

## OECD Territorial Reviews: Seoul, Korea

**Does over-concentration put Korea's economic core at risk?**

**How can Seoul become Northeast Asia's business hub?**

**Does the world know enough about Seoul's urban renewal policy?**

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### Introduction

For many cities in OECD countries, globalisation has opened access to new markets, skilled human resources and advanced technology, while accelerating international competition and industrial restructuring. Seoul – a city of 10.3 million people at the core of a capital region of 22.5 million people, one of the world's most populous metropolitan regions – is striving to upgrade its position from that of a national mega-capital to become a “world city” and a leading business hub in Northeast Asia.

This quest for international competitiveness fits within a complex national agenda that gives priority to balanced development across the country, notably via the central government's project to relocate administrative functions outside Seoul.

If Seoul is to realise its ambitions, the Korean authorities need to take action in a number of areas, notably to reduce congestion, encourage innovation, open up to foreign investment and improve collaboration with other major Korean cities.

Congestion is a particularly difficult challenge for Seoul since almost half of Korea's population lives in the capital region and 6.5 million people commute daily, creating unacceptable levels of transport congestion and air pollution. Seoul has already started remarkable urban renewal projects, but more needs to be done.

On the innovation front, Seoul has identified five promising industrial clusters – fashion and clothing, financial services, business services, information and communications technologies, and digital content industries. It has a large, well-educated workforce to support research and development (R&D). However, the city needs to improve the diffusion of innovation by facilitating knowledge flows.

The region also needs to do more to attract foreign investment. Foreign direct investment in Seoul has dropped by about 20% since 2000, reportedly due to restrictive regulations and corporate governance problems. Korea's strict immigration rules also result in extremely low numbers of foreign residents (0.5% of total population).

Finally, Seoul could collaborate more closely with other major Korean cities, enabling its strength to have positive spill-over effects in other regions and thus to reinforce the country's international competitiveness.

This Policy Brief looks at some of these challenges and at the possible solutions put forward in a new *OECD Territorial Review of Seoul*. ■

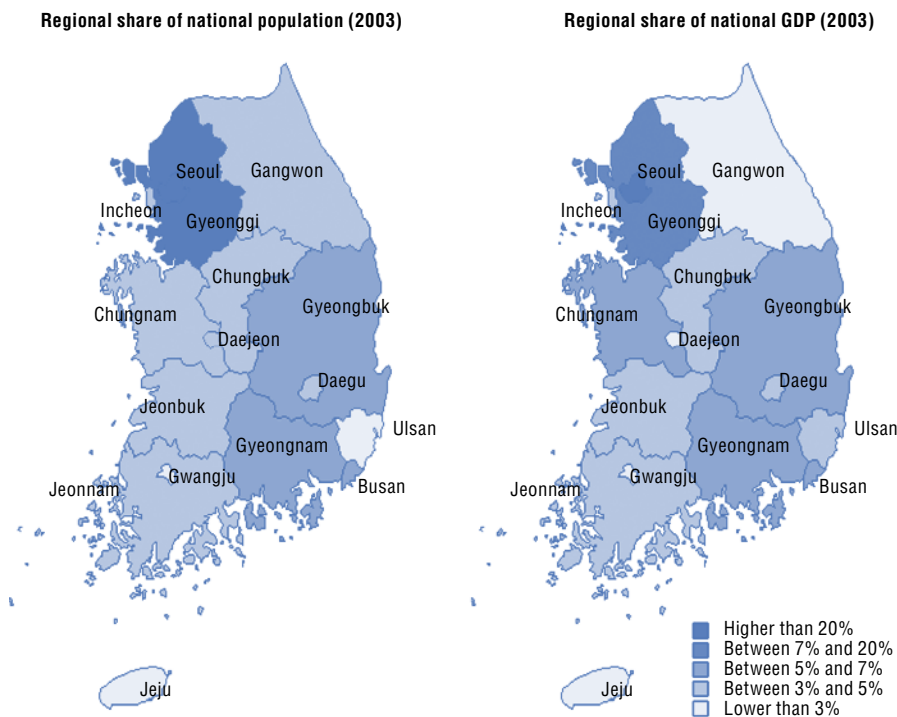
**Does over-concentration put Korea's economic core at risk?**

Seoul is the administrative and economic capital of Korea, and it has expanded beyond its city borders into one of the most populous metropolitan regions in the world. The functional area, called the “capital region”, includes Seoul City, Incheon City and Gyeonggi Province. It accounts for approximately 48% of the national population with around 22.5 million people. Most of Korea’s economic activity is concentrated in this capital region, which produces almost half of Korea’s gross domestic product (GDP, 47.7% in 2002), firms (45.6%) and employment (49.6%).

The region also registers faster growth than the national average in GDP (6.6% during 1994-2002 against 6.1% in Korea and notwithstanding a lower than average 3.4% growth rate in Seoul City), in the number of firms (15% during 1995-2002 compared to the national average of 13%) and in employment (8% as opposed to a national rate of 7.1%). Furthermore, Seoul hosts the headquarter functions of the largest internationally competitive Korean conglomerates (such as Samsung and LG) and it is the country’s main international gateway (along with the Incheon International Airport and logistics platforms).

Nonetheless, significant negative factors may undermine the Seoul region’s competitiveness. Seoul features an unusually high density of population – Korea ranks fourth in terms of geographic concentration of population in the OECD area – and this has led to significant congestion costs. Indeed, a private sector study assessed that Korea was losing 3-4% of its GDP in congestion costs. These factors are aggravated by other negative factors such as higher land prices and pollution levels.

**Figure 1.**  
**POPULATION AND GDP CONCENTRATION IN KOREA**



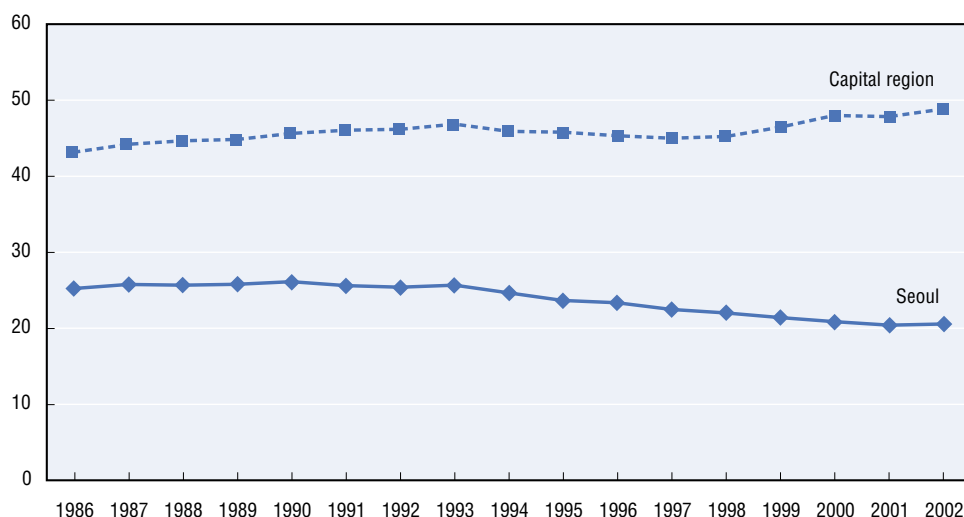
Note: GDP estimates in current prices.  
Source: OECD Territorial Database.

Seoul’s search for competitiveness is carried out within a complex national framework. To deal with over-concentration of population and of economic activity, the Korean government has consistently imposed legal restrictions on building new factories, offices and universities in the capital region. The region is still subject to specific regulatory measures to limit concentration and there has been a recent movement towards the relocation of some public functions and public administration to other parts of the country. Experience in OECD countries such as France, Japan and the UK suggests that containment policies such as those applied to the Seoul capital region have had mixed success. Given Seoul’s demographic and economic significance, it is crucial to design strategies to tackle the negative effects of over-concentration more efficiently and to better exploit Seoul’s comparative advantages beyond the traditional “centre versus periphery” dichotomy. This is a particularly pressing challenge: Seoul is the main metropolitan region in Korea with the capacity to compete with other mega-cities in Northeast Asia, where the path of economic and technological changes is more rapid than in other parts of the world. ■

**How can Seoul become Northeast Asia’s business hub?**

The Seoul capital region’s economic performance has been significant in the international market-place, but rapid structural changes are still needed if the region is to compete with neighbouring mega-cities. Compared with other OECD metropolitan regions, the Seoul capital region is low-ranked in terms of GDP per capita and labour productivity. However, Korea is catching up as it enjoys a high labour productivity growth rate, ranking second among OECD countries in terms of labour productivity growth during 1993-2002. This is largely explained by a shift in the Seoul capital region’s economy towards knowledge-based and higher value-added activities. Against the backdrop of accelerating globalisation, the Seoul capital region has had to face the structural challenge of adjusting its economy to face intense competition both in low-tech and high-tech industries. Korea’s development was for many years based on labour-intensive industries such as textile. It is now faced with competition in those industries from other countries in the region with lower labour costs, especially China. It also has some

**Figure 2.**  
**SHARE OF SEOUL AND CAPITAL REGION IN NATIONAL GDP, 1986-2002**  
 Unit: % (calculated on GDP in constant prices, 1995 basis)



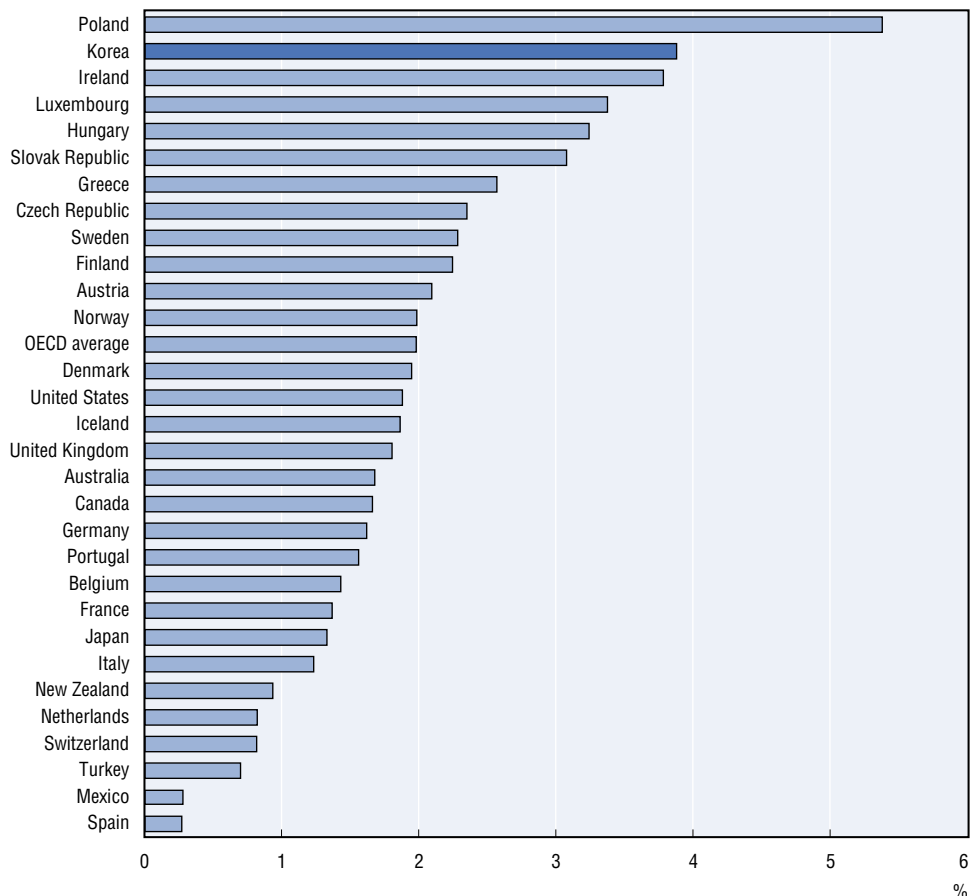
Source: Korea National Statistical Office.

way to go to catch up with Japan, which remains by far the strongest economy in the region with significant advantages in technology-intensive industries such as automobiles and electronics.

A significant challenge for the Seoul capital region is to pursue specialisation in higher valued-added niche market activities. The existing high level of human capital and research and development (R&D) capacity could play a key role in stimulating innovation. The region is endowed with a highly educated labour force (in 2003, 23.4% of the regional population held a university degree, as opposed to a national average of 17.3%) and most of the country's R&D capacity. The region was home to 60.3% of the national R&D workforce and 55.6% of intellectual property rights (patents registered in Korea) in 2002. Korea displays high levels of R&D expenditure, ranking sixth among the 30 OECD countries in 2003, after the US, Japan, Germany, France and the UK. The city of Seoul displays similarly high R&D expenditure, ranking second among Northeast Asian cities with 3.14% of its GDP. The well-educated labour force and high R&D capacity constitute potential assets to be translated into innovation production and diffusion.

Moreover, the Seoul capital region has promising industrial clusters, both in high value-added services such as finance, business services, ICT, and digital content, and in manufacturing activities such as fashion and clothing, printing and publishing. These clusters have the potential to serve as drivers of the Seoul

**Figure 3.**  
**LABOUR PRODUCTIVITY**  
**GROWTH IN OECD**  
**MEMBER COUNTRIES,**  
**1993-2002**



Source: OECD Stat.

capital region's economy. They are grouped in a relatively tight space, specialise in niche products or skills, and have good cross-sectoral linkages; all of which make success more likely. The major challenges faced by these clusters stem from the fact that the Seoul capital region has lost its competitive edge in production costs in comparison to low-cost countries in fashion and clothing, sometimes lacks economies of scale such as in printing and publishing, and needs ever-faster technological upgrading and innovation diffusion. Seoul has targeted financial support towards new strategic industries, including business services, finance, IT/bio-tech/nano-tech and digital content.

Over the medium and long term, greater emphasis should be put on policies to develop soft infrastructure (such as education and training, information-sharing, commercialisation of research, and international marketing). Korea has recently launched "regional industrial cluster" policies and "innovative cluster cities" in different regions, but the Seoul capital region remains largely excluded from this national financial support. The cluster policies that it has developed on its own could be strengthened in three ways:

- i) by reinforcing inter firm linkages, particularly by stimulating innovation-driven SME partnerships through public funds for joint R&D projects or corporate venturing;
- ii) by encouraging more fluid knowledge flows between firms, education institutions and research bodies through consortia, technological training programmes, student internships and research contracts between universities and firms;
- iii) by fostering entrepreneurship: many workers laid off in the 1997 crisis turned to self-employment and Seoul has registered a dynamic creation of business start-ups, but their survival rate remains extremely low. The development of successful SMEs could be enhanced through creative and catalytic tools such as business idea contests and entrepreneurship festivals.

The endogenous economic strategy could be complemented by an exogenous strategy to attract and embed foreign direct investment (FDI) in order to spur regional innovation and to have a sustainable positive effect. Seoul accounts for the largest share of Korea's FDI inflows, accounting for 60.9% of total FDI in Korea in 2003. But overall, Korea ranks relatively low in terms of FDI as a percentage of GDP, being in 24th place among the 30 OECD countries. In addition, external factors might influence future FDI trends, including the general slowdown in global FDI flows experienced by Korea since 2001, China's growing attractiveness for investment, the economic stance of Japan (which is Korea's largest foreign investor) and the North Korean nuclear issue. Finally, Korea scored the lowest in terms of foreign-born population among 23 selected OECD countries, both in 1995 and in 2002. The Seoul capital region could benefit from the Incheon Free Economic Zone but this would require the three local governments comprising the capital region – Seoul, Incheon and Gyeonggi – to achieve regional co-ordination to exploit their synergy effects. The Incheon Free Economic Zone and the two other Korean free zones should also agree on a clear functional specialisation to avoid unnecessary competition at the national level, and agree as to how the Korean free economic zones will differentiate their comparative advantages from those offered by competing zones in Northeast Asia. The Seoul region could exploit the existing institutional architecture to promote and improve Seoul's assets.

### Does the world know enough about Seoul's urban renewal policy?

These initiatives should not disconnect the foreign business community from the Korean business community since, in many cases, foreign businesses depend on the Korean workforce and market. Seoul could also promote its location-specific advantages as evidenced by the recent increase in joint ventures or acquisitions of Korean firms by foreign investors. ■

The Seoul capital region could further increase its international attractiveness by building on its current urban renewal policy. The centrepiece is the remarkable Cheonggyecheon Restoration project. The project aims at replacing an elevated expressway and its disadvantaged neighbourhoods with a freshwater stream and green spaces. It is expected not only to help solve the inner city environmental problems, but also to reduce socioeconomic disparities between the northern and southern parts of the city. While several OECD cities have regenerated deprived areas (Kop Van Zuid in Rotterdam and La Villette in Paris), Seoul's Cheonggyecheon Restoration project is a rare example of removing a whole clogged traffic artery from the city centre. In order to optimise its positive impact, the Cheonggyecheon Project faces two major challenges:

- First, the relocation of the low-wage residents and merchants previously settled in disadvantaged areas calls for transparent consultations and adequate alternatives to avoid dispersing existing agglomeration economies. A multidimensional relocation mechanism should be set up, dealing not only with physical infrastructure but also with capital guarantees and information services.
- Second, efficient governance of the project will determine its outcome. As a prime illustration of Seoul City's recently acquired autonomy, the Cheonggyecheon project may symbolise the Seoul government's authority, and influence further decentralisation. Careful follow-up to assess the final cost of the project, to evaluate the use of public resources and to ensure benefits for all parties involved is a key step.

The Cheonggyecheon Restoration project is part of a broader scheme of environmental and traffic management to reduce congestion costs. Seoul City has implemented both public transportation reforms and control of private automobile use. The government performed a comprehensive restructuring of the bus system in 2004. Both physical infrastructure and institutional governance were remodelled to make bus routes more direct and to simplify the fare system. Although it may be too early to evaluate the environmental and economic impact of the reform, a significant shift from private to public transportation is expected to take place progressively. One of the most probable options to control private automobile use is the introduction of a congestion fee.

Despite its promising assets and newly-developed urban amenities, the Seoul capital region lacks an overall strategy to promote them in the international marketplace. Rather than crafting a city logo and conducting a typical advertising campaign, Seoul City should take an integrated approach in designing and implementing a territorial branding policy. A first direction could be to valorise new generation tourism as an "image-builder", especially through the rise of convention tourism – attracting conferences and conventions to Korea – and the recent spectacular expansion of Korean popular culture in neighbouring Asian countries (called the "Korean wave"). A second direction is to convey a comprehensive image of the capital region as an economically dynamic and culturally vibrant location to live and invest in. This image should be both very

international to accommodate foreigners and specific to Seoul, emphasising its unique mix of tradition and modernity. The Seoul capital region could draw inspiration from countries such as New Zealand and Singapore that have combined economic and tourism purposes in an integrated branding strategy. ■

### How to transform the capital region's local governments into partners?

Bolstering the Seoul capital region's international competitiveness requires effective co-operation within the capital region. For Seoul City, confronting the challenge of exploiting economies of scale, so as to fulfil its ambition to become a global city, requires a thorough assessment of the underexploited potential within the capital region. For example, a cluster-mapping exercise for the whole capital region showing the extent of inter-firm linkages will help provide a better understanding of the integration of economic activities. There is an obvious trend towards the specialisation of high value-added activities in Seoul City (high-tech and service industries) and relocation of lower value-added activities (manufacturing industries) in the Gyeonggi Province, typical of advanced metropolitan regions. The challenge is to seek greater specialisation and complementarities of economic activities between the different parts of the capital region. Rationalising or at least facilitating the flow of people involved in the different industries must play a major role in the development process, the outcome of which would benefit the region and enhance national competitiveness.

Co-operation mechanisms have been implemented within the capital region but they remain underexploited on the whole. A more proactive use of co-operative strategic planning tools is therefore necessary. One of the solutions would be to revitalise the existing Administrative Council for the Capital Area that was instituted in 1988 as a mechanism for area-wide co-operation. This Council has been unsuccessful in solving problems due to the lack of strong activism amongst its members, which underlines the need to create a mechanism of incentives to ensure its members' commitment, including the possibility to share resources for major common investment projects with spill-over effects across the entire capital region. The benefits of co-operation at the horizontal level may include reduced transaction costs and reduced negative externalities, greater administrative efficiency, and greater revenues if the common projects or reform translate into increased economic activity.

Seoul should also capitalise on inputs from lower levels of government as well as the private sector and civil society. In particular, the use of online monitoring, public hearings and referenda to encourage local participation should be further exploited. Like other Korean cities, Seoul has embryonic neighbourhood associations called "local autonomy centres", but their present role is largely passive and does not fulfil the local engagement that is implied in their name and the ideals that saw them established. The centres currently provide a relatively restricted menu of cultural, language and skill-training courses. These institutions could become a site for local governance and expand the sense of local ownership of the community if their positions were made elected and their area of responsibilities enlarged. Korea's advanced IT infrastructure and wide dissemination of on-line access give it the opportunity to innovate rapidly in the emergent area of local governance.

### For further information

For further information on the OECD *Territorial Review of Seoul* and the series of OECD Territorial Reviews, please contact Ms. Soo-Jin Kim (email: [soo-jin.kim@oecd.org](mailto:soo-jin.kim@oecd.org)).



### For further reading

- OECD (2001), **OECD Territorial Reviews: Korea**, ISBN 92-64-19650-1, € 45, 167 p.
- OECD (2004), **OECD Economic Surveys: Korea**, ISBN 92-64-01438-1, € 42, 176 p.
- OECD (2005), **OECD Regions at a Glance**, ISBN 92-64-01863-8, € 40, 249 p.
- OECD (2005), **OECD Territorial Reviews: Seoul, Korea**, ISBN 92-64-01300-8, 170 p.
- OECD (2006), **Competitive Cities in a Global Economy** (provisional title, forthcoming).

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