

The Impacts of Financial Crisis on Urban Planning and Development in Korea*

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I. An Overview

Some years back, Paul Krugman (1996) pointed out the difficulties of the Asian economies in maintaining high growth by arguing that the Asia's miracle turns out to have been based on perspiration rather than inspiration. Whether his assertion is right or not, now, the fact is that the Korean economy like the other Asian economies had got lost in the road to the advanced society.

The Korean economy under the IMF bailout program, characterized by minus growth, high unemployment, and austerity, required the Korean society itself to radically change in every aspect. The urban sector could not be an exception. The Korean government mainly focuses on implementing the economic policy measures coping with the urgent financial crisis, but also has to carry out the quick and proper economic reforms. As a part of these attempts, the Korean government has prepared to implement a bundle of deregulation policies. Among them, the readjustment of green belt, Urban Development Act, which will be effective from the year 2000, and introduction of mortgage backed securities would bring about massive, either direct or indirect, impacts on urban planning and urban development.

In Korea, the planning in the public domain has played the key roles in the games of urban planning and development, especially during the period of rapid economic growth. The role of physical planning was crucial in facilitating implementation of economic policies by allocating limited resources more efficiently during that period. Thus, the other players including the ordinary citizen, local communities and private sector would hardly have had an opportunity to participate

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in the planning process. However, the role of public sector has radically changed from a growth engine to a rule setter, recently : the roles of private sector and citizen participation in urban planning and development would be more emphasized under the new rules of game.

This paper attempts to investigate the changing relations, mainly brought by the impacts of the IMF bailout program, among major actors involved in urban governance by reviewing the urban planning and development in the Korean context, and to redefine the role sharing among them emphasizing the citizen participation. In doing so, this paper briefly reviews the current economic crisis of Korea, and its impacts on the changes in legal and institutional frameworks for urban planning and development of Korea. Finally, this paper tries to recommend policy implications for proper roles of citizen participation contributing to the future urban governance.

II. Economic Crisis and Urban Sector of Korea

Although there has been some critic and skepticism about the IMF's approach to resolve the Korea's financial problems from the very beginning of IMF bailout, the hard fact is that the Korean economy is experiencing a severe recession, and the whole nation is faced with lots of difficulties. The current economic crisis, mainly caused by the financial and foreign exchange problems, required extensive reforms in every corner of the economy such as new fiscal and monetary policies, reform of financial sector, major liberalization in trade, a tightened government budget, and restructuring of big business conglomerates or Chaebols and so on. As Time magazine witnesses, in economic terms, that's like a doctor saying the patient will be fine once the chemotherapy, amputation, transfusion and psychotherapy are finished. After the initial six months, the GDP is recording the minus growth, producer and consumer prices are upsurging, unemployment sharply increased, and social welfare services are reduced.

Korean economy is experiencing the unprecedented recession after the Korean War in the 1950s. The economic growth rate is forecasted minus 6-7% by the worst scenario, and unemployment rate is ever increasing up to 10% in 1998. The forecast for the year of 1999 is never hopeful, either. The government maintains Korean economy will recover from the panic after the second half of the year of 1999, however, just few believe in the government. The following <Table 1> summarizes major economic indicators of 1999 forecasted by research institutes of major

Chaebols and government. The IMF also predicts the Korean economy will contract 1% in 1999 following a 7% decline in 1998.

<Table 1> Major Economic Indicators of 1999, Forecasted

	FKI		Samsung		Daewoo	LG	KIET
	pessimistic	optimistic	pessimistic	optimistic			
Growth Rate	-1.3	2.2	-1.8	2.2	-1.7	1.9	2.1
Balance of Payment	380	346	151	154	254.4	216	193.2
Consumer Price	2.8	4.5	2.0	5.2	2.5	3.5	1.6
Unemployment Rate	-	-	10.0	8.7	9.0	8.7	-
Won-Dollar Exchange Rate	1,250	1,285	1,250	1,650	-	-	1,250-1,300

Radelet and Sachs (1998) categorize the financial crises of the world including the Asian crises into five types : 1) Macroeconomic policy-induced crisis, 2) Financial panic, 3) Bubble collapse, 4) Moral hazard crisis, and 5) Disorderly workout. They go on to argue that the East Asian crisis resulted from vulnerability to financial panic arose from weaknesses in these economies, combined with a series of policy mis-steps that triggered the panic. Although there might be a dozen of reasons to explain the causes of the current financial crisis of Korea, their interpretation well characterizes the Korean case as well : the fundamental reasons can be found in the structural vulnerability of the Korean economy, detected in the compressed growth period, imperfect market economy, widespread corruption, and failures in reform to meet the radical environmental changes in the 1990s.

It is still debatable on the effectiveness of IMF's programs to resolve the Korean crisis. The IMF's solution basically has two thrusts : domestic austerity and radical institutional reforms including financial liberalization. However, many analysts disagree with IMF, and even argue that the crisis happened because of the excessive financial deregulation (Wade and Veneroso, 1998). Combined with the widespread corruption in political and economic arena, massive capital inflow made possible financial sector deregulation without the adequate supervision lies at the core of the Korean financial crisis. Of course, the pre-crisis system of weak financial institutions, widespread corruption and moral hazard should be corrected and reformed, however, the IMF programs are widely considered to impose too strict policies without considering particularity of the Korean economy. According to Samsung Economic Research Institute (1998), the ultra-retrenchment bailout program for Korea has brought about seriously adverse effects rather than recovery : Korea currently records its lowest economic growth with the drastic decline in

investment, and high interest rates have resulted in a series of bankruptcies and washed away foundation for development. The IMF has shifted its policies towards permitting lower interest rates, currency expansion and a current account deficit, however, it is hardly found the positive signs to facilitate the nation's recovery from the effects of the retrenchment policies yet.

Under the circumstances, the government attempts to implement a series of economic policies to foster the economy through lowering interest rates, and expanding the SOC (Social Overhead Capital) investment while maintaining the ongoing structural reform programs. Indeed, the ongoing reform programs have accompanied by the side effects of high unemployment and deepening economic recession. Thus, the investment in SOC projects is expected to resolve the twin side effects of reform and to facilitate the recovery of Korean economy by creating employment creation and increasing demand.

Along with the SOC investment, the real estate industry has been the major concern of the economic policy from the very beginning of the IMF era. The economic crisis has brought about the sharp decrease in demand and prices of housing and land. The shrinking real estate industry influences not only the real side economy but also the urban sector. The impacts of the current crisis on urban sector can be disentangled by three subsectors: urban industry, urban finance, and urban households. In a highly urbanized society, where the urban economy consists of a major part of national industry, economic recession almost means the recession of urban economy. In terms of urban economy, therefore, the current crisis of Korea results in the crisis of urban economies such as a string of bankruptcies and domestic demand shrink. Further, local governments suffer from the account deficit because of the reduction in tax revenue, caused by decreasing property values, frozen businesses, and even decrease in household income. Intertwined with high unemployment, decrease in household income causes decrease in domestic demand like a vicious circle. Thus, the low growth economy would require totally different paradigm in urban development from one of the high growth economy due to the environmental changes of the subsectors. While the main concerns of urban development in high growth period are closely related to the fast expansion of social overhead capitals, and maintaining the constant level of service through effective stock management with the minimum level of investment is more emphasized in the low growth period. The new paradigm can be characterized by the deregulation and private initiatives. As President Kim declares in the

press conference exclusively on economic agenda, existing regulations will be boldly removed so that both local and foreign firms can enjoy the benefits.

〈Table 2〉 A Comparison of High Growth and Low Growth Era

	High Growth Era	Low Growth Era
Land Market	To expect high capital gain from price increase Active land development	Market stabilization by price decrease Locational variations in land development
Housing	Investment demand increase	Housing service demand increase Rental housing sub-market development
Transportation	Supply expansion meeting demand increase Large scale projects	Investment decrease Mass transit investment increase

source: Requoted from Lim (1998), p. 9.

III. Changes in Legal Frameworks for Urban Planning and Development

Urban development in Korea has played dual roles in the process of economic development of Korea for the last decades: urban development has accommodated the economic growth by providing physical development, and urban development itself has functioned as a key factor to lead the economic growth. Also physical planning through its control and regulation in the process of economic growth in Korea has played a key role in governing rapid urban growth and development.

During the compressed economic growth period since the 60s, when a series of economic development plans were adopted, urban and regional planning needed to be extended to meet the new demand for spatial re-organization of the nation, and to cope with the new social problems produced by rapid urbanization (Lee, 1991). Thus, urban development during the same period had mostly been initiated by public sector. Among the massive socio-economic structural transformation brought by the economic growth relying on industrialization during the 60s and 70s, rapid urbanization is most striking. Due to the urban problems, caused by concentration of population into the unprepared urban areas, urban development became major policy issues, and urban policies in this period had focused on establishing the institutional arrangements for governing rapid urban growth and spatial organization of the nation. Among them, the revision of Urban Planning Act in 1971 is especially worthy of note. The revised Act can be compared to the previous one since it consolidates the role of public sector in urban development and the land use

regulation in urban areas (KRIUS, 1997). For instance, the Industrial Site Development Act in 1973 provided the firm ground on which public sector can actively involve in urban development including large-scale new town developments.

Along with the expansion of public involvements, green belts or restricted development areas and a series of redevelopment projects are consisted of the major parts of urban management in this period. The urban governance in this period had been mainly performed by the public sector through tight regulations and control. Fully utilizing its exclusive position, the public sector, both local government and public corporations such as Korea National Housing Corporation and Korea Land Corporation had played the significant role in urban development as a public developer as well as regulator.

The urban policy issues became more complicated in the 1980s as the political and social conditions are rapidly changing along with rapid economic growth. In the process of democratization in the 1980s, the increasing awareness of remaining economic issues, in spite of spectacular economic development, significantly influenced the urban governance. In order to meet the changing fundamental objectives of urban management towards more qualitative ones such as quality of urban life, and equitable distribution of development, the public involvement has been more expanded and strengthened. People's claim on reorganization of economic, political, and social structure deprived the public sector of its implicit privileges in urban development. Indeed, the claim for reorganization has come to be perceived of as a crisis from the political arena, and a series of urban policies, for instance 2 million housing unit construction plan, have been implemented. However, public sector still took advantage of its superior position to private sector and the ordinary citizens.

Of course, there were some changes in urban planning field: the 1981 revision of Urban Planning Act opened up the possibility of citizen participation in the decision making process of urban governance. Also, the solidarity of "professionalism" started to expand the space for the autonomous maneuver of urban planning (Lee, 1991). The interrelationships among major players in urban development have still been initiated by public sector, however, the institutional arrangements have gradually established to set up the fair rules of games for urban governance from the late 1980s. The followings are major urban development related laws and its objectives.

The urban governance, and the Korean society as a whole, faced a quite bit

<Table 3> Major Laws Shaping the Urban Planning and Development in Korea

laws	Objectives
Land Readjustment Project Law	To promote the effective urban development and protect public interests by facilitating land readjustment projects.
Residential Land Dev't Promotion Law	To facilitate the residential land development projects for the public housing provision.
Housing Construction Promotion Law	To resolve the housing shortage problems and to improve housing welfare and social welfare.
Urban Planning Act	To promote the comprehensive urban development and to improve public interests.
Urban Redevelopment Act	To facilitate urban redevelopment projects

different tide of changes from the early 1990s, which can be characterized by globalization internationally, and decentralization domestically. Up until the agreement between IMF and the Korean government in December, 1997, all the efforts were concentrated to meet such requirements for globalization as market opening, institutional changes meeting international standards, and so on. As a result of the efforts, Korea seemed to arrive at the final destination as joined OECD. However, what waited for Korea there was the collapse of the Korean economy.

As a part of attempts to cope with the challenges posed by globalization, deregulation and privatization have progressed in many corners. Deregulation and political decentralization together have brought the significant changes in urban planning and development, and the interrelationships among major players as well. The relationship between public and private sector has changed to more cooperative from the dependent one as the creativity and capitals of private sector are urgently needed for planned large scale infrastructure project to improve the competitiveness of the nation in the world market. Also the relationship between public versus private sector has changed as local self government system was newly implemented. The central government and its agencies which enjoyed their monopolistic position have to delegate their political power to local governments. Of the changes, above all, that citizen participation and the role of NGOs started to receive the increasing attention implies the significant changes from the perspective of urban management, in which the public sector has always dominated. While the interplay between public sector and private profit making enterprises could satisfy somehow the objectives of both sides, the citizen those who stayed the outside of the game had been relatively disadvantaged. However, the citizen became empowered through

the citizen movements and participation in the decision making process, as political and economic democracy becomes consolidated. If it is reserved the evaluation of corruption between political and economic elite on which the investigation is still going on, at least the citizen participation started to raise its voice on the surface, and to receive the due appreciation.

The thirty year long opposition leader, Kim Daejoong was elected as the new president at the December 1997, and it was the first experience that the opposition party became the ruling party by election in Korea since the military coup in 1961. However, the economic crisis was too urgent to celebrate the birth of the "people's government," named by the new ruling NPNC. All the policies of the new government are basically directed to cope with the current economic crisis, and economic policies are listed on the top of the national agenda. One of the major parts of them is closely related to real estate and related industries, consequentially to urban development issues since the current economic crisis is mainly attributed to financial crisis caused by non-performing debt which has non-performing asset as collaterals.

In an effort to attract badly needed foreign capital into the economy, and also to ease out the financial difficulties experienced by the firms with large real estate holdings, the government recently has substantially relaxed real estate related legislation. As such, the focus of the government's real estate policy is quickly changing from the strict 'anti-speculation' motto of previous decades to 'create demand in the market'. With regard to this shift of emphasis, most of the regulatory measures and punitive tax measures adopted in the past under the 'Public Concept in Land' idea are either lifted or relaxed. Hence, the demand-supply oriented market mechanism is now the sole and dominant principle working in the real-estate market in Korea.

As of April 1st, 1998, the Ministry of Finance & Economy lifted all the remaining barriers as to the allowed business sectors previously applied to foreign investors. With this, 50% ceiling on the acquisition of shares of residential and non-residential property sales/rental business company has been abolished, and the development and management of golf resorts is now opened to foreign investors. Requirement of permit and report of all land transactions within the remaining 2, 510 sq. km areas are also abolished as of April 20, 1998. Foreigners, both corporations and individuals, are now free to enter the market and acquire any pieces of real property without restrictions or prior permissions (exceptions being 53 kinds of cultural and military properties which would be of minor interests to foreign

investors anyway). The revision of the "Law on Land Acquisition by Foreigners" has passed in the National Assembly in its May 1998 Session and put into effect immediately.

Also from May 1st, 1998, the servicing of raw lands into industrial, commercial purposes and selling or renting them is also opened to private sectors, locals and foreigners alike. The development of residential plots, which has been strictly confined to the government and public agencies in the past, was also open to private sector including foreigners in the latter half of the year 1998 after the amendments to the related legislation.

Of the recent institutional changes, the greenbelts policy and the new "Urban Development Act" which will be effective from the end of 1999 are especially worthy of note in understanding the current changes in urban policies and urban governance. The changes in Development Restricted Area or green belt policy have been one of the most debatable issues of nation's land development since the early 1970s when green belt was introduced first for the purpose of urban growth management, environmental protection, and national security. The establishment and objectives of green belt itself can be denied by nobody, but due to the operational difficulties such as designation and management of the area, intertwined with restriction on the private property right, the green belt policy always lies at the center of the conflict between social benefits and private costs. The government declared the radical changes in green belt policy: After the thorough survey, to release the restriction on development of the area where the restriction is no more necessary, and to convert the areas to national property through the due compensation for the areas which should be preserved. The change in green belt policy is most highly evaluated as the deregulation on individual property right.

The "Urban Development Act" can be understood in the same context of deregulation. The most remarkable change brought by the Act is that the private developers including construction firms, housing construction companies, and land owners, and even foreigners are allowed to participate in urban development, which used be limited to the public sector. In doing so, it is expected that creativity and capitals of private sector can be utilized in urban development projects. The Act also grants the private sector to request the "designation of urban development areas." Up until now, only the public sector could designate the "urban development areas" based upon its own judgement. According to the new Act, however, by submitting the "project proposal" to a local government, the private sector can

initiate to develop the designated areas, after reviews and approval. As the Act also allows the foreigners to participate in urban development, it would facilitate to attract foreign capitals. Without the more details, the implementation of the Act would bring the massive impacts on roles of major actors of urban development and governance.

IV. Concluding Remarks

Reform is the key word of the Korean society today. Reforms in any time and any society by nature generate conflict, either soluble or not. The current economic crisis and policy measures to cope with it cause the acute conflict in every corner of the Korean society including urban governance. Some groups will see their welfare improvement associated with some quite specific new programs and not with others. The changes in green belt policy would be the prototypical example to illustrate how the public policy causes the conflicts. Social conflicts, especially in a pluralistic society, can be minimized by the fair application of consensus, agreed most appropriate, and such a consensus can be found by the transparency of decision making process and its application as well. To secure the transparency in the process of urban development can be possible through the democratic participation of the major actors, involved in the process -- public sector, private sector, and citizen -- in the whole process of development. The citizen participation should be emphasized: it is not enough if citizen participation is limited to the decision making process, and it should be expanded to monitoring the operation and management.

Urban development is such a complicated game, especially in the era of economic austerity: the local governments attempts to produce urban environments favorable to private enterprises and to induce them to locate in their area, and the directly related private sector, i.e., private construction industry or private developers, tries to generate profit by collaborating with the public sector. It seems to be a positive sum game, or at least a zero sum game, if the major players are limited to public sector and private developers. However, the game is watched by the audience, directly and indirectly influenced by the result of the game. The game, therefore, can turn to be a negative sum game anytime if there is no consideration on the impacts of the game on the ordinary citizen, and it is even more so in the era of economic recession. The current trends of deregulation in Korea might easily miss that ordinary urban residents are one of the major players because the primary

concern of public policies is mainly focused on the economic reform and recovery. The "Urban Development Act" allowing the private sector to participate in urban development could be an example.

Under the tight regulation and control, urban developments initiated by public sector designed to protect social welfare of ordinary residents under the name of public interest, at least in theory, however, the current trends tends to stimulate urban development rather than protecting public interests. This would not argue that the public sector intentionally gives up the attempt itself for public interests, but it would argue that the welfare of ordinary citizens can hardly stay within a reach of public sector in practice. The balance of power in the game of urban development may be broken off easily, and the center of weight tends to shift to the private enterprises. It is extremely difficult to expect the private enterprises to take into account ordinary citizens in the process of profit making, and, the public sector is incapable of protecting their welfare. In the era of reform, the public sector shifts its role from regulator to coordinator, and it has to play the role of stimulator of urban development. Under the circumstances, the citizen has to empower themselves through the citizen participation in decision making process and more. And the citizen participation should be warranted on the institutional grounds such as mandatory public hearing or establishment of permanent review committee initiated by the citizens. The role of NGOs needs to be emphasized as a private mediator. Again, the transparency of decision making process and its application is the prerequisite for maintaining the balance of power among major actors. When the balance of power is maintained, the major actors of urban governance can play a positive sum game.

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