

Seoul and the World City Formation

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1. Introduction

1) Statement of the Problem

Due to the development of technology, world becomes narrower. Cities in the world are interconnected closely and can not be regarded as “closed systems” any longer. In this sense, in order to understand and explain the urban phenomena in a city, new urban theory is required and world city perspective could be one alternative. The world city perspective was initially proposed in a systematic form by Friedmann and Wolff(1982), and elaborated as a series of propositions by Friedmann in 1986, which he labeled the “world city hypothesis.” The functions and characteristics of a set of major cities, it was argued, can only be understood through their relationship to the world economic system. Since then, a number of scholars have undertaken theorizing and research within a world city perspective (King, 1990; Thrift, 1989; Taylor and Kwok, 1989; Dogan and Kasarda, 1988; Moss, 1988; Glickmann, 1987; Soja, 1987; Henderson, 1986; Rimmer, 1986; Sassen—Koob, 1986; Kentor, 1985; Walters, 1985).

In this framework, world cities are viewed as a network of command and control centers in the world economy. They collectively serve as the nodes through which capital and information circulate and where multinational corporation (MNC) and international financial institution headquarters and their specialized support services are concentrated.

The function and role of world cities have changed over time in accordance with the development of technology and the structural change of a capitalist world economy. Due to the development of technology, particularly the development of transportation and information, there has been a series of global restructuring in the world economy characterized by the new international division of labor (NIDL) for the last three decades. The NIDL has also produced an important variation with the emergence of NICs possible as centers of production. This has occurred in countries, such as Brazil, Hong Kong, Singapore, South Korea, and Taiwan that have adopted a development policy based on an export-oriented strategy (Thrift, 1989:21; Deyo, 1989:ch.1).

The city of Seoul is a case in point. Seoul is classified as a secondary world city in the world city system by Douglass (1987) and Friedmann (1986). Seoul was rarely exposed to the world capitalist system until the late nineteenth century. Although Seoul, which has been the capital of Korea for six hundred years, is an old city, it has had a short history of modernization. It has moved from a pre-industrial urban center, through the industrial stage, toward becoming post-industrial city during the last three decades. Seoul shows many of the features of urban restructuring which have occurred in the core cities of the world system.

However, there have been few attempts to do research on Seoul from a world city

perspective. Another important issue, in terms of both theory and policy, is whether or not national policy does or can mediate or determine if and how a major city is incorporated into the world city system. Whether world city functions and their internal conditions are determined by factors largely outside the control of their national government is a matter of debate, but it has been the subject of little research. In this context, it is the intent of this paper to examine the internationalization process of Seoul in relationship with the national policy. The criteria to operationalize the concept of world city used in this paper have indicators found in a small number of rapidly expanding sectors, such as MNCs, financial institutes, air transportation and telecommunication, which reflect the driving forces of world city growth.

2) Urban Research within a World City Framework

Much of the literature on world cities are theoretical and involve analysis at the macro scale. Empirical research that deals with the fit between the theoretical assumptions and developments within individual cities is limited, but provides an important point of reference for this study. Since the formulation of the concept by Friedmann(1986), there have been a set of case studies by Sassen-Koob(1986), Soja(1987), King(1990), Rimmer(1986), Taylor and Kwok(1989) and Kowarick and Campanario(1986). They attempt to apply world city framework to New York, Los Angeles, London, Tokyo, Hong Kong and Sao Paulo respectively.

According to Sassen-Koob(1986), the internationalization of New York's economic activity is similar to that occurring in other world cities and has focused on the creation of coordination and servicing activities for headquarters and control functions rather than industrial pro-

duction. She sees the relationship of the local labor market and foreign migration to New York as an important factor in the process.

Soja(1987) examines the industrial restructuring and internationalization in Los Angeles over the last two decades. Los Angeles, which he describes as a global capitalist city of major proportions¹⁾, has become a location for corporate headquarters and a center for international finance and trade, particularly for the Pacific Rim. The internationalization of the city has been accompanied by both the expansion of MNCs based in Los Angeles and by the large scale penetration of foreign capital into the region.

King(1990) examines the transformation of London from an imperial city to a world city that serves as a specialized finance and business center in the world economy. According to King(1990:74), the center of the world economy moved from Venice, Florence, Genoa, Bruges, and Antwerp to London and Amsterdam before the end of the eighteenth century. Since then, London has performed the role of financial center in the world economy. The current restructuring of the world economy has affected London in two ways. The United Kingdom's domestic economy has become dependent on the world economy. Similarly, the fortunes of London itself are strongly determined by the growth and activities of other nations (King, 1990:88). He states that London's specialized financial role in the world economy has attracted foreign banks, accompanied by the establishment of multinational corporation headquarters.

Rimmer(1986) focuses on the restructuring of economic activities in Tokaido — Tokyo, Nagoya and Osaka — from a global perspective of locational opportunities. Tokyo was incorporated into the world economy after the Meiji Restoration in 1868 and progressively transformed from a feudal city

to a key international city. He argues that Tokyo, like other world cities, experienced a restructuring of economic activities caused by a series of changes in the world economy since the late 1960s and accelerated by the economic crisis after the oil shock of 1973. These changes include: the NIDL; the selective international fragmentation of production; the increasing stranglehold of capital over production; and developments in transport and communications. Accompanying these changes has been the "internationalization of services," such as consultancy and construction contracting. Rimmer states that this emerging world system of production and services is spatially articulated "through a global network of cities."

The world cities in the semi-peripheral countries show different paths of urbanization linked to world economy. Taylor and Kwok (1989) examine the internal transformation of the self contained city of Hong Kong, which they identify as one of the world cities that has gone through significant structural change. They suggest three stages of city development in Hong Kong: an industrial stage, in which export manufacturing dominated the economy and the expansion of service sector to supply it; a postindustrial stage, in which a new and burgeoning office or managerial function supplements the manufacturing; and the current international stage, in which the metropolis takes its place among world cities that serve increasingly as sites of control for international capital.

Sao Paulo, which is part of the national urban system of major country in the semi-periphery, Brazil, represents a different pattern of development. Kowarick and Campanario (1986), in studying Sao Paulo, find that foreign MNCs directly influence the internal structure of the productive forces and the construction of political alliances and struggles both at the city and national levels. Third World countries

were incorporated into the capitalist system far later than the industrialized countries and after there was a well-established international division of labor. Their dependent status has made them extremely vulnerable to changes in the central economies of the world system. In the Brazilian case, according to Kowarick and Campanario, a partnership was established between MNCs and the State, with minor participation of indigenous private capital. Furthermore, in contrast to Hong Kong and other NICs, production was directed towards a relatively large domestic market.

2. The Process of Internationalization and Policy

Seoul has unique history of development comparing other cities. This uniqueness is presumably from the relationship between a national policy and Seoul as world city. The development and restructuring of Seoul has not taken place in a policy vacuum. Rather the Korean government directly and indirectly has initiated and intervened in the development of Seoul, while the private sector initiated and the public sector has responded in Hong Kong (Taylor and Kwok, 1989:311).

Seoul has been the capital of Korea for six hundred Years, from the beginning of the Chosun Kingdom in 1394, through the Japanese occupation (1910~1945) and up to and including the present Republic of Korea²⁾. Until the 1960s Korea was still agrarian and remained a part of the periphery in the world capitalist system. Seoul was the national urban center and dominated the urban system, but remained a pre-industrial city. The experience of the colonial rule (1910~1945) and the Korean War (1950~53) consolidated centralization in the capital city. After liberation, Korea experienced a rapid urbanization. In particular, Seoul grew continuously, except during the war period.

In essence, Korean economic development dated from the early 1960s after the coming to power of Park's military regime, which adopted export-led industrialization(1961-79). During Rhee's regime(1948-60), the government pursued an import-substitution policy and heavily relied on foreign aid, especially with regard to economic assistance from western nations, in particular the United States.³⁾ Korea's relationship with the world system was not based on its potential as a market, but rather as a strategic military base against Soviet-led communist expansion in East Asia. Consequently, private foreign capital was not enthusiastic about investment in Korea because of the small and poor market, the tension between North and South Korea, the weak economic infrastructure, and political instability(Lim, 1985:80).

The 1960s were a period of preparation for the internationalization of the economy. The normalization of relations with Japan in 1965 provided a springboard for the inflow of Japanese capital. However, the actual amounts of new foreign loans and equity investment were small until 1970. In 1970, Korea concluded a treaty with Japan to avoid double taxation, which increased the inflow of Japanese investment⁴⁾. The intensity of export promotion by the state in the 1960s and 1970s was concurrent with the linkage of Seoul as a secondary World city in the world economy system.

As is shown in Table 1, Korea began to achieve economic success in the early 1960s. In 1960, with a GNP per capita of \$80, Korea was one of the least developed countries. Between 1961 and 1988, Korea's annual economic growth averaged 9.2 percent in GNP, and represented one of the fastest growth rates in the world. In 1977, Korea's GNP exceeded \$1,000 per capita. At this point it entered into the group of Newly Industrializing Countries clustered on the Asian portion of the Pa-

cific Rim, along with Hong Kong, Singapore, and Taiwan. The GNP increased eighty-fold from \$1.95 billion in 1960 to \$169.2 billion in 1988.

However, most of the nation's investment and growth centered in the region of Seoul. Seoul was the growth-pole of this government-directed development strategy in spatial terms and *jaebols* contributed to a large part of this strategy. Seoul's development experience during the last three decades shows the possibilities and limitations of capitalist development in the world system. In the new international division of labor, Korea plays a role as a major importer of raw materials and capital goods as well as a significant exporter of many manufactured goods (Lim, 1985:4). Seoul initially served as the manufacturing center and has become a specialized finance and business headquarters center. The city not only has a number of MNCs and financial institutions headquartered in it, but also is the location of numerous branches or offices of MNCs and financial institutes headquartered abroad.

In order to promote exports, the government identified reform of the financial system. While real interest rates had been negative, with the rate of inflation exceeding nominal interest rates by a substantial margin, they turned strongly positive as deposits as well as loan rates were substantially raised. Apart from these incentives, several quasi-governmental organizations were founded, such as Korea Trade Promotion Corporation(KOTRA), Korean Traders Association(KTA), and the Korea Society for the Advancement of the Machine Industry(KOSAMI) for the promotion of exports and the research of world market(Michell, 1988:64-67).

These policies led to rapid increase of exports and GDP. After the Oil Crisis in 1973, however, the world economy deteriorated and forced the Korean government to modify the export-oriented strategy. To

Table 1. Major Economic Indicators, 1961-1988

Year	GNP \$ Billion	GNP per Capita \$	Growth Rate %	Inflation Rate %	Foreign Debt \$ Million
1960	1.95	80	1.1	10.5	
1961	2.10	82	5.6	12.2	
1962	2.31	87	2.2	15.4	
1963	2.72	100	9.1	22.7	157
1964	2.88	103	9.6	23	177
1965	3.01	105	5.8	5.8	206
1966	3.67	125	12.7	12.7	392
1967	4.27	142	6.6	13.5	645
1968	5.23	169	11.3	13.8	1,199
1969	6.63	210	13.8	12.9	1,800
1970	7.99	243	7.6	13.5	2,245
1971	9.37	285	9.1	13.9	2,922
1972	10.57	316	5.3	16.1	3,589
1973	13.50	396	14.0	13.4	4,260
1974	18.55	535	8.5	29.5	5,937
1975	20.85	591	6.8	25.7	8,456
1976	28.65	800	13.4	20.7	10,533
1977	37.43	1,028	10.7	15.7	12,648
1978	51.96	1,406	11.0	21.9	14,871
1979	62.37	1,662	7.0	21.2	20,287
1980	60.30	1,589	-4.8	25.6	27,170
1981	66.20	1,719	6.6	15.4	32,433
1982	69.30	1,773	5.4	6.7	37,083
1983	76.00	1,914	11.9	3.9	40,378
1984	82.40	2,044	8.4	3.8	43,053
1985	83.70	2,150	5.4	4.1	46,729
1986	95.30	2,300	12.3	2.7	44,500
1987	118.60	3,098	12.8	3.7	35,360
1988	169.20	4,040	12.2	4.3	31,500

Source: Economic Planning Board. *Major Statistics of Korean Economy*, Various Years.

increase the self-sufficiency of the nation, the government increase the investment in R&D, especially in research to develop more sophisticated products. Heavy and chemical industry was emphasized in the third Economic Plan(1972~76), and continued in the fourth Plan(1977~81). Policy changed from traditional light industries for export to capital-intensive industries producing intermediate goods. The growth of fixed investment accelerated in Korea, financed in large part from foreign loans. These policy changes brought about the deterioration of the competitiveness of Korean industry in the world economy,

that is, decrease of exports and the rapid increase of imports that added to Korea's external debt(see table 1).

The new government after the assassination of ex-President Park in 1979 returned to a full-fledged export-oriented strategy. The document of the fifth Economic Plan(1982~86) emphasized that "there is no escape from the conclusion that during the fifth Five Year Plan period export expansion should continue to be the major engine of growth for Korea" (The Korea Government, 1981:13). Also the plan stated that the government would withdraw from intervention in the market

Table 2. Types of Export Incentives

Types	Effective
○ Tax Incentives	
◦ Business tax exemption	Jan 1962
◦ Reduction of Corporation and income tax by 50% on earnings from exports	Jan 1961
◦ Accelerated depreciation on allowance for fixed capital directly used for export production in mining, fishing and manufacturing	Jan 1961
◦ Tax Credit for foreign market development expenditures	Aug 1969
◦ Tax Credit for losses due to operations in foreign markets	Mar 1973
○ Tariff Incentives	
◦ Tariff exemptions on capital equipment for export production	Mar 1964
◦ Tariff payments on an installment basis for capital equipment used in export production	Jan 1974
◦ Tariff exemptions on raw material imports for export production	Apr 1961
◦ Tariff drawback on imported raw material used for export production	Jul 1975
◦ Wastage allowance	Jul 1965
○ Financial Incentives	
◦ Financing imports of materials to be used in export production	Oct 1961
◦ Financing suppliers of U. S. offshore military procurement	Sep 1972
◦ Fund to promote the export industry	Jul 1964
◦ Fund to convert small and medium size firms into export industries	Feb 1964
◦ Fund to prepare exports of agricultural and fishery products	Sep 1969
◦ Foreign currency loans	May 1967
◦ Financing exports on credit	Oct 1969
○ Other Promotion Schemes	
◦ Trading license based on export performance	Jan 1953
◦ Payment of export subsidy	1962
◦ Monopoly rights on exports of specific items to specific areas	Apr 1960
◦ Creation of exporters associations on various export products	Sep 1961
◦ Financing Korean Traders Associations	1962
◦ Export-import link system	Nov 1962
◦ Discount on electricity rates	1965
◦ Waiver Issuance for Shipping	1965
◦ Local L/C System	Mar 1965
◦ Differential treatment of traders based on export performance	Feb 1967
◦ Export insurance	Jan 1969
◦ General trading company	May 1975
◦ Export-import bank	Jun 1976

Source: Jones and Sakong (1980 : 94-95).

place and strengthen the import liberalization. According to fifth Economic Plan,

In order to sustain long-term growth of exports and the economy as a whole, import liberalization is essential. There is a limit to which a country can improve its industrial structure without import liberalization (17). The single most important change ... will be the reduction of the government's role in pro-

moting so-called strategic industries. Investment choices will be left to the initiative of the private sector and the government will provide only the general framework... (22-23).

The process of import liberalization has been continued during the Sixth Economic Plan (1987-91). Accompanying the import liberalization, the financial sector,

which was strictly regulated until the late 1970s, was gradually deregulated and a number of financial liberalization measures were taken since early 1980s. Thus, the other sectors, which had been sacrificed for industrial sector (especially export industries) during 1960 and 1970⁵⁾, has been improved quantitatively and qualitatively due to the liberalization policy in general.

3. Growth of MNCs and Foreign Investment in Seoul

During the rapid industrialization period of last three decades, Korea's economy and exports are heavily indebted to a few *jaebols*⁶⁾. These *jaebols*, which initially evolved through entrepreneurial responses to market opportunities, are extremely large and are engaged in all sectors but are concentrated in manufacturing and construction. The government interventions over the past decade have significantly contributed to their present form and structure (Lee, 1990 : 325; Lee, 1985 : 237). The shift of the government's emphasis on heavy and chemical industry during 1970s led these firms to grow rapidly. They have grown not only through the various kinds of privileges in terms of finance, tax from government but also through mergers, acquisitions, the expansion of existing units, and the investment of capital in new facilities rather than through the creation of new firms. This pattern has persisted for over three decades and has resulted in the growth of a small number of very large firms and business conglomerates. *Jaebols* are now becoming major competitors in the global market.⁷⁾ Most headquarters of those are concentrated in Seoul.

The international business activities in Seoul have grown in terms of not only the growth of MNCs, but also significant foreign investment in Korea and overseas investment. Korean companies are in-

creasingly investing overseas. Such investments started with an investment in an Indonesian Timber project in 1968, and grew into extensive activities in many countries. As is shown in table 3, the total amount of overseas investment was \$13 million in 1971, reached over \$100 million in 1978. It grew to \$289 million by 1982 and \$1.1 billion in 1988. The government reduced its control over this process, having raised the amount that can be invested overseas without permission from \$2 million to \$5 million (*Management International Review*, 2/1990:168).

The investment has been growing at a 25 to 30 percent compounded annual rate since the early 1970s. Manufacturing is the fastest growing sector among those. The next is the trade sector. Thanks to the construction boom in Middle East, the investment in construction was at a peak during 1978-84 period. Between 1982 and 1987 the total amount of Korean FDI increased by more than threefold, at the same time the FDI in North America increased by more than 450 percent, a much higher rate of growth than total Korean FDI. This was also a period of extremely successful Korean exports to the United States.

On the other hand, Foreign investment and loans in Korea has been increasing over years. Most of those are concentrated in Seoul. As economic planning has been implemented since 1962, less emphasis has been placed on foreign public assistance and more placed on the private sector and foreign direct investment in Korea. As a result, Korea has borrowed as much from abroad as it could and had foreign debt of nearly \$ 37 billion in late 1987, an amount exceeded only by a handful of Latin American nations.

4. Internationalization of Banking

Compared to MNCs, the financial sector in Korea has been underdeveloped because

Table 3. Oversea Investment by Year

UNIT:1,000

Year	GROSS INVESTMENT		PAYOFF		NET INVESTMENT		BALANCE		Growth
	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	NO	AMOUNT	Rate(%)
1968-71	19	14,314		950	19	13,364	19	13,364	
1972	13	5,115		348	13	4,767	32	18,131	35.7
1973	11	3,907	1	190	10	3,717	42	21,848	20.5
1974	19	18,149	2	104	17	18,045	59	39,893	82.6
1975	20	14,171	9	4,470	11	9,701	70	49,594	24.3
1976	46	8,220	16	1,227	30	6,943	100	56,537	14.0
1977	53	17,795	7	5,464	46	12,331	146	68,868	21.8
1978	86	43,418	12	4,657	74	38,761	220	107,629	56.3
1979	52	22,772	3	3,952	49	18,820	269	126,449	17.5
1980	44	21,095	26	5,639	18	15,456	287	141,905	12.2
1981	45	40,077	11	8,380	34	31,697	321	173,602	22.3
1982	50	129,375	19	13,413	31	115,962	352	289,564	66.8
1983	60	113,163	11	9,344	49	103,819	401	393,383	35.9
1984	46	56,974	15	5,661	31	51,313	432	444,696	13.0
1985	40	117,822	29	86,330	11	31,492	443	476,188	7.1
1986	50	171,999	18	14,846	32	157,153	475	633,341	33.0
1987	91	397,235	32	64,520	59	332,715	534	966,056	52.5
1988	165	212,919	31	59,813	134	153,106	668	1,119,162	15.8
TOTAL	910	1,408,520	242	289,358	668	1,119,662			

Source: Daily Economic Newspaper, *Yearbook of Companies*, 1989.

of the control and regulation of the government for a long time. However, the growth in banking has been accompanied by a growth in multinational headquarters, and also branch and regional offices of foreign banks. Korea's financial system, a vital part of the achievement of the goals of these economic plans, has grown rapidly in terms of its assets due to the support of the government and expanded their networks throughout the country and opened a number of overseas branches. Seoul has become an international center of finance in accordance with the growth of industrial sector⁸⁾.

The spatial network of banks headquartered in Seoul reached throughout the world. As is shown in table 4, Seoul has 141 overseas offices in 39 cities, which consists of 17 subsidiaries, 64 branches and 60 representative offices. It is interesting that more than half of overseas networks are concentrated on five world cities of

Lodon, New York, Tokyo, Hong Kong, and Singapore. The fact that 57 out of 141 offices are concentrated in Asia-Pacific Rim cities shows the strong financial connections with Asia-Pacific Rim cities and cities in North America. Although the Middle East cities are accorded some prominence, cities in South Asia and Africa are relatively neglected.

Since the advent of foreign bank operations in Korea in 1967, they have played important roles in the development of the Korean economic and financial system for the past two and half decades. Foreign banks have come to Seoul for a variety of reasons and were required to perform different roles according to changes in policy.⁹⁾ The first foreign banks to establish offices in Korea were Chase Manhattan Bank(US), Citibank(US), Bank of America(US), Bank of Tokyo(Japan), and Mitsubishi Bank(Japan). These banks played the role of diversifying financial

Table 4. Oversea Networks of Seoul Headquartered Banks

		Subsidiary	Branch	Rep Office	Total
AsiaPacific	Bangkok			1	1
	Fukuoka		1		1
	Hong Kong	5	3	9	17
	Jakarta			2	2
	Kuala Lumpur			1	1
	Manila		1		1
	Osaka		5	3	8
	Singapore	1	2	5	8
	Tokyo		8	5	13
South Asia	Delhi		1		1
Middle East	Manama		2	1	3
	Riyadh			1	1
	Tehran			1	1
Africa	Abijan			1	1
	Cairo	1			1
	Makurdi		1		1
	Nairobi			1	1
Oceania	Sydney	2		2	4
Europe	Amsterdam		1		1
	Brussels			1	1
	Frankfurt		2	4	6
	London	1	6	4	11
	Paris		1	2	3
	Stockholm			1	1
	Wien		1		1
	Zurich			2	2
North America	Chicago		3		3
	Houston			1	1
	LA	3	10	4	17
	New York	3	8	4	15
	San Francisco		2		2
	Seattle		1		1
	Toronto	1	2		3
	Vancouver		1	1	2
South America	Caracas			1	1
	Mexico city			1	1
	Panama		1		1
	Santiago		1		1
	Sao Paulo			1	1
Total		17	64	60	141

Source: Daily Economic Newspaper, *Yearbook of Companies*, 1989.

sources and introduction of foreign capital. More than half of Korea's financial needs was required from abroad.¹⁰⁾

The introduction of foreign capital by foreign bank branches increased sharply after 1975 as a result of government

measures to alleviate the deterioration of the international payments caused by the first oil crisis in 1973 and second oil price shock and high international interest rates. By 1976, thirteen foreign bank branches had been established. Thereafter,

during 1977–8, foreign bank entry was accelerated. In the late 1970s, as the economy expanded, the government lifted restrictions on foreign banks operating in Korea. Thus, foreign banks have taken advantage of this relaxation and grown dramatically.¹¹⁾ In 1988, 63 foreign bank branches and 7 representative offices owned by 60 foreign parent banks from 13 countries operating in Korea (see Table 5). Among them Seoul has 54 foreign branches and 7 representative offices.¹²⁾ Total assets of these foreign bank operations accounted for 10.6 per cent of all Korean depository banks in 1985.¹³⁾

Internationalization of the banking system along with promotion of more joint ventures among banking firms are all part of the government's move to improve the private sector. The government tried, to make the financial sector more competitive, also moved to end loan-market operations in which firms unable to get low-cost credit are required to pay high non-market interest rates on loans from this source—essentially, an underground financial system outside the control of the central government.

Table 5. Foreign Banks in Seoul

	Parent	Seoul		Pusan	Total
	Banks	Branch	Rep	Branch	
Australia	1	1			1
Canada	3	2	1		3
France	7	6	1	1	8
Germany	2	1	1	1	3
Hong Kong	1	1		1	2
India	1	1			1
Japan	17	15	2	2	19
Netherlands	1	1			1
Pakistan	1	1			1
Saudi Arabia	1		1		1
Singapore	2	2			2
U K	5	5		1	6
U S	17	18	1	3	22

Source : Daily Economic Newspaper, *Yearbook of Companies* 1989.

In the process of the internationalization

of the Korean financial system, the Korean government gave foreign banks favorable treatment in order to promote the importation of foreign capital. This, along with the fact that domestic banks lacked the competitive power of foreign banks, enabled these latter banks to record higher profitability.

5. The Development of Infrastructure

All sectors of the global economy are heavily dependent on the medium of communication for successful performance and attainment of their operating objectives. The communication is two dimensional. In order to provide for a useful and continual exchange of ideas, fast and efficient communications, on a personal (face-to-face) as well as non-personal (telephone, telex, fax, etc) basis, must be made available to the center. The technology of transportation has made it possible to move people and documents from one to another place for face-to-face interactions. Especially, air transportation has contributed to link world cities for multinational activities by shortening the time cost. On the other hand, the technology of telecommunication has made it possible to send and receive information simultaneously throughout world. The development of technology in air transportation and telecommunication lead to an increased concentration of control and management functions in a few world cities.

In case of Korea, investment in social infrastructure obtained low policy priority and usually lagged far behind investment in directly productive activities during the early stage of export oriented growth, because policy priority was given to the expansion of exports and the manufacturing industries. The government's complaints about infrastructure problems are severe, the government has been slow to expand facilities such as transportation,

communications, and so on. Thus, industries in Seoul grew in the face of shortages with respect to airports, telephones, railroads, and so on.

1) Growth of Air Transportation

Until the late 1970s, the aeronautic industry was very weak. Korea was highly restrictive on the overseas travel by Koreans until late 1980s. KAL was the only carrier with the support of government to compete with other foreign airlines, and enjoyed the monopoly for a while both in domestic and international market until ASEANA took part in the competition in 1989.

Due to internationalization of economy, liberalization of overseas travel in mid 1980s, increase of living standard, the volume of international passengers and cargo has been growing tremendously. The status of Seoul as air transportation center has been elevated steadily. Until the early 1970s, Seoul had just linked with several cities in East Asia. More than 80% of traffic was concentrated to Seoul-Tokyo. As of 1988, 42 airlines are operating at Kimpo International Airport,¹⁴⁾ linking with 35 airports out of 18 countries over the world. The airport handles 1841 times a month, 693 to Japan, 552 to Asia, 459 to the U.S. 86 to Europe, and 51 to Middle East. As is shown in table 6, total passengers were 76 thousands in 1965, increased over 400 thousands in 1970, and 2.4 million in 1980. As of 1988, more than 5 million passengers used Kimpo Airport from and to foreign countries. Annual average growth rate of international passenger shows 8.5% at Kimpo Airport between 1980-85 and 12.3% between 1985-87. Since early 1980s, the economic growth of Korea has increased travel to foreign countries, in particular the U. S., Japan and Middle East. These are the areas of major importance to Korean International Air Transportation. More passengers travel between Korea and Japan

than any other countries. As a share of total Korea international traffic, Japanese traffic has hovered around half percent level, decreasing slightly in 1980. About a half of international travel is between Korea and Japan. Although the amount of travel to Japan has been rapidly increasing since 1965, the share of air transportation has been decreasing from 80% in 1965 to 25% in 1988.

The second large share is the Asian region. The share has been increasing according to the economic growth in this region, in particular Hong Kong and Taiwan. This area has witnessed the strongest sustainable traffic growth over last three decades. As a result of this strong growth, the relative importance of the very long-haul Asia market has increased significantly from 6.1 percent in 1965 to 25 percent in 1988. As of 1988, Korea-U. S. accounts for 20% of total Korea international air transportation, Korea-Japan 50%, Korea-Asia 25%, Korea-Europe 4.0%. These three markets together accounting for nearly all of the traffic after exclusion of Europe. Access to Japan is the key to the major portion of the Korean air travel. There was a rapid increase in Middle East around 1980s when there was a construction boom in these areas. The routes to South America, Africa and Oceania has not been developed.

At the same time, tourist enterprises and businesses provide incentives in the form of an allowance for accelerated asset depreciation. Foreign investors, subject to joint investment of tourist projects with their Korean counterparts, may be partially exempt from taxation for a portion of their investment in Korea. These efforts have attracted a number of international hotel chains to Korea. In accordance with the increase of foreign tourists, a lot hotels have been built. The government also lifted the restrictions on overseas travel by its citizens. Previously overseas

pleasure travel was limited to Koreans who were over 50 years old. With tourism a major growth industry, as well as Seoul's function as international conference and business center, the hotel industry is another realm for international invest-

ment. Especially, the Asian Game in 1986 and the Summer Olympics 1988 provided Seoul a great opportunity to host a lot of international conferences and international cultural activities as well as international sports games.

Table 6. International Performance of Air Transportation

FROM		1965	1970	1975	1980	1985	1988
TOKYO	IN	29,641	111,459	278,740	305,290	373,350	735,397
	OUT	32,173	130,815	311,398	319,275	370,848	739,668
	TOTAL	61,816	242,274	590,138	624,565	744,198	1,475,065
	rate	81.4	58.9	44.6	25.5	19.8	27.0
Cities in Japan	IN	4,605	48,222	181,881	268,005	388,475	667,551
	OUT	4,854	46,468	171,163	311,222	399,203	627,568
	TOTAL	9,459	94,690	353,044	579,227	787,678	1,295,119
	%	12.5	23.0	26.7	23.6	20.9	23.7
TAIPEI	IN	68	14,414	54,309	124,940	182,360	257,275
	OUT	68	19,554	59,192	88,810	154,780	245,560
	TOTAL	136	33,968	113,501	213,750	337,140	502,8358
	%	0.2	8.3	8.6	8.7	9.0	9.2
HONG KONG	IN	1,933	16,951	44,810	92,998	161,006	216,049
	OUT	2,584	19,271	43,180	101,304	172,343	245,288
	TOTAL	4,517	36,222	87,990	194,302	333,349	461,337
	%	5.9	8.8	6.7	7.9	8.9	8.4
Cities in Asia	IN	0	0	0	97,833	103,234	32,526
	OUT	0	0	0	100,546	81,701	27,658
	TOTAL	0	0	0	198,379	184,935	60,184
	%	0.0	0.0	0.0	8.1	4.9	1.1
LA	IN	0	0	30,902	93,142	134,518	201,907
	OUT	0	0	48,295	108,168	155,974	233,093
	TOTAL	0	0	79,197	201,310	290,492	435,000
	%	0.0	0.0	6.0	8.2	7.7	8.0
NEW YORK	IN	0	0	1,794	47,640	79,380	104,249
	OUT	0	0	0	56,180	90,667	115,807
	TOTAL	0	0	1,794	103,820	170,047	220,056
	%	0.0	0.0	0.1	4.2	4.5	4.0
Cities in USA	IN	0	0	13,279	42,156	234,613	192,025
	OUT	0	0	21,370	56,689	280,508	238,581
	TOTAL	0	0	34,649	98,845	515,121	430,606
	%	0.0	0.0	2.6	4.0	13.7	7.9
Cities in Canada	IN	0	0	0	0	349	7,098
	OUT	0	0	0	0	356	7,324
	TOTAL	0	0	0	0	705	14,422
	%	0.0	0.0	0.0	0.0	0.0	0.3
Cities in Europe	IN	0	0	8,503	35,754	66,097	107,590
	OUT	0	0	17,458	36,274	73,479	111,782
	TOTAL	0	0	25,961	72,028	139,576	219,372
	%	0.0	0.0	2.0	2.9	3.7	4.0
Total		75,926	411,359	1,322,273	2,452,289	3,762,753	5,470,711

Table 7. Number of Foreign Visitors in Seoul

	Total	AMERICA		A S I A		Europe	Oceania
		U S	Canada	Japan	Others		
1964	24,953	11,530	151	2,280	1,956	2,048	196
1965	33,464	14,152	263	5,110	2,177	2,377	239
1966	67,965	30,226	462	16,873	3,331	3,420	275
1967	84,216	39,274	579	19,740	4,110	4,293	486
1968	102,748	41,823	816	25,219	6,329	5,404	801
1969	126,686	49,606	898	32,181	6,129	6,916	932
1970	173,335	55,352	1,528	51,711	16,982	8,968	1,267
1971	232,795	58,003	1,268	96,531	11,579	9,454	1,437
1972	370,656	63,579	1,913	217,276	16,350	11,173	1,785
1973	679,221	77,572	3,149	474,773	28,026	15,365	2,264
1974	517,590	80,621	3,0789	299,756	31,075	16,326	2,454
1975	632,846	97,422	2,833	363,879	54,235	19,473	2,503
1976	834,239	102,199	4,855	521,128	63,978	29,711	2,729
1977	949,666	113,710	5,485	518,525	82,102	36,460	5,532
1978	1,079,396	118,039	6,992	667,319	85,787	46,793	6,266
1979	1,126,100	127,355	7,561	649,707	125,426	49,229	6,101
1980	976,415	121,404	8,400	468,415	155,343	45,730	5,645
1981	1,093,214	130,402	10,226	506,819	207,605	52,122	6,035
1982	1,145,044	151,249	10,355	518,013	197,261	58,556	7,718
1983	1,194,551	176,488	11,963	528,265	204,134	63,745	8,681
1984	1,297,328	212,986	13,192	576,448	212,818	69,412	11,068
1985	1,423,045	239,423	16,964	638,941	229,002	81,775	12,424
1986	1,659,972	284,571	19,901	791,011	222,792	89,035	11,331
1987	1,874,501	326,330	21,616	893,596	232,811	96,758	12,523
1988	2,340,462	347,281	24,448	1,124,149	313,366	130,709	17,465

Source : Ministry of Transportation, Statistical Yearbook of Transportation.

Table 7 summarizes the foreign visitors in Seoul between 1964 and 1988. In 1961, Korea received only 6,700 foreign travelers in 1958¹⁵⁾. In the next ten years there was rapid growth in visitor volume, and in 1973, arrivals totalled 68,000. Visitor volume increased to 975,000 in 1980 and surged to over two million in 1988. The annual average growth rate in visitor arrivals was 11.7 percent in the 1980s. This remarkable growth rate was attributable in part to the Asian games and summer Olympics of 1988, both held in Seoul.

Japan is for and away the biggest source of international tourists. In the 1960s, the U.S. topped the list of total arrivals mainly due to the military link. After relations between Japan and Korea

became normalized in 1970, the Japanese accounted for over 40 percent of total arrivals. For the year 1988, total arrivals from Japan were 48%, followed by the U. S. at 14.8%, and Taiwan with 5.3%. The government is trying to diversify its markets and reduce the nation's dependency on Japanese travellers by attracting more Europeans. The European market currently holds about five percent of arrivals.

2) Change in Telecommunication

The government monopolized and controlled the whole telecommunication system. The ministry of Communications took charge of telecommunication service accompanying with postal service until 1982. By early 1980s, due to the develop-

ment of new technology and increasing demands in telecommunication, telecommunication service was separated from the postal service and became under the control of the Korea Telecommunication Authority (KTA), which was established in 1982. Wholly-owned by the government but organized as a separate company, KTA passed into private ownership in 1990. As sole supplier of all telecommunications services in Korea, KTA provides television and radio broadcasting transmission, as well as telephone, telex and telegram services, and marine and mobile telephony. In 1987, KTA achieved a 10 million line switching capacity and completed a single nationwide automatic switching network.

KTA also are facing competition on international and longdistance lines from Dacom, a semi-private company which is 30% owned by KTA (*FEER*, Aug 2/1990). A separate company, data communications corporation of Korea, or Dacom, formed in 1982, controls the public network for data transmission services. So far, data accounts for less than 1 percent of all traffic. Dacom claims more than 100,000 leased circuits for large users, and some 2500 subscribers. In addition to transmission service, Dacom develops software and services for its data networks. (*Telephony*, September 26, 1988, 50-55).

For international calls, two earth stations in southern Korea are connected to INTELSTAT. Two antennas at Kumsan produce 631 permanent voice-grade channels linking 31 countries. At Poun earth station, 802 channels link 13

countries.¹⁶⁾ All international traffic is routed through two gateways, Seoul and Pusan.

The international telephone calls from/to Korea are summarized in table 8. Most telephone calls are highly concentrated to Japan and the United States until 1975. Almost three fourths of ongoing and outgoing calls were to Japan and one fifth went to the United States between 1961 and 1975. Since late 1970s the telephone calls have been diversified to many countries. The dependency on Japan has reduced from 76.7 percent in 1975 to 40.4 percent in 1988. Instead, the traffic with Asia-Pacific Rim countries and Europe has been increased to 13.7 percent and 10 percent respectively in 1988.

According to Moss (1988 : 271), Pacific Rim cities has emerged as information centers recently. The position of Seoul is the fourth-leading international information producer among seven cities after London, New York and Tokyo, as is shown in figure 2.

KTA is working jointly with the telecommunications authorities of Japan, Hong Kong and the People's Republic of China, as well as AT&T, on the first Trans-Pacific FO cable system. As a result of the dynamism of the region's economies, Asia-Pacific telephone networks are expanding by 6.7% a year — ahead of Europe's 4.4% and North America's 2.8% — according to U.S.-based consultants Arthur D. Little (*FEER*, August 2/1990 : 38). Korea's international transmission will be able to carry all types of digitalized international services.

Table 8. International Telephone Calls in Korea

TO			1961	1965	1970	1975	1980	1985	1988
Asia	Japan	In	14.8	29.9	231.4	939.4	1,134.4	4,073.2	13,344.3
		Out	19.3	33.2	241.3	1,261.1	2,328.6	6,538.9	18,904.1
		Total	34.1	63.1	472.8	2,200.5	3,463.0	10,612.1	32,248.5
		Rate	64.4	74.7		76.7	36.4	37.4	40.4
	Asia-Pacific	In	1.5	2.0	13.8	63.1	218.4	1,003.8	4,828.0
		Out	1.4	1.8	17.9	60.6	276.9	1,518.5	6,086.6
		Total	2.9	3.8	31.7	123.8	495.9	2,522.3	10,914.6
		Rate	5.5	4.5	4.9	4.3	5.2	8.9	13.7
	Middle East	In	0.0	0.0	0.0	0.1	212.2	163.2	473.3
		Out	0.0	0.0	0.0	0.0	426.5	2,153.3	1,818.2
		Total	0.0	0.0	0.0	0.1	638.7	2,316.5	2,291.6
		Rate	0.0	0.0	0.0	0.0	6.7	8.2	2.9
	Others	In	0.0	0.0	0.0	0.0	18.6	1.8	149.3
		Out	0.0	0.0	0.0	0.0	244.9	9.6	94.6
		Total	0.0	0.0	0.0	0.0	263.5	11.4	243.8
		Rate	0.0	0.0	0.0	0.0	2.8	0.0	0.3
Oceania	In	0.0	0.0	0.0	0.0	18.5	75.6	459.4	
	Out	0.0	0.0	0.0	0.0	34.0	203.8	1,081.3	
	Total	0.0	0.0	0.0	0.0	52.6	279.4	1,540.7	
	Rate	0.0	0.0	0.0	0.0	0.6	1.0	1.9	
America	U.S.	In	5.1	4.1	43.0	307.5	1,016.8	3,528.7	8,888.5
		Out	10.7	13.4	102.9	222.7	1,252.3	6,083.9	13,904.5
		Total	15.9	17.5	145.9	530.2	2,269.1	9,612.6	22,793.1
		Rate	29.9	20.7	22.3	18.5	23.9	33.9	28.6
	Canada	In	0.0	0.0	0.8	0.0	29.9	116.9	645.3
		Out	0.0	0.0	0.9	0.0	68.5	216.7	695.3
		Total	0.0	0.1	1.7	0.0	98.5	333.6	1,340.6
		Rate	0.0	0.1	0.3	0.0	1.0	1.2	1.7
	Others	In	0.0	0.0	0.0	0.0	28.6	0.0	98.1
		Out	0.0	0.0	0.0	0.0	759.4	0.0	95.5
		Total	0.0	0.0	0.0	0.0	788.1	0.0	193.6
		Rate	0.0	0.0	0.0	0.0	8.3	0.0	0.2
Europe	In	0.1	0.1	0.8	13.0	120.4	829.6	4,109.8	
	Out	0.0	0.0	0.4	2.4	165.0	1,844.4	3,919.7	
	Total	0.1	0.1	1.2	15.4	285.4	2,674.1	8,029.5	
	Rate	0.2	0.1	0.2	0.5	3.0	9.4	10.1	
Africa	In	0.0	0.0	0.0	0.0	1,067.6	0.0	96.2	
	Out	0.0	0.0	0.0	0.0	51.3	0.0	58.9	
	Total	0.0	0.0	0.0	0.0	1,118.9	0.0	155.2	
	Rate	0.0	0.0	0.0	0.0	11.8	0.0	0.2	
Communist	In	0.0	0.0	0.0	0.0	20.1	0.0	7.6	
	Out	0.0	0.0	0.0	0.0	12.8	0.0	0.0	
	Total	0.0	0.0	0.0	0.0	33.0	0.0	7.6	
	Rate	0.0	0.0	0.0	0.0	0.3	0.0	0.0	
Total			53.0	84.5	653.2	2,869.9	9,506.0	28,361.8	79,758.8

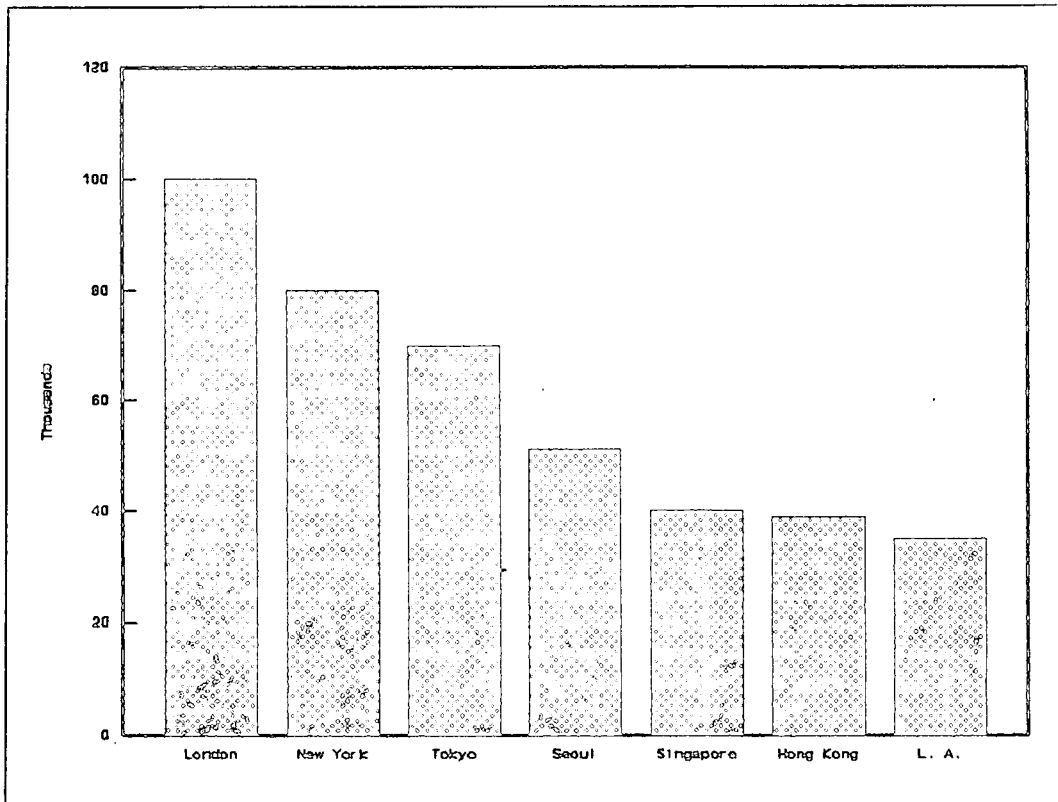


Figure 1. Leading Sources of International Document Shipments, by City, 1983
Source : Moss, Mitchell L. (1988 : 272).

6. Conclusions : Policy and Planning Implications

This paper indicates that Korean national policy was an important factor in Seoul's rapid rise in world system. This has been achieved through a series of authoritarian regimes. They have subordinated democracy and social values to economic growth. That is, since early 1960s, the government adopted the export-led industrialization for economic growth through a series of Five-Year Economic Plans.

Seoul has been the growth-pole of this government-directed development strategy in spatial terms and *jaebols* contributed to a large part of this strategy. This has resulted in the high concentration in Seoul in terms of population, economic,

political, social, cultural facilities and activities. This has also produced serious social problems such as inequities between urban and rural, intra-urban, and classes in a city.

In terms of MNCs and banks, Seoul showed an extraordinary upward movement in the world city hierarchy. On the other hand, the field in infrastructure is still lagged behind other world cities, especially compared with other NIEs on the Pacific Rim.

The types of problems Friedmann and others identify with world city status are present in Seoul. Although a detailed analysis has not been undertaken, it can be indicated that Seoul has problems of a dual economy, sprawling growth, an influx of migrants, a housing shortage, and environmental degradation similar to

those found in other world cities like London, Los Angeles, New York, Sao Paulo, and Tokyo. Although similar problems exist, these cities are operating under a variety of national development policies, levels of decentralization of decision-making authority, and structures of government within their metropolitan areas.

Finally, this would suggest that one of the major tasks of world city analysis, from a public policy perspective, is to look more broadly at the governmental structure and planning processes within world cities. This would produce a better understanding of whether the presence and magnitude of social, economic and environmental dysfunctions among major cities differ on the basis of size, world city rank, or non-world city status, local governmental structure, and national and local urban policies.

Note

- 1) Soja et al.(1983) categorize several phases of urban restructuring of American cities according to the development of capitalism:the classic industrial capitalist city after early 1870s, the monopoly capitalist city after the global depression of the 1890s, the state-managed capitalist metropolis after the Great Depression, and the global capitalist city after late 1960s.
- 2) Kyongju was the capital during the Unified Silla Kingdom(668-960), and Kaesong was the capital during the Koryo Kingdom(960-1392).
- 3) From 1946 to 1976, the United States provided \$12.6 billion in American economic and military aid to Korea, with Japan contributing an additional \$1 billion, and \$2 billion coming from international financial institutions(Woo, 199: 45; Cathie, 1989:101-119).
- 4) As a result, Japanese direct investment exceeded that of the US in the total value of projects in the 1970s. Of the total direct foreign investment in Korea between 1962 and 1978, \$530.7 million was from Japan, and \$161.8 million from the United States (Westphal, Rhee and Pursell, 1979:366). Furthermore, in 1970 the government selected Masan at the southern coast of Korea as a Free Export Zone to solicit Japanese direct investment, and provided an industrial park fully equipped with the necessary facilities for export-oriented firms at low cost.
- 5) The export industries and the heavy and chemical industries were given high priority in the banks' government-influenced credit allocation system.(Institutional Investor, August/1990, p.89)
- 6) In 1984 the sales of the top ten jaebol equalled two thirds of Korea's GNP, and by one estimate the sales of the top four alone equalled half of GNP in 1989. Korean government survey of 2500 goods found that in 1988 21% of the country's markets for them were monopolistic and 56% oligopolistic. (The Economist July 14, 1990, p.20)
- 7) Seoul had 9 MNC headquarters out of World's 500 largest companies in 1988(FORTUNE, 1989).
- 8) Since the Bank of Seoul and Trust became one of the world's 200 largest banks in 1982 (*Institutional Investor*, 1984), Seoul's standing in terms of financial institutions has experienced rapid increase. Seoul had three headquarters of banks out of the world's 200 largest banks in 1988(*Fortune*, 1989).
- 9) Euh and Baker(1990:28-30) identify four stages of foreign banks in Korea in terms of their role:stage one(1967~1974) of the role of diversifying financial sources and introduction of foreign/capital;stage two(1975-1983) of the role in reducing balance-of-payments deficits;stage three(1984-1990) of role of a capitalist in the advancement of domestic financial markets, and;stage four (1990-) of role of increased internationalization of financing.
- 10) However, the relative weight of foreign bank branches as a source of foreign capital never exceeded 1.6 per cent of the total capital required by the Second Plan.
- 11) The government exercised a great reluctance to relinquished control. The new Roh administration has demonstrated the desire further liberalize governmental controls over the financed sector and this move has in-

creased business confidence in dealing with the government.

- 12) Seoul has 18 branches and one representative office from 16 U. S. banks; 15 branches and 2 representative offices from 16 Japanese banks; 6 branches 1 representative offices 7 French banks; 5 branches from 5 UK banks; 2 branches and 1 representative offices from Canada; 2 branches from Singapore; 1 branches 1 representative offices from German; 1 branches 1 representative offices from Hong Kong; India, Netherlands, Australia own one branch each; Saudi Arabia has one representative offices
- 13) It is higher, comparing to other countries; 4.3 per cent of deposits in Japan, 6.7 per cent of deposits in Taiwan, and 2.1 per cent in West Germany.
- 14) 9 lines to Japan, 13 lines in Asia (excluding Japan), 10 lines to U.S., 6 lines to Europe, and 4 lines to Middle East. Delta Planned its nonstop service from Portland to Seoul from July, 1988 as attempt to extend Pacific market (Aviation Week & Space Technology, April 11, 1988, p.136)
- 15) U.S. Department of Commerce, "The Future of Tourism in the Pacific and Far East," Bureau of Foreign Commerce, Washington D. C.; 1961, p.279.
- 16) Calls to and from the U.S. use eight channels of the transpacific cable, TPC-2, routed through Japan on a submarine coaxial cable containing 2700 channels. There is also a microwave system to Japan; South American calls use trans-Atlantic cable.

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