

Songdo Free Economic Zone in South Korea: A Mega-project Reflecting Globalization?

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인천 송도 경제자유구역 개발 특성 -세계화를 반영한 거대 프로젝트인가?-

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Abstract : The actual mechanism of Songdo Free Economic Zone in Incheon, South Korea, has been provided. Contrary to previous researches, which either consider globalizing market force as naturally causing mega-projects or regarding the state as orchestrating mega-project in order to upgrade a national economy, this paper adopts a new approach. This approach acknowledges the importance of state in building Songdo. However, motivations of the bureaucrats were more about their own interest rather than that of the state. The plan of making Songdo a global business hub such as Singapore was not carefully planned. Boosting up local economy by initiating huge construction project and expansion of the bureaucratic organization were also important. The foreign school in Songdo, which is open to local children, is good news to high bureaucrats who are likely to send their kids abroad for education.

Key Words : Songdo, Free Economic Zone, Business Hub, Incheon, South Korea

요약 : 이 논문은 우리나라 인천 송도 경제자유구역의 개발 기제를 밝혀보려고 한다. 세계화하는 시장의 힘이 송도 경제자유구역 개발과 같은 거대 프로젝트를 실행하도록 추동한다거나 정부가 국가 경제를 한 단계 더 발전시키기 위해 거대 프로젝트를 추진하도록 한다고 주장하는 이전의 연구들과 달리, 이 논문은 새로운 설명 및 접근 방법을 모색해 보았다. 이 새로운 설명 방법은 송도 경제자유구역의 개발에서 국가의 중요성이 인정되지만, 그 구체적 개발 배경 혹은 동기에서는 국가 자체의 이해관계보다 관료들의 이해관계가 한층 중요하게 작용하였다는 점이다. 송도를 싱가포르와 비슷한 글로벌 비즈니스 허브로 구축한다는 계획이 체계적이고 사려 깊게 수립되지 않았으며, 대형 건설 프로젝트를 시행함으로써 지역 경제를 활성화하고 관료 조직을 확대하는 것도 중요한 요인이었다. 지역 초·중·고 학생들을 위해 신설한 송도 외국인 학교는 교육 목적을 위해 자녀들을 외국으로 유학시키려는 고위 관료들에게는 좋은 뉴스거리였다.

주요어 : 한국, 인천, 송도, 경제자유구역, 비즈니스 허브

1. Introduction

Wherever we go in the world, we are
confronted with a new political and physical

animal: the multi billion-dollar mega infrastructure
project (Flyvberg, 2003: 1).

To hear planner John B. Hynes tell it, the rise

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of New Songdo City will be as dramatic as the resurfacing of Atlantis. With more than 4.6 million square meters of office space and half a million people, a city larger than downtown Boston will materialize off the western coast of South Korea, near Incheon, where once there was only water. Golf courses and parks will emerge like emeralds in the sun. New communities will magically take root in 35,000 homes (Newsweek, 2004 March 29).

In the late 1990's, the City of Incheon began reclaiming approximately 3,000 acres of land along the southwest edge of the Incheon City coastline (Gale Company, 2004). This man-made island was originally planned for building urgently needed homes in this industrial city nearby the Capital of South Korea.

The fate of this new land took a sudden turn in December 2002. The Korean Central Government then approved Incheon City's request to designate three districts including Songdo as 'Free Economic Zone' (FEZ) with numerous tax incentives and benefits (Gale Company, 2004).

The goal of the city and central government is to turn Songdo into 'the Hub of Northeast Asia' (Gale Company, 2004). New Songdo is to be one of many aspiring 'gateways' to China, and will be competing for that trade with rivals from Singapore to Japan. Government officials promise foreign companies easy access to a nearby harbor and newly built Incheon International Airport located in Yeongjong FEZ (Newsweek, 2004 March 29). The \$5 billion Incheon International Airport opened in 2001. It is capable of handling up to 50 million passengers annually (Gale Company, 2004).

In order to lure foreign investments, Songdo FEZ offers various incentives and better living conditions for foreigners. Tax reduction includes possible 100% exemption of customs duties, corporate tax, income tax, and regional tax. Public land can be leased up to 50 years.

Subsidies are provided on land, building, and employment. Public documents are issued in foreign languages. Hospitals for foreigners will be provided. Even local labor regulations are eased. Businesses in the FEZ do not have to hire certain quota of employees who are disabled, the elderly, and with national merit. Unpaid holidays and unpaid leave are allowed (IFEZA, 2011).

Infrastructure construction has been literally spectacular. The size of Songdo (53.4 square kilometers), almost equal to the size of Manhattan island, has not yet limited its ambition. In 2009, world's fifth longest cable-stayed bridge (21.38 kilometer) bridge linking Songdo to Incheon International Airport was built (Incheon Bridge Corporation, 2010). In charge of this project is Incheon Bridge Corporation, a joint venture between the UK-based AMEC and Incheon city government (Korea Herald, 2009).

Songdo international business district, with its \$35 billion price tag, is one world's ten largest construction projects (Engineering News Record, 2010). In early 2001, the City of Incheon granted POSCO E&C - a subsidiary company of POSCO, the 2nd largest steel manufacturer in the world - with a 6month developer designation to act as the lead Master Plan Developer for the first 1,500 acres of reclaimed land at New Songdo City. This designation was subject to POSCO obtaining a foreign development partner with a majority interest in the venture. The purpose of that condition was to encourage foreign investment capital and user groups to New Songdo City, as well as to insure that this new city be designed and built above and beyond normal Korean standards (Gale Company, 2004). The Gale Company teamed up with POSCO. Around Songdo Central Park, which is 8.5 times smaller than New York's Central Park, skyscrapers such as Songdo International Convention Center and 65-story Northeast Asia Trade Tower are located (Korea Herald, 2009).

Even though filled with modern man-made wonders, Songdo has a long way to go to compete with other Asian business hubs such as Singapore and Hong Kong. A report published by a government-funded research institute points out the same problem and calls for measures to solve the problem (Korea Institute for International Economic Policy, 2011). As of the end of April 2009, Songdo and two other zones in Incheon had received just under \$500 million of a pledged \$6.6 billion in foreign investment, with Songdo developers Gale and POSCO accounting for a large share (Reuters, 2009).

The light and shadow of Songdo raise questions to be answered in the rest of this paper: What is the relationship between the state and globalization as far as mega-project such as Songdo Free Economic Zone is concerned?

2. The state and globalization in mega-project: a new approach

Previous researches on mega-project such as Songdo Free Economic Zone have been static and simple. Shortcomings in previous literature come from its preoccupation with economic aspect. Especially two groups who each embrace the market and the state as driving force of mega-project. This section will show that both camps are not capable of fully explaining Songdo. A new approach, which acknowledges the importance of the state and also admits its limitations, will be explored here.

Market-oriented urbanists relate mounting inter-city competition with globalization. Mega-projects are manifestations in the built environment of the intensity of urban restructuring associated with overt urban competition (Douglass, 2000). According to this viewpoint, governments are

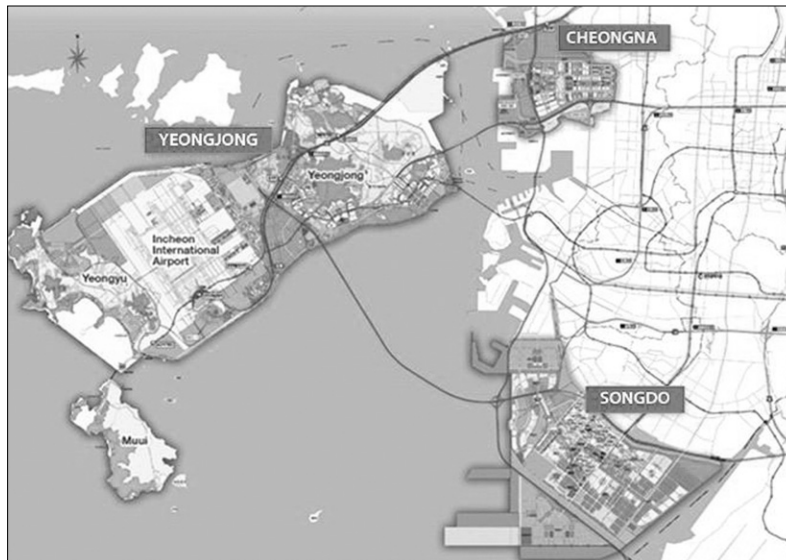


Figure 1. Incheon Free Economic Zones

Source: Songdo Free Economic Zone Authority, 2011.

(<http://www.ifez.go.kr/jsp/eng/business/business1.jsp>, Accessed on 2011 May 15)

being compelled to invest in mega-projects to remain competitive in ever-more globalizing economy. The examples are abundant in Asia: Hong Kong's Chek Lap Kok airport, Kuala Lumpur's Multimedia Corridor, and Shanghai's Pudong development.

To Douglass, globalization also means shrinking power of the old traditional state. The difficulty of Asian developmental state is a good example of globalization eating away the power of the state:

The potential for successfully formulating and realizing longer-term visions is embedded in on-going transformation of the development model of state-corporate led societal guidance that created the 'miracle economies' of Pacific Asia over the past several decades but which is no longer viable. This highly centralized, exclusive and opaque system of planning under a strong 'developmental state' is now being effectively challenged by three major forces: the rise of civil society creating pressures for a more decentralized, democratic form of politics; pressures from powerful international agencies and governments to drastically liberalize trade regimes and financial systems; and on-going profound changes in the organization of the world economy within and among large-scale corporate networks (Douglass, 2000: 2).

Kim (2010) is the one who seems to have applied the argument of Douglass to the case of Songdo:

The planning and management of urban mega-projects like Songdo in South Korea is related to the emergence of neo-liberal economic policies. A decade ago, under pressure from the International Monetary Fund (IMF), the Korean government adopted various neo-liberal economic measures during a period of structural adjustment. With the withdrawal of the developmental state and the

implementation of pro-market policies, deregulation becomes a political virtue and consequently increases privatization The planning and implementation of Songdo, a joint venture between an American developer (Gale International) and a Korean construction firm (POSCO E&C), was possible when the Korean government passed legislation allowing foreign real estate investment under the auspices of the IMF (Steiner & Salmon, 2008).

However, some urbanists are more cautious about the linkage between mega-project and globalization. Olds (1998: 377) argues that the Can\$3 billion Pacific Place urban mega-project in central Vancouver, the redevelopment of one-sixth (80 hectares) of Vancouver's central city, can not be explained sufficiently by 'a standard economic sense' which would conceive of this development process as being reflective of a search by the Li Group (i.e., multinational capitalists) for profit (capital accumulation), in response to perceived opportunity (a rent gap) in conjunction with sufficient demand (from consumers). Rather, the Pacific Place project primarily represented a timely opportunity to further a variety of familial and corporate goals related to succession plans within the Hong Kong-based Li Group. Pacific Place was effectively used as an educational tool to enhance the skills, reputation, and confidence of Li Ka-shing's eldest son in the large-scale property development industry.

Flyvbjerg *et al.* (2003: 3-6) admits that infrastructure plays a key role in nothing less than the creation of what many see as a new world order where people, goods, energy, information and money move about with unprecedented ease. However, they disclose 'mega-projects paradox'. The mega-projects paradox consists in the irony that more and more mega-projects are built despite the poor performance record of

many projects.

The poor performance can not be explained by the innate difficulty of predicting the future. Instead, the differences may be explained by project proponents succeeding in manipulating forecasts in ways that make decisions to go ahead with projects more likely than decision to stop them. Flyvbjerg et al. point fingers to stakeholders such as politicians, special interests groups, and contractors.

Others focus on the lingering importance of the state. Describing Tokyo waterfront sub-center (also called 'Tokyo teleport town') project, Saito (2003) concludes that Japan's unique tradition of state superiority have something to do with strong bureaucratic hegemony in the decision-making process of the project. During Japan's late industrial development, Japanese state armed with Confucianism and nationalism have guided the economic development and consequently has made the distinction between public and private in Japanese society blurred (Saito, 2003: 289).

Park (2005) regards Songdo as 'hybrid spaces' composed of developmental state and neo-liberalization. According to him, one of the neo-liberalizing forces is the globalization of economic activities. Concerning the developmental state, he emphasizes 'the path-dependent attitude of bureaucrats' who have led South Korean economy since the 1960s. In the paper, he relies on previous debates on the issue:

What leads to the state's flexible experimentation with different forms of sovereignty? Why does the state want to treat segments of the population differently? Actually, Ong (2002) provides an answer to this question. Attributing the state's different treatment of the population to the former's interaction with global forces, she argues that in order to be globally competitive in the globalizing economy, the state treats segments of the population differently in

relation to their varying degrees of participation in globalized market activities According to Brenner (2003), the 'glocalization' of the state space is associated with the state's spatial strategies to differentiate national political-economic space through a re-concentration of economic capacities within strategic sub-national sites such as cities, city-regions and industrial districts, which are in turn to be positioned strategically within global economic flows.

Here one comes across with ironically similar problems associated with globalization theorists. The path-dependent state is considered to have remained the same, thanks to the bureaucrats dedicated for public good. It is economic pressure that makes unwilling bureaucrats to intervene less in the market and to devise a compromise such as free economic zone.

This paper starts from where Park (2005) missed out. If the state treats people differently (Ong, 2002), the bureaucrats might have started to treat themselves differently. Treating people differently is in logical contradiction with number three out of Charlmers Johnson(1982)'s four defining elements of the developmental state: (1) stable rule by a political-bureaucratic elite strong enough to deter political demands that would undermine economic growth; (2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; (3) sustained public investment in education for everyone and the equitable distribution of returns from high speed growth; (4) a government that respects and uses method of economic intervention based on the market price mechanism. This paper casts doubt on the never-changing perception of 'competent bureaucrats devoted to public interest'.

Songdo is a case showing that the developmental state is not always 'developmental'. Chang (1999: 198) is one of few state-centered

theorists who acknowledge it:

Making a case for the developmental state does not necessarily mean ignoring the costs associated with active interventionist policies The danger of the expropriation of the state apparatus by various individuals and groups (including the political rulers and the bureaucrats) for their 'sectional' interests has to be taken seriously as well.

Now a new approach is needed. A new approach needs to be free from ideological assumptions concerning the superiority of a certain social entity. This paper tries this approach out only on the case of Songdo.

3. Mage-project and 'incompetent bureaucrats preoccupied with private interest'

Few doubt the quality. Most components of the city, from 470,000 square foot international school to Songdo's \$155m Convention Centre, which opened last October, are state of the art. The school, affiliated with the prestigious US-based Milton Academy, has facilities to rival most universities, including a 650-seat theatre, swimming pool and a TV studio in the basement connected to the internet so students will be able to broadcast around the planet Buying into the dream isn't cheap. An average apartment costs \$500,000, with some going for twice or three times that. Fees at the International School start at \$25,000 a year. Even shopping at the huge Taubman Shopping Centre will be out of range of many ordinary Koreans (The Independent, 2009).

Songdo is abundant with success stories. Infrastructure mega-projects have been already

mentioned. Population has grown from 20,504 in January 2007 to 34,070 in January 2010 (Dongailbo, 2010). Housing market also has been exuberant. Incheon Free Economic Zone Authority (2007) reported that up to October 2006 5,897 housing units were constructed. Each year, new high-rise apartment complexes sprang up pouring out thousands of new housing units to the real estate market. The renowned California-based Chadwick School opened Korean campus in Songdo in 2010. In 2008, Songdo was certified as LEED-ND from The US Green Building Council (USGBC), a non-profit group promoting sustainable building practice. LEED-ND stands for Leadership in Energy and Environmental Design for Neighborhood Development (Korea Times, 2008).

A closer look, however, reveals that it is success without substance. As mentioned in the previous section, it is not likely to become a global business hub. Park Yong-sung, a chairman of the Korea Chamber of Commerce and Industry (KCCI), expressed concern about Free Economic Zones in 2002 (Korea Times, 2002):

In my view, the government misunderstands where its priorities have to be to be able to lure foreign investors. Many foreign businessmen working in Korea suggest an improvement in living conditions is more important than business incentives to relocate to an isolate district.

A report published in 2008 by Federation of Korean Industry (FKI), South Korea's most powerful business lobby, describes poor performance of the free economic zone in attracting foreign investment. A report by National Assembly Budget Office (2006) shares the same diagnosis on Songdo.

It is a global city without global citizens. As of September 2010, there are only 774 foreign residents out of 39,404 total populations. Almost

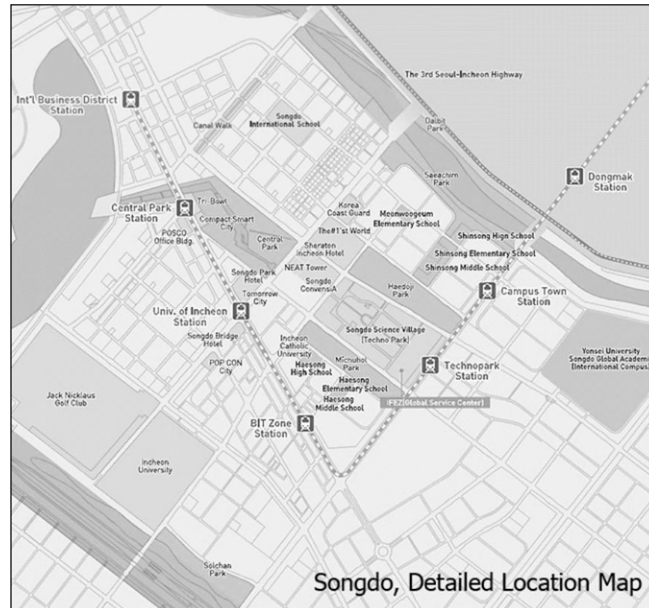


Figure 2. Detailed location map of Songdo

Source: Songdo Free Economic Zone Authority, 2011.

(http://www.ifez.go.kr/jsp/eng/about/about5_5.jsp, Accessed on 15 May)

all of them are temporary workers. Only about 30 of them are businessmen (Kyunghyang, 2010). According to a news report, there was only one officer who can communicate in English at Songdo local office in 2010 (Seoul Economic Newspaper, 2010). The legislation on international hospital is still under deliberation in Congress for years.

Chadwick international school might not be that 'international'. Under the education regulations, international schools were not allowed to admit Korean nationals unless they have lived overseas for more than three years (Korea Times, 2010). Now international schools within Free Economic Zones can enroll Korean nationals up to 30 percent of the total students (Korea Times, 2010). Another significant change is that graduates of the international schools within FEZ will now be able to advance to Korean

colleges as the school diplomas will be acknowledged by the local authority (Korea Times, 2010). The Korean government has given Chadwick school a five-year grace period to complete the requirement of 70 percent non-Korean nationals requirement as fewer foreign students have so far moved into Songdo (Korea Times, 2010).

One can only question how environmentally sustainable 'pouring in 500 million tons of sand into the sea' (Curlick, 2009) can be? Birds Korea (2003), a non-profit environmental organization concerned about internationally important tidal-flats at Songdo, argues that this mega-project 'will of course be completed without the benefits of an Environmental Impact Assessment befitting one of the leading economies'. Kim (2006: 504) confirms that EIA in Korea has many problems. One of them is that those preparing the EIA are

the people that are undertaking the project. According to Kim (2006: 502), Songdo will face tremendous environmental challenges during development, and perpetual environmental pollution is likely to occur.

These might all add up enough to conclude Songdo as a governmental failure. If so, another question can be raised? Why Korean bureaucrats so able and dedicated to public interest as to lead South Korean economic miracle since the 1960s make such a blatant mistake?

Even though historical analysis on South Korean bureaucracy is beyond the scope of this paper, this paper argues that the defining characteristics of developmental state can no longer be observed in the case of Songdo.

First of all, Songdo has not developed in a consistent rule-based manner as Max Weber mentioned. The beginning of Free Economic Zone was not specified in National Land Plan. The nature of the later development has been inconsistent. National Land Plan in Korea exists as a guideline in spatial development. The constitution proclaims that establishment of national land is a responsibility of the state. The state may impose restrictions or obligations necessary for the efficient utilization, development and preservation of farm, forest and other land in accordance with the provision of law (KRIHS, 1984).

It is true that the fourth comprehensive national territorial plan for the period 2000-2020 envisions 'the capital region as a global city' (KRIHS, 2001: 40). The fourth plan specifies that global economic liberalization is one of the changing conditions that mandate new approach (KRIHS, 2001: 22). Expressions such as 'free flow of people, goods and capital across the borders' and 'global economic liberalization' are easy to find in the plan (KRIHS, 2001: 21, 22). However, the idea of Free Economic Zone was not in the plan.

Secondly, the project reflects bureaucratic

interest rather than public interest. The government has been interested in easily boosting up domestic economy and expanding its own organization. In 2003, the Free Economic Zone Planning Office was established as a permanent arm of the Ministry of Finance and Economy. Among a total staff of 286, there are 227 civil servants (Korea Times, 2003).

According to Oh Kab-won, head of the Free Economic Zone Planning Office at the Ministry, Incheon Free Economic Zones (Songdo, Cheongra, Yeungjongdo) will create 4.8 million jobs by 2020. The development is expected to lead to one percent growth in gross domestic product each year (Korea Times, 2003).

Free Economic Zone is not the first project designed in order to boost up sluggish local economy. The New Town Development Plan, which is a government-sponsored scheme to boost 'urban sprawl' around Seoul, provided over 300,000 homes in five new towns within 25 km radius of the city's center between 1989 and 1993. Relieving housing shortage in the capital region is not the only concern of the project.

Thirdly, Songdo shows that the bureaucratic interest now overlaps with interest of transnational capitalist class. This paper does not argue that Korean high bureaucrats belong to transnational capitalist class as Sklair (2000) mentioned. However, it is true that high bureaucrats benefit from one of the big successes in Songdo: the international school.

Top bureaucrats are one of the groups most likely to send their kids overseas for education along with CEOs and professionals such as doctors and lawyers (Korea Educational Development Institute, 2005). According to a nation-wide survey on 75,000 households by Korea Employment Information Service (KEIS) in 2009, high government officials and CEOs are classified as the highest earning occupation groups with average monthly income of 7.56

million Korean won. The monthly average of Korean employees was 2.38 million won in 2009 (Chosunilbo, 2010).

Considering the fact that the number of FEZs has increased to six including Incheon, more high civil servants could benefit from international schools to be established in the zones. They could send their kids to these schools instead of those in USA or in Canada. After finishing K12 education in Korean soil, the kids can enter Korean university.

The pursuit of self-interests by bureaucrats has been widely criticized by local media. Songdo might be a place where old bureaucratic arrogance has kept away entrepreneurial spirits from abroad.

4. Conclusion

The actual mechanism of Songdo Free Economic Zone in Incheon, South Korea, has been provided. Contrary to previous researches, which either consider globalizing market force as naturally causing mega-projects or regarding the state as orchestrating mega-project in order to upgrade a national economy, this paper adopts a new approach

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This paper tries out new approach. But it is far

from successful. From the beginning, this paper sets aside general analysis into the relationship between the state and civil society in South Korea. It makes the analysis in this paper devoid of social context. However, this paper is useful in providing the basis for future research. For practitioners, the implication of this research is the need for check and balance in urban Korea. The power of Korean bureaucrats has been unchecked with the consequence of waste of economic resources and environmental degradation.

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