered factories without permits. Across the capital region, small-scale factories that could not afford high land costs and emission charges have mushroomed. For a variety of reasons, such as employment generation, these factories had to be given legal recognition in return for promises of future improvement (Hwang 1996, pp. 31–41). More seriously, these restrictions may have resulted in a shortage of land for factory construction, thereby raising industrial land prices. While the policy as a whole did not succeed in decentralizing population and industrial activities away from the capital region, in its absence, the situation would probably have been even worse.

Even though the effects of those policies were dubious, the policy goals were reluctantly tolerated during Korea's high-growth phase. Indeed, employment growth of more than 5 percent during the heyday of Korea's high-speed growth had helped somewhat to alleviate the concentration of population in Seoul and cities of more than a million people. Industrial estates developed across the country during the 1970s and the 1980s had generated manufacturing employment and absorbed a significant number of migrants.

Industrial location policy, another major aspect of government intervention in urbanization, has contributed somewhat to the decentralization of industrial activities away from the capital region. In addition to the development of industrial estates, Korea's rural industrialization policy has contributed to checking rural outmigration and raising rural incomes.

To reverse the tendency of population to concentrate in large cities, in 1971 the government adopted a strong physical control policy. It implemented a greenbelt policy to control urban sprawl around large cities in the belief that uncontrolled growth undermined urban efficiency and increased the burden of providing urban infrastructure. Seoul was the first target of the greenbelt policy, and other major cities were also subject to this policy. Despite the government's good intentions, the greenbelt policy generated complaints from residents in designated greenbelt areas and drew criticism from liberal economists. The latter argued that the greenbelt policy simply resulted in a leapfrog pattern of urban development, while not decentralizing population away from large cities.<sup>3</sup> This pattern is believed to increase infrastructure and commuting costs. By contrast, urban planners and environmentalists argue that a greenbelt is beneficial in terms of urban environmental quality, and that without it, the urban environment would probably have worsened significantly. The greenbelt policy is currently being challenged, and the current administration is in favor of relaxing it. This position is strongly welcomed by greenbelt residents as well as by hard core economists, who consider the policy as one of the reasons for Korea's decreasing international competitiveness (Lee 1998).

Globalization pressure has also caused a shift in policy for the capital region that is reflected in the Second Capital Region Management Plan (1997–2011). Administrative measures restricting certain development activities have been changed to indirect measures, such as congestion fees and penalties, to

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<sup>2</sup> The five zones are the dispersal encouragement zone, the limited redevelopment zone, the development reservation zone, the growth promotion zone, and the natural conservation zone. Later in the second plan, these five zones were consolidated into three zones: congestion relief, natural conservation, and growth management.

accommodate the growing demand for space for services and information and research functions. High-tech industries are now allowed to locate freely in the capital region, but factories considered undesirable for the region, for instance, polluting industries and simple assembly factories, continue to be discouraged (KRIHS 1997). However, the major focus of the second plan was reorganizing the spatial structure of the capital region. The plan was to transform the single-core structure centered on Seoul into a multicore structure, for which a regionwide transportation system based on rapid transit and buses was designed. Even though population concentration in the capital region is still discouraged, the main concern has shifted to an orderly redistribution of population and economic activities within the capital region.

This policy shift has aroused concerns among other regions, which interpreted the policy changes as a setback in two respects: balanced regional development and environmental quality. City and provincial governments outside the capital region believe that relaxing development controls and investing more in infrastructure in the capital region will exacerbate existing development differentials between the capital region and the rest of the country. They argue that the central government should continue its restrictive policies so that other parts of the country can catch up with the capital region and eventually compete with other cities and regions in the world. Thus they considered the policy changes in the second plan to be a step backward from the sustainable development perspective. They also noted that enhancing economic efficiency via the logic of agglomeration economies in the capital region would damage its long-run competitiveness because environmental quality was an essential component of the region's overall competitiveness.

None of the arguments for or against the policy to reduce urban concentration in the capital region were based on a rigorous cost-benefit analysis. Policymakers often assume that investment returns are higher in the capital region than in other parts of the country, but social costs such as environmental degradation and traffic congestion are often ignored in the calculation of costs and benefits. Moreover, attempts to measure the economic effects of investment allocation by region are too crude to be reliable (Sohn 1993).

Urban restructuring is essentially the task of local governments. However, the central government has been providing support for the industrial restructuring of cities and for major infrastructure construction projects, such as subways. Entrepreneurs and policymakers considered higher wages, capital costs, and land prices to be the main reasons for Korea's weakening position in the world market. Currency appreciation, which began in 1985, also contributed to the decline in competitiveness of Korean industries. Industrial restructuring, which was essentially forced by the globalization of production, began in earnest in the late 1980s. A few large cities in particular, such as Pusan and Taegu, were in a tight spot because of their specialization in traditional labor-intensive industries such as textiles and footwear. Recognizing the local impact of industrial decline, the central government has attempted to render support by providing industry rationalization funds and general policy support for small and medium enterprises. However, the timing of the policy was too late and policy support was insufficient (Kim 1995).

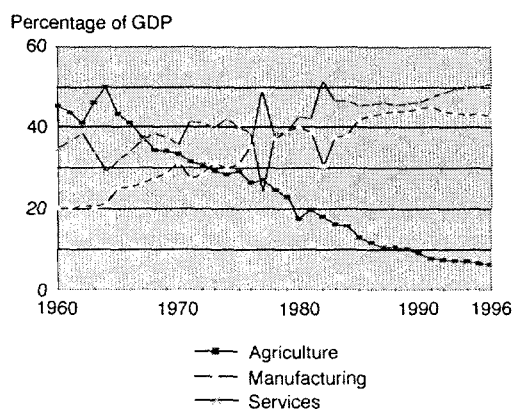
Another dimension of urban restructuring was directly addressing the issue of enhancing the international functions of large cities, in particular, Seoul. Hosting the 1988 Olympic Games was an epochal event that raised the consciousness of policymakers and citizens about globalization. Together with the obvious trend of de-industrialization in Seoul's economy, policymakers and city planners were concerned with a transition toward a service economy with global functions. Many ideas and schemes were proposed to make Seoul a global city, including building a new international airport in Incheon, thereby making it an air transport hub in northeast Asia. Other large cities followed suit. For example, Pusan wants to become the center for maritime transport and logistics in northeast Asia, while Taegu wishes to become a fashion center like Milan. All these efforts to adjust to external changes are essentially the responses of cities in the global era. Their success, however, depends on external factors beyond the control of individual cities.

In sum, Korea's policymakers were forced to compromise on their original stance of strictly controlling the growth of the capital region and other large cities so as to compete with other megacity regions through enhanced international competitiveness. Thus the domestic logic of balanced regional development has given way to endorsement of the leading role of megacity regions in national development.

## Current Issues and Prospects

The changed world brought about by globalization calls for new responses from the government. Korea can no longer experience annual job growth rate of 5 percent or more. As figure 7.2 indicates, the manufacturing sector, which was once the major source of employment, has been declining in both absolute and relative terms. Even though the service sector is still growing, policymakers will have little room to maneuver. First, this is because general service employment is proportional to population size. Second, advanced services such as accounting, design, law firms, and research and development tend to locate disproportionately in large, international cities, where global connections are already established. The transition of the Korean economy toward the service economy, a process that began in the late 1980s, casts doubt on whether the Korean government has the capacity to intervene in the urbanization process. As Korea's urbanization is more closely intertwined with globalization than in the past, it seems more difficult for the government to exercise its power in the process of urbanization and urban transformation. Recent calls for a new model for urban development reflect these significant changes underlying urban growth and urbanization in Korea and elsewhere in Asia. Five interrelated issues are particularly important for Korea, whose urbanization has already reached its upper limits, namely: metropolitan governance, economic competitiveness, sustainable development, urban infrastructure financing, and transnational urban coalitions.

Figure 7.2. Structure of Production, 1960–96



Source: Author.

### Metropolitan Governance

One of the most pronounced features of contemporary urbanization in Asia is the extensive growth of core metropolitan regions well beyond their administrative boundaries and into distant hinterlands (Douglass 1998). As the expansion of the Seoul Metropolitan Region suggests, planning and managing this giant region is becoming more and more difficult. With a broad democratization trend that started in the late 1980s and the beginnings of local autonomy in 1995, demand for citizen participation and local discretion in policy decisions is increasing. Local governments, spurred by global competition, are agitating for the devolution of power from the central to local levels.

With a strong tradition of a centralized political system, Korea has been slow in creating a new form of governance, in particular, metropolitan governance. The central government wants to retain its

decisionmaking powers based on the justification that local administrations do not yet have the ability to manage their cities and to resolve conflicts between jurisdictions. While intergovernmental cooperation mechanisms are not yet fully developed, many important issues, such as clean water supply, waste management, transportation, and air pollution abatement, await solutions. A consultative committee of upper-level local governments in the capital region is, however, making some progress in resolving conflicts in the management of regionwide urban problems. Thus the search to find a more inclusive, responsible, transparent, and collaborative form of metropolitan governance has begun.

### *Economic Competitiveness*

Declining international competitiveness has weakened the argument for growth restrictions in the capital region. Instead, pressure is mounting from local governments affected by growth restriction policies and the private sector to get rid of these policies or to significantly relax land use regulations. One important rationale of the proponents of deregulation is that the capital region is the only one that can successfully compete with other world city regions. The evidence often cited is foreign investors' preference (Lee 1998). Indeed, Seoul is the most preferred city for foreign companies. Out of 917 foreign companies in Korea in 1997, 866 were located in Seoul and another 19 were in the capital region.

Concerns about the international competitiveness of cities are intermingled with the larger trends toward deregulation, privatization, and democratization. However, notions about measures to enhance urban competitiveness vary a great deal. Liberal economists call for dismantling the government's regulatory system in the firm belief that the invisible hand of the market will take care of everything. By contrast, planners and environmentalists, who worry about social equity and environmental sustainability, are cautious about a radical withdrawal of public intervention in urban management and planning.

The current debate about hosting more FDI in Korea is focused on whether the central government should remove its restrictions on the type of FDI within the capital region. Local governments strongly argue for the removal of restrictions for the benefit of the national economy. Some, however, are skeptical that deregulation is not a panacea for economic recovery. Recent reforms almost completely opened Korea's real estate market to foreign investors. Even with land and construction costs much lower than in 1997 (because of the currency depreciation and the bursting of the real estate bubble), the Korean real estate market did not attract many foreign buyers. This seems to indicate that the deregulation of land use restrictions is not a sufficient condition for attracting foreign investment.

### *Sustainable Urban Development*

As metropolitan areas grow, the urban environment deteriorates, especially when the speed of urban growth exceeds cities' capacity to provide adequate housing, clean water, and land suitable for building. This has been the case for large Korean cities. With the increase in incomes, citizens' demand for a clean environment has risen to a level at which local governments now have to pay more attention to the environmental aspects of urban development. However, sustainable urban development is not possible through government efforts alone. For example, more than 2 million cars drive in and out of Seoul daily, and the resultant air pollution is detrimental to people's health for some months of the year. Even though both the central and local governments have been working toward orienting large cities around mass transportation systems, inducing people to switch from private vehicles to mass transportation is not easy in a modern capitalist society. This is why a collaborative form of governance with active participation by citizens, nongovernmental organizations, and communities is required for the effective management of metropolitan areas.

Korea does have some successful examples of urban policies. Its waste disposal policy, which requires mandatory sorting and packing of garbage, has reduced the amount of garbage disposal and increased the collection of recyclable resources. An experiment whereby vehicles entering central Seoul are charged a toll has reduced traffic congestion downtown, although the advantages and disadvantages

are still in debate. Finally, the greenbelt policy, even though it imposes on individual property rights, has been hailed by the mass media and environmentalists as the best example of past top-down urban policy. The future of the greenbelt, however, is currently uncertain.

During the economic crisis in Asia, a short-run contradiction became apparent between economic competitiveness and social justice and environmental sustainability, as is the case in the cities of industrial countries. However, in the long run, a socially and environmentally sustainable city is not incompatible with a productive city as the economy transforms into one based on knowledge. The issue remains, however, how to meet the urgent and immediate need for economic recovery without jeopardizing the long-run interests of urban residents.

### ***Urban Infrastructure Financing***

Demands for better housing, clean water, and comfortable transportation have been rising in the cities of Korea and the rest of Asia from the points of view of both quality of life and urban efficiency. Given limited government budgets, the public sector alone cannot provide all the necessary urban services. Many large cities are building or expanding subways, which are a major burden on local government finances. A few cities have tried to issue bonds in foreign markets, but bringing in foreign funds for urban infrastructure financing is not easy.

Even before the recent crisis, the rapid increase in demand for urban infrastructure was posing problems for the public sector. Privatization and public-private partnerships have been proposed as a solution. The Korean government enacted a law in 1994 to encourage private investment in infrastructure, especially in roads, ports, rail, and airports. This was based on its recognition of the importance of transportation costs in national competitiveness. The result, however, was not successful because of the lack of rational and objective criteria for selecting target projects, because of the absence of guarantees of profitability or mechanisms to spread risks, and most of all because private initiatives and management were not fully allowed. Various policy measures have now been formulated at the central and local levels of government to increase private participation and solicit foreign investment in urban infrastructure.

### ***Transnational Urban Coalitions***

Many urban coalitions across national borders are taking place in northeast Asia, with the aim of enhancing joint international competitiveness by complementing each other. Although these coalitions for cross-border urban development are far from a reality, they are beginning, as evidenced by the Tumen River Area Development Program, which is promoting the development of Rajin-Sonbong in the Democratic People's Republic of Korea, Hunchun in China, and Khasan in the Russian Far East. The Beijing-Seoul-Tokyo (BESETO) Agreement promoting the formation of an urban corridor linking Beijing with Seoul and Tokyo is another example (Choe 1996). Mayors and governors are also actively seeking intercity cooperation in the East Sea (Japan Sea) rim and the Yellow Sea rim. They are collectively exploring the possibility of linking maritime and inland transportation, creating free trade zones for FDI, and promoting tourism development.

### **Conclusions**

This chapter has examined the interdependent relationship between globalization and urbanization in relation to Korea's experience. Although initial conditions and domestic political and economic factors contribute to the course of urbanization in a country, globalization seems to produce more or less similar patterns of urbanization in Asian countries.

Three notable features of urbanization are spatial polarization and the formation of mega-urban regions, the dominance of large cities in the national urban hierarchy, and the internationalization of

cities and urban restructuring. While Korea's experience indicates that these features are the products of global-local interplay, policy responses to urban problems and urbanization issues vary from country to country because of domestic political and institutional differences. Korea's urbanization policy has, on the whole, been interventionist. With respect to spatial polarization, policymakers have designed and implemented numerous measures to reduce the concentration of population and industry in the capital region. The effectiveness of these measures has not been proven however, and therefore policymakers do not view the policies as successful.

As Korea's urbanization becomes more intertwined with globalization, new challenges arise for governments at various levels. With the rise of civil society and local autonomy, urban governance has become an issue in Korea and in other Asian countries. Enhancing the international competitiveness of cities is another urgent task for Korea, especially after the 1997 financial crisis. However, the potential contradiction between economic competitiveness and sustainable development poses a challenge for policymakers in the coming years. A balance between economic concerns and social and environmental concerns will have to be found through a more democratic process involving citizens and nongovernmental organizations, which suggests the need for a collaborative form of urban governance. Such a collaborative form of governance is also required for the formation of transnational urban networks, which is taking place around the Korean peninsula.

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