

A Suggestion for the Strategic Choice of Seoul to be a Network Center in Northeast Asia

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I. Introduction

Global economy, since the international economic crisis in the 1970s, has been in the process of rapid restructuring into the globalization of economic activities. The UR agreement and the establishment of the WTO, based upon the liberalization of world trade, are accelerating this process, propelling an international flow of production and financial capital. In line with the intensification and the acceleration of capital flow, the number of cities which are likely to be locational candidates for given economic activities is increasing more and more. And, cities are entering into various competitive and cooperative relationships in order to become a hub in each region via attracting global capital, such as Foreign Direct Investment(FDI),

and inducing global functions.

Competition between cities is being manifested most sharply in the East Asian region. It is related with the dynamic changes confronting the countries in the region in the process of economic globalization. The total economic size of the East Asian region is expected to come up to 11 trillion, a similar level to that of NAFTA and EU in 2015, due to the rapidly growing rate of increase in FDI and economic growth. Notwithstanding its recent financial crisis, dynamic development in the region is still expected early in the 21st century when economic restructuring will have almost been accomplished. As trade grows and economic power shifts towards Asia, intensified competition between major cities for developing into a network center in East Asia is

occurring throughout this region.

Governments in East Asian countries have given impetus to the development of strategic urban space so as to lure and promote nodal functions, along with liberalization of economy and trade, and the provision of a variety of incentives for attracting FDI. In particular, they are exerting their efforts on mega-projects, such as the development of large-scale intelligent office towns and living environments preferred by multinational high-income workers that are equipped with new international seaports, airports, and telecommunication infrastructures.

In this manner, East Asian countries have been taking steps toward creating a spatial plan by way of mega-projects in order to achieve the goals to enhance their global roles and to become a network center in East Asia. An urgent priority has also been put on the promotion of mega-projects in Korea in a similar manner with other competing countries in the region. Since the end of the 1980s, a multitude of mega-projects has been ambitiously pushed forward: construction of a high-speed railway between Seoul and Pusan as an elementary step for establishing a linkage with railway network systems of China and Siberia, the construction of Incheon International Airport and Kwangyang and Kadeok-do new container ports for the purpose of securing nodal points of human and physical exchange, together with the

construction of a leading-edge industrial complex, and convention center. However, these projects came under a sweeping revision when Korea experienced economic doldrums late in the 1990s and more decisively during the financial crisis starting from the end of 1997. The construction of a high-speed railway and new international airport were greatly delayed in their schedule, and other projects were also downscaled or nullified.

There have been numerous discussions and critiques as to whether mega-projects promoted intentionally by the government were an appropriate expedient to attain these goals. The points of these critiques can be summarized as:

- 1) they have been excessively focused on providing built-environments without any institutional reform securing freedom of economic activities,
- 2) a host of projects has been promoted separately rather than in an integrated manner,
- 3) the promotion of mega-projects acted as a cause for the recent economic turmoil.

The first critique is admissible, on the grounds that mega-projects have concentrated on the development of real estate and the massive commitment of physical facilities without being concomitant with the long-term view of establishing a network center in the East Asian economic system, along with related institutional and structural

reformation. However, the creation of this built-environment will provide one momentum to make cities more favorable to foreign capital, as long as they are supported by structural and institutional reform guaranteeing freedom of economic activity.

The second assertion that a number of projects have been promoted without considering definite target functions and a long-term objective holds water.

A global city, as a basing point of capital concentration and accumulation, and as a center of control and management of the world economy, is a complex of diverse hub functions which integrate a transnational capitalistic economy: especially, control, managerial, and exchange functions, such as the regional headquarters of a transnational corporation, producer services, a transportation node, a telecommunication and information infrastructure, a newly-emerging postmodern culture and an entrepreneurial landscape. On the other hand, it is difficult for subordinate cities to contain these complex functions at one time, and, accordingly, East Asian cities are making efforts to specialize in one of these functions so as to occupy a subordinate nodal point next to Tokyo, a unique world city in Asia. Their efforts are generally converging into attempts to lure RHQs of TNCs, financial functions, or to revitalize logistical functions. However, megaprojects propelled by the Korean government have been aiming at inducing

all of these functions under the pretext of promoting 'globalization' without definitely targeted long-term goals.

Then, what kinds of functions should be concentrated and accumulated in Seoul? What kinds of strategies should we take to attract a specific function?

This paper, as an answer to these questions, advances a strategic vision of Seoul, and 'strategic measures to realize it, placing stress on which functions should be furthered in priority to develop Seoul into a network center within the Northeast Asian inter-urban system.

Also, we agree with the third critique that the promotion of mega-projects was one of the factors of the recent economic crisis. Financial resources supplied by debt issue from foreign currency markets were driven into the development of real estate and built-environments excessively, which eventually had little to do with productive investment. This stood in the way of the development of a robust economic system, which could have been a possible solution to mitigating the economic crisis when it came. This caused the credibility of the Korean economy to become downgraded in the global economic system.

Consequently, as a strategy to make Seoul a network center in Northeast Asia and to bring about a breakthrough in the Korean economy, we argue that by inducing foreign direct investment, not debt issue, it is necessary to initiate

intensive spatial development, the "International Business Town(IBT)", which is a synergistic combination of various incentives and deregulation programs with spatial programs. This is also a tentative conception of construction and management through mutual cooperation between the Korean government and foreign capital.

The conception of IBT is a synthetic strategy differentiated from existing governmental programs to facilitate FDI and induce global functions in the sense that most governmental efforts are being diverted toward deregulation and incentive programs without any connection to spatial development programs that offer liberal business and an urban environment preferred by high-income and managerial classes. This will strengthen the competitiveness of the Korean economy by securing a networking node of people, goods, capital and information, and function as a strategic locus in helping Seoul take the initiative of rapid economic growth in Northeast Asia.

In subsequent chapters, we shall advance a strategic vision of Seoul and substantial strategies to realize it, focusing on two questions, 'Which functions should be given priority in developing Seoul into a network center within the Northeast Asian networking order' and 'What strategies are needed to concentrate these functions in Seoul'. We begin in Chapter 2 with an appraisal of the competitiveness of

Seoul in East and Northeast Asia, based upon three indices, and then trace the factors that have caused the inferior competitiveness of Seoul. Chapter 3 provides a conclusion which, after analyzing the possibility of three indices respectively, points out that by inducing RHQs primarily and financial services secondarily, Seoul should be developed into a network center in which the aforementioned functions are highly concentrated. Then, the construction of the 'International Business Town(IBT)' is presented along with structural and institutional reform as a medium to intermediate these strategies and to shape them in a spatial scale. In Chapter 4, we will present a tentative development and promotion plan of the IBT.

2. Competitiveness of Seoul as a Network Center in NE Asia

1) Seoul in Northeast Asian Economy

① Northeast Asian Economy

Notwithstanding its recent economic crisis, East Asia is one of the regions expected to develop intensively in the 21st century when structural reforms of each country are completed to some degree. This region has a high growth potential, thanks to its robust manufacturing industrial base and abundant human resources, along with the inter-complementary nature of each country's physical and human resources. Actually, the fact that inter-country

exports within this region in 1996 covered 49% in sum total indicates that interdependence between countries in East Asia is increasing more and more. Cooperation between countries in this region has become more indispensable ever since the recent economic crisis.

The economic system of countries in East Asia may be likened to a V-formation starting with Japan at the top, followed by NICs, ASEAN, and China in that order, and industries are transferred in accordance with the passage of time. Most of all, the future of East Asian is expected to heavily depend upon the economic growth of China, along with the matter whether or not it will join the WTO, and the conditions of its entry. At present, the economic development of China concentrates in the southern area, but it is anticipated that trade and FDI within Northeast Asia are increasing with the revitalization of economic cooperation between South and North Korea, the economic recovery of Russia, and the start of the economic development of the northeastern area of China.

The Northeast Asian region includes such countries as South and North Korea, China, Japan, Mongolia, and the Russian Far East. Cooperation between these countries has great potentiality, on the grounds that they occupy a different stage of development in industry, resources, capital, technology level, labor, etc., with a common cultural background(Confucianism) and

the use of Chinese characters. Cooperation between these countries has been realized in the 1990s, and their FDI in the region increased from 9.6% in 1980 to 11.6% in 1992. This indicates the great potentiality of forming a Northeast Asian economic bloc. In recognition of this prospect, competition between those cities in the region to improve competitiveness as a Northeast Asian network center is being intensified. In this regard, cities are undertaking various projects, such as the construction of hub airports and state-of-the-art communication infrastructures, the development of high quality manpower, deregulation, and provision of various incentives so as to attract transnational capital and production functions.

② Seoul as a Network Center in Northeast Asia

The Korean peninsula has a great geo-political advantage as a strategic gateway to Northeast Asia, making it possible to advance into China, Russia, and Europe northwards and maritime countries to the East, West and South. Moreover, its accessibility to major cities in Northeast Asia is most excellent. The total mobile distance to five major cities of Northeast Asia is 3,600km from Seoul, 6,000km from Tokyo, 5,400km from Beijing, 5,200km from Shanghai, and 4,700km from Vladivostok. Thanks to the central position of Seoul in Northeast Asia, Seoul can function as a most attractive strategic point at

Table 1. Ranking of Competitiveness of Major Asian Cities

	Seoul	Tokyo	Osaka	Singapore	Hong Kong	Beijing	Taipei	Bangkok
Population(1995)	11,641	26,836	10,601	2,848	5,574	12,362	3,417	6,566
SERI(1997)*	19	2	11	16	17	23	-	-
SDI(1995)**	8	5	-	7	6	11	-	9

index : SERI - economic level, business environment, globalization level, urban infrastructure

: SDI - state competitiveness, urban infrastructure, corporate competitiveness, observance level of global trade standard

which TNCs make inroads into the Northeast Asia market.

However, the competitiveness of Seoul as a network center of Northeast Asia is outstripped by other competing cities in the region. First of all, Korea lies in a nutcracker situation falling behind Southeast Asia and China in cost competition and Hong Kong and Singapore in technology competition. Despite the acceleration of economic restructuring to overcome this deadlock, the prospects for the development of technology and alternative industry are discouraging. Besides, increase in labor and land cost, higher interest, ambiguous regulations, poor SOC conditions, and a negative attitude toward foreign capital cause foreign investors to avoid doing business in Korea, or even serve to drive out existing investing corporations to other competing cities. In conclusion, without any long-term view on networking strategy in preparation for the rapid growth of East Asia and Northeast Asia, Seoul has lost its foundation to progress into a strategic hub in the region. This is reflected in research done by the 'Seoul Development

Institute(SDI)' and 'Samsung Economic Research Institute(SERI)' on rating global city competitiveness, in which Seoul occupies a lower ranking compared with other major metropolises in East Asia(Table 1).

2) Competitiveness of Seoul as a Network Center in NE Asia

In this chapter, we will evaluate the competitiveness of Seoul based upon logistics, financial function, and the concentration of transnational corporations. It is a preliminary step to the presentation of networking strategies making it more competitive as a network center in Northeast Asia.

① Logistics

Northeast Asian supercontainer ports ranking within the global 20 are Hong Kong(1), Kaohsiung(3), Pusan(5), Yokohama(10), Tokyo(11), Keelung(12), Kobe(16) and Shanghai(17), and additionally, Osaka, Nagoya, Kitakyūshū, Dalian, Qingdao, Lianyungang, etc. are also functioning as main ports (Containerisation International 1996).

The amount of the imports and

Table 2. Northeast Asian Share in the World Maritime Industry (unit:%)

	Fleet Size ²⁾			Market Size ³⁾	
	National flag carrier	Container ship	Actually- owned fleet	Amount of imports and exports	Amount of container
Share of 6 country ¹⁾	26.8	20.3	30.6	19.1	N.A.
Share of 5 country	22.0	19.0	27.5	18.8	28.8

1) Northeast Asian 5 countries + Russia,

2) Measuring unit: DWT(container ship: GT), 3) Measuring unit: MT(container : TEU)

Source : Korea Maritime Institute(1997)

exports, and container freight of Northeast Asian countries has been increasing more rapidly than those of other countries in the world.¹⁾ Table 2 shows the Northeast Asian share in the world maritime industry

Trade within the Northeast Asian region has increased from 15.8% in 1980 to 23.8% in 1990, and is expected to account for 34.7% in 2000. The shipping market within the region is explosively fast-growing, particularly along with the freight increase to and from China. The container freight of the recently-established Chinese maritime market with the growth of Chinese economic market, composed of China, Hong Kong, Taiwan, and so on, accounts for 17.8% in container freight of the world amounting to 22 million TEU, and is expected to exceed 60 million TEU in 2010.

These changes in the Northeast Asian maritime market have transformed the inter-urban configuration in the Northeast Asian logistical system. The freight and market size of Japan is being greatly weakened, while the

status of the Chinese maritime industry has been strengthened in both freight and market size. The increase in the importance of the southern area in the Chinese transshipment is likely to have negative effects on Korean logistics. Yet, as gradual growth of the Bohai Rim and the northeastern area of China has been witnessed, and Korea concentrates its investment on these regions, there is much room for strengthening cooperation with these regions as the first hinterland market of Korea.

Northeast Asian logistics will be systematized around a central port playing a gateway role which will distribute freight collected from cities within the region to cities around the world, and vice versa. North Korean ports are inferior, and Bohai Rim ports and Russian Far East ports are too distant from the trunk route for large container ships to make direct call. Eventually, South Korea, Japan, and Taiwan ports, and the southern port of Shanghai will enter into a competitive relationship for a Northeast Asian hub

port. These ports, however, will be no match with those of Hong Kong or Singapore for freight shipping on the European line, but will have comparative advantages over freight on the North American line. Table 3 is the result of a comparative analysis of the port competitiveness of these countries conducted by the Korea Maritime Institute(1996). The southern port of Shanghai is excluded from the analysis, in that its infrastructure is inferior to those of other countries despite its geo-economical advantage.

Japan, whose main ports are Kobe, Yokohama, and Tokyo, is superior to other Northeast Asian countries in terms of freight management capacity and the provision of logistical services, but is disadvantageous in respect to the intermediary transportation by land and high logistical cost. It is anticipated that Taiwan will improve its port management capacity through the continuous development of container ports hereafter, and attain superiority over other countries in case of opening a direct line to China. Yet, it is at a disadvantageous position, in that it is separated from the sea route connecting the northeastern part of China and North America. Korea is at a disadvantageous position compared with Japan and Taiwan in the other aspects, in spite of its advantageous geo-economical location as a hub port of Northeast Asia. Hereafter, when it actively participates in transshipment

and intermediary transportation, Korea will encroach on the transshipment function of Japan, but this will be accomplished at a subordinate level to Japan.

In the end, it is highly expected that the Japanese port line, Kobe - Osaka - Nagoya - Yokohama - Tokyo, and the Chinese port line, Tianjin - Qingdao - Shanghai - Ningbo - Xiamen - Guangzhou will function as an offshore maritime hub in a Northeast Asian shipping system. Pusan and Kwangyang along with Dalian, Vladivostok, etc. will serve as distribution centers within the Northeast Asian region. Accordingly, Korea will be in a lower position than other competing countries in the Northeast Asian logistics network.

② Financial Function

The main stock markets are concentrated in Europe and the U.S.A, with Japan lining up with them. Korea was 33rd in aggregate market value among 51 stock exchanges from 40 member countries of the FIBV (Fédération Internationale des Bourses de Valeurs) at the end of 1997. In the East Asian region, Hong Kong, Singapore and Taiwan as well as Japan function as main securities markets, and recently Kuala Lumpur, with its Tax Heaven policy, is progressing into a leading Asian financial center. Stock exchanges listing a large number of

Table 3. Comparison of Port Competitiveness between Three Countries

	Korea	Japan	Taiwan
Geo-economical location			
· North American line	· very advantageous	· advantageous	· disadvantageous
· European line	· advantageous	· a little disadvantageous	· very advantageous
Port facilities	absolutely deficient	sufficient	satisfactory
Transportation to hinterland	possible to intermediate all the Northeast Asian area by land even impossible at present	impossible to transport intermediately by land	possible to participate directly in the transshipment market of Chinese freight, in case of opening direct line between China and Taiwan
Logistical cost	a little high due to subsidiary expenses	very high	low
Logistical service	fail in satisfying needs of shipping company and shipper	provision of satisfying logistical services with efficient port operating system and distribution facilities	provision of satisfying port operation system with exclusive use of port by each shipping company, but insufficient information and facilities
Supporting industry	insufficient financial and informational industry, and discouraging prospect for future investment, compared with Japan	well-advanced financial and informational industry	insufficient financial and informational industry, but promising investment conditions in the future

Source : Korea Maritime Institute, 1996, p.109.

of foreign companies are only located in Japan, Hong Kong and Singapore, which indicates the structure and conditions of the Asian money market. Major offshore money markets are in Japan, Singapore, and Hong Kong, and others have been opened by Malaysia(1990) and Thailand(1993).

Money markets in East Asia are expected to expand along with its rapid economic growth, deregulation of money markets, arrangement of related legislation, and rationalization and modernization of transactions in money

markets through terminal equipment. The countries leading the fund procurement are China, which has shown remarkable economic growth, and Hong Kong, which has functioned as a window of capital flow into China. It is evident that the money market of East Asia will be led by China, the largest market in the region in the long term. Also, Taiwan, which has been actively engaged in a capital transaction and trade with Guangdong and Fujian has a great possibility of growing into a financial center. In this

prospect, major cities in the region are also making efforts to develop themselves into international financial markets with a long-term point of view. Tokyo has been promoting financial reformation with a view to keeping its status as a primary money market in the world. Shanghai and Singapore have also been exerting efforts to devise various programs in order to become international financial centers from a long-term standpoint.

The Korean securities market is only 6th following Japan, Hong Kong, Taiwan, Singapore, and Kuala Lumpur, in descending order. The Korean bond market is relatively better than its securities market, being next to Tokyo and Osaka in rank, but with only 3 foreign bonds it is no match for Tokyo(52 foreign bonds) and Hong Kong(251 foreign bonds). In sum, the Korean money market is outstripped by competing countries and even by Malaysia, which opened an offshore money market in the 1990s.

There is room for the possibility of attracting international financial functions to Seoul with political promotion of the liberalization of the money market, financial restructuring and inducement of foreign capital through its recent entry into OECD and acceptance of IMF recommendations. However, factors such as deficient internationalization of Korean currency, managerial inefficiency of financial institutions, unfledged related services, and foreigners' low

preference for the residential environment stand in the way of developing the Korean money market(Se-jin Kim, 1998).

③ Transnational Corporations Branch Offices of Transnational Corporations

Branch Offices of Transnational Corporations

In 1998, a total of 650 branch offices were located in 31 countries in the Asia-Pacific region.³⁾ Table 5 shows the location of TNCs in 15 major countries in which more than 10 TNCs are located.

China(including Hong Kong), Japan, and Australia stand out among the 15 countries, and there is no wide difference between the other countries except for Pakistan and Sri Lanka. Korea, in which there are 34 branch offices of 22 TNCs, occupies 7th place in the number of the former and 10th in the number of the latter. With regard to cities, Beijing, Hong Kong, Taipei, Tokyo, Singapore, Bangkok, Jakarta, and Kuala Lumpur cut a conspicuous figure, and Seoul, in which there are 34 branches of 19 TNCs, holds 6th place in the number of the latter, and 5th in the number of the former.

For the purpose of a more detailed inquiry into the present pattern of TNCs location, countries classified into several regions and TNCs classified by types of business are cross-tabulated.⁴⁾

Table 4. Securities and Bond Market of East Asian Cities

	Securities Market				
	Aggregate market value		Sale value	Listed firms	
	Amount (billion)	Ranking	Amount	Sum Total	Foreign
Japan	2,216.7	2	1,118.1	3,130	61
· Tokyo	2,160.6	-	896.1	1,865	60
· Osaka	-	-	222.0	1,275	1
Hong Kong	413.3	12	453.7	658	20
Taiwan	296.8	14	1,308.6	404	0
Singapore	106.3	23	74.1	334	40
Kuala Lumpur	93.2	25	145.7	703	3
South Korea	41.9	33	170.8	776	0
Philippines	31.2	38	20.4	221	0
Jakarta	29.1	40	42.6	281	0
Thailand	22.8	41	24.6	431	0

based on the end of 1997

source : Korea Stock Exchange, 1998

Of five regions, the Northeast Asian region, Southeast Asian maritime region, and Australian region cover 242(40.2%), 142(23.6%), and 92(10.0%) TNCs respectively. In the Northeast Asian region, China, with its absolutely huge market, covers 53.7% of all, whereas South Korea is relatively inferior to other countries in the region. In the Southeast Asian maritime region, TNCs are comparatively equally distributed among 4 countries, and the Southeast Asian inland region shows remarkable progress considering its population, area, and economic scale. Table 6 indicates specialized industries by region.⁵⁾ Thickly marked and underlined industries in the table are most clearly specialized in each region.

However, it is difficult to generalize specialized industries in the case of Southeast Asian maritime and Northeast Asian countries due to wide differences in the specialized industries of each country. Table 7 presents the specialized industries of each nation.

TNCs in China, except for Hong Kong where the finance industry is holds a dominant position, are mainly composed of the manufacturing industry; on the other side, a number of trade and distribution industries have set up their branches in China with a view to preoccupying its large market potential. High value-added industries, such as entertainment, finance, lodging and leisure and so on hold a dominant position in Japan, and in Taiwan, manufacturing and

Table 5. TNCs and Their Branch Offices by Country and City

Country	TNCs	Branch Offices	Ratio	Area	Population	Density of branches	
			%	1,000 (km ²)	1,000	Area (branch /1,000km ²)	Population (branch /million)
China	34	130	100	9,597	1,192,350	0.01	0.10
Beijing	25	27	21.01	16.8	10,617	1.49	2.35
Shanghai	16	17	13.45	6.3	13,014	2.52	1.23
Hong Kong	24	26	20.17	1.1	6,061	22.28	3.96
Singapore	31	35	100	0.65	2,987	54.05	11.72
Japan	30	49	100	378	124,452	0.09	0.27
Tokyo	20	30	61.76	2.2	11,774	9.60	1.78
Thailand	28	32	100	513	57,760	0.05	0.47
Bangkok	23	27	85.19	1.6	5,571	14.66	4.13
Australia	27	65	100	7,713	17,529	0.01	3.42
Melbourne	10	11	16.67	6.1	3,094	1.63	3.23
Sydney	15	17	26.67	12	3,524	1.29	4.54
Indonesia	26	35	100	1,905	191,170	0.01	0.15
Jakarta	18	23	64.29	0.66	9,161	27.22	1.98
Malaysia	23	43	100	330	18,792	0.11	1.86
Kuala Lumpur	17	23	54.29				
Taiwan	23	29	100				
Taipei	17	22	77.27	0.27	2,654	62.55	6.41
India	22	39	100	3,288	870,000	0.01	0.04
New Delhi	8	10	26.47	1.5	9,241	6.07	0.97
South Korea	22	34	100	99	45,427	0.27	0.59
Seoul	19	24	70.37	0.61	10,470	31.37	1.81
New Zealand	22	27	100	271	3,414	0.08	6.44
Auckland	14	17	63.64				
Wellington	7	9	31.82				
Philippines	20	29	100	300	64,259	0.08	0.39
Manila	12	14	48.00	0.04	1,588	313.32	7.56
Vietnam	17	28	100	332	69,306	0.08	0.36
Hanoi	10	11	40.00	0.92	2,200	10.87	4.55
Ho Chi Minh City	9	10	36.00	2.1	4,259	4.38	2.11
Pakistan	9	17	100	796	119,107	0.02	0.14
Islamabad	4	4	23.53				
Karachi	8	8	47.06	0.60	9,863	13.42	0.81
Lahore	4	4	23.53	0.33	5,085	12.23	0.79
Sri Lanka	8	10	100	66	17,405	0.15	0.57
Colombo	6	6	60.00				

Table 6. Specialized Industries by Region

Region	Industry
Southeast Asian Inland	<u>Air Transportation and Automobile</u> Computer
	Chemicals and Pharmaceuticals <u>Food and Kindred</u> ,
	Machinery and Equipment <u>Raw Material</u> ,
Southeast Asian Maritime	<u>Chemicals and Pharmaceuticals</u> <u>Food and Kindred</u>
	Lodging and Leisure Raw Material
	Machinery and Equipment <u>Telecommunication</u>
Northeast Asian region	Finance <u>Raw Material</u>
	Telecommunication Trade and Distribution
Indian region	<u>Food and Kindred and Beverage</u> Lodging and Leisure
	Machinery and Equipment <u>Trade and Distribution</u>
Australian region	Air Transportation and Automobile <u>Computer</u>
	Finance, <u>Entertainment</u>
	<u>Lodging and Leisure</u>

Table 7. Specialized Industries by Countries in the NE and SE Asian Maritime Region

Country	specialized Industry
South Korea	<u>Machinery and Equipment</u> , <u>Trade and Distribution</u> , Computer
China	Finance, <u>Raw Material</u> , <u>Trade and Distribution</u> , Telecommunication, Air Transportation and Automobile, Food and Kindred
Japan	Computer, <u>Chemistry and Pharmaceuticals</u> , Entertainment, Finance, <u>Lodging and Leisure</u> , Telecommunication
Taiwan	Computer, Chemicals and Pharmaceuticals, <u>Entertainment</u> , Food and Kindred, Finance, <u>Raw Material</u> , Machinery and Equipment, <u>Food and Kindred</u>
Singapore	Chemicals and Pharmaceuticals, Finance, <u>Raw Material</u> , Machinery and Equipment, <u>Telecommunication</u> , <u>Air Transportation and Automobile</u> , Computer, Entertainment
Malaysia	<u>Chemicals and Pharmaceuticals</u> , Food and Kindred, <u>Lodging and Leisure</u> , Trade and Distribution, Computer

service Industries are evenly distributed. Korea gains the upper hand in the trade and distribution industry, which is an indicator of the fact that Korea is one of the leading countries in international trade; however, except for the machinery and equipment industry, Korea is not very

attractive for TNCs in other sectors. As for the Southeast Asian maritime region, service industries, such as entertainment, finance, etc. are concentrating on Singapore, and manufacturing industries like chemicals and pharmaceuticals, Food and Kindred are evenly distributed over

Malaysia, Indonesia, and the Philippines. Besides, many TNCs in the lodging and leisure sector related to marine tourism are located in the region.

Putting these various reports together, Korea occupies a very low level among 31 countries in terms of the number of TNCs and their branches located in it, and much more in terms of cutting-edge industries like information, telecommunication and high-tech industries. In conclusion, Korea is not in a favorable position to invite TNCs and FDI compared with other competing countries.

Regional Headquarters of Transnational Corporations⁶⁾

The concentration of RHQs of TNCs is a decisive indicator of a city's competitiveness as a network center. Location of RHQs in the Asia-Pacific region early in the 1980s converged into Singapore, Hong Kong, Honolulu, and Tokyo (Robert, 1982). Afterwards, Honolulu lost its competitiveness and Hong Kong, Singapore, and Tokyo were established as a focus of RHQs in East Asia. A new and different pattern, however, developed in the 1990s along with the rise of ASEAN and China as newly industrializing countries, the economic crisis of Asian countries, and, in the wake, their economic restructuring. Figure 1 shows the result of a questionnaire survey for 3,000 businessmen by the Far Eastern Economic Review in 1997 (June-Dong

Kim, 1997). As a most favorable country when considering the relocation of their RHQs in Asia', Singapore, Hong Kong, Malaysia, Thailand, Central China, Australia, the Philippines, Indonesia, Taiwan and Northern China in that order were selected.

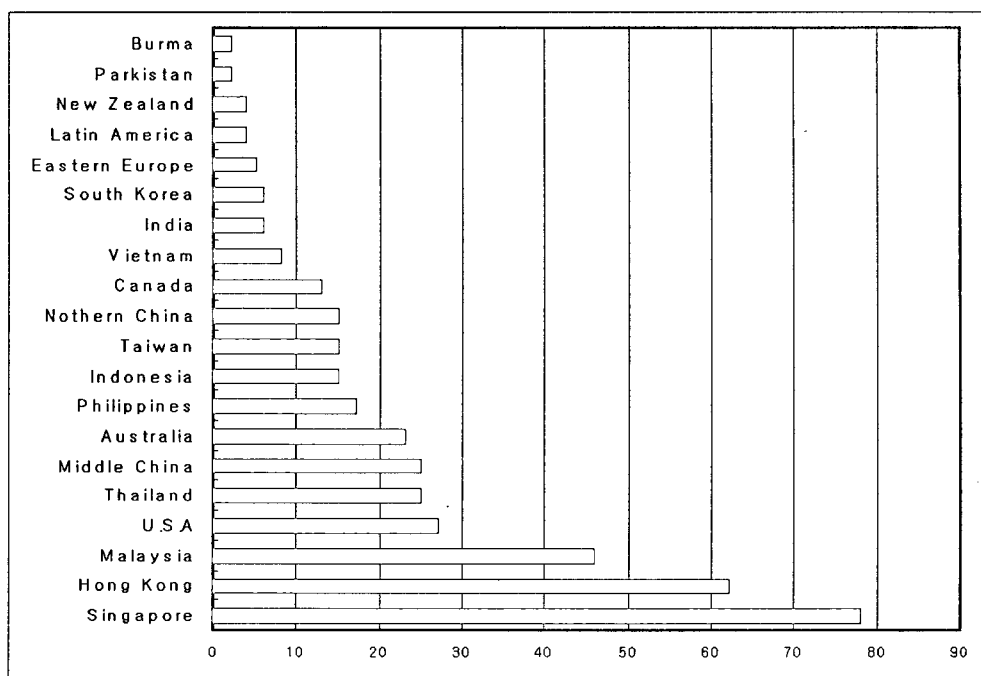
It can be detected that Australia, Malaysia, and China are emerging as a new locational point, while Singapore and Hong Kong are preferred as before. These three countries are becoming locational points of TNCs escaping from Hong Kong and Singapore due to the recent economic crisis. Hong Kong and Singapore are still a strongpoint of RHQs in the Asia-Pacific region, since they provide almost all circumstances that an international business center calls for; namely, a superior infrastructure, especially reliable air transport, state-of-the-art telecommunication, high quality of life, active policy to offer generous incentives to TNCs establishing their RHQs there, a well-educated, English-speaking workforce, and so on. In addition, both countries function as a gateway to China and Southeast Asia, which will be one of the most potential market and production sites in the world in the next century. This is why the two countries are still important locations of Western TNCs in spite of their recent economic crisis and currency instability.

Sydney is remarkably becoming a

favorable location for RHQs of Western TNCs and this is both a result of the government's painstaking efforts to induce RHQs and of TNCs' search for a new point which has maintained a stable economic system following the Asian financial crisis. In 1998, about 200 RHQs were located in Australia, and this can be said to be a considerable sum considering there were about 250 RHQs in Singapore (Christine, 1996). Although it is relatively disadvantageous in the quality of infrastructure compared with those of Hong Kong and Singapore, Australia is an ascendant in a stable

economic system not affected by the recent East Asian crisis, has an English-speaking and Westernized population, inviting living conditions, and an agreeable climate and environment.

Active efforts of government to induce RHQs have made Kuala Lumpur and Bangkok attractive locations for TNCs. The Malaysian authority modeled a system after Singapore, which provides a variety of incentives for multinational corporations which have established their regional operational headquarters in Malaysia. In addition, it has posed a threat to



Source: June-Dong Kim, 1997: p 35

Figure 1. Most Favorable Countries when Considering the Relocation of RHQs in Asia

the status of Singapore as a business hub in Southeast Asia with the construction of Multimedia Super Corridor(MSC) along with an international airport, superhighway, high-speed railway, and the enlargement of a container port.

RHQs located in southern China are mainly composed of manufacturing corporations aiming at establishing factories or obtaining land development rights. In this respect, Shanghai has been tipped by many analysts as a city that will steal Hong Kong's position as the gateway to China. But even with the city's revival occurring at a breathtaking rate, its infrastructure and services will remain behind Hong Kong for another five to 10 years.

South Korea, as is shown in Figure 1, is lower in rank along with Burma, Pakistan and New Zealand. It is also shown in a survey conducted by 'SDI (1998)' for foreign companies located in Seoul. As is shown in Table 8, from the viewpoint of foreign companies, the business environment of Seoul is rather negative, a fact which is more true for American and European business than for Japanese business.

3. Causes of inferior Competitiveness of Seoul

The inferior competitiveness of Seoul in logistics, financial functions, and concentration of transnational corporations can be attributed to the following causes:

According to the survey result, the main obstacles to the development of Seoul as an international business center include not only fundamental problems, such as rigid administrative regulation, but the language and cultural barrier, poor urban infrastructure and environment, and so forth. The possibility of improving regulations is considerably high because, after the IMF crisis, the government is positively leading the deregulation of foreign business activities in Korea, and the restructuring of finance and industry. Therefore, to furnish an excellent urban infrastructure and to overcome the language and cultural barrier is an essential step for Seoul to induce RHQs of leading multinational corporations.

Table 8. Business Environment of Seoul as an International Business Center

Mean	Satisfied(=1)	A Little Satisfied	Medium(=3)	A Little Dissatisfied	Dissatisfied(=5)
3.36	1(0.7%)	19(13.8%)	58(42.0%)	50(36.2%)	10(7.2%)

Source : Seoul Development Institute, 1998, p.102.

First, despite the recently vigorously promoted restructuring, irregularities, corruption, and an irrational decision-making process prevailing throughout politics and society have a bad influence on the nation's credibility. Corruption can discourage FDI in that it increases business expenses in Korea. Moreover, decision-making influenced by kinship, regionalism and school ties along with a back-scratching alliance of government and big business are enormous obstacles invincible to newly-entering foreign enterprises.

Second, administrative, institutional regulation has been perceived as the biggest obstacle to FDI. A complicated and restrictive regulatory system has been drastically decontrolled since entry into OECD and the acceptance of IMF recommendations after the recent financial crisis. Additionally, regulatory reform promoted continuously throughout the 1990s has come to have far-reaching effects, such as a transparent administration and the simplification of procedures. Most of all, the revised Foreign Investment Promotion Law, enforced on November 17, 1998, provides a more favorable investment climate through the provision of improved supporting services and diverse incentives in terms of duration, target, and content of investment. Yet, ambiguity in implementation of regulations and the absence of an entrepreneurial spirit in the bureaucratic system are becoming

serious impediments to doing business in Korea. Consequently, a variety of support systems have remained in a nominal form without being implemented.

Third is the vulnerable structure of the Korean economy. According to the WEFA(Watson Econometric Forecasting Associates, 1998) report for 'country risk' based on 12 indices - price, interest, labor-management relations, political stability, and so on, Korean risk in economic growth rate, economic resilient strength, and economic stability has been aggravated for 2 or 3 years, pointing to a gloomy outlook for economic revitalization in Korea. What is worthy of note is that growth potential, which had been regarded as a strongpoint of the Korean economy, is reported to be inferior compared with other competing countries in East Asia.

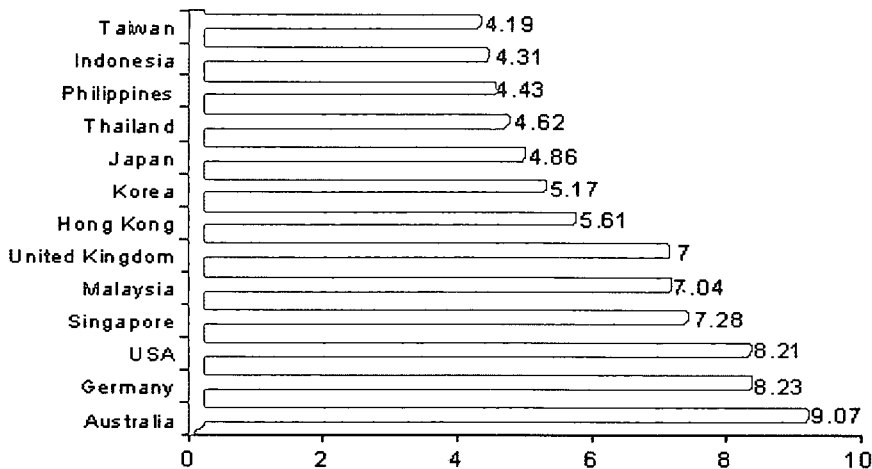
Fourth is the business environment, which is characterized as having poor production factors. High wages, an inflexible and political labor market depreciate foreign investors' recognition of the Korean labor market, despite the presence of an abundant highly-skilled workforce. In addition, high prices and rents, a high interest rate, a vulnerable financial market, restriction on fund-raising, inferior infrastructure, traffic congestion, and high logistical costs constitute barriers standing in the way of making Korea a more attractive locus for doing

business.

Fifth, as is shown in Figure 2, the quality of life, which comprises the residential, natural, cultural, and recreational environment, is considerably behind other competing countries. As is proven from the pattern of

3. Strategies of Seoul to become a Network Center in NE Asia

1) Strategies to Enhance Competitiveness of Each Function



Source : World Competitiveness Yearbook, 1998.

Figure 2. Rating of Quality of Life

locational factors of RHQs, offering an urban environment preferred by high-income brackets and managerial-level personnel is as decisive as providing industrial requirements in attracting the world's top-talent functions.

In a survey provided by the Seoul Development Institute in 1998, foreign enterprises located in Seoul rated the quality of life, especially in terms of cultural facilities and services, dissatisfying.

Seoul remains backward as a logistical, financial, and managerial center compared with other competing cities in Northeast Asia. In order to overcome its inferior competitiveness and to grow into a Northeast Asian network center in the 21st century, it is necessary to establish a hinterland market in which Seoul can exercise its exclusive influence in the dynamic relationship of Japan, Singapore, and China, and based on it, to explore strategies to develop its own niche

market. Therefore, we will advance niche strategies for revitalizing logistical functions, inducing financial function and TNCs respectively, and to sum up, will propose a strategic vision of Seoul to improve its competitiveness as a network center.

① Logistics

As is analyzed above, concentration of Chinese economic growth in the southern area of China adversely affects the development of Korean ports into a Northeast Asian logistical center; Pusan and Kwangyang ports will become inferior to ports in the Chinese maritime market in relational location, distance from the trunk route, and transportation linkage with regions in their hinterland. Japanese container ports, with all their disadvantageous location for the Northeast Asian market, boast unequalled freight management capacity and logistical services. As a result, it is impossible to compete directly with major Chinese or Japanese ports over the occupation of the Northeast Asian market, and so strategies for Korean container ports to become competitive as a logistical center can be summarized as follows:

First, it is necessary to solidify cooperation with major Northeast Asian ports, such as Dalian, Tianjin, and Lianyungang so that major Korean ports may grow into regional hub ports in charge of regional freight

distribution around the Bohai Rim.

Second, supercontainer ports should be developed around Pusan and Kwangyang to attract some offshore transshipping freight on the North American line. For this, it is also important to reinforce cooperation with the northeastern area of China and the Bohai Rim, which is the first Korean hinterland market. Linkages with the Russian Far East, northeastern part of China, Bohai Rim and Mongolia will be easily established with the connection of South and North Korea by overland transportation. If so, major Korean ports could possibly be compared with Shanghai and Kobe as Northeast Asian hub ports. And this change will make the Northeast Asian logistical order enter into new competitive systems.

② Financial Function

The Korean money market lags behind competing cities like Taipei and Kuala Lumpur, and still more behind Japan, Hong Kong and Singapore. To get over the inferior competitiveness of the Korean financial function, it is necessary to explore its own niche market in Northeast Asia through the following strategies:

First, as an elementary step to attract global capital, a thorough liberalization of financial transaction should be secured, as is the case with Switzerland and Hong Kong.

Second, it is necessary to expand its

hinterland market in order to secure a firm base of stability as an international money market. For this, it is required to facilitate capital influx by actively attracting TNCs, and to strengthen cooperation with neighboring countries.

Third, strategies should be set up to make the most of the decline of the Japanese money market. Capital outflow from the Japanese market has become manifest since 1994 due to a rise in the exchange rate of the yen and financial regulation, and, accordingly, the strategy should be focused on absorbing part of this escaping capital.

Fourth, there is a necessity for sharing roles and strengthening cooperation with Japan. For the sake of a stable East Asian money market, it is necessary to establish a new monetary system on the basis of the Japanese currency, and to reorganize the East Asian money market for Northeast Asia to become a leader of the money market in the Asian region by solidifying financial cooperation between Korea and Japan.

③ Transnational Corporations

Inducement of managerial functions like RHQs of TNCs is an essential step for Seoul to be a network center in Northeast Asia. Where to locate an RHQ is influenced by various factors according to the analysis above; a potential market and manufacturing

site in a city's hinterland (Singapore, Hong Kong), excellent infrastructure, especially reliable air transport, state-of-the-art communications (Singapore, Hong Kong), a well-educated, English-speaking population (Singapore, Hong Kong, Australia), an active policy to offer foreign companies generous incentives (Singapore, Australia, Malaysia, Thailand), quality of life, including such factors as culture, health, safety, and education (Singapore, Australia). In addition to the aforementioned, a degree of freedom in business and trade, reasonable economic convention, and political and economical stability can also be an important factors for the location of RHQs. Figure 3, 4 indicates locational patterns of Hong Kong/Singapore and Australia in the form of a diagram.

While the locational factors of Hong Kong and Singapore are made up of intra-urban and extra-urban factors, those of Australia are mainly intra-urban factors because it has no specific market or production site in its hinterland. Australia is relatively behind Hong Kong and Singapore in the conditions of infrastructure, but its economic and political stability is functioning as an important factor to attract RHQs of TNCs, especially after the economic crisis of two competing countries. From this, it can be inferred what kinds of factors Seoul must be equipped with (Figure 5).

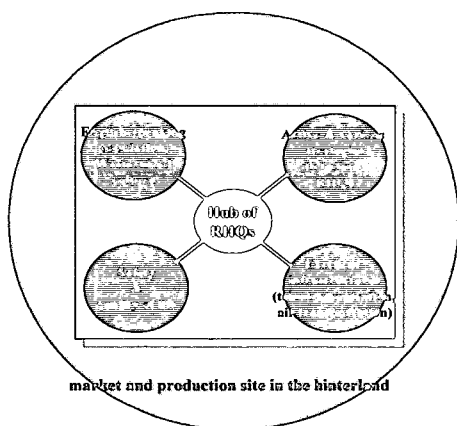


Figure 3. Locational Factors of Hong Kong and Singapore

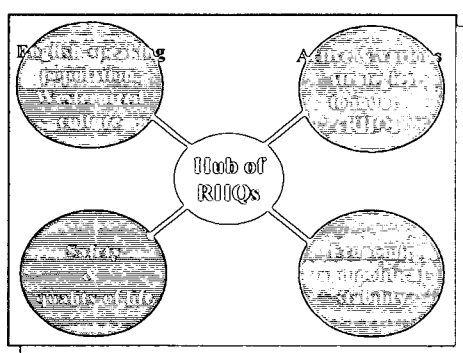


Figure 4. Locational Factors of Australia

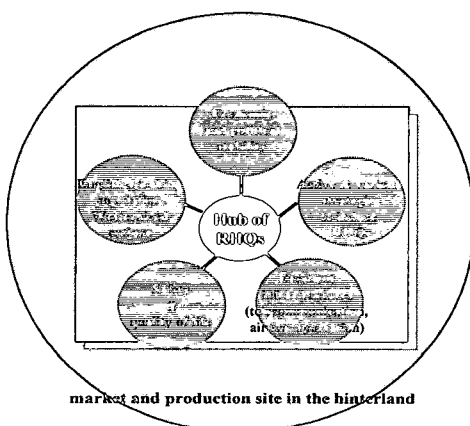


Figure 5. Locational Factors of Seoul for Being a Hub of RHQs

Because of its geo-politically advantageous location as a Northeast Asian nodal point, Seoul, if it satisfies the other requisites necessary to induce RHQs, is not in a disadvantageous position compared with other competing cities. Considering that one of the factors that have made Singapore and Hong Kong nodal points of RHQs in the Asia-Pacific region is a gateway function to Chinese and Southeast Asian markets and production sites, Seoul, with its ready accessibility toward Northeast Asian markets and production sites, is in a better position over other competing cities to be a network center of RHQs in Northeast Asia. In addition, the new Incheon International Airport presently under construction is expected to secure superiority in location, scale, and freight cost over other cities' international airports and to have great potential in becoming a hub airport in Northeast Asia. The presence of a hub airport in a city can be a pulling factor for RHQs. Accordingly, by strengthening its advantages and by making up for its weaknesses in becoming a nodal point of RHQs in Northeast Asia, the possibility of Seoul emerging as a networking hub in Northeast Asia will be enhanced.

One of these three functions should be adopted and specialized so that Seoul may develop into a network center in Northeast Asia, one of the

nodal points next to Tokyo. The logistical function is not appropriate to be a would-be core function of Seoul, which should be intensively fostered at present, while it will play a complementary role of making Seoul more competitive as a network center in the long run. The financial function, taking account of conditions of the money market, the degree of liberalization, and supporting institutions in Seoul, would rather seek its own hinterland market in Northeast Asia and niche market by taking a share and strengthening cooperation with Japan than aim at developing into an international financial center in Asia. On the other hand, with its strategic geo-political location, a highly skilled workforce and hubing potential of the new Incheon International Airport, Seoul, if it satisfies the other requirements necessary to court RHQs of transnational corporations, is not in a disadvantageous position to become a nodal point of RHQs compared with other competing cities. Under such circumstances, business service industries, especially financial services, as a consequence of its high correlativity with managerial function, will be developed along with the concentration of RHQs in Seoul.

Putting these statements together, we suggest that Seoul be developed as a Northeast Asian center for RHQs of leading global corporations and financial services to become a strategic

nodal point in Northeast Asia in the 21st century. Considering that the factors which cause concentration and accumulation of managerial function and the business service industry are of the same sort, the strategy should aim at inducing RHQs primarily and financial services secondarily, making Seoul a locale of highly concentrated control and managerial function. Moreover, if backed up by the logistical function in the long run, Seoul will grow into a virtual networking hub, and will also be solidified as a basing point of high-tech industry and R&D functions.

2) Development Program

① Requisite for a Networking Strategy

The requisites for facilitating FDI and for improving the competitiveness of Seoul as a network center in Northeast Asia are as follows:

Acceleration of Structural Reform

It is indispensable to accelerate reform of corporative and governmental structure, and labor market, to redress the rigidity of the domestic economy and high business expenses.

Specific requirements for corporation reform are the establishment of a market condition which enables corporations to accomplish voluntary restructuring - such as establishing a reliable financial structure and concentrating its own business

resources on key industries - and reinforcement of an institutional system which guarantees a sound structure of corporation governance. The governmental function must be converted from 'regulatory' to 'post-supervisory' and 'supportive', along with deregulation, solidification of corruption-free decision-making, elimination of an ambiguous process of policy implementation, and the heightening of policy feasibility. Additionally, credibility of foreign investors in the Korean labor market should be regained through promoting a flexible labor market and establishing new union-management relations.

Moreover, social structure and business conventions causing 'cost of foreignness' need to be rectified through overall social readjustment, and an antipathetic attitude toward foreign corporations must be diminished through disseminating the importance of FDI and its contribution to the national economy.

Liberalization of FDI and Provision of Incentives for Investment

Liberalization of M&A, enlargement of a participatory opportunity of foreign investors in privatization, abolition of restriction on industry exposed to foreign participation, protection of intellectual property, and so on are needed to maximize freedom of foreign investment. Permission of access to the domestic market, however, is not enough to court FDI

over the threshold, and accordingly, aggressive strategies, such as a provision of diverse incentives are necessary. Besides, in order to maximize the spread effect of induced high-tech industries in home economy, a variety of incentives, such as tax favors for vocation of training, and investment in R&D and capital goods need to be improved to further accumulation of both human and physical capital.

Construction of Telecommunication Infrastructure

A network-supportive system through the development of a state-of-the-art telecommunication infrastructure is an essential step for developing Seoul into a control and managerial hub of RHQs in Northeast Asia. Therefore, a far-reaching project of creating a 'Smart City' should be set up under a long-term view. As a measure to realize this strategy, development of an information super highway network with emphasis on accessibility to information, construction of related physical facilities, and training professional and skilled workers are needed. Besides, the security of business activities should be guaranteed by legislating cyber laws, such as a computer criminal law, and a protection law of multimedia intellectual property.

Improvement of Quality of Life and Environment

Government and business leaders should make efforts to provide a higher quality of life prerequisite to attract high-tech industry, R&D, and especially RHQs of transnational corporations. A clean environment, superior quality of medical facilities, various opportunities for education, and abundant cultural and recreational facilities are elementary factors for a higher quality of life. In addition, the transportation system and facilities should be systematized to curb the increase in business expenses of foreign companies, and a guard system should be maintained to secure a safe living environment.

② Development of Strategic Business Space

The development plan mentioned above to improve the competitiveness of Seoul can be classified into an institutional, structural and spatial program. The investment climate of Seoul is outstripped by other competing cities as is shown in the above analysis, and this is the result of an inferior urban environment, residential conditions, and social antipathy for foreign companies, as well as structural and institutional obstacles. Therefore, it is expected to activate foreign investment not only by means of deregulation and provision of various incentives being promoted

by the government at present, but through constructing a livable and enjoyable urban environment for high-income personnel which is similar to their own country. Deregulation and incentives are adopted by almost all East Asian countries, and, accordingly, to secure superiority over these competing countries, there is a necessity for creating differentiated strategies and an investment environment.

In conclusion, we propose the construction of an 'International Business Town' in Seoul as a medium to intermediate spatial and non-spatial strategies and to shape them in a spatial scale. IBT is conspicuously differentiated from a raft of existing government programs to lure foreign capital in that it combines non-spatial programs with spatial programs that offer an urban environment preferred by high-income and managerial classes. The suggested 'International Business Town (IBT)' will be a 'free city' open to international business in which liberal economic activities are guaranteed by special legislation and administration, infrastructures needed for international businesses like world-class telecommunication and improved accessibility to airports are furnished, and the preference of high-income foreign personnel for a cultural and living environment are satisfactorily met.

4. Networking Strategy through Urban Development

1) Concept

'International Business Town' conceptualizes the idea of securing freedom and convenience of business activities to the greatest extent possible by offering an urban environment preferred by high-income brackets and managerial-level personnel. This is also a tentative conception of construction and management through mutual cooperation between the Korean government and foreign capital.

It can provide a spatial base where foreign TNCs and domestic enterprises can engage in such activities as exchange of information, research, investment, and technological transfer, contributing to improving competitiveness

and enhancing the technological level of domestic enterprises. Additionally, it can be an excellent way of overcoming xenophobia by centralizing foreign businesses and their lifestyles in a specific zone. It is difficult to overcome the exclusiveness that has spread among the Korean population in a short time, so it is desirable to place IBT under a special administration separated from other regions.

Figure 6 indicates the concept of the 'International Business Town'. IBT provides synthetic strategies, including high-quality space for business activities, and a liberal, convenient living environment, leapfrogging existing planar strategies limited to the administrative and institutional program.

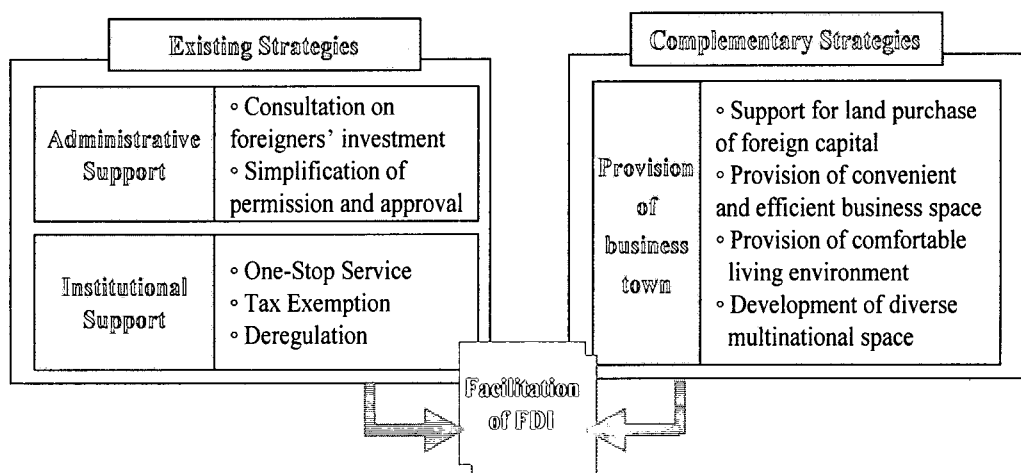


Figure 6. Characteristics of the 'International Business Town'

2) Strategies of Spatial Development

① Development Plan

Goal and Task

The goal of 'International Business Town' is to provide a liberal business environment, a convenient and pleasant residential area, and a multinational cultural and recreational site.

First, for the sake of liberal and efficient business activities, transportation facilities connecting the town to seaports and airports will be furnished, and the town will be an intelligent city in which a highly advanced information and communication infrastructure will be equipped along with a fiber-optic communication network. In addition, the security of business activities will be guaranteed by legislation.

Second, the convenient and pleasant residential area will provide not only the highest-level medical service and international educational institutes, but a residential and living quarter for various ethnic groups. In addition, urban public service will be provided by securing parks and green areas as much as possible and limiting the density of development, as well as through being equipped with high-level buses, subways, high-quality water, and regulation of pollutants.

Third, high-class cultural facilities and services will be provided along with a variety of international and traditional festivals and events so that the cultural needs of foreign residents can be met.

Functions and Related Facilities to be Introduced

The main functions to be accommodated in the IBT are

Table 9. Development Plan of International Business Town

Business circumstances	<ul style="list-style-type: none"> • Improvement of transportation facilities connecting to seaports and airports • Development of intelligent city • Guarantee of security of business activities
Residential circumstances	<ul style="list-style-type: none"> • Provision of high-quality medical service(remote medical treatment system) and security system • Introduction of world-class educational institutions • Improvement of urban public service • Establishment of residential quarters and communities for each ethnic group • Eco-oriented environment development (e.g. parks and green areas etc.)
Cultural circumstances	<ul style="list-style-type: none"> • Provision of high-quality cultural facilities • Provision of high-level cultural services • Hosting of various cultural events(coexistence of native and foreign cultures)

Table 10. Facilities for Functions to be Accommodated

Function	Item	Facility
International business and information exchange	international trade	trade centre, office building
	exhibition and exposition	exhibition center
	international convention	convention center / hotel
	headquarters & RHQs	office building
	international finance	office building
	information/telecommunication(teleport)	telecommunication center, intelligent building
	business service	office building
Industrial	high-tech industry	high-tech industrial complex
	R&D	industrial complex exclusive for foreign companies
	multimedia industry complex	industry & technology college
Tourism and recreation	culture and art	an international cultural center, monuments
	sports	outdoor & indoor sports facilities / fitness centers
	recreation	hotels, parks, resorts, theme parks
Residential	residential complex for foreigners and Korean citizen	detached housing, apartment, officetel
Others	educational & medical services, public administration	educational institution, international school, hospital

international business and information exchange, industrial, tourist and recreational, and residential functions. Facilities to be equipped with according to each function mentioned above are shown in Table 10.

Locational Conditions

The location of the 'IBT' will satisfy two conditions to intermediate inter-urban networking in Northeast Asia.

First, IBT will be a suitable locale for trade with Asian-Pacific cities, especially with China. Therefore, it must be located in a site which will make it possible to pare down logistical costs. For example, a site adjacent to an international airport and a seaport with easy access to CBD or major domestic cities will be most favorable.

Second, IBT should be located where linkages with its urban hinterland are easily and conveniently accomplished. On the one hand, manpower, technology, and diverse services necessary for the IBT should be accessible from its hinterland. On the other hand, creation of employment and technology in the IBT should be effectively spilled over into its hinterland.

Under these conditions to intermediate interurban networking, specific intraurban conditions for the IBT can be summarized in terms of environment, infrastructure, cultural and recreational service, supporting function, and feasibility of the project, as is shown in Table 11.

Table 11. Specific Intraurban Conditions of the IBT

	specific conditions
Natural environment	<ul style="list-style-type: none"> · Eco-oriented urban space · Urban amenity
Infra-structure	<ul style="list-style-type: none"> · Transportation accessible to facilities related to airports, seaports, teleports and to neighboring cities · Power stations and power transmission sites to supply energy necessary for urban management
Culture /recreation facilities	<ul style="list-style-type: none"> · Various recreational and cultural facilities for both residents and expatriates
Supporting function	<ul style="list-style-type: none"> · Safety from crime · Sufficient administrative service needed for various economic and urban activities
Feasibility of project	<ul style="list-style-type: none"> · Flexible supply of housing land in preparation for future demand increase · Land supply at a low cost, which is advantageous to marketing the site · Strategic location possible to create new demand especially of foreign enterprises

② Promotion Plan

The main agents concerned with the promotion of the IBT are government and private enterprises. The government should play the main role in promoting the IBT, though participation of private enterprise is indispensable for developing it.

Government Incentives

Support by the government is made up of a variety of incentives based on the revised 'Foreign Investment Promotion Law'. The incentives can be classified into administrative aid, provision of tax favors, financial support, support for living environment, and manpower.

First, administrative aid covers the establishment of a One-Stop Service system, the simplification of a variety

of procedures concerning factory establishment and foreign capital introduction, along with visa exemption for foreigners in the IBT based upon the revised 'Foreign Investment Promotion Law'.

Second, tax favors will be provided through a tax remission, in reference to the OHQ(Operational Headquarters) program of Singapore, and this will be realized by revising the present taxation system. Preferential exemption of corporation tax, acquisition tax, registration tax, etc. for a given period will be given to companies located in the IBT, as well as income tax abatement for expatriates in the IBT. The minimum taxation needed for urban management will be levied on individual income, and progressive taxation will be simplified.

Third, financial support for land and

Table 12. Incentives for Investment

	Item
Administrative aid	<ul style="list-style-type: none"> - establishment of a One-Stop Service system - simplification of procedures concerning introduction of foreign capital and factory establishment - visa exemption for foreigners in the IBT
Provision of tax favors	<ul style="list-style-type: none"> - preferential tax abatement (e. g. OHQ program in Singapore) - preferential tax exemption for foreign companies and firms in IBT for a given time - income tax abatement for workers in IBT
Financial support	<ul style="list-style-type: none"> - provision of affordable land and buildings mainly for lease - examination of a plan whereby the idle land of government and public institutions will be leased to foreign companies gratuitously - financial aid for land purchase and rent remission - improvement and extension of SOC
Improvement in living environment	<ul style="list-style-type: none"> - establishment of international schools and support for existing small-scale international schools - development of foreigners' village (consulates, hospitals, cultural & residential facilities) - establishment and operation of an international interchange and business center
Support for manpower	<ul style="list-style-type: none"> - support for the specialists training - permission of expatriates' free entry and departure and unlimited stay in the IBT - introduction of a consular office into IBT
Others	<ul style="list-style-type: none"> - promotion of long-term investment by foreigners

office purchase embraces the active provision of affordable land and buildings mainly for lease, and gratuitous lease of idle land possessed by government and public organizations to foreign companies. In addition, a subsidy for land purchases and preferential rent remission will be provided to foreign enterprises. To save developmental and business expenses of foreign enterprises, it will be necessary to construct and extend SOC facilities. Investment by the central government will be an essential measure to realize these plans.

Fourth, the designation of a special precinct will be considered in order to improve the living environment.

Villages for foreigners equipped with consulates, hospitals, cultural facilities, foreign schools and residential areas will be located there. A hot line exclusively for foreigners will be installed so that they can cope with emergencies. In addition, various social and cultural activities will be facilitated by establishing and operating an international interchange and business center.

Fifth, it will be necessary to support capability development and manpower augmentation through an educational-industrial complex together with foreign and domestic universities. Strategies will also include the permission of residence on a long-term

basis, the liberalization of entry and departure of expatriates, and the accommodation of consular offices in the IBT.

Strategies for Inducing Participation of Private Enterprises in the development

First, foreign developers will be encouraged to participate from the initial developmental stage, and thereby the built environments will be tailored to consumer needs.

Second, in the case of relatively small-scale capital, the government will bear the development expenses carrying out a leasing service, or provide land at a low price in order to relieve its formidable development costs.

Third, the government will be at the head of providing infrastructure, such as a world-class information infrastructure necessary for corporations whose RHQs will be located in the IBT.

5. Conclusion

Seoul is outstripped by other competing cities in the Northeast Asian region because the quantitative growth-oriented national economic and spatial policy has hindered it from being a strategic locale to induce FDI and global functions. In this paper, on the basis of an analysis on the competitiveness of Seoul in terms of three functions - logistics, financial

function and RHQs of transnational corporations, we propose that it should be developed into 'a Northeast Asian network center where RHQs of TNCs and financial function are highly concentrated'. To realize this supposed goal, this paper argues that, along with structural and institutional reform, spatial development is critical to guarantee a liberal, efficient business environment and excellent quality of life. The points of assertions stressed by this paper can be summarized as follows:

- More than one function among logistics, finance, and regional headquarters should be located in Seoul for it to be a network center of Northeast Asia in the 21st century.
- Considering the functional conditions of Seoul, by inducing RHQs primarily and financial services secondarily, Seoul should be developed into a network center in which these functions are highly concentrated.
- In order to attain this strategic vision of Seoul, it is indispensable not only to initiate structural and institutional reform, but to construct an 'International Business Town (IBT)' in Seoul, as a medium to intermediate these strategies and to shape them in a spatial scale.

- The suggested IBT will be a 'free city' open to international business in which liberal economic activities are guaranteed, and the preference of foreign high-income investors for a cultural and living environment are satisfactorily met.

The development of the 'IBT' promises to be a possible expedient to overcome the present economic backwater confronting Korea in the short-term standpoint. Also it will be a starting point to make Seoul more competitive by attaining the five goals mentioned in the introduction, and to take the initiative in a rapidly growing Northeast Asian economy as a strategic network center in the 21st century in the long-term view.

Notes

- 1) The increasing rate of the total amount of imports and exports of China, Hong Kong, Taiwan, South Korea, and Japan averaged 3.6%(world average: 1%) a year from 1980 to 1990, and 6%(world average: 3.2%) after 1990. Container freight has been increasing over an average of 12%(world average: 9%) since 1985, amounting to 40 million TEU, which covered 30% of the total market in 1995.
- 2) Total freight of Japan, South Korea, Taiwan and Hong Kong with China has been increasing at an average rate of 19.3% a year since 1990, and in the case of Korea, it comes up to 48.9%.
- 3) Of the Global 500(the world's largest corporations) in 1997 selected by FORTUNE, we sorted out transnational corporations whose branch offices are located in 31 countries in the Asia-Pacific region, and collected information about them through the internet. But we cannot entirely trust what

we found because there is no international or domestic organization which synthetically manages data about locations of transnational corporations. Nevertheless, it can be useful to grasp its general tendency. Meanwhile, for a better comparison between cities and countries, "density" has to be reflected as a more objective yardstick. Therefore, as a comparative index, we used the number of branches rather than the number of corporations located in the region because the number of branches can reflect the area and population size of each country and city better than that of corporations.

- 4) The classification of the Asian-Pacific countries is as follows: China, Japan, South Korea and Taiwan in the Northeast Asia region, Thailand, Vietnam, Myanmar, Cambodia and Laos in the Southeast Asia inland region, Singapore, Indonesia, Malaysia, Philippines and Brunei in the Southeast Asia maritime region, India, Pakistan, Sri Lanka, Bangladesh and Nepal in the Indian region, Australia, New Zealand, Fiji Islands, Solomon Islands, Papua New Guinea and New Caledonia in the Australian region, and Guam, Micronesia, Tahiti, the Mariana Islands, and Pacific Islands in the others.
- 5) Specialized industries are those over the average of the number of branch offices by industry.
- 6) It is difficult to collect exact material on locations of RHQs(Regional Headquarters) of TNCs. In this paper, we will analyze the locational pattern of RHQs in the Asia-Pacific region on the basis of related literature, such as references, articles and statistical data, and then appraise the competitiveness of Korea as a location of RHQs.

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ABSTRACT

The East Asian Region has experienced remarkable economic growth and transformation of interurban networking over the past three decades, and urban competitiveness for a networking hub in this region has become a critical issue confronting cities. Competitiveness of the Seoul capital region for a networking hub in Northeast Asia is outstripped by other competing cities in East Asia, notwithstanding its geo-politically and geo-economically advantageous location in this region. In this paper, we aim to appraise the Seoul capital region's competitiveness in terms of logistics distribution, financial function and agglomeration of transnational corporations

(especially of RHQs and other managerial functions), and to advance the networking strategies of the region for a Northeast Asia hub. As a result of analysis, we suggest that the Seoul capital region be developed as a Northeast Asian center for regional headquarters of leading global corporations and financial services for being a strategic nodal point in Northeast Asia in the 21st century. A recent survey shows that where to locate an RHQ is influenced by various factors, such as potential market and manufacturing site in the city's hinterland, quality of life, such things as culture, health, safety, education, a well-educated, English-speaking population, reliable air transport, state-of-the-art communications, and an active policy to offer foreign companies generous incentives. The Seoul capital region, which is located at a strategic nodal point advantageous as a springboard for its Northeast Asian hinterland, cannot meet the other conditions mentioned above. To overcome these drawbacks in attracting transnational capital and to create competitiveness as a strategic hub of RHQs in Northeast Asia, it is urgent to initiate a structural reform of the Korean economy, politics, and overall society, to minimize the regulation of FDI, and to provide various incentives for foreign investment. Moreover, we propose the construction of an 'International Business Town' in the Seoul capital region, as a medium to intermediate these strategies and to shape them in a spatial scale. The projected 'International Business Town (IBT)' will be a 'free city' open to international business in which liberal economic activities are guaranteed by special legislation and administration, infrastructures needed for international business like worldclass telecommunication and improved accessibility to the airport are furnished, and the preference of foreign high-income investors for cultural and living environment are satisfactorily met. IBT is conspicuously differentiated from a raft of other cities' incentives in that it combines deregulation and incentive programs to attract the investment of transnational capital, with a spatial program of offering an urban environment preferred by the high-income and managerial class. Furthermore, it can be an excellent way of overcoming the xenophobia that has spread among the Korean population by concentrating foreign businesses and their lifestyles in a specific zone. In conclusion, 'International Business Town', in line with other legislative and administrative incentive programs, will function as a driving force to make the Seoul capital region more competitive as a regional business hub in Northeast Asia.