Turning Points in the Korean Space-Economy: From the Developmental State to Intercity Competition, 1953–2000

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Abstract

Territorial development processes and patterns in Korea from the 1950s have encountered four turning points. The first involved the reconstitution of the Korean nation state, which, following radical land reform, implicitly focused on the expansion of the Seoul Capital Region. The second came with the launching of strategies for export-oriented urban-industrial growth in the early 1960s, which led to the development, in the 1970s, of an urban-industrial corridor moving from the rapidly expanding metropolis of Seoul to the southeast coast, centered on Pusan and heavy industrial complexes. The third turning point was brought about by rising wages and labor costs; the ascending value of the Korean currency; and the overseas relocation of labor-intensive industries, which saw a repolarization of growth in Seoul and a deindustrialization of other metropolitan economies. While some regions outside of Seoul began to register high rates of economic growth around automotive and electronics industries in the early 1990s, this pattern was abruptly challenged at the fourth turning point, the 1997 financial crisis in East and Southeast Asia. Recovery from the crisis is being pursued under a fundamentally new political and economic strategy of decentralized policymaking. The major territorial development question facing Korea at this turning point is whether localities can create capacities to rebuild and sustain their economies through direct engagement in a turbulent world economy.

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Watersheds in the Space-Economy of Korean Development

Korea in the 1950s was one of the poorest countries in the world.[1] The more than five hundred years as a Hermit Kingdom, withdrawn from foreign interaction under the Yi Dynasty (1394–1909), had been followed by Japanese colonization (1910-1945) and a catastrophic war that split the national territory into North and South Korea and left a devastated landscape (Kim and Choe 1996). With the industrial base located in the North, South Korea was left with an involuting rural economy that had among the highest population densities in the world.[2]

Within two decades of the end of the Korean War (1950–53), Korea was being heralded as a 'miracle economy.' For the decades of the 1970s, 1980s, and most of the 1990s, it sustained double-digit economic growth rates that brought it into the fold of the high-income countries of the Organization for Economic Cooperation and Development (OECD). How this amazing reversal occurred in such a historically condensed time frame has been the subject of worldwide attention. This paper focuses on the space-forming, space-contingent dimension of Korea's successes and setbacks from the 1950s to the present.

As the discussion will illustrate, national development is an eminently space-forming process that has been manifested in Korea and throughout the world by the shift of population from rural to urban locales, and through the emergence of core metropolitan regions that have come to dominate national economies. While economic growth cannot proceed without these space-forming processes, the spatial structures that are created also become sources of constraints on future development. How to guide and direct the form and content of spatial systems in order to break through these constraints, and to create more economically, socially, and politically conducive patterns has been a major preoccupation of public policy in Korea over the past four decades. With political reform and democratization making important strides in recent years, the "where" of development has become a focal point for public debates and social mobilization, around issues ranging from local traffic congestion, to macro problems of unbalanced development over national space, and the impacts of globalization on cities and regions.

The intention in the following discussion is to trace Korea's spatial transformations as they lead to key policy issues in the contemporary policy setting. Rather than proceeding along a smooth or linear path of development, Korea has passed through several episodes, each of which begins and ends at a major turning point in national development. The latest of these revolves around the Asia Pacific economic crisis that came into full force in 1997. The crisis has brought about several key developments: reform in the organizational structure of enterprises; accelerated globalization through economic liberalization; democratization and the rise of regional political parties; and the decentralization of economic development planning to local levels of governance. Together, these are generating new issues in the nation's territorial development, which can in turn be organized into four policy areas:

- Promoting Seoul as a world city in Northeast Asia;
- Reducing regional imbalances;
- Localizing and democratizing economic planning and development;
- Generating positive rural-urban synergies in regional development.

1. Laying the Foundations for Accelerated Urban-Industrial Growth

Although most attention has focused on Korea's emergence as an urban-industrial powerhouse in Asia in the 1970s, the foundations for Korea's subsequent transformations were laid in the 1950s and 1960s, in the years immediately following Korea's liberation from colonial rule and the devastating impacts of the Korean War. These cornerstones included both rural and urban sectors of the economy. On the rural side was a radical land-to-the-tiller agrarian reform, promulgated following the Korean War. With populations dislocated by the war, landlords were without local personal or political clout to counter the reform. With rampant inflation, the government was eventually required to pay only a fraction of the land compensation awarded to them at the time of confiscation.

The impacts of this reform—one of the few peaceful agrarian reforms of its type to have been accomplished in the post-colonial world—were twofold. First, it gave at least subsistence incomes to the vast majority of the Korean population. Income inequalities were instantly leveled, and what would later become Korea's heralded process of industrialization with equity gained an important rural foundation. Second, in the context of low levels of urbanization and as yet small urban working and middle classes, the elimination of landed rural élites gave the Korean government enormous autonomy to construct what has come to be known as the "developmental state." In other words, this was a strong-arm government capable of heavily intervening in economy and society to maintain its regime through accelerated urban-industrial development (Douglass 1983, 1994).

During the Rhee regime of the 1950s, however, Korea's economic position remained precarious and without new dynamic sources of growth. Big cities began to expand rapidly in an economy that was oriented to consumer goods, thereby favoring cities such as Seoul, Pusan, and Taegu, which served both national and regional consumer markets. Migration to these cities was also part of a rural "push," related to Korea's very high population density and the effects of land reform. The push created small family farms, which could be run by only a few household members, in a context of the national policy of rural neglect. With Korea's industrialization yet to be underway, migration to cities, notably to Seoul, was directed to petty services, commodity production or, among élites, to education and hopes of gaining access to public sector jobs.

Because the government was poorly prepared to cope with rapid urban population growth in terms of infrastructure and housing, slums proliferated in the cities. As much as one-third of the households in Seoul in the 1960s lived in slum and squatter settlements. While the majority of people lived in stagnating rural regions, cities were ill-equipped to absorb their burgeoning populations. These factors played into a military-backed overthrow of the Rhee regime in 1961, and the advent of the Park Chung Hee government that would last until Park's assassination in 1979.

2. The Developmental State and Accelerated Urban-Industrial Growth

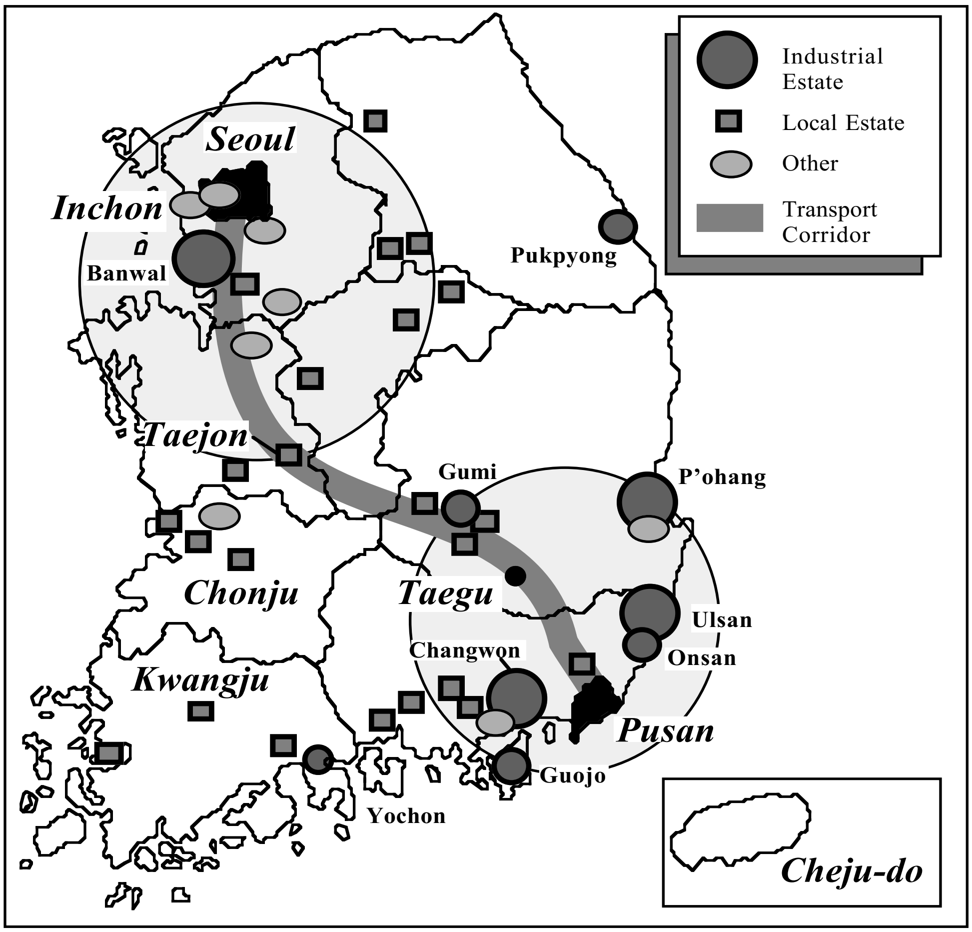
The inauguration of the Park regime (1963–79) initiated Korea's second turning point. Nationalized banks and the bringing together of a highly trained technocracy enabled Park to transfer national wealth into creating the urban infrastructure and industrial organizational structure that would be the basis for national economic growth for the next four decades. Through its control over finance, the government channeled funds into creating the *chaebol*, family enterprises that grew into some of the largest corporations in the world, and which continue to dominate Korea's major industrial, manufacturing, and service sectors. Externally, in 1965 the Park government pushed through a domestically controversial normalization of relations with Japan, setting the stage for Korea to enter the world economy as an exporter of industrial commodities.

The Park government used public resources and external borrowing to focus first on manufacturing and services in Seoul. Then, it created the country's heavy industry base along the southeast coast by building such industrial cities as Ulsan (the construction of which began in 1969), and a number of industrial estates in that region. Tax incentives and financial assistance were given to firms locating in the designated zones. Pusan, the second largest city and gateway port to Japan and the Pacific in the southeast of the country, took on the role of light manufacturing. Taegu also began to emerge as a center for textiles and apparel. A modern expressway and transportation corridor was constructed, linking Seoul to Pusan via Taejon and Taegu, which began to jell into a bipolar spatial development pattern anchored on each end by Seoul and Pusan, respectively. Within the Seoul metropolitan region, in an effort to organize spatially the rapidly expanding urban population and enterprises, new satellite towns were built to create a series of local growth poles.

Figure 1 shows the patterns of public investment used to engineer the Seoul–Southeast coast development corridor. In addition to the industrial growth poles, Korea's first motor vehicle expressway was built in the early 1970s, adding to the trunk rail line connecting

Seoul and Pusan, which had been built under Japanese occupation. The industrial growth poles included large-scale industrial complexes in Pohang (steel), Ulsan (oil refining and petrochemicals), Changwon, Keoje, Yeochon, and Kumi. Electronics, automobiles, and semiconductors followed from the heavy industry base in these regions.

Figure 1: Industrial Growth Poles and National Development Corridor, 1970s



Source: Location of growth poles from Kim (1988).

The dynamics of urban-industrial growth linking Korea to the world economy—under the guidance of an omnipresent centralized government—were powerful space-transforming forces. By 1970, the Capital Region accounted for 22 percent of the national population and 43 percent of the nation's urban population. Between 1966 and 1977, Seoul and its surrounding Kyunggi Province captured the equivalent of 56 percent of national population growth. At the same time, Pusan and the newly created industrial cities were themselves becoming major metropolitan regions, creating an antipode to the growth of Seoul.

In addition to industrial decentralization via various forms of growth poles—industrial estates, heavy industry complexes, free trade zones, and secondary city development—the government launched a massive Green Revolution program and a village modernization program (*Saemaul Undong*) in the 1970s. The Green Revolution was targeted at moving the country to self-sufficiency in grain production, which was a response to three issues: national food security, providing cheap food for rapidly increasing urban populations, and limiting foreign exchange losses. Substantial increases in land productivity were achieved by strictly enforcing the adoption of high-yield varieties, subsidized fertilizer and pesticide programs, and government-run collection and distribution systems.

President Park launched the *Saemaul Undong*, or New Village Movement, in the early 1970s. Its main thrust was to modernize villages: to provide tile roofs for houses, and to improve village roads and other infrastructure, such as water wells and electricity. Within the space of a year, the program resulted in a readily observable modernization of village infrastructure (Douglass 1983). With earlier land reform creating owner–operator farms, the income increases from Korea's Green Revolution showed that rural and urban income differentials were narrowing (Kim YW 2000; see Table 6).

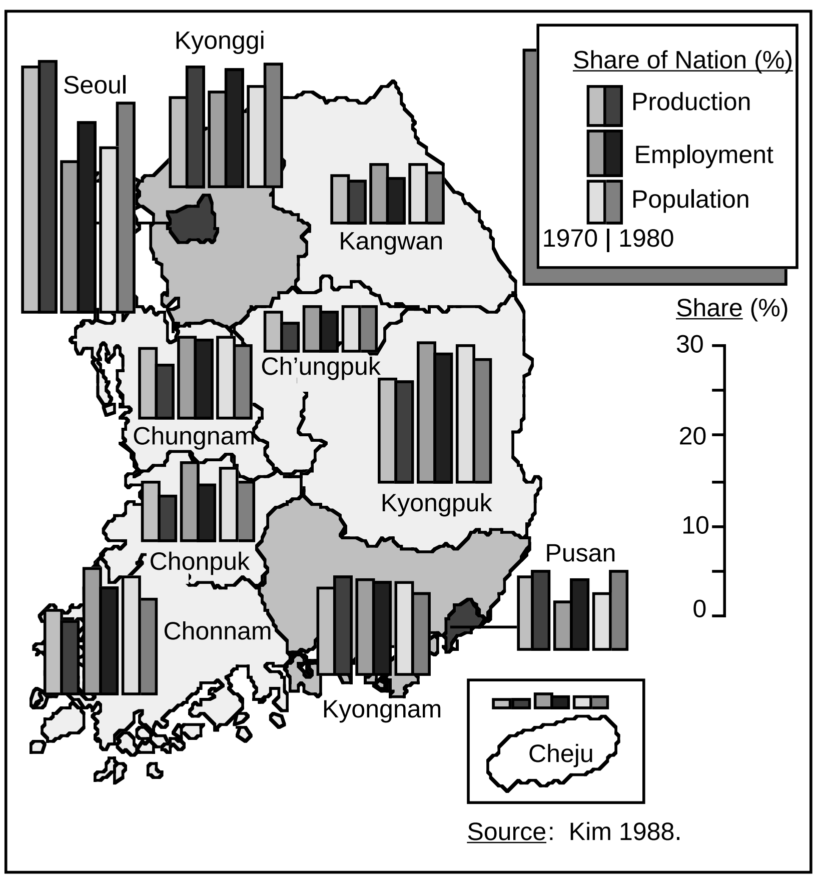
From the 1960s, in tandem with the industrial growth pole strategy, the government adopted one of the world's most imaginative and extensive policies to prevent future concentration of development in the capital city. Many of the policy's elements were contained in the country's First Comprehensive National Physical Development Plan (1972–81), and four types in particular typified the array of approaches (Kim YW 1995; Kim Won 1995; Kim and Choe 1996):

- **Direct controls on population mobility**
  - – Forced elimination of squatter settlements and squatters from Seoul (from the 1960s);
  - – Special citizens' tax on Seoul residents (1973);
  - – Severe restriction on the expansion of universities and number of university students in Seoul (from the 1970s), with emphasis on establishment of Seoul-headquartered university branches in local areas.
- **Direct controls on industrial expansion**
  - – Penalty tax for factory construction in Seoul (1973);
  - – Restriction of new construction of industrial plants in Seoul (1975);
  - – Reduction of the semi-industrial zone within Seoul (1975);
  - – Program for compulsory relocation of industries away from Seoul as part of a three-zone policy (1977): 1) relocation encouragement from large dense cities with high growth rates; 2) limitation and coordination zone for cities about to reach their allowed limit for industries; 3) location encouragement zone where industries were weak and the need to attract was great.
- **Containment of urban expansion**
  - – Adoption of green belt zones around major cities, including Seoul (1972);
  - – Building of private-sector new towns to concentrate suburbanization in selected areas.
- **Removal of government functions from Seoul**
  - – Planned gradual removal of state-run firms and other public agencies from Seoul (1972);
  - – Planned removal of political functions from Seoul, including the Blue House (1970s), the plans for which were abandoned following the assassination of President Park in 1979.

From all of these policies, the bipolar Seoul–Southeast coast pattern of development was an obvious one to emerge. This was so, first, because Korea's gateway to the world economy was more naturally through the warmer water, southeastern coastal areas, namely Pusan, which is merely a few hours away from Japan—Korea's largest supplier of industrial technology and home to several hundred thousand Korean residents. Second, Seoul's precarious geopolitical location near the border of an aggressive communist state strongly suggested a need to move development away from that region. Taking both of these factors together, Korea is one of the few countries in the world in which the major urban center is located, both economically and geopolitically, in the wrong place.

Given its locational handicaps, it is surprising that the bipolar pattern of Korea's national space-economy did not appreciably slow the growth of the Capital Region, which continued at a pace faster than that of any other region in the nation. From 1980–85, Seoul and its surrounding Kyunggi Province absorbed the equivalent of 84 percent of the nation's population increase, to reach a total population of 12 million people. Together, Seoul and Pusan–Kyungsangnamdo captured 73 percent of the national employment in manufacturing in 1980, with the greatest share accruing to the Capital Region (Figure 2). Intermediate and smaller-size cities were found to be growing only at national population growth rates and falling further back when compared to the growth of Seoul and a few other large cities. Impacts were also visible on a macrospatial plane as rural out-migration began to be registered, both in terms of severe rural depopulation and rapid aging of the farm population (see Figures 10 and 11).

Figure 2: Distribution of Production, Employment, and Population, 1970 and 1980



The unstoppable polarization of development in Seoul presented great urban management challenges. The housing situation continued to worsen in terms of the ratio of housing stock to number of households, which stood at 54 percent in 1980. Levels of air pollution exceeded official standards. Although piped water supply substantially increased, most households still felt the need to boil water before using it for drinking. In Seoul's continuing high pace of population and economic growth, its huge green belt—which would eventually be opened to development at the end of the 1990s—proved to be an added cost to commuting rather than an effective barrier to containing the city's expansion. Many of the new towns were, in effect, bed towns that did not provide jobs commensurate with the size of their labor force, most of which commuted daily into Seoul.

A daunting question for regional development theorists and planners is: why did polarization reversal not take root? Seemingly, Korea had all of the elements to achieve balanced development with economic growth: the geographically challenged location for the Capital Region, a set of the most diverse and innovative spatial development policies, and a strong government with both the power and the will to implement those policies.

The explanation for the Korean space-economy's resistance to regional balance is found in both the countervailing *implicit* spatial policies and tendencies, and in weaknesses in the *explicit* regional policies themselves. With respect to the first, the phenomenon of implicit spatial policies taking precedence of explicit ones is well known throughout the world. Import-substitution policies, for example, are not explicitly spatial. Nonetheless, they have strong implicit spatial biases toward core urban regions because the market for the consumer goods produced under these policies is principally found in core metropolitan regions, where the more affluent urban populations reside.

In the case of Korea, which has had some of the most formidable import-substitution barriers (i.e., protection against imports) in the world, other factors contributed to the concentration in Seoul. Among these was the need for corporations to interact frequently with government, which heavily regulated industry and also gave rewards and positive incentives to those that it favored. Associated with this phenomenon was the particular nature of industrial organization in Korea under the *chaebol,* namely, large-scale conglomerates that, in choosing to locate their principal functions in Seoul, caused producer services and subcontractors to gravitate to Seoul and its hinterland region. Even when manufacturing or industrial enterprises sprang up in industrial estates in other regions, they were typically branch operations with no autonomy from decision-making in Seoul.

Regional policies failed to account for these powerful centripetal forces. As branch plants located in growth poles, high technology and science parks outside of Seoul fared poorly in attracting segments of *chaebol*-dominated production. Since industrial infrastructure was generally underprovided in other regions, local incentives (under local industrial programs) proved too weak to attract investments to their industrial estates. The constant sense of urgency about problems in Seoul—which were real—also meant that the government continued to spend higher amounts per capita on the Capital Region than on any other region in the country.

In addition, the two-dimensional rural development strategy of village modernization and green revolution had no urban linkages. Farms became both more efficient and more narrowly specialized through subsidies for grain production. As a result, remunerative nonfarm activities failed to materialize in rural regions. Migration accelerated beyond the point of economic sustainability of many of these regions. While farm incomes increased to keep rural incomes in pace with national economic growth, diminishing populations impoverished rural regions, which became poorer in terms of declining rural and urban functions.

In sum, while spatial policies succeeded in realizing the inherent potential for the southeast coast to develop, and in stimulating urban-industrial growth along the Seoul–Pusan corridor, the larger spatial pattern was one of continuing polarization in Seoul. By the 1980s, the city had already expanded over its administrative boundaries into Kyunggi Province. Some tendencies toward decentralization seemed to appear as secondary metropolitan regions developed, but a third turning point appeared in the late 1980s that would shift fortunes against these regions.

3. Globalization 1985–97: Transnationalization of the *Chaebol* in the Information Age

The bipolar pattern seemingly established by the end of the 1970s was sustained principally to the extent that all labor processes associated with manufacturing by Korean firms were contained in Korea. Like Japan, Korea's economic growth, with equitable income distribution patterns, was based on the formula of importing raw materials and transforming them into manufacturing goods in the country, for both domestic and export markets. This pattern was sustainable as long as regulations were in place to block imports of manufactured goods that competed with domestic production, and as long as labor productivity increased while labor costs were kept comparable to those in competing developing countries. With import-substitution policies in place, and a government that kept a tight lid on labor demands for higher wages, these conditions were met. The economy grew rapidly and labor scarcities—backed by large-scale labor movements in key industries—engaged in intense struggles with the *chaebol* and the state, resulting in significant income gains for workers.

As suggested by labor struggles for higher wages, the developmental state formula of export-oriented growth carried its own seeds of destruction and could not be sustained in the long run. It began to unravel by the 1980s. The turn to marshal law in 1972 under Park's *yushin,* or "revitalization" constitution began to galvanize public sentiment against authoritarian rule, which continued under President Chun Du-whan (1980–88) after Park's assassination. Widespread public mobilization against the state pushed the government into increasing its social spending and accommodating citizen and labor demands. Falling population growth rates and continuous double-digit rates of economic growth accentuated the acute labor shortages in key sectors. At the same time, the *chaebol* were rapidly growing in scale and scope, and were poised to join the ranks of transnational corporations moving labor-intensive production to lower-wage economies in other parts of the world.

The turning point came around 1985 when, as a result of the Plaza Accord realigning major Asian currencies upward against the U.S. dollar, a third watershed occurred in Korea's economic history. All of the domestic and international forces at play came together to undermine Korea's competitive advantage in labor-intensive production for export. The government tried to reinstitute tight control over labor and civil society—which led to the infamous 1983 Kwangju massacre of citizens by government forces. However, such displays of disregard for citizens only furthered anti-government sentiment and action, which finally succeeded in overthrowing the existing government and reestablishing elected governments by the end of the decade.

Wages also continued to increase during this period. In response, Korea's huge *chaebol* followed the lead of Japan's corporations, by moving labor-intensive branch plant operations offshore into Southeast Asia, and even into Eastern European countries which had gained independence after the collapse of the Soviet Union. In addition, an historic trend was set in motion: importing cheap, vulnerable labor from other Asian countries to fill low-paying, unwanted jobs in Korea.

The mid-1980s turning point was a signal that Korea was passing its peak in manufacturing employment. Structural change in the country, and offshore relocation and sourcing of labor-intensive manufacturing and assembly saw employment in this sector decrease for the nation as a whole by 120,000 between 1990 and 1996. Of the total decline, 100,000 manufacturing sector jobs were lost in the Capital Region, but this was compensated in this region by the growth of producer services and higher value-added production, including subcontracting in the Kyunggi area (Kim WB 2000).

As shown in Table 1, the service sector had become the leading employment growth sector by the 1990s. Agriculture declined from 28 percent of GDP and 50 percent of employment in 1970, to 5 percent of GDP and 12 percent of employment in 1998. Manufacturing has continued to increase in share of GDP, reaching 31 percent in 1998, but has been declining as a sector of employment since about 1990, when it reached a peak of 27 percent. Services have steadily grown in both share of GDP (64 percent in 1998) and employment (68 percent in 1998).

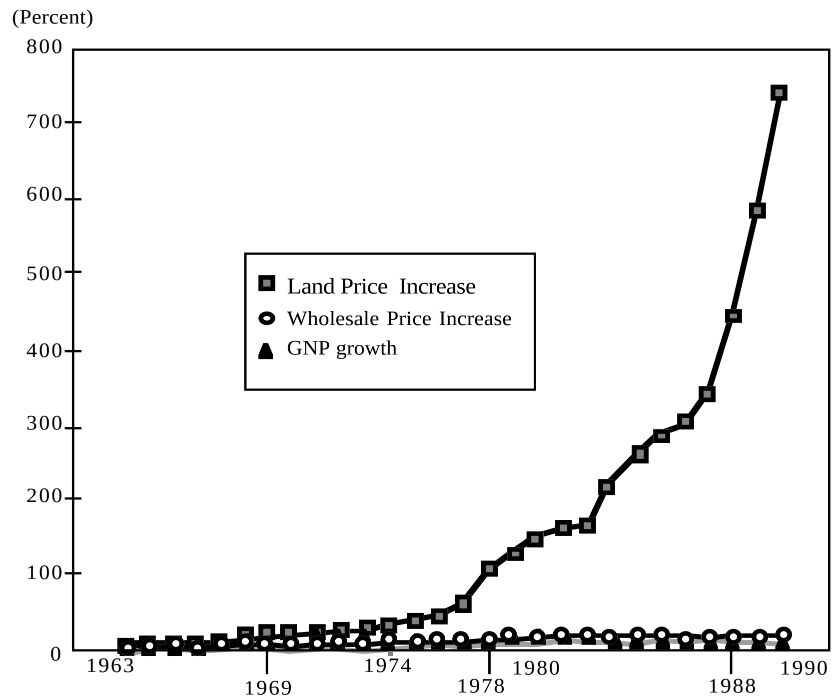
Table 1: Changes in GDP and Employment by Sector, 1970 to 1998

Sector	1970	1980	1990	1997	1998
Share of GDP (%)					
Agriculture, Forestry, and Fishery	28.4	15.1	8.5	5.4	4.9
Manufacturing and Mining	12.4	23.6	29.6	29.3	31.0
Manufacturing	10.6	22.1	28.8	28.9	30.7
Services	59.3	61.3	61.9	65.3	64.1
Share of Employment (%)					
Agriculture, Forestry, and Fishery	50.5	24.0	17.9	12.5	12.2
Manufacturing and Mining	14.3	26.6	27.6	23.6	19.6
Manufacturing	13.2	21.7	27.2	23.4	19.5
Services	35.1	43.4	54.5	64.0	68.2

Source: National Statistics Office (NSO)

Even within the new sectors of manufacturing, most of the local industrial complexes that were to be created by local governments, when local autonomy was established in 1990, actually emerged in Kyunggi rather than (as had been intended) in regions across the nation. Instead of losing economic power as industrial functions shifted to Seoul's periphery, the city was being reconstructed to accommodate new demands for higher order service functions. New producer and global services appeared in Seoul and high rates of profit continued among the *chaebol*. The Capital Region entered into an episode of unprecedented land price increases (Figure 3) as corporations sought land for high-rise office buildings and channeled investments into speculative land development schemes. The hyperinvestment in land in Seoul fed into Korea's own bubble economy, and when global finance hastily withdrew from the country in 1997, these schemes were found to be a major source of nonperforming loans.

Figure 3: Land Price Increases in Seoul Compared to GNP and Wholesale Prices, 1963–99

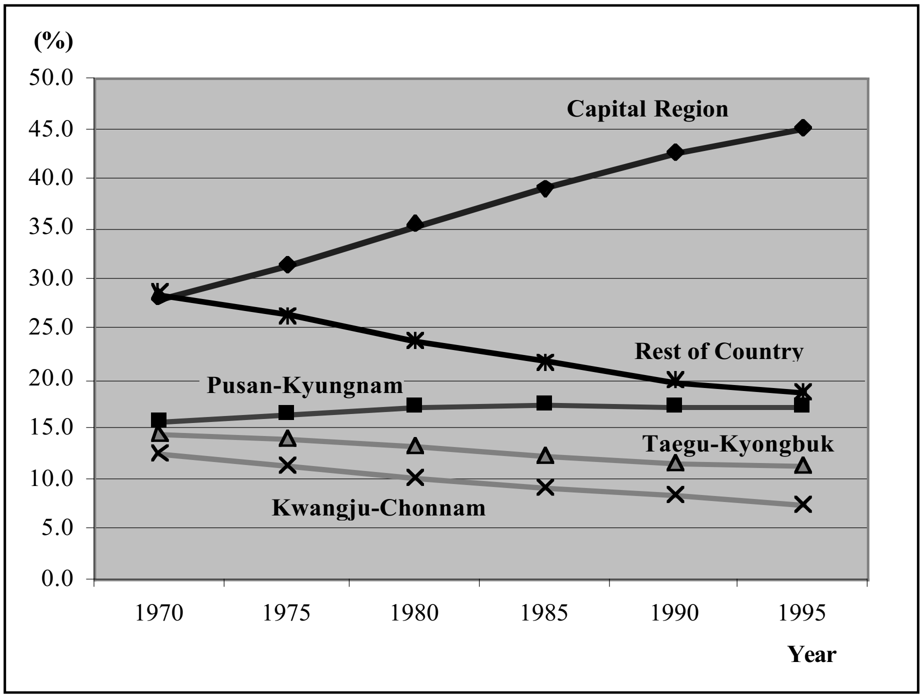


Source: KRIHS (1996).

In other regions, the impacts of branch plant closures from the late 1980s did not have a ready countervailing response. A deindustrialization of branch plant regions occurred, mostly in the southeast. Pusan, which had served as one of the major subcontractor regions for foreign corporations—such as Nike shoes—and had been heavily reliant on the garment industry, fell into a structural crisis. Although some localities did fare well, the overall national pattern was marked by a repolarization of development in the Capital Region. Regional income inequalities widened (Chung 2000).

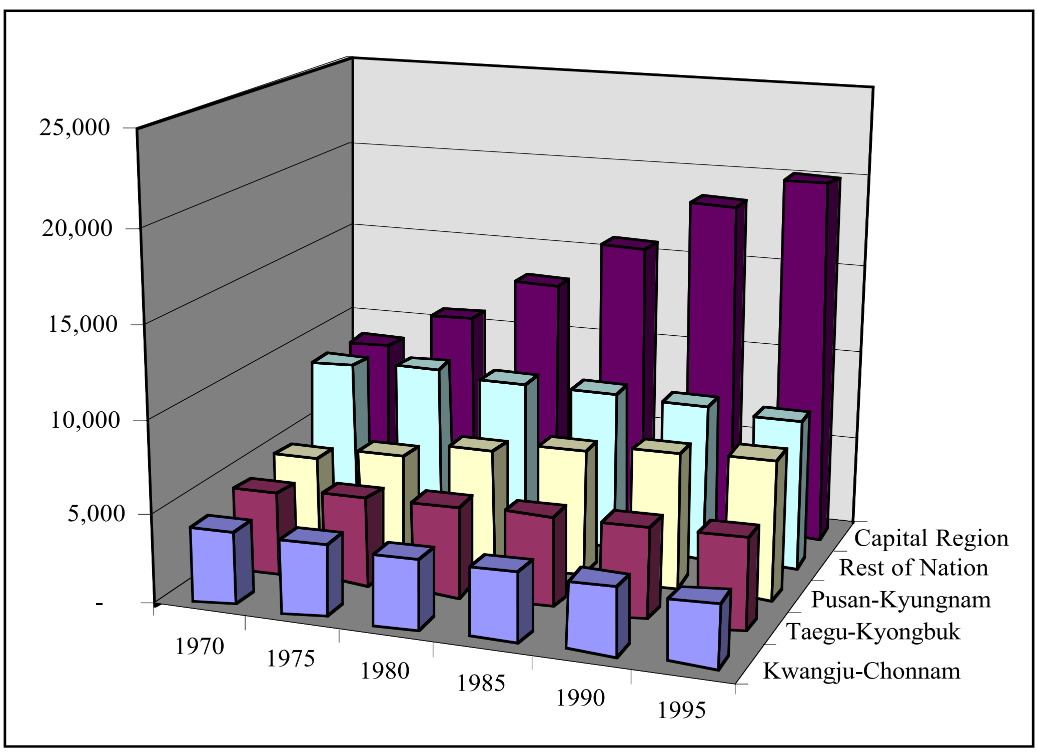
Looking at all the key moments in the Korean territorial development up to 1997, the Capital Region seemed to gain renewed power with each turning point. Its share of national population has continued uninterrupted since the 1950s (see Figures 4 and 5, Tables 1-3). Although the increases in share tapered off somewhat from 1990–95, the Capital Region still continued to absorb population at a higher rate than that of any other region. In fact, while most of the country has experienced a chronic decline in population shares, Table 1 shows that the concentration of factories in the Capital Region has been even greater than its increases in population growth rates. Whereas the population share increased from 21 percent in 1960 to 46 percent in 1998, the share of factories grew from 27 percent to 55 percent in the same time period.

Figure 4: Population Shares by Region in Korea, 1955–95



Source: NSO.

Figure 5: Population Change, 1970–95



Source: NSO.

Table 2: Share of National Population and Factories in the Capital Region, 1960–98

	1960	1970	1980	1990	1195	1998
Population	20.8	28.2	35.5	42.8	45.3	45.6
Factories	26.7	32.8	43.8	54.8	55.6	55.1

Source: NSO.

Although Japan's economy stagnated for most of the 1990s after its bubble economy burst in 1991, Korea and the other industrialized and industrializing countries of East and Southeast Asia continued to experience high rates of economic growth until almost the end of that decade. The dynamics of this growth involved the transfer of light industry from the first-generation, newly industrialized economies (NIEs)—Korea, Taiwan, Hong Kong, and Singapore—to a second generation of Asian NIEs—Malaysia, Thailand, Indonesia, and to a lesser extent, the Philippines. Thus, whereas the Korean economy was being driven by the growth of technology-intensive sectors, those in Southeast Asia were being pushed by foreign investment in low-wage manufacturing and assembly sectors, most of which was coming from Japan and the first-generation Asian NIEs. In this manner, as Southeast Asia began to produce components and low-cost electronics under Korean and Japanese name-brand umbrellas, the first- and second-generation NIEs became increasingly interdependent.

4. The Economic Crisis of 1997: Reformulating National Development

The fourth turning point in Korea came more abruptly than had any of the previous three. It came about by what has come to be known variously as the finance crisis, the International Monetary Fund (IMF) crisis or, more generally, the economic crisis of 1997. Several key economies of East and Southeast Asia—notably Korea, Thailand, Malaysia, and Indonesia—suddenly collapsed. Billions of dollars in short-term financial investments from international sources were withdrawn from local banks, as panic spread with the devaluation of the Thai baht against the U.S. dollar. Economic growth rates that had been sustained, in some cases, for two or three decades were reversed; large and small enterprises become insolvent; unemployment soared; and new layers of poverty appeared as middle and lower-income households experienced great duress under collapsing national economies.[3]

By 1999, signs of recovery were registering in most of the affected economies, yet the episode had indelibly changed fundamental aspects of these societies, political structures, and economic organizations. In Korea, three features stand out from the rest. First, available evidence shows that after the initial impacts, Seoul has been able to recover more rapidly and successfully than other regions, including its surrounding areas in Kyunggi-do. This was so because, as the crisis hit the *chaebol*, retrenchment took the form of cutting orders from subcontractors, many of whom were in outlying areas in Kyunggi and other provinces. Bailouts, mergers, and acquisitions occurring on a major scale in the wake of the crisis also tended to favor corporate operations and sectors in Seoul.

A second impact was a 180-degree reorientation of national policy toward foreign direct investment (FDI). Up to the crisis, Korea had depended very little on FDI, even though a significant share of its manufacturing technology was acquired through licensing agreements with firms headquartered in Japan, the United States, and Europe. As previously noted, Korea's economic success was built around the growth of indigenous enterprises, which were protected by a wall of regulations inhibiting and prohibiting direct foreign ownership of enterprises. In 1998, this policy began to be rapidly dismantled in response to the collapse of several major *chaebol*, as well as IMF requirements for financial and economic reform to open Korea's economy fully to global capital.

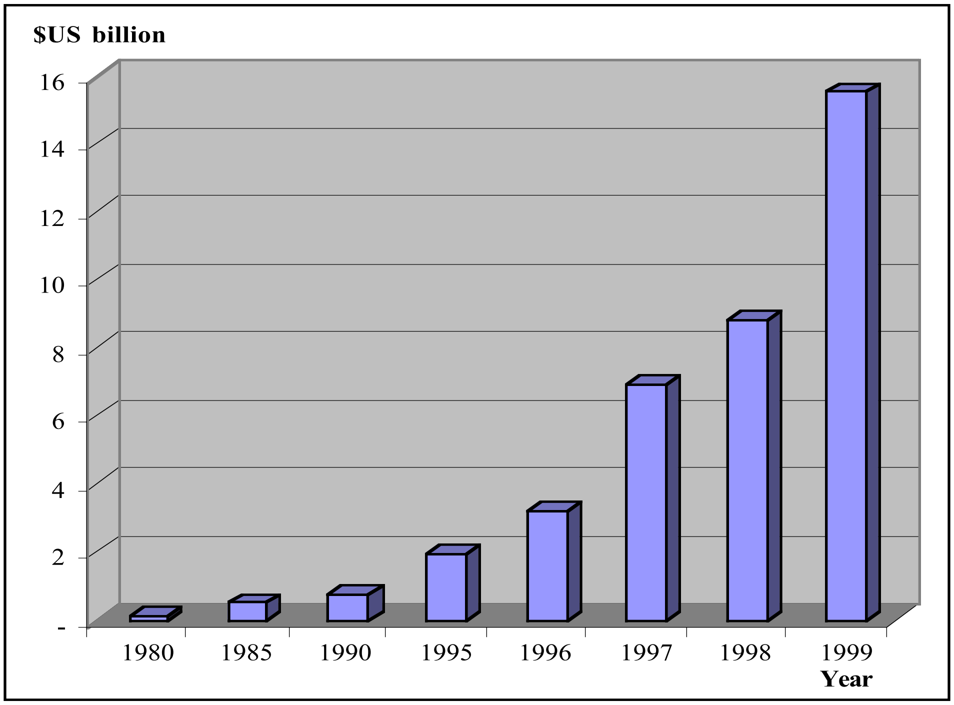
Figures 6-8 show the turnabout in Korea's posture toward FDI. From a level of only $140 million in 1980, FDI jumped to $15.5 billion in 1999, with the biggest surge beginning in 1996, after the Korean government signed onto a number of international finance liberalization measures. As late as 1995, Korea's FDI stock equaled only 2.3 percent of its GDP.[4] This increased to 7.7 in just two years (1997). Since 1997, the government, under IMF bailout agreements, has further lifted restrictions on FDI by opening forty previously closed business lines. From 1998, and for the first time, foreign investors were allowed to purchase real estate. Merger and acquisition markets are also now fully open, including hostile takeovers of Korean companies by foreign corporations. Ceilings on the purchase of stocks of listed companies were abolished in May 1998. More tax incentives were allowed for transnational investors, and a Foreign Investment Zone (FIZ) system was introduced in November 1998.[5]

In addition to opening protected sectors to FDI, selected locations were designated as key points for hosting global investment as a means of establishing Korea's hub position in Northeast Asia. In 1998, the government announced intentions to establish four customs-free zones at the ports of Inchon, Kwangyang Bay, Pusan, and at Kimpo airport in Seoul (Cha 1998). In these zones, firms are to be exempt from customs duties, value-added taxes, and various other indirect taxes. Dispensations and subsidies to be allowed in the zones include: exemption from all corporate income taxes and various other taxes; no rental charge for land; and freedom of entry and exit of goods in the zones, with activities such as storage, manufacturing, and production fully allowed. The government has also again launched the idea of turning its southern Cheju Island into a free trade zone similar to Hong Kong before it was returned to China.

Partly as a result of these fundamental shifts toward hosting global capital, Korea received its largest-ever volume of FDI inflows in 1998, mostly in the form of $6 billion of its corporate assets sold in cross-border acquisitions (UNCTAD 1999). This was four times the average annual inflow of FDI during the economic surge of the early 1990s (Douglass 2000).

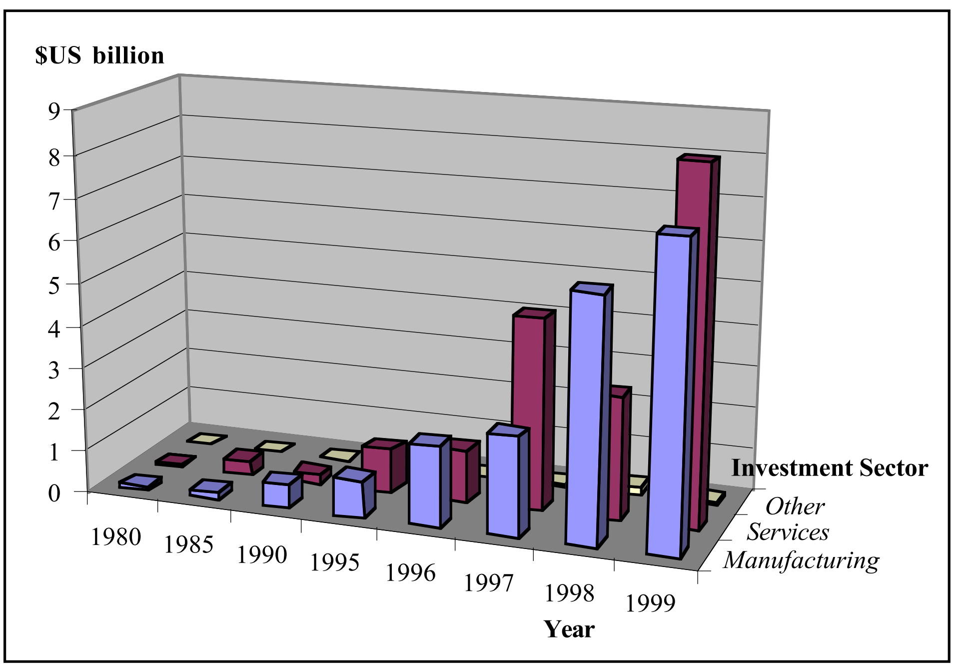
As shown in Figure 7, the early phase of liberalization measures (before the crisis) allowed an avalanche of investment in the "service" sector, namely short-term portfolio investment in finance, which fled in late 1997. Figures 7 and 8 also indicate, however, that signs of recovery are paralleled by new heights of FDI in manufacturing, as well as in finance and services and further, that this investment originates from more diversified sources, across the European Union (EU) and North America. In 1999, FDI increased by 16 percent in money terms, and reached $1.2 billion in January 2000 (*Korean Herald* 2000a). While the number of individual investment cases had not surpassed one hundred per month during the 1995–98 period, by the end of 1999 more than two hundred new cases a month were being registered. By April 2000, FDI was up 24 percent over the previous year (*Korean Herald* 2000b), with $3.8 billion coming in the first four months of 2000 alone.[6]

Figure 6: Foreign Direct Investment, 1980–99



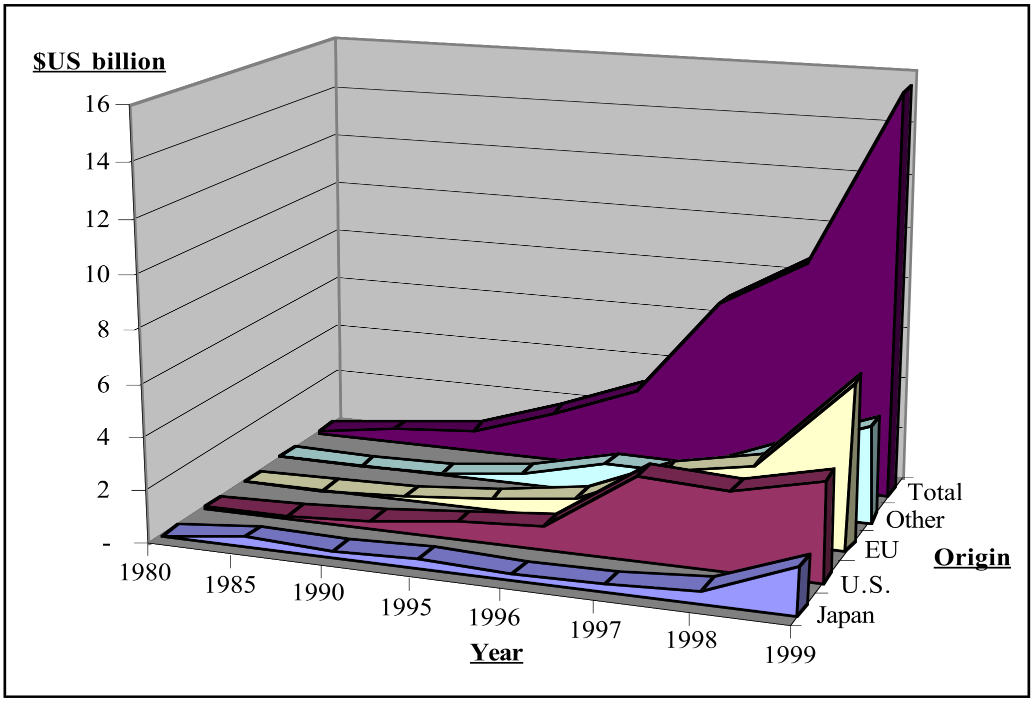
Source: NSO.

Figure 7: Foreign Direct Investment by Sector, 1980–99



Source: NSO.

Figure 8: Foreign Direct Investment by Country of Origin, 1980–99



Source: NSO.

While mergers and acquisitions rocketed among major corporations at a global scale, an equally profound change began to occur at local levels. Previously, local governments had not competed for foreign investment because there had historically been so little. Beginning in 1998, though, the air of national economic and financial reform spurred provinces and cities to mount campaigns to attract FDI. This trend is supported, in principle, by new openings being given to local governments, so they may provide their own incentives to foreign investors "within limits of their authority." Provincial and city governments are setting up offices to promote their friendliness and locational advantages to the outside world, and these same local governments are pressuring the national bureaucracy to facilitate—rather than inhibit—FDI flows into the country, as it had done in the past. Across Korea, plans now abound to attract high technology industry into a host of science and industrial parks being planned and built by local governments. All of this development has resulted in a new sense of hypercompetition among cities and provinces eager to establish global linkages via foreign investment in new enterprises. In most cases, however, capacities to attract and manage this investment remain weak.

A third dimension of the crisis is the melding of neoliberal policies with political reform and processes. With national elections in civilian control since the late 1980s, and local governments elected for the first time in 1995, regional politics and the politics of balanced spatial development have emerged as a critical feature of political party campaigns and national government policy. Paradoxically, the election of Kim Dae Jung as Korea's first president from the southwestern Cholla provinces (which ended an unbroken tradition of governments headed by factions from the southeast) has brought this issue to the fore. Local campaigns are raising the fear that the Kim government will seek special advantages for the Southwest at the expense of other regions, and President Kim has established a top-level initiative—the *ad hoc* Commission on Regional Balance—to address these concerns.

In this matrix of economic and political liberalization, the art of achieving a more spatially balanced pattern of national development has taken on decidedly new contours. In brief, the national government's general policy is to remove central government guidance of the economy—a hallmark of the Korean economic miracle—to arm's length, with the expectation that local levels of government will be those at which economic strategies will be principally wrought and implemented. The only exception to this policy of limited involvement in economic management is Seoul. The national government remains committed to upgrading the Capital Region in the context of international intercity competition, which is repositioning national economies in global networks of cities.

5. Current Territorial Development Issues

Among the various aspects of the current territorial patterns of development in Korea, four stand out: 1) the Capital Region, 2) regional imbalances, 3) localization of economic planning and development, and 4) rural-urban linkages in regional development. Cutting across all of these territorial issues is the question of North Korea and national reunification. The current approach to this question is a "sunshine" policy of positive engagement with North Korea, with a longer-term view toward "soft-landing" reunification. This is to be spearheaded by South Korean enterprises, whose investments in the North will both lift North Korea from its severe economic straits and create economic interdependencies that will begin to supersede political-diplomatic discord. With its high outstanding debt related to IMF bailout loans and still relatively low per capita income (compared to many other OECD countries), South Korea is not in a position to absorb a North Korean version of East Germany, which would require enormous outlays of public resources to resuscitate.

Promoting Seoul as a world city in Northeast Asia

Even more than in the past, the greater Seoul metropolitan region is expected to play the major national role among all cities in the post-crisis Korean economy. As put forth by the Government of Korea, this role is also a global one, with Seoul being promoted as a world city performing "logistics functions" in the sphere of a Northeast Asia economic bloc (KRIHS 1995; Kim 1999). Achieving world city status is viewed largely as a function of infrastructure and mega-projects, such as the hub airport in Inchon, and high-speed train connections across the country and internationally to link with rail services through China, Russia, and Europe. Of equal weight, however, will be the quality of living in the region, which is now beset with mounting traffic, and housing and environmental problems. As studies of investment and location of enterprises in a global world show, city regions now need to go beyond providing overhead capital for production in order to attract and keep global investment.

In terms of positioning Seoul as Northeast Asia's world city, the challenges remain formidable. In many ways, urban competition through mega-projects among cities in East and Southeast Asia is already reaching a point at which the region is becoming saturated with underutilized infrastructure (*AWST* 1999). Between Tokyo and Osaka alone, there will be six international airports. As a candidate world hub airport, Korea's New Seoul International Airport in Inchon will not only compete with those in Japan, but also with new hub airports in Hong Kong, other regions in China, and those in Southeast Asia, including the new world hub airport in Kuala Lumpur.

The central problem in all of these endeavors is the intensifying intercity competition, which lacks mechanisms for intercity cooperation on such matters as which city should get which kind of global function. As noted by Ahn and Ohn (1999), world city positioning is more than a simple matter of mega-projects; it also requires significant diplomacy and bilateral, if not multilateral relations. In this regard, Northeast Asia remains one of the most challenged regions in the world, with major powers either having long histories of antagonistic political relations or, in the more open world economy, tending to see the others as rivals, rather than as potential partners in economic matters. The region is making headway, however. China and Korea now maintain diplomatic relations, despite the continuing difficulties with North Korea. Cities in Korea have also been hosting meetings with representatives from cities in Japan and China. Thus, in Northeast Asia, where nation states have historically remained at serious political impasses, new intercity networks based on economic accommodation might, in fact, be the vanguard of international integration.

Equally problematic is the question of how, in the face of increasing pressures to channel public and private finance into global economic functions, the Capital Region can be made into a more livable habitat. Air pollution, perceptions of unsafe drinking water, largely unknown levels of ground pollution, traffic congestion, and housing are among the major issues. In the Capital Region, the share of population with access to central water supply is 80 percent, and to sewerage only 32 percent. Without improvements in road construction, traffic congestion will have an estimated $190 million in social costs in large cities. Further, because this congestion hampers truck deliveries, only 60-80 percent of freight is shipped on time from international harbors in Inchon and Pusan.

With respect to housing, Seoul has less than half the residential land area of the smaller but high-density Tokyo Metropolitan Region (KRIHS 1996). With housing starts down after the 2 Million Housing program was completed a decade ago, housing construction has fallen off in Seoul. This decline suggests a continuing problem of households doubling up in units meant for one family, as the supply of housing units is sufficient to house less than 80 percent of the number of households in the Capital Region. With economic recovery focusing renewed attention on Seoul, land and housing prices are again beginning to climb, perpetuating one of the most long-standing and critical public policy issues for the region and nation.

Evidence also indicates that income inequality, homelessness, poverty, and unemployment are proving difficult to reduce through resuscitated economic growth alone. The number of households at or below the poverty line grew from 13.4 to 21.1 percent of total households between the end of 1997 and the first quarter of 1999. Relative inequalities have also increased. The share of total income in the lowest population quintile has fallen since the crisis, whereas the share accruing to the top quintile has increased (Kim WB 2000).

Following from the EU and U.S. experiences, unemployment is likely to remain higher in post-crisis Korea than before, although causes will vary by region (Kim WB 2000). The factors underlying the anticipated new era of urban poverty are: the increasing shift from full-time and permanent employment to a higher proportion of temporary or daily labor; the decline of unions and labor movements under international competition; and the return to rising land prices linked to new wealth generated by finance capital. A rapidly aging society, with weakening intergenerational support among families and relatives, is expected to add a new layer of elderly poor. Supporting these people will also put increasing burdens on the active labor force, as the ratio of nonworking to working population continues to climb. Even with economic recovery, more direct approaches, such as those being launched to provide social safety nets, will be needed to compensate for the economic turbulence, rapid economic change, and demographic transition that Korea faces in the future (Lee 2000).[7]

Ultimately, Seoul's globalizing economy and its habitat for living are interconnected. In the long term, the pursuit of one element at the expense of the other will not bode well for the city's social, political, economic, and environmental sustainability. Given that the Capital Region now encompasses almost half the Korean population, harmonizing these two elements in Seoul will provide a key to the future of territorial development for the country as a whole.

Reducing regional imbalances

From a central government perspective, regional disparities are seen principally as a problem of national unity rather than one of economic development, which is now expected to respond to local characteristics and initiatives. Although typically put forth as a question of economic equity, regional imbalances in Korea have taken on an observable political dimension. Politics manifest themselves in regionalist parties and candidates, who allude to favoritism toward other regions and provinces as a major plank of their political platforms. This tendency has a long history, and follows, to a great extent, from the regional origins of national leadership. Since 1993, when the Regional Balance Law was promulgated, the government has viewed attaining a more regionally balanced pattern of development as a matter of holding the nation together politically. It is understood that these balances should become apparent both in terms of economic attainment and quality of life.

From the local levels, however, regional imbalances are increasingly seen as the outcome of a highly competitive game, in which cities and provinces endeavor to attract foreign investment through direct global engagement. Thus, while election campaigns tend to divide national politics along regional rivalries over sharing the public purse, local governments are heavily engaged in constructing high technology parks, infrastructure, and other, more liberalized institutional arrangements to bring international investments into the local economy. Whether these two perspectives can be bridged to promote a more balanced pattern of economic growth, not to mention national welfare, is one of the crucial issues that Korea faces.

Until the 1997 economic crisis, regional policy was driven from the center. In the 1960s and 1970s, this created industrial growth poles in the outskirts of Seoul and in the southeastern provinces, which established the bipolar national development pattern, which in turn dominated the space-economy up to the late 1980s. This included national and international transportation infrastructure, such as highways and port development. Such a pattern was seen as critical, not only for achieving a more balanced pattern of regional development, but also for accelerating national economic growth by focusing on those regions with the highest potential to create foundations for light and heavy industry in an export-oriented economy.

A lagging region element was added in the 1970s by dividing the country into four river basin regions. These were further divided into eight intermediate subregions, and then into seventeen small areas. Such divisions represented an initial attempt to use geographical features, rather than administrative boundaries, to organize space for development planning.

Most of the financial resources for this project, which came from World Bank loans, were channeled into physical investment in roads, water supply, sewerage, and industrial estates. In the 1980s, under the second national territorial plan (1982–91) more remote island and mountainous areas of Cheju, Taebaeksan, Jidoksan, and Tadohae were selected, with tourism as the development focus. Later, two other special development areas, the 88 Olympic Highway and Unification Mountain Park, received attention.

Also in the 1980s, a Balanced Regional Development policy was adopted to revitalize rural areas by constructing some 300 small-scale industrial estates within them. By 1995, these estates had a total factory site of 30.5 km^2, or 3,600 small and medium enterprises (SMEs) with 97,000 jobs. This was equivalent to about 10 percent of total employment created in all industrial estates in Korea. More generally, though levels of performance vary greatly, industrial estates have been used as the principal tool to decentralize Korea's economic growth, and their contribution to the country's territorial development over the past four decades has been obvious. By the late 1990s, the estates accounted for approximately half of all factory sites, one-third of industrial employment, and half of the nation's industrial production.

Despite these programs for regional balance, and the successes they have achieved, regional imbalances have persisted and, in terms of population distribution and economic growth, have even increased at a macrospatial scale. Up to 1995, for example, half of the 94 local industrial estates built—which accommodated 4,850 factories employing about 310,000 people—were located either in the Capital Region or in the southeast, even though the program's intention was to promote less industrialized regions. In other regions, industrialized estates remain largely unintegrated with the local economy, and have not contributed significantly to local economic development. In the 1990s, a special focus was given to the Southwest, which had been relatively neglected by Seoul–Pusan corridor development. Two-thirds of the new estates were to be built in these less prosperous regions, but mechanisms for overcoming past lackluster performances remained unclear.

Following the 1997 economic crisis, the imbalances of the industrial estate strategy, which implicitly favored the Seoul–Pusan corridor, became more apparent as economic growth responsibilities were, in principle, turned over to local governments. High vacancy rates, accompanied by low levels of interfirm linkages and an absence of research and development (R&D) capabilities, persist among estates constructed in the Southwest and in the less urbanized, central areas of Korea. In the face of rapid technological changes, both in industrial production and in regional communications and transportation systems, their infrastructure has also become obsolete.[8]

Table 3: Local Industrial Estates in Operation, 1995

REGION	ESTATES		AREA (1,000 m^2)		ESTABLISHMENTS		EMPLOYMENT	
	Number	Share	Number	Share	Number	Share	Number	Share
Capital	23	24.5	4,342	5.3	793	16.3	49,520	16.0
Southeast	20	21.3	33,351	40.7	2,604	53.6	146,131	47.2
Central	25	26.6	18,707	22.9	385	7.9	48,488	15.7
Southwest	21	22.3	23,908	29.2	946	19.5	59,361	19.2
Kangwon	5	5.3	1,558	1.9	126	2.6	6,211	2.0
Total	94	100.0	81,866	100.0	4,854	100.0	309,711	100.0

Source: Korea Chamber of Commerce and Industry (KCCI), *Current Status of Industrial Estates* (Seoul 1996), pp.10-25.

The extent to which regional imbalances should be viewed as an economic development problem within Korea is the subject of considerable debate. Most acknowledge it as an issue in maintaining national solidarity toward a more turbulent outside world, which requires greater cooperation among Korea's people. Others argue that uneven spatial development reflects relative differences in economic efficiency over space, and should therefore not be altered, in the name of equity, in a way that would lower national economic growth. From this familiar efficiency-versus-equity trade-off comes a second observation: that regional imbalances in Korea are not, in fact, pronounced. Government figures show, for example, that the Capital Region's share of the GDP is actually slightly less than its population share. Such figures suggest the extraordinary conclusion that Seoul's urban agglomeration economies have been exhausted, even though people continue to migrate to the region at a rate that steadily increases its share of the national population.

It can also be argued that the four decades of explicit policies toward a more balanced spatial development pattern succeeded in spreading basic infrastructure more widely over the nation, and stimulating the growth of secondary metropolitan regions and selected industrial growth poles (Kim YW 2000). This is borne out in Table 5, which shows that while Seoul has enjoyed two to three times the level of economic and social opportunities compared of the rest of the nation, its dominance in this regard decreased slightly during the 1980s.

Much of the spread of infrastructure, however, was instrumental in increasing the reach of Seoul's *chaebol*, rather than developing long-term economic strength in provincial areas. And even though other metropolitan centers did grow, their economies have remained precarious and without local enterprise headquarter functions. In fact, in the years leading up to the crisis from 1990–97, the six largest Korean cities lost their importance as manufacturing centers, and their overall productivity declined. Pusan, Taegu, and Taejon appear to have suffered most (Kim WB 2000:44).

Table 4: Economic and Social Opportunity Index, Seoul, and the Rest of the Nation

Territorial Unit	1980	1988
Seoul Capital Region	156	141
Rest of the Nation	65	67

Note: The opportunity index is a combined index including administration, research, education, income, and employment opportunity. The index for the nation, including the Capital Region, is set at 100.

Source: *The Third Comprehensive National Land Development Plan 1992–2001*, Government of Korea.

With each new turning point in the Korean economy, the trend toward improving regional imbalances was reversed. At each point, the various factors involved favored a re-concentration of the economy in and around Seoul. Overall, from 1960 to 1995, the population of the Capital Region grew an average of 4.2 percent per year, as compared to the national population growth rate of 1.6 percent. The nation's second-tier metropolitan regions—Pusan, Taegu, Inchon, Kwangju, and Taejon—also grew rapidly, but their rates were slightly less, on average, than that of the Capital Region.[9]

Government GRDP data (data on income produced), which shows lower per capita productivity in the Capital Region than for the nation as a whole, presents an exceptional anomaly to experiences in other OECD countries, and merits further investigation. Nevertheless, the case is compelling that regional inequalities are high and do present a policy problem. The steadily increasing share of national population accruing to the Capital Region—without any reversal over four decades—is itself evidence of its higher productivity. Moreover, GRDP data should not be assumed to equal income received. In the Korean context, for example, while branch plants in provincial areas might produce high levels of value-added, the profits and income streams from that production are largely transferred to corporate headquarter functions in Seoul. Evidence from tax collections, which show Seoul to be paying almost three times the per capita average for the nation, indicate that GDP accounts seriously underestimate the much higher level of income produced in and captured by Seoul. In fact, from the pre-crisis year of 1995 to the middle of the crisis year, 1998, Seoul's tax ratio jumped from 2.2 to 2.7 times the national average, suggesting again that the city weathered the crisis better than other regions in the country (Kim WB 2000).

Furthermore, there are indications that the economic recovery is reasserting patterns of uneven spatial development which also favor Seoul. Preliminary evidence shows that economic liberalization and global competition focus more concertedly on the Capital Region while other regions struggle to find new economic bases for their future growth (Kim WB 2000). For example, very large shares of the new wave of FDI have been directed to Kyunggi Province in the Capital Region, which captured $2 billion in FDI in 1999.[10] At the same time, with the crisis accelerating structural change in the Korean economy, labor-intensive manufacturing in traditional economic sectors are rapidly giving way to transport, telecommunications, and computer industries as leading sectors. This shift from older sectors of manufacturing to a knowledge economy translates into an even greater spatial affinity to the Capital Region where the infrastructure and talent in this area are concentrated.

As noted by Kim, the aftermath of the crisis has revealed that the "regional problem in Korea is no longer limited to less industrialized, poor regions" (Kim WB 2000:40). Korea now faces both types of contemporary regional issues: the so-called older industrial region problem, and the continuing lagging region (rural) problem. Unless both are successfully addressed, the post-crisis era may well see a heightening of regional imbalances. The regional playing field for competition must be made more even, through direct attention to capacity-building in previously less favored localities, which are now being asked to find a niche in the world economy. If this does not occur, deregulation and globalization may well contribute to the country's propensity for regional imbalance. Policies for declining industrial regions and depopulating rural regions will be key in reaching toward a more even pattern of spatial development. They will also be needed to build a more resilient national economy, composed of many regions with vital economies, rather than dependencies on global linkages mediated through Seoul as the ever-expanding motor for economic growth.

Localizing and democratizing economic planning and development

The 1997 IMF crisis proved to be a catalyst for one of the most fundamental changes in Korean territorial development. Along with democratization and the initiation of locally elected governments in 1995, the deregulation of the Korean economy—not just financially, but across the board, including trade and FDI in production and services—is transferring the opportunities and burdens for international economic competition down to municipal and provincial levels. In contrast to the strong, centrally guided territorial development processes of the preceding decades, the advent of the post-crisis era of the early twenty-first century is redefining center–local relationships. Each locality is now called upon to find its own way in Korea's globalized economy. Central government is expected to shift away from command and control functions, and toward a more facilitative partnership-in-development role (Kim WB 2000).

A fundamental obstacle to realizing this new political orientation is the wide gap between the new expectations and local capacity. The financial autonomy of local governments, for example, remains very low, and the less connected a region is to the main national development corridor, the less likely it is that simply transferring planning authority will be matched by current revenue-generating capacity. In 1999, an estimated 82 percent of total tax revenues was collected by the national government, leaving just 18 percent directly available to local governments as a whole. Seoul captured nearly half of this amount. While transfers raise local spending to 54 percent of national public spending, they tend to come in the form of uniform, centrally determined packages that have little local input in terms of priority setting, or specific project and program design.

There is thus an important race against time. If Korea is to set economic planning on a new, local footing, local government capacity-building in terms of decision-making power, financial autonomy, and personnel quality must be greatly accelerated. This is especially true in the current context, in which the national government seems focused on fostering the growth of Seoul as a world city, while leaving local authorities to promote most of the remainder of the nation.

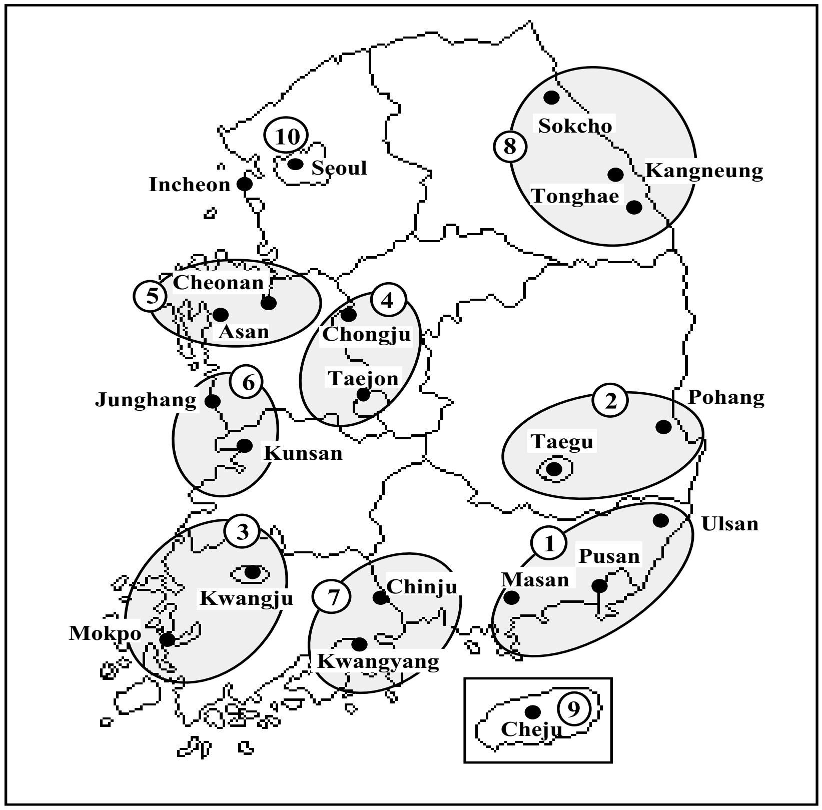
One approach that includes elements of both declining industrial areas and lagging rural areas is the metropolitan and industrial regional cluster concept (Table 5 and Figure 9). Recognizing that existing local administrative arrangements risk making localities too small to function successfully in a globalizing economy, this concept focuses on building seven extended metropolitan regions (including the provinces of Kangwon-do, Cheju-do, and the Capital Region). Whether this initiative offers genuine opportunities for local development remains to be seen. The institutional arrangements for how relations across administrative boundaries will actually be coordinated or adjudicated remains unclear.

Table 5: Policy Orientations of Metropolitan Regions and Industrial Clusters

REGION	AREAS INCLUDED	POLICY ORIENTATION
(1) Pusan MR	8 cities and 7 counties	As a major center for central management and international functions; international convention center and international airport
(2) Taegu–Pohang MR	7 cities and 5 counties	As center for international functions in the East-Sea Rim: international convention center and technology park
(3) Kwangju–Mokpo MR	3 cities and 9 counties	As center for international trading in the West-Sea Rim; industrial outpost toward China and Southeast Asia
(4) Taejon–Chongju MR	3 cities and 8 counties	For decentralization of capital city functions and a center for research and development
(5) Asan New Industrial Area	5 cities and 9 counties	For decentralization of industries from the capital region, industrial center in the West-Sea Rim
(6) Kunsan–Janghang Industrial Area	5 cities and 2 counties	As industrial outpost toward China, industrial growth pole in the West-Sea Rim
(7) Kwangyang Bay Area	3 cities and 9 counties	As outpost for international trade in the Pacific Rim, steel and chemical industries complex

Source: Ministry of Construction and Transportation, *The Third Comprehensive National Development Plan* (Revised), 1996.

Figure 9: Metropolitan and Industrial Regional Clusters

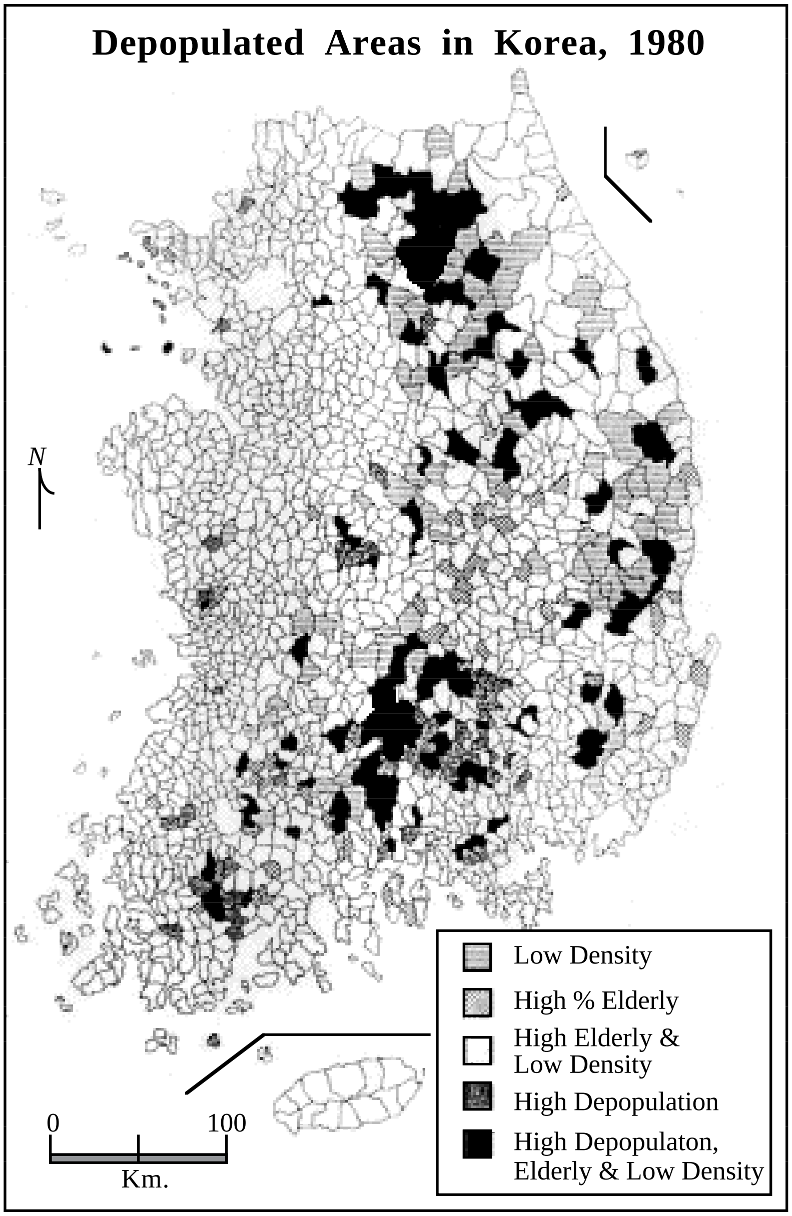


Source: KRIHS (1994), "Consolidated Cities," *Space and Environment*, November, p. 4.

Generating positive rural-urban synergies in regional development

The movement of people out of rural areas in Korea has been part of one of the world's most historically compressed processes of rural depopulation. A comparison of Figures 10 and 11 shows that this process actually accelerated in the 1980s, after the Korean economy was already highly urbanized and manufacturing had peaked in its share of total employment. It was also entering a fourth phase of rural transformation. The first phase was the draining of surplus labor from farms, which took place from the 1950s to the end of the 1960s and was a transfer of rural-to-urban poverty.

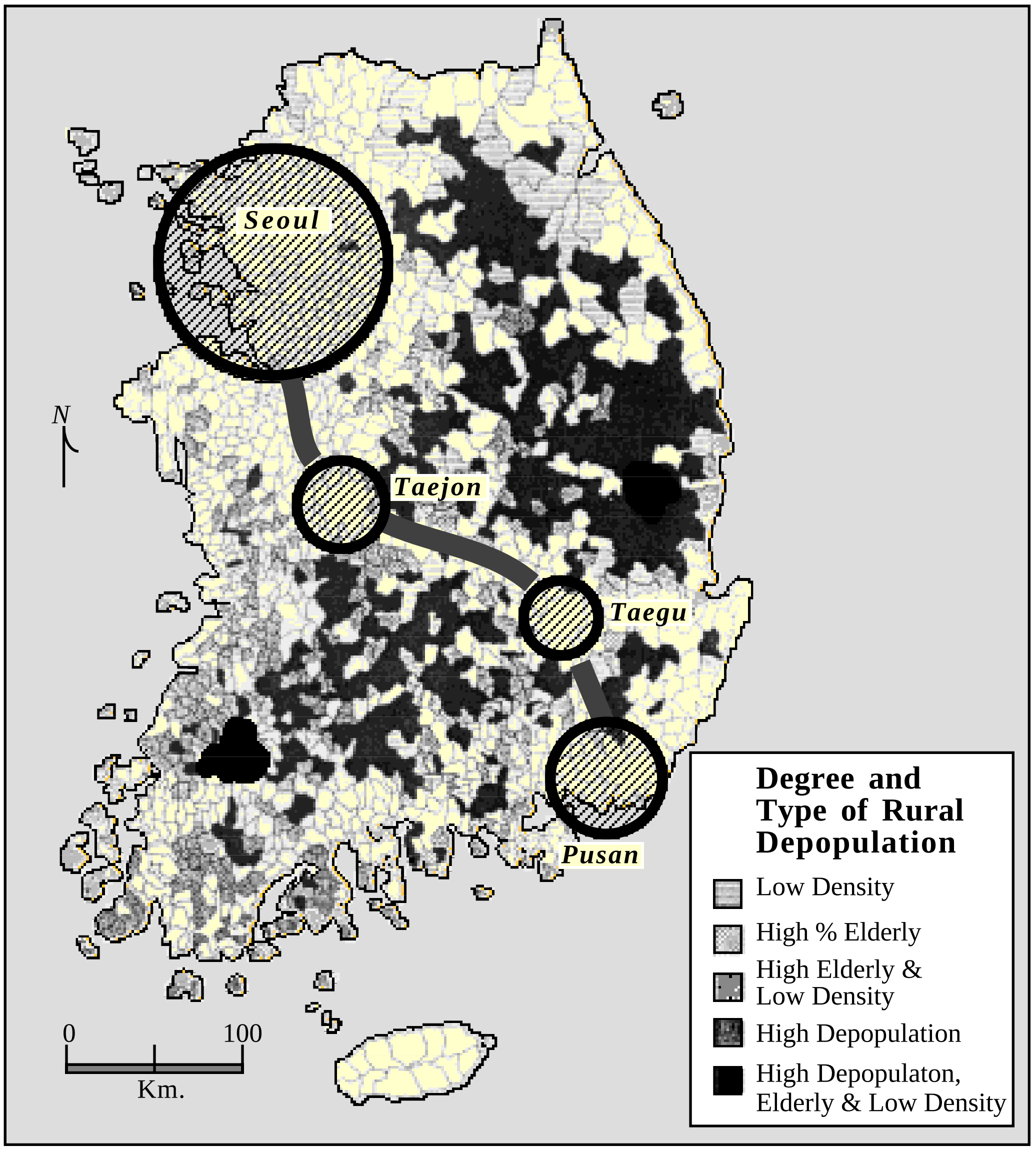
Figure 10: Rural Depopulation, 1980



Low Density	>20% depopulation rate and < 84 people/km^2.
High % Elderly	>20% depopulation rate and >8% population over age 65.
High % Elderly & Low Density	>20% depopulation rate, >8% over age 65; < 84 people/km^2.
High Rate of Depopulation	>30% depopulation rate, <8% over age 65; >84 people/km^2.
High Depopulation, Elderly & Low Density	>30% depopulation rate, >8% over age 65; <84 people/km^2.

Source: Kim Doo-Chul (1996/97)

Figure 11: Rural Depopulation, and National Urban Corridor, 1990



Source: Data on depopulation from Kim Doo-Chul(1996/97), Figure 4.

The second phase, which occupied the 1970s and early 1980s, was a concerted transformation of farm production under the Green Revolution, which steered farmers away from producing high value-added crops. In subsidizing and mechanizing farms, this transformation freed younger generations to migrate to the city in a context of generally prosperous rural households. Migration during this phase increasingly occurred with upward income mobility, as incomes rose in both rural and urban areas. Household income data show that, beginning in this phase, Korea realized a spatial pattern that few other countries have been able to achieve: rural and urban incomes differentials began to narrow to a point of near equality on a household basis (Table 6). Since households in rural areas were generally larger than urban households, the actual per capita differences are greater than those shown in Table 6. Nonetheless, the trend toward rural-urban income convergence is remarkable.

Table 6: Changing Ratios of Rural to Urban Household Income, 1970–97

1970	1980	1990	1997
75.6	95.6	97.4	85.6

Source: SO, *Social Indicators in Korea,* 1990–98.

The third phase, from the mid-1980s up to the 1997 crisis, saw rural regions fall into a much more problematic situation. Precipitous decline in population growth rates occurring over previous decades, coupled with high and sustained rates of out-migration, resulted in rural households having fewer candidates to take farm production into the next decade (Chung 1993). The farming population was aging rapidly, and farms began to be abandoned in some regions.[11] Aged farmers were also less interested in experimenting with new crops or new means of production (Kim 1996/97). All of these factors created a general downward spiral of both town and countryside in the rural regions. Out-migration prompted a further decline in nonagricultural employment opportunities in regions located away from the major urban-industrial corridors.

Policies to counter these trends had limited success. Rural industrial estates, while partially successful, did not offer needed scales of nonagricultural employment. Village modernization, under the *Saemaul Undong* of the 1970s, likewise failed to generate off-farm employment growth, though it did raise the quality of rural habitats. The Green Revolution also probably dampened rather than enhanced rural employment growth overall. Moreover, policies were adopted without an effective local institutional framework, or adequate financial resources to sustain them (Kim YW 2000). Opportunities for younger and more educated people in those areas failed to materialize.

The post-crisis, fourth phase continues in the general context of the third phase, with the added dimension of more deregulation of what was once a highly protected agricultural economy. Under new international trade agreements, Korea's agriculture will be substantially opened to competition from global imports of food and crops. Under current conditions of aging farmers and inefficiencies related to past protection, it is not well prepared for this eventuality (Choi 1997). Equally important is the absence of policies to stimulate rural-urban linkages and nonagriculture employment in rural regions, which have been treated as crop zones with villages, rather than as part of a rural-urban nexus of national development.

In sum, while agriculture incomes are relatively good and maintained through various government support programs, Korea's present situation can accurately be called "prosperous farms in lagging rural regions." Whatever growth the rural areas of Korea have received through agricultural policies, it "has not been enough to create self-reliant economic and industrial bases to achieve inter-regionally balanced growth" (Kim YW 2000:93). While the Capital Region now accounts for about half of the nation's passenger cars, three-fifths of total loans by financial institutions, and 95 percent of corporate headquarters of large firms, most rural areas continue to experience sharp declines in use of schools and roads, have great difficulty in securing investment loans, and support few independent enterprises outside of small farms and family stores.[12]

With respect to the agricultural sector, policies continue to treat rural areas primarily as grain production zones. Although agricultural diversification is often espoused, strategies to accomplish it remain weak, especially in the context of an aging rural population. The principal approaches to farm production have involved consolidating land through purchase of abandoned plots; organizing group farming practices to share labor and machinery; and continuing to support grain production for the urban market (Kim 1996/97). Since policy makers outside of the agriculture ministries consider agriculture to have a limited future, attention has turned toward rural tourism and the continuation of rural industrial estate efforts as the major alternatives. As with the economies of provincial cities, however, all of these sectors tend to have limited local linkages and multiplier effects. Most tourism, for example, is run by highly organized, metropolitan-based tour companies, and often involves external ownership of local hotels, transportation, and tour operation. This in turn results in metropolitan regions appropriating a high proportion of tourist expenditures.

If rural revitalization is to have any success, several fronts need to be pursued. First, rural-urban linkages in rural regions must be given more explicit attention in terms of providing centers for purchasing inputs to agriculture; locating local downstream production activities; innovating in agricultural production; and linking with international as well as national market networks. Freestanding industrial estates, which have very limited local interfirm linkages, cannot help to generate these synergistic rural-urban relations. Greater organizational strength and capacity among rural producers is needed if a virtuous cycle of localized rural and urban growth with local reinvestment is to expand (Douglass 1998). Promotion of traditional food preparation, packaging, and assistance in international marketing are especially crucial as new GATT agreements withdraw the protection that has made Korean agriculture uncompetitive and limited in growth potential. Training in accounting, market research, and management are also required. Alternative tourism, based on family inns, locally run hotels, and tourist activities will be key to making tourism a regionally responsible and economically stimulating activity.

The government intends to move in several of these directions. Programs are currently being developed to train a new generation of some 140,000 young and 150,000 specialized farmers. The selected farmers will receive priority support, including low-interest farming deposits, farmland purchasing funds, and farming machines purchasing funds. Training and agriculture-related education institutions are to be developed to assist in creating "information-based farming." Since 1999, the government and other training centers have supported the direct transfer of professional management techniques to the farmers by linking professional consulting firms with farm households and agricultural management entities.

New types of support for existing enterprises in rural areas fall into two categories: agro-processing and special product complexes. Low-interest funds are to be made available to promote traditional food products in the national diet, and to export crop production through more efficient farming and management methods. Processing through automation facilities and operating funds is to be promoted with a view to creating jobs for the rural community and expanding off-farm income. In all of these activities, a region's own special products, with regional characteristics that are easily recognized, will be emphasized.

To date, what is missing in all of these programs is an explicit recognition of the role that rural-urban linkages can play in stimulating rural regional development (Douglass 1998). In this regard, the government's recent initiative to amalgamate lagging rural areas with nearby cities, to form Consolidated Cities, is promising. In 1995, some 33 cities and 32 counties were slated to become "*Shi-Kun*" (urban-rural) Consolidated Cities (KRIHS 1994).[13] This territorial reform is intended to incorporate economically depressed areas with neighboring cities. Such incorporation would allow for their more systematic inclusion in local development plans; for more explicit focus on extending basic infrastructure to remote rural areas; and for stronger combined economic potential of local cities and their rural hinterlands. Together, the designated areas comprise 26 percent of land area of Korea, thus potentially representing a major shift in the political and administrative make-up of the nation.

The Consolidated Cities formulation will confront a number of serious issues in implementation. There is, for example, no comprehensive development plan that integrates city and rural plans. Also, many rural areas are outside of these new urban-rural consolidations, and risk further neglect. As with other spatial policies, fundamental institutional transformations are needed to translate intentions into reality.

6. Summary and Conclusions

Korea has confronted four major turning points in its development over the past half century. Each has represented a fundamental challenge to Korean society, its political structures, and its forms of economic organization. Among the propulsive factors in creating these transforming moments have been the interrelationship between internal pressures for change—notably those related to democratization—and external changes in the global economy. The rise of civil society and a very large urban middle class as a political force was, for example, made possible in part by globally linked, urban-industrial growth. Similarly, the global economy ultimately depends on the creation of a built environment and institutional support that exists in the real world, at real locations, by societies and their governments.

From this perspective of global-territorial interface, Korea's first phase of development in the 1950s arose substantially from decolonization, war, and the creation of a freestanding nation state which, while carrying out radical agrarian land reform, was preoccupied with building political rather than economic development structures. With minimal exports of goods and services, international funding and U.S. military spending contributed significantly to government operations and the economy in general during this period.

The 1960s to the late 1970s saw the rise of the Korean "miracle" economy based on export-oriented manufacturing incubated through import-substitution policies, which protected against imports of manufactured and agricultural commodities. The implicit social contract of this period, though constantly contested, was that the state would deliver economic growth and increasing incomes to citizens in exchange for authoritarian rule and severe restrictions on civil society and labor's attempts to organize or make direct demands on government. The economic structures for this phase were created through state support of the *chaebol,* family-owned conglomerates that came to dominate the country's space-economy. The formula for economic growth involved keeping wages low through active state control over labor movements, while increasing labor productivity, and directing resources to the *chaebol.*

This phase also rested on heavy government involvement in constructing the territorial infrastructure needed to move from light to heavy industry and to create transportation and communications linkages between the southeast and the global economy, as well as the Seoul metropolitan region. The outcome was a bipolar spatial pattern that saw a significant degree of decentralization of industry, especially heavy and light industry branch plants. Nonetheless, this pattern continued to foster a dominance of Seoul over the national space-economy.

By the 1980s, a third phase propelled by two interrelated forces began to emerge. One of the forces was the steady pressure for political reform that challenged the authoritarian "developmental state" through widespread popular protest movements. This culminated in 1992 in the first election of a candidate not from the ranks of the military, and was further confirmed by peaceful elections of the current national leadership, accompanied by direct elections of local governments. The other front was structural economic change under the logic of globalization, which signaled the need for Korea to begin to abandon its labor-intensive manufacturing and assembly sectors, in the face of growing competition from a new generation of industrializing countries in Southeast Asia and China. The institutional vehicle for Korea's structural change was the transnationalization of the *chaebol*, which began to relocate labor-intensive segments of production offshore. It also came in the form of non-Korean transnational companies (TNCs), which switched from Korean firms to subcontractors in other Asian countries.

The spatial outcomes of the third phase were manifold. A new distinction appeared between "old" and "new" industrial cities and regions. Cities such as Pusan and Taegu, which had become important light industry centers, experienced declining rates of economic growth, while the peripheral areas of the Capital Region captured much of the new wave of "flexible specialization" in higher technology subcontracting. The focus on Seoul was accentuated in terms of corporate headquarter functions, producer services, and higher technology research and innovation. All of these elements, in turn, drove land prices up and accentuated the chronic problems of housing, along with rising traffic congestion and environmental stress.

Thus, as institutional changes moving toward more localized political decision-making were being implemented through government reform, local economies were experiencing increasing turbulence. This turbulence came to a head with the fourth defining moment in territorial development in Korea, the economic crisis of 1997. The spatial impacts of the crisis itself shifted greatly over the subsequent two years of adjustment. In the first instance, the hardest hit areas were those most centrally linked to globalization and global finance—Seoul and other major urban-industrial regions—and not the rural peripheries. By 1999, however, Seoul had managed its recovery more handily than most other regions. This was due not only to the *chaebol*'s management of their own crises by eliminating branch plant extremities in provincial areas, but also to the fact that international bail-out funds were largely captured by the Capital Region.

Though the actual spatial impacts during the peak of the crisis are not yet fully documented or understood, another turning point in Korea's space-economy was decidedly reached. Through deregulation, privatization, and decentralization, the model of central command and control was rapidly coming to an end. Regulatory frameworks that had been established to close off the economy to industrial and agricultural commodity imports and to FDI were being dismantled. Local governments would now have to engage the global economy directly, and to find their own niche in it. Seoul would be the exception, as national government attention was required at its level of world city competition in Northeast Asia.

The current turning point carries high expectations, as well as potential pitfalls. The positive expectations point to a more active society in determining Korea's future under a decentralized, participatory process of political and economic decision-making. Collaborative governance, state–society–business partnerships, and citizen participation are the vocabulary for this new era. Much progress has already been made here, as the institutionalization of directly elected local governments, and the recent flowering of nongovernment organizations (NGOs) both attest. Indeed, over the past decade, NGOs representing voices for environmental protection, social justice, and continued political reform have blossomed across Korea.[14]

The pitfalls in Korea's future arise from the question of whether the pace of political and institutional reform can meet the needs of a less fettered engagement in the global economy. Specifically, can local governments, their residents, and their constituent economic enterprises build up their capacities from their relatively low current levels to meet the challenges of an increasingly competitive and turbulent international economy? If not, a decentralized path of development will likely heighten, rather than reduce, spatial imbalances. Localities that already have higher capacities for autonomous revenue generation and well-trained personnel and infrastructure in place stand a far better chance in competition against the many less well-endowed jurisdictions. Given that the Korean economy is already highly imbalanced in this respect, special care will have to be taken to ensure that local development is placed on a more even footing. The pace of local capacity-building, especially with regard to local government financial resources, will have to accelerate.

Moving toward a more regionally balanced pattern of territorial development will depend on a greater sharing of power between central and local levels of government. It will also rest on the ability of cities and local jurisdictions to cooperate across their immediate boundaries, and to foster linkages that promote complementarities and increased levels of agglomeration as they compete for global investment and markets. Currently, almost all local jurisdictions are too small, and without sufficiently robust economic potential to provide a basis for sustainable economic development. In a world of intensifying intercity competition, these regions are also being compelled to engage in the types of high-risk megaprojects that have already created oversupplies of transportation nodes and high technology sites for wishful Silicon Valleys. Such projects are bound to have more failures than successes, and are missing opportunities to diversify regional economies around the special advantages of their constituent cities and rural areas.

Intercity cooperative linkages might be able to compensate for these deficiencies. Amalgamation of local areas into metropolitan and industrial clusters, including the linkage of rural with urban areas in Consolidated Cities, is an innovative approach that might prove an effective way to meet the challenge posed in the Fourth National Plan (MCT 2000:20) of "creating competitive regions with local characteristics."

In terms of economic growth, Korea has been able to respond to the many turning points it has faced in the past. At this critical juncture, however, economic growth, while important, is only one dimension of the country's present challenges. Moving beyond economic restructuring and finance reform, and considering questions of local capacity-building, governance, and mechanisms for cooperative association across local levels of government are equally important means to advancing Korea's future territorial development and fostering its longer-term economic resilience.

Notes

1. Unless otherwise stated, Korea refers to South Korea throughout this discussion.

2. In 1998 the population density of Korea was 468/km^2.

3. Negative economic growth and the declining value of the won against the dollar resulted in per capita GDP falling from $10,823 in 1995 to $6,823 in 1998.

4. This compares to the following percentages in other OECD and higher-income Asian countries: 7.7 percent in the United States, 19 percent in the United Kingdom, 29 percent in Australia, 71 percent in Singapore, 19 percent in China, 51 percent in Hong Kong, and 32 percent in Malaysia.

5. Any foreign-invested project over U.S. $500 million is now exempt from plant-site rental fees and receives infrastructure support. An Ombudsman Office was opened in October 1999 to speed up FDI processing.

6. Most of the recent investments are small, with 96 percent being under $5 million each, indicating that the big buy-outs of banks and large manufacturing firms—such as Renault's purchase of the Samsung automobile industry—are not the principal form of FDI *(Korean Herald* 2000a*)*. Approximately 80 percent of the smaller investments in 1999 were involved in the purchase of new shares in Korean manufacturing companies, with the remainder in the services sector, including banking and finance. The 287 cases in April 2000 showed a continuing monthly increase since 1999. Of the total accrued from January to April 2000, $2.3 billion was in manufacturing. The biggest surge came from Japan, as EU and the U.S. investment declined, both relatively and in absolute terms, which also reflected at least a short-term decline in major buy-outs and mergers from abroad.

7. As noted by Kim Won-Bae (2000), a U.S. $6 billion social safety net package of programs is being put in place under the Basic Livelihood Security System, formally adopted in September 1999. However, the programs are not yet specifically considering the variable regional contexts of economic restructuring and unemployment, in which some regions experience more rapid recovery than others whose economic downturns are more intractable.

8. A more recent version of this plan to cede economic growth responsibility to local government is the Development Promotion Districts program, established in October 1997. These Districts contain three types of areas: 1) lagging regions that require special assistance; 2) areas requiring intensive investment for the purpose of balanced regional growth; and 3) urban-rural integration. To date, fourteen such areas have been demarcated.

9. In 1995, the six largest cities accounted for 57 percent of Korea's urban population, while 72 other cities and 124 towns comprised 43 percent (Kim YW 2000). During the 1966–95 decades, more than four-fifths (84 percent) of the total increases in manufacturing employment accrued to the Capital Region and the Southeast. Lack of nonagricultural employment in other regions accelerated out-migration.

10. Japan became the top investor source, with 414 investment projects totaling 40 percent of all investment, followed by the United States, which takes up 26 percent. In terms of the volume of investment, the United States leads other investors with $2.6 billion, which accounts for 46 percent of all investments. The Netherlands comes second, with $715 million invested in the province, followed by $706 million invested by Japan (*Korean Herald,* 1999).

11. About 9 percent of Korea's population was over age 65 in 1998. In rural areas (*gun,* or rural administrative districts), the proportion was about 12 percent or higher.

12. Even universities in provincial areas are now witnessing increasing vacancy rates, with fewer successful applicants than there are positions available. In 2000, in South Cholla Province, for example, 19.3 percent of available slots went unfilled. This situation is also raising the financial burdens of local governments in providing higher education (Kim JS 2000).

13. Consolidated Cities follow from the Balanced Regional Development Law of 1994, which includes special Development Promotion Districts. These districts are cities and counties in the lowest 20 percent of the nation in at least two of five categories: population growth rate, fiscal independence, share of employment in manufacturing, road ratio to district area size, and average land price. Assistance given to these districts takes the form of tax benefits (exemption from corporate taxes of various types); basic infrastructure provision from the central government; and increased developer authority, including use of the right of eminent domain, and exemptions from many regulatory rules and procedures (Kim YW 2000). The current National Comprehensive Territorial Plan (2000–20) adopts provincial and local boundaries as territorial units—16 provincial governments, including 6 metro governments as special cities (Seoul, Pusan, Taegu, Taejon, Inchon, Kwangju, and Ulsan). It also consists of a Capital Region Management Plan; enlarged economic area plans; development promotion district plans; and urban land use plans (with the last placed under provincial plans, and all of the former under national plans).

14. In 1995, for example, the consolidation of various environmental groups led to the foundation of the Korea Federation for Environmental Movement, which claimed 20,000 members and 21 local chapters (KNCFH 1996). Two environmental candidates won mayoral elections. Environmental movements were also responsible for the government's adoption of an environmental impact assessment system.

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