



# Global Cities and Developmental States: New York, Tokyo and Seoul

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**Summary.** The ‘world city paradigm’ assumes a convergence in economic base, spatial organisation and social structure among the world’s major cities. However, Tokyo, capital of the world’s second-largest national economy and the world’s largest urban agglomeration, departs from the world city model on most salient dimensions. Seoul, centre of east Asia’s second OECD member and the region’s second-largest metropolis, exhibits the same anomaly. Tokyo and Seoul’s departure from the world city hypothesis stem from late industrialisation and especially the relationship between industrial policy and finance institutionalised in a developmental state. Understanding Tokyo and Seoul necessitates a different conception of the world system from the globalist version of the world city argument. World cities differ from one another in many salient respects because they are lodged within a non-hegemonic and interdependent world political economy divided among differently organised national systems and regional alliances.

A new type of city has appeared. It is the global city. Leading examples now are New York, London, and Tokyo ... these three cities have undergone massive and *parallel* changes in their economic base, spatial organisation, and social structure (Sassen, 1991, p. 4; emphasis in original).

The beauty of the world city paradigm is its ability to synthesise what would otherwise be disparate and diverging researches into labour markets, information technology, international migration, cultural studies, city building processes, industrial location, social class formation, massive disempowerment, and urban politics—into a single meta-narrative (John Friedmann, 1995, p. 43).

The ‘world city paradigm’ is the most im-

portant contribution by urbanists to the contemporary globalisation literature.<sup>1</sup> Oddly, however, the world city hypothesis has not generated the vigorous debate among globalists, statisticians and those attempting to bridge the two camps that so enlivens most current work on globalisation. (For an excellent codification of the globalisation debate see Held *et al.*, 1999.) John Friedmann and Saskia Sassen, the best-known architects of world city theory, take a globalist view—that is, they believe that a single global system is becoming superimposed on nation-states which are losing importance as a result. Globalisation produces a world city system that transcends national institutions, politics and culture, they argue. Such a view assumes, for reasons discussed below, a convergence in “economic base, spatial

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organisation and social structure" among the world's major cities, especially New York, London and Tokyo (Sassen, 1991, p. 4).

In fact, however, fundamental differences in "economic base, spatial organisation and social structure" persist between major cities in the North Atlantic and east Asian regions. Most telling for the paradigm, Tokyo, centre of the world's second-largest national economy and the world's largest urban agglomeration, departs from the world city paradigm on most salient dimensions. Seoul, centre of east Asia's second OECD member and the region's second-largest metropolis, exhibits the same anomaly. An awareness of these differences has been creeping into the world city literature. John Friedmann (1995) has acknowledged that Tokyo does not fit the world city paradigm in some respects, but he does not address the implications for the world city hypothesis.<sup>2</sup> Saskia Sassen (1999, p. 86), on the other hand, explains away Tokyo's differences as a temporary function of "Japan's uniqueness" and continues to assume that convergence among the world's major financial centres is the overall trend.

We disagree. Understanding Tokyo and Seoul necessitates a different conception of the world system from that underlying the globalist version of the world city argument. World cities differ from one another in many salient respects because they are lodged within a non-hegemonic and interdependent world political economy divided among differently organised national systems and regional alliances (Stallings and Streeck, 1996).

We begin with a discussion of the world city concept. We then summarise the global city argument in six theses and illustrate these tenets with findings from New York City, the theory's prototype. Next, we show how Tokyo departs from the main theses of world city theory. New York and Tokyo are two different world city types, we argue; the former is market-centred and bourgeois, the latter is state-centred and political-bureaucratic. Tokyo's distinctive world city characteristics stem from Japan's late industrialisation and especially from the relation-

ship between industrial policy and finance institutionalised in Japan's developmental state. The Tokyo pattern is by no means uniquely Japanese, however.<sup>3</sup> As we shall demonstrate, Seoul follows the Tokyo and not the New York trajectory. We conclude by assessing the likelihood that international market and class forces will eventually compel Tokyo and Seoul to conform to the bourgeois, market-centred model.

## 1. World Cities in the World System

The world city literature is a large terrain with a blurry perimeter. Nonetheless, there is a discernable path running through the field, anchored in the writings of John Friedmann (1986, 1995; Friedman and Wolf, 1982) and Saskia Sassen (1991, 1995, 1997, 1999). Friedmann (1986; Friedman and Wolf, 1982) codified today's world city framework in two seminal papers, and the 'world city hypothesis' has spawned an international conference and an Oxford University Press collection (Knox and Taylor, 1995). Saskia Sassen's, *The Global City: New York, London, Tokyo* (1991) is the paradigm's benchmark monograph. Anthony King's (1990) study of London, a systematic empirical effort to verify Friedmann's world city hypothesis, is also of special importance.

What then is a world city?<sup>4</sup> A world city is defined by its functions in the international division of labour. "The world city hypothesis is about the spatial organization of the new international division of labor", says Friedman (1986, p. 317). According to Sassen (1991, p. 4), "Key structures of the world economy are necessarily situated in cities" and cities are "both shaped by their position in the new international division of labor and integral to the contemporary globalization process".

Global capital uses world cities as "basing-points" and "organizing nodes" in the spatial organisation of international production and markets (Friedmann, 1986, p. 319). More concretely, major cities in the world economy "concentrate the infrastructure and the servicing that produce a capa-

bility for global control", Sassen (1995, p. 63) claims, and such global control capability

is essential if geographical dispersal of economic activity is to take place under continued concentration of ownership and profit appropriation.

Anthony King reiterates that

The most inherent feature of the world city is its global control functions and this gives it its principal geopolitical characteristic. (King, 1990, p. 26).

It is their enhanced functions as 'co-ordination and control centres' in the capitalist world economy that provide the selection criteria for world cities and give rise to the characteristics attributed to them (King, 1990, p. 5).

Sassen claims that New York, London and Tokyo are converging on a similar urban model due to the new functional role they play in the globalisation process. And not just these three cities. Sassen (1991, p. 4) argues that

Transformations in cities ranging from Paris to Frankfurt to Hong Kong to São Paulo have responded to the same dynamic.

Friedmann (1986, p. 318) also claims that

the form and extent of a city's integration with the world economy and the functions assigned to the city in the new spatial division of labour will be decisive for any structural changes occurring within it.<sup>5</sup>

And for King (1990, p. 154),

there is no doubt that, despite their very significant differences, specific world cities in the capitalist world economy have structural features in common that are identified by the world city literature.

None of these authors considers that fundamental regional differences among the world's major cities might exist, probably because they believe that the capitalist world

economy is a single, globe-embracing structure and process.

World city theory is not meant to be universal in the sense of applying to all cities across a very wide swathe of history. Rather, the hypothesis attempts to explain transformations in major cities corresponding to a wave of globalisation beginning in the late 1970s. In Friedmann's (1995, p. 21) view, there was an "unprecedented shift from an international to a global economy during the 1970s and 1980s". In the new global economy, industries function on a world scale via global corporate networks. And Sassen (1991, p. 3) asserts that

from the early 1980s, the geography and composition of the global economy has changed so as to produce a complex duality: a spatially dispersed, yet globally integrated organization of economic activity. The combination of spatial dispersal and global integration has created a new strategic role for major cities.

World city theory is meant to be universal, however, in the sense that it applies to the structure and functioning of all cities that perform key control and co-ordination functions for global capital in the present period of globalisation.<sup>6</sup>

In the following section, we distill the world city paradigm into a manageable set of verifiable theses. Our rendition does not exhaust the paradigm, nor do we claim that all world city researchers would necessarily agree with every thesis. We do take special care to demonstrate, however, that the theses are derived from basic assumptions and arguments in the writings of Friedmann, Sassen and King, and that they are amenable to empirical verification.<sup>7</sup>

## 2. The World City Hypothesis

We can summarise the world city argument in six theses.

### *Thesis 1*

The more globalised the economy, the

greater the agglomeration of central functions in a relatively few sites (Sassen, 1991, p. 5). Global corporations are dispersing economic production through cross-border sub-contracting, joint ventures and other transnational business alliances. But so long as ownership remains concentrated, the territorial dispersal of economic activities creates the need for expanded central management. Transnational corporations thus need a specialised infrastructure of activities, firms and jobs to control their globally dispersed factories, offices and financial markets (Sassen, 1995, p. 63). World cities specialise in providing the infrastructure that enables corporations to control their global operations.

### *Thesis 2*

Global control functions drive world city growth and are embodied in a small number of sectors:

corporate headquarters, international finance, global transportation and communication, high level business services, ideological penetration and control via media and culture (Friedmann, 1986, p. 322).

Of these, international financial and producer services are the principal means for exercising global corporate control (Sassen, 1995, pp. 63–64).

Because financial and producer service firms benefit from proximity to one another, they cluster into producer service complexes in major cities. Economies occur when specialised service firms locate close to others that produce key inputs or whose proximity makes possible joint production of a service (Sassen, 1995, p. 68). Proximity among firms also boosts speed to market. People working in the high-end financial and producer service jobs are attracted to big city amenities and lifestyle, so they also promote clustering (Sassen, 1995, p. 68; see also, Drennan, 1991; Amin and Thrift, 1992; Leyshon and Thrift, 1997a, 1997b).

While global trading and manufacturing firms can and increasingly do locate their headquarters outside big cities, these compa-

nies still need world city service complexes to control their global operations (Sassen, 1995, p. 69). The emphasis is not on large corporations and banks *per se*, but on the global city as a market-place and production site where “the work of producing and reproducing the organization and management of global production systems” takes place (Sassen, 1991, p. 7).

Privatisation and deregulation are key features of the new global city regime. In the world’s major international finance and business centres “firms from around the world can do business with each other in deregulated markets and industries”. And “privatization and innovation in legal practice make cities like New York and London key sites for the governance of global economic processes” (Sassen, 1997, p. 183). According to King (1990, p. 87), London’s primary function in the world system today is as a banking and financial centre, and this “role became more pronounced with deregulation ... of securities dealing”.

### *Thesis 3*

International banking and producer services replace manufacturing as the engine for economic growth and social patterning in the world’s major cities. The practice of global control is connected to a massive loss in manufacturing jobs, a corresponding rise in service employment, high levels of foreign immigration, extreme wealth concentration, social and spatial polarisation and social costs exceeding a city’s fiscal capacity (Friedmann, 1986, pp. 324–326).

Manufacturing continues to feed growth in producer services, but the actual production location is of little importance to globally oriented service firms. In fact, the international dispersal of plants actually raises the demand for centralised producer services because of the increased complexity of transactions (Sassen, 1997, p. 178). The finance industry benefits from circumstances harmful to manufacturing firms. Manufacturers are driven out of major cities by the real estate speculation and gentrification linked to inter-

national finance. There is not only a decline but also a downgrading of the manufacturing sector, including an increase in sweatshops and industrial homework (Sassen, 1991, p. 9), "downward pressure on wages resulting from large scale immigration of foreign workers" (Friedmann, 1986, p. 326) and "de-industrialization in union blue collar employment" (King, 1990, p. 26).

The world city presence of corporate headquarters, global finance and international institutions presupposes a high-paid "transnational producer service class in law, banking, insurance, business services, accounting, engineering and advertising" (King, 1990, p. 26). The growth of a high-level service sector generates an even greater growth in low-level, low-paid service jobs in maintenance, office cleaning, tourism, clerical, sales, hotels, restaurants and domestic service (King, 1990, p. 28).

The sharp increase in occupation and income polarisation increases the social segregation of residential space. The rising demand for luxury accommodation displaces the industrial working class and creates a housing crisis and a floating underclass (King, 1990, p. 147). The influx of poor workers pits their dire need for social services against the infrastructure and service demands of dominant corporate élites. The poor suffer as the wealthy exercise their political power to evade taxes. The result is a "steady state of social and fiscal crisis" as the "burden of capital accumulation is systematically shifted to politically weakest, and disorganized sectors" (Friedmann, 1986, p. 326).

#### *Thesis 4*

As world cities articulate regional, national and international economies into the global capitalist system, they form a new urban hierarchy. Rank in the hierarchy is determined by a city's ability to attract global investments (Friedmann, 1995, p. 26). At the top are the command and control centres of the global economy—New York, London and Tokyo. Lower in rank, but structured by the same deregulation of financial markets,

ascendancy of specialised services and integration into world product markets, are major cities in the developing world (Sassen, 1990, p. 4). Competition for place is severe. Cities rise and fall in rank, and sometimes drop out of the running altogether (Friedmann, 1995, p. 26).<sup>8</sup>

#### *Thesis 5*

World city regimes and the new urban hierarchy are under the sway of a transnational capitalist class. Interested in a smoothly functioning global system of accumulation, possessing a cosmopolitan culture and a consumerist ideology, the transnational capitalist class often clashes with more locally rooted classes (Friedmann, 1995, p. 26).

#### *Thesis 6*

As world cities integrate with one another to form a new urban hierarchy under the sway of a transnational capitalist class, they become more like each other and less like other areas in their own country, thus severing ties of mutual interest with their own nation-states.

According to Sassen (1991, p. 8), "there is a systemic discontinuity between national growth and forms of global city growth". Global cities are not just competing with one another but "constitute a system" of their own. The previous high correspondence between major growth sectors and overall national growth reverses as

the conditions promoting growth in global cities cause the decline of other areas in the USA, UK and Japan and the accumulation of government and corporate debt (Sassen, 1991, p. 13).<sup>9</sup>

According to King (1990, p. 145)

The strongest impression that emerges from the study [of London] is that the world city is increasingly 'unhooked' from the state where it exists.

### 3. New York City

New York City has long considered itself the center of the world, and even more so of late as globalization has intensified (Crahan and Vourvolias-Bush, 1997, p. 1).

New York City is now more than ever captive to forces beyond its control (O'Cleireacain, 1997, p. 34).

New York City is the prototype for world city theory. The global city idea has intellectual roots in classical human ecology (McKenzie, 1917) and in theories about the spatial organisation of transnational corporations (Hymer, 1971); but the concept's recent history follows New York City's path to recovery from financial collapse in the late 1970s (Drennan, 1991). New York City manufacturing had been declining and services rising since the 1940s. But trickling manufacturing losses in the 1950s gushed into a flood in the late 1960s. The city's manufacturing employment declined 5 per cent a year between 1969 and 1977—285 000 jobs in all—and plunged New York into bankruptcy (Fitch, 1993, p. 273).

Quite unexpectedly, international finance and producer services—banking, securities, insurance, accounting, publishing, film production, management consulting and legal industries—pulled New York out of the slump in the 1980s when privatisation and deregulation spurred the global expansion of trade, finance and investment (O'Cleireacain, 1997). Manufacturing employment continued to decline and now accounts for less than 9.5 per cent of the city's labour force; finance, insurance and real estate (FIRE), on the other hand, comes to 14.5 per cent and the rest of the service sector adds another 32.6 per cent (Fitch, 1993, p. 274).

#### 3.1 Global Control Capability

New York's core labour force now creates and supports international financial transactions. The city's financial institutions can transact loans, new securities issues and blocks of stock in any required magnitude.

Since most international transactions are negotiated under British or US law, and since negotiations occur where British and US legal experts congregate, foreign banks feel they must maintain a presence in New York City (and in London). For example, policy decisions in the most recent Mexican financial crisis were made in Washington, DC and in Mexico City, but the financial deals and new market instruments came out of New York City (Rosen and Reagan, 1997, p. 49).

#### 3.2 Producer Services Complex

New York City business services are closely tied to the financial services industry. The city's legal industry, the nation's largest, illustrates the point. Each merger, acquisition, hostile takeover, new issue or initial public offering undertaken by Wall Street and the commercial banks requires considerable legal work. Firms specialising in accounting, public relations, advertising, insurance and commercial real estate also help to sustain the financial sector. Demand for prospectuses ties even the city's printing industry to the financial sector (Rosen and Murray, 1997, pp. 40–41).<sup>10</sup>

#### 3.3 The New Urban Hierarchy

New York City's commanding position in the new urban hierarchy is thus indexed by the scope of its international banking operations, the number of city corporations operating in foreign markets, the presence of higher-order financial and producer services and the city's nodal role in international transport, communication and mass media networks (Friedmann, 1986, 1995; Sassen, 1991).

#### 3.4 The New Social Regime

*Economic structure.* New York's world city economy is volatile and cyclical. As Wall Street profits go, so go New York City's incomes, and the securities industry's income and employment fluctuate rapidly. In 1993,

the FIRE sector accounted for 15 per cent of city jobs, but 27 per cent of city wages; securities alone generated 14 per cent of city wages while accounting for only 4 per cent of city jobs. Securities accounted for one-third of the city's new private-sector jobs in the 1980s. When the stock market crashed in 1987, securities job losses led the downturn, and regained securities jobs led the recovery in 1992 (O'Cleireacain, 1997, p. 27).

*Extreme wealth concentration.* The financial sector's average wage in 1996 was US\$99 700, compared to US\$37 600 on average in the rest of the city economy. Within the financial sector, securities wages averaged US\$169 500–4.5 times more than any other sector. The top 1 per cent of New York tax payers now pay about 65 per cent of the city's property taxes, more than half the business income taxes, almost half the commercial rent taxes and about one-third of personal income taxes. Half the city's business income taxes come from the top 1000 payers, 40 per cent of whom are in the FIRE sector (O'Cleireacain, 1997, pp. 31–32).

*Foreign immigration.* New York has always been a city of immigrants, but even more so during the 1980s and 1990s. Over 28 per cent of the city's population was foreign-born in 1990 (Salvo and Run, 1997, p. 92). More than 3.5 million of the 18 million New York Metropolitan Area residents were born overseas; 1.5 million of whom entered the US during the 1980s.<sup>11</sup>

*Social and spatial polarisation.* New York's service-sector growth has increased high- and low-end jobs. Professional and business services provide many highly paid jobs; personal and hotel services pay some of the lowest wages. New York is "increasingly hollow in the middle", concluded a study recently commissioned by the City Council. In 1989, over 35 per cent of New York City residents lived in middle-class families; by 1996, only 29 per cent did (McMahon *et al.*, 1997, p. 5).

In Andrew Beveridge's (1996) dismal con-

trast, except for a former leper colony in Hawaii, Manhattan was the most unequal county in the US. In 1990, Manhattan had the same level of income inequality as Guatemala. Average family income in the borough's top quintile (US\$174 486) was 32 times greater than the bottom quintile (US\$5435), more than double the ratio for the US as a whole. In Mollenkopf and Castells' (1991) portrait, New York City is polarised between a cohesive core of professionals in the advanced corporate services and a disorganised periphery fragmented by race, ethnicity, gender, occupation and industry location.<sup>12</sup>

*Fiscal distress.* In the US federal system, cities are constitutional creatures of the states. New York State thus has legal responsibility for New York City to whom it delegates certain responsibilities through municipal home-rule legislation. New York City has sole operating authority over general municipal services (police, fire, sanitation, health, parks) and public education. But the state government controls all city tax rates, defines revenue base growth and charges fees to administer the city's income and sales taxes (O'Cleireacain, 1997, p. 28).

New York City's tax revenue also depends on Wall Street, a rich, specialised, and unpredictable revenue source. Wall Street accounts for less than 15 per cent of city jobs, while generating about one-third of city tax revenues. Because a big share of Wall Street earnings is paid in annual bonuses, city tax collections are as volatile as Wall Street profits. More than 7 per cent of private-sector employees work in foreign-owned establishments and foreign banks account for 60 per cent of city bank tax revenue (O'Cleireacain, 1997, p. 30). Because financial firms are so mobile, city policy-makers have difficulty predicting future business growth and face severe competition from other locations seeking the same business. Corporations, through intricate accounting, are able to shift their costs and profits to the sites in their global operations that minimise their taxes, further eroding New York city's tax-base.

#### 4. Global Cities and Developmental States

Friedrich List once made a distinction between Anglo-Saxon economic thinking and the German historical school. He argued that in the former, the economy does not have a national boundary. As a 'science which teaches how the human race may attain prosperity,' List said, classical economics was based on the assumption that 'A state of things which has yet to come into existence is actually in existence.' In contrast, the German historical school presented 'a science which limits its teaching to inquiring how a given nation can obtain, under the existing conditions of the world, prosperity, civilization and power, by means of agriculture, industry and commerce. In this sense Japanese developmentalism is an extension of mercantilism and of the German Historical School (Gao, 1997, pp. 39–40).

New York City is the prototype for world city theory and New York intellectuals, like New Yorkers in general, tend to think of their city as the centre of the world. But how representative of the world's major cities is New York, and how expansive is world city theory? Before describing Tokyo's departure from the New York model, we must set the context in Japan's political economy. Tokyo's distinctive world city characteristics stem from Japan's late industrialisation and especially the relationship between industrial policy and finance institutionalised in Japan's developmental state.

##### *4.1 Late Industrialisation and the Developmental State*

Western neo-classical economists enquire mostly into markets, and occasionally into organisational hierarchies. They recognise the state as a third means for economic governance but confine it to defining property rights, enforcing contracts, overseeing the general rules of competition and (sometimes) providing collective goods; that is, to setting the minimal conditions without which markets and hierarchies could not function. More

state involvement in the economy than this would interfere with the market mechanism, and by deviating from efficiency and productivity, would ultimately give way to competitive pressures. In this view, capitalist societies are bound to converge upon a market-driven corporate model (Hollingsworth *et al.*, 1994).

In contrast to their neo-classical brethren, Western development economists have long been interested in comparing national paths to development. In their view, latecomers to the industrialisation process must forge their own development institutions and ideologies because they invariably face a different set of problems and possibilities from those of their technically more advanced predecessors (Gershenkron, 1962; Hirschman, 1981; Amsden, 1989).

A poor country's fledgling firms, for example, confront formidable competition from transnational corporations possessing far greater economies of scale, advanced technologies and global networks. But less developed countries also have hidden reserves of labour, savings and entrepreneurship. Nations wishing to overcome the penalties and realise the possibilities of late development require a strong state. The real issue, development economists often conclude, is not whether the state should or should not intervene, but rather "the art of getting something done with intervention" (Amsden, 1989, p. 140).

Japanese thinkers developed their own art of late development between the Great Depression and the end of World War II. In contrast to liberal capitalism, Japanese developmentalism addressed industrialisation at the level of the nation-state. Strengthening national production was the top priority of industrial policy. The economy was viewed strategically with the aim of building an industrial structure that would maximise Japan's gains from international trade. State regulations and non-market governance mechanisms were designed to restrain competition in order to concentrate resources in strategic industries and maintain orderly economic growth. And the quest for short-



term profits was rejected to secure workers' co-operation in promoting productivity. The Japanese first institutionalised these principles between 1931 and 1945, but a number of studies (Morishima, 1981; Sakakibara, 1993; Okazaki, 1995; Gao, 1997) suggest that these tenets continued to underlie Japan's post-war industrial policy, despite changes in Japan's political institutions and national purpose.

The transformation of Japanese developmentalism from militarism to trade was largely accomplished by the end of the 1960s. The state emerged with a strong capacity to sustain economic growth in contrast to the more free-wheeling role played by the market in Anglo-American capitalist economies. Japanese managers emphasised co-operative industrial relations in contrast to their conflict-prone Western counterparts. Family-based *zaibatsu* business groups were reorganised into management-controlled *keiretsu* networks as a powerful weapon in market competition (Fruin, 1994).

#### 4.2 Industrial Policy and State Finance

The effectiveness of a nation's industrial policy depends upon the way it organises its financial system. When equity capital is the primary source of industrial funds, as in the US and the UK, a state's capacity to implement industrial policy is limited. When banks are the primary suppliers of funds, and the government has authority to shape bank behaviour and to administer interest rates, as in Japan, the state is in a much better position to influence the industrial economy.

In the Anglo-American system, most funds for industry are collected through the bond or stock market. By contrast, Japan's Ministry of Finance (MOF) blocked the direct flow of funds from households to firms by setting low interest rates on bonds, relative to personal savings accounts, and by strictly regulating bond issues. Requiring firms to obtain funds through bank loans rather than stock issues, enabled banks to influence the business decisions of borrowers. And the MOF through its influence over the Bank of Japan (BOJ), a major source of

funds for banks, could then influence the lending practices of the banks (Mabuchi, 1995).<sup>13</sup>

MOF's International Finance Bureau oversaw the foreign operations of Japanese financial enterprises and the domestic operations of foreign financial institutions. To maintain Japan's international balance of payments and to insulate the Japanese capital market from foreign penetration, the MOF tightly controlled the flow of capital to and from Japan during the 1950s and 1960s, via the Foreign Exchange Law. Had the MOF not controlled the inflow and outflow of capital, the domestic system of regulated interest rates could have easily been circumvented, undermining the industrial policy system (Mabuchi, 1995, pp. 292–293).

MOF lacked the formal power to direct bank lending to specific firms and industries. MOF relied instead upon the Bank of Japan, which controls the supply of money to the economy. Modelled on German legislation, Japanese banking law decrees that "the Bank of Japan shall be managed solely for the achievement of national aims". The chain of command stretching from the bureaucracy to private-sector finance via the Bank of Japan enabled the government to mount a growth-oriented financial policy. Following BOJ guidance, city banks allocated credit selectively to large firms in targeted industries who adopted new technology, increased productivity and expanded exports (Mabuchi, 1995, p. 297; Hartcher, 1998).<sup>14</sup>

Japan's bureaucracy has a limited array of sanctions. Each agency therefore seeks to maintain close working relations with the sector under its jurisdiction to build up the credibility necessary to secure voluntary compliance. Dense policy networks connect the state and civil society (Okimoto, 1989).<sup>15</sup> "Public policy companies" are the prime nodes in these policy networks, that is,

corporations in which some or all ownership shares are held by the government and management is charged with serving public policy ends rather than making a

profit for shareholders (Johnson, 1978, p. 25).

The practice of employing retired government officials as executives in private companies (*amakudari*) further lubricates the networks.

MOF and the banking sector have a financial policy network. The Ministry of International Trade and Industry (MITI) sustains an industrial policy network with a wide range of industries through deliberation councils, industry and trade associations. And since MITI must rely on the MOF's administrative guidance to get bank funds channelled to strategically targeted industries, MITI and the MOF have a policy network of their own (Mabuchi, 1995).

## Tokyo

Given the differences between Anglo-American liberalism and east Asian developmentalism—in history, ideology and political economy, and especially in the relationship between industrial policy and the organisation of finance—it seems reasonable to expect related contrasts in the role each sphere's major cities play in the world economy.<sup>16</sup> Table 1 offers such a contrast by hypothesising two world city types: a market-centred, bourgeois type, modelled on New York City, and a state-centred, political-bureaucratic type, modelled on Tokyo.

We provide a brief sketch of Tokyo to establish the contrasting type, and then focus our empirical investigation on another state-centred world city, Seoul, Korea.

The global economy is spatially imbedded in Tokyo, to be sure (Douglass, 1993), but Tokyo is not primarily a global basing-point for the operations of stateless TNCs. Rather, Tokyo is mainly a national basing-point for the global operations of Japanese TNCs (Hill and Fujita, 1995). Tokyo's relationship to the world economy is not driven in the first instance by market efficiency, but by a strategic concern to preserve national autonomy through global economic power (Johnson, 1995). In Japan, economic power is indexed

by the world market shares held by the nation's industries, not by quarterly dividends and privately accumulated wealth (Matsumoto, 1991).

Tokyo offers corporations global control capability, but the primary vehicle is not private financial and producer services clustered into complexes by market forces. Tokyo's global control apparatus resides in financial and industrial policy networks among public policy companies, banks and industrial enterprises, under the guidance of government ministries like the MOF and MITI (Johnson, 1978; Sakakibara, 1993; Mabuchi, 1995). Indeed, by emphasising reinvestment and employment rather than high profits and individual consumption, Japanese policies have actively discouraged growth in the kinds of services distinguishing New York City (Fingleton, 1995).

The practice of global control in Tokyo has not resulted in a social regime characterised by massive loss in manufacturing jobs, high levels of foreign immigration, extreme wealth concentration and social and spatial polarisation. One-quarter of Tokyo's labour force continues to work in manufacturing (as against less than 10 per cent in New York City), primarily in high-tech, research-intensive pilot plants (Fujita and Hill, 1998), and the headquarters of Japan's major manufacturing companies continue to concentrate in Tokyo to be near government ministries (Hill and Fujita, 1995). The state tightly controls foreign immigration with an eye to available employment, and the foreign-born represent a minuscule 1.8 per cent of Tokyo's population (Cybriwsky, 1998, p. 116), compared to 28 per cent in New York City. In contrast to New York City's dualism, Tokyo's occupational structure is compressed around the median, the middle strata encompass most city residents, and the extremes in wealth concentration and impoverishment found in New York are missing.<sup>17</sup>

Tokyo's commanding place in the world urban hierarchy is not determined by the city's ability "to attract global investments" (Friedmann, 1995, p. 26), but by the ability of Tokyo companies to generate earnings

**Table 1.** Two world city types

	Market-centred bourgeois	State-centred political-bureaucratic
Prototypical city	New York	Tokyo
Regional base	West Atlantic	East Pacific
<i>Leading actors</i>		
Group	TN capitalist class	State bureaucratic élite
Organisation	Finance TNCs Vertically integrated firms	State Ministries tied to business networks via main banks
Economic ideology	Liberalism Self-regulating market	Developmentalism Strategic national interest
<i>Trade, investment and production</i>		
Relation to world economy	Market-rational	Plan-rational
Prime objectives	Private wealth Profit-maximising	National power Market-share, employment-maximising
Global control capability via	Private-producer service complexes	Government ministries Public corporations Policy networks
Industrial structure	Manufacturing HQs and production dispersed  Services emphasised	Manufacturing HQs and high-tech production concentrated Services de-emphasised
Occupational structure (social and spatial)	Polarised Missing middle High inequality High segregation	Compressed Missing extremes Low inequality Low segregation
Foreign immigration	Weak controls High	Strong controls Low
Culture	Consumerist Yuppie, ethnic	Productionist Salaryman, officelady
City-central state relationship	Separation	Integration
Source of urban contradictions	Short term profit Market volatility Polarisation	State capital controls Overregulation Centralisation
Competitive advantages	Fluidity Mobility	Stability Planning

from abroad. In 1990, for example, Japanese TNCs controlled 12 per cent of world FDI, while foreign investment in Japan represented only 1 per cent of the total world stock. The comparable figures in 1980 were 4 per cent and 1 per cent (Ostry, 1996, p. 334). While Japan's *keiretsu* networks and the main bank system enabled the MOF to

influence big-firm strategies via the supply and cost of capital to network banks, the system was also explicitly designed to protect Japanese companies against foreign penetration and short-term profit pressures (Matsumoto, 1991; Sakakibara, 1993).

Control over investment equals power in Tokyo as in New York City, but Tokyo is

under the sway of a political-bureaucratic élite, not a transnational capitalist class (Koh, 1989; Hartcher, 1998; Gibney, 1998). Control in New York City is in the hands of a private investor class. The stock market is the barometer of New York's economy. Control in Tokyo is exercised through management-run corporate networks centring upon main banks which in turn are guided by government ministries. Employment is the barometer of Tokyo's economy. Tokyo's élite possesses a 'productionist' not a consumerist ideology (Fingleton, 1995; Vogel, 1997). The clash between classes in the state-centred world city is not between transnational and local capitalist classes but between bourgeois and political-bureaucratic élites (Wade and Veneroso, 1998).<sup>18</sup>

Finally, Tokyo is not parting company with the Japanese nation and central state. Japan is a unitary state, and the relationship between the city of Tokyo and the central government is bureaucratically integrated in a myriad of ways (Muramatsu, 1997), and especially through the Ministry of Home Affairs (Akizuki, 1995; Hill and Fujita, 2000). Tokyo is, in effect, a national champion (Hill and Fujita, 1995).

## 5. The Seoul Republic

Seoul became Korea's political capital and the centre of national culture at the onset of the Choson Dynasty in 1392.<sup>19</sup> Today, Seoul is Korea's command post for government planning and business management. While 24 per cent of the nation's population resides in Seoul city, virtually all of Korea's central government agencies (96 per cent) and top corporate headquarters (48 out of the top 50) are located there. Sixty-one per cent of Korea's business managers and 64 per cent of the nation's research scientists work in the city (Kim and Choe, 1997, p. 2).

The city of Seoul combines with surrounding satellites in Kyonggi-do Province to form the Seoul Metropolitan Region (SMR). Koreans often refer to the SMR as the 'Seoul Republic' because it is so dominant over other regions of the country. With 17 million

residents, the capital region contains 39 per cent of South Korea's population (Kim and Choe, 1997, p. 43).

Seoul is also Korea's window on the world. All but one of the nation's foreign embassies, and 15 out of Korea's 22 foreign consulates are in Seoul. All of the nation's stock brokerages (76), foreign bank offices (66), offices of foreign media (25) and broadcasting networks (8) are in the city. Seoul hosts 71 per cent of Korea's overseas-based service industries, half the nation's international hotels and trading companies, and nearly all of its communication services (Hong, 1996).

Seoul has grown explosively since the 1960s, in step with Korea's successful export-led industrialisation strategy. As Korea's per capita GNP multiplied from US\$81 in 1960, to US\$1589 in 1980, to US\$10 548 in 1996, the percentage of the nation's population residing in cities expanded from 33.8 per cent to 66.7 per cent to 82.9 per cent (Park, 1995, p. 70; Korea Embassy, USA, 1998). Home to 2.33 million people in 1960, Seoul was the 19th-largest city in the world. By 1990, Seoul had mushroomed to 11.33 million residents and had become the world's 7th-largest city. Seoul now ranks 7th among the world's cities in the number of industrial Fortune 500 transnational corporations (TNCs) headquartered there, 13th in the number of TNC bank headquarters, 17th in number of international organisations and 23rd in frequency of international conferences (Jo, 1992).

The outward indicators certainly point to Seoul's world city status, but how well in fact does the Seoul Republic fit the world city paradigm? Before we can address this question, we must once again set the context, this time in Korea's political economy.

### 5.1. Late Industrialisation and the Developmental State

The Japanese system of political economy came to be transplanted in many essential aspects in Korea, a country that had for millennia existed near yet separate from

Japan, and with a bureaucratic tradition significantly different from that of feudal Japan (Woo-Cumings, 1995, p. 432).

Korean capitalism emerged out of imperialism. Korea was known as the 'Hermit Kingdom' during the late Yi Dynasty, when rulers prohibited contact with foreigners. Japan forced Korea to open up to the world economy in 1876, with the signing of the Kanghwa Treaty, and then colonised Korea from 1909 to 1945.

Japan's colonial policies and post-World War II growth strategies served Korea as a 'template' for political-economic development, according to Woo-Cumings (1991, 1995). Korea's state apparatus, and particularly the state's relationship to business groups and the financial system, derives from the colonial experience. Korea's mode of industrialisation, like Japan's, reflected a concern for national security in the face of Western domination and a domestic economy in need of state intervention if capital was to be mobilised.<sup>20</sup>

Seoul grew into a city of 1 million under Japanese rule. As the colony's business, finance and administrative centre, Seoul was organised primarily to meet Japanese needs. The colonisers built a shrine on top of Mt Namsan and a colonial office in front of Kyongbok Palace (a royal residence during the Yi dynasty), and they took over much of the city's central core for residential quarters. But the Japanese also introduced streetcars and trains which provided Seoul with an infrastructure for urban and economic development (Kim and Choe, 1997, ch. 1).

As in Japan, the Korean state, not the bourgeoisie, initiated and led the industrialisation process. But also, as in Japan, there has been an element of reciprocity in the government-business relationship. The state used various incentives, including coercion, to tailor business interests to national goals, but the state also supported private business as the primary instrument for national economic development (Johnson, 1984, p. 145). Capital for business investment came from state-controlled domestic banks or from foreign

lenders supplied with state guarantees. Korean businessmen could also count on state assistance when they got into financial trouble, considerably reducing their personal risk (Eckert, 1993, p. 126).

The South Korean state, like its colonial predecessor, suppressed labour activities it deemed threatening to the country's comparative advantage. Many of South Korea's capitalists descend from an oppressive land-owning class and they tend to regard workers with paternalism if not outright disdain. Japan, after the Occupation forces dismantled its family-based business groups and created an opening for labour organisation, forged an enduring social contract between management and labour. Korean class relations, by contrast, remain charged and volatile.

The Western bourgeoisie had a material interest in promoting a more liberal state because it emerged against the grain of authoritarian regimes who sought to block capitalist development. The Korean bourgeoisie had no such incentive to liberalise the political order. Korea's authoritarian regimes supported capitalist growth, and the desire of business groups to keep labour costs down gave them an incentive to accommodate with authoritarian rule (Eckert, 1993, p. 128).

Still, as a late developer, Korea's capitalist creed did not originate with the bourgeoisie, nor with intellectuals interpreting an already-emergent capitalist society, but with neo-Confucian scholars who had communitarian values and an interest in capitalism as a way to save their country from imperialist domination (Brandt, 1987). Confucianism, nationalism and capitalism fused in late 19th-century Korea into a moral vision of society strikingly at odds with Western liberalism. Korean ideology stressed national needs and denigrated the purely self-interested pursuit of wealth. The nation was viewed politically as a state in the midst of other competing, and potentially hostile, states; and culturally as a group of people who identified themselves as Korean. The moral role of the capitalist was to strengthen the political nation while enriching the cultural nation. Ac-

cording to Eckert (1993, p. 119), this vision continues to inform all discourse on capitalist development in Korea, including workers' consciousness and militancy which have increased dramatically during the past two decades.

*The state and finance.* Like Japan, the Korean state targeted industrialisation and achieved it by controlling interest rates, supervising foreign exchange and allocating cheap bank credit to large industrialists. Public officials could persuade private business to build selected industries and expand exports because the state controlled the supply of capital. And state officials could discipline business by threatening to withdraw credit if a firm's performance was not up to par. Koreans were paid lower returns on their savings, but they were rewarded as wage-earners with the expansion of job opportunities and increased real wages. Rapid increases in income contributed to the accumulation of domestic savings and the subsequent expansion of the financial market (Woo-Cumings, 1991; Cho, 1995).<sup>21</sup>

Korea's early post-colonial state did not have a clear economic strategy. Economic development goals were overshadowed by a political, nation-building agenda. Korea's economic policy was heavily influenced by the US during the 1950s, and the government did not systematically intervene in the market.<sup>22</sup> The turning-point came in May 1961, when Park Chung Hee, a military general, took control of the government in a *coup d'état*. The Park regime, which ruled Korea until Park's assassination in 1979, had little confidence in the free market and shifted economic priorities from stabilisation to growth and from import substitution to export promotion. The military government sought to accelerate economic growth by taking the lead in mobilising and allocating resources. In pursuit of this goal, state officials launched their first five-year development plan, strengthened their control over the financial market by nationalising commercial banks and amended the Bank of Korea Act to subordinate the central bank to

the government (Mardon, 1990; Woo-Cumings, 1991, ch. 4).

The state promoted Korean exporters with short-term credits and subsidies to explore new opportunities, and funded general trading companies according to their export performance. State officials marshalled capital for ambitious development programmes by raising interest rates on savings deposits and then by protecting industrial firms from the rising costs of heavy borrowing by subsidising their interest payments. The state directed low interest loans to particular industries and firms through directives to banks while simultaneously protecting the profitability of the commercial banks. This policy, as in the Japanese case, stimulated private savings and shifted control over capital to the banking sector where the state could exert considerable influence (Cho, 1995).

To compensate for the shortage of domestic capital and declining foreign aid, state-owned banks guaranteed foreign borrowing by Korean companies (Mardon, 1990). State loan guarantees prompted a large inflow of foreign capital, especially from Japan (Cho, 1995, p. 216). And because state approval was required for each foreign loan, government officials could use foreign borrowing as yet another means to support their industrial policy goals.

In sum, the regimes of Park Chung Hee and his successor Chun Doo Hwan, were able to direct capital towards targeted industries and to ensure business co-operation with their five-year development plans by controlling the banks, by setting interest rates and by underwriting foreign loans and investments. Industrialists had to prove themselves in the international market by meeting the criteria set by the government. Firms not performing up to the standards faced losing favourable treatment.<sup>23</sup>

Government officials began relaxing their controls over the economy in the early 1980s, to spur private initiative, and the *chaebols* began acquiring financial institutions. But state officials retained basic financial control. The Ministry of Finance continued to supervise the Bank of Korea, to

appoint all senior bank officials and to clear major credit allocations (Eckert, 1993, pp. 106–107).

### 5.2 *World City in a Developmental State?*

*Seoul's global base.* With scarce natural resources and a small domestic market, the Korean state subsidised export-oriented industries and South Korea industrialised by exporting to overseas markets. Seoul, as home to the central government, was the place to be for all who desired contact with government ministries and exposure to international markets.<sup>24</sup> Little wonder then that Korea's major firms and business associations headquartered in Seoul. Following the *chaebols*, related industries and supporting services also clustered in Seoul in pursuit of close contacts with the major business groups, central government agencies, trade and industrial associations.

Seoul is certainly a basing-point for TNCs, as emphasised by world city theory. Seoul hosted 4 companies on the list of the world's 100 largest in 1997—only 6 cities in the world had more (Fortune, 1998). Ten of the global Fortune 500 companies are located in Seoul, including the Daewoo Group (24th), Sunkyoung (46th), Samsung (71th), Ssangyong (90th), Hyundai Corporation (109th), Samsung Life Insurance Co. Ltd. (212th), LG International Corporation (216th), LG Electronics (270th), Hyundai Motor (278th) and Korea Electric Power Corporation (282th).

But contrary to world city theory, Seoul's TNCs are industrial not finance or producer service companies, and the contrast with New York City in Table 2 is revealing. Ranked by sales, 16 out of the top 20 New York City-based firms are in the finance and producer services sector, but only 3 out of the top 20 Seoul corporations are in that category; the rest are manufacturing and construction firms. Lest one think this difference is explained by New York City's more advanced economy, Table 2 also reveals that Tokyo, the capital of global capital according to the Global Fortune 500 list, resembles

Seoul not New York City—just 4 out of Tokyo's top 20 firms are in the finance and producer service sector.

Contrary to the world city model, Seoul is primarily a *national* basing-point for the global operations of *Korean* TNCs. The Korean state has controlled the inward and outward flow of foreign investment until recently, and as Table 3 shows, the largest foreign holdings in Seoul as of 1990 were minority equity shares in major Korean corporations, mostly held by Japanese TNCs, rather than subsidiaries that were wholly or majority owned by companies headquartered abroad.<sup>25</sup> Seoul hosts many fewer branches of foreign headquartered companies (161) than comparable world cities in the Americas, like Mexico City (266) or São Paulo (380) (Hoopes, 1994).

*Seoul's global control capability.* Seoul certainly hosts an infrastructure for global control. But, contrary to world city theory, Seoul's global control apparatus is anchored in central government ministries and the state's continuous channels of communication with business leaders and organisations that monitor industrial performance, not in private finance and producer service firms. Because export marketing requires substantial fixed costs and externalities in the initial stages of any industry, the expanded credit made available by the state crucially enabled Korean exporters to fill foreign orders and explore foreign markets. Without government intervention in the allocation of credit, it is unlikely that Korea's rapid transformations in industrial composition and level of industrial development would have been possible (Cho, 1995, p. 224; Mardon, 1991).

Firms which finance their investments primarily through bank credit and foreign loans, instead of through stock issues, accumulate heavy debt. Through its control over finance, the Korean government became a risk partner for industrialists, enabling new export ventures and entrepreneurship. And by controlling the banks, the government created incentives for firms to maximise their assets and growth, rather than to strive for immedi-

**Table 2.** The distribution and ranking (by net sales) of producer services firms in New York, Seoul and Tokyo, 1997

New York	Seoul	Tokyo
1. Philip Morris, Inc.	1. Samsung Corporation	1. Mitsui & Co. Ltd
2. <b>AT&amp;T Corporation</b>	2. Daewoo Corporation	2. Mitsubishi Corporation
3. <b>Citicorp</b>	3. Hyundai Corporation	3. <b>Nippon Tel. &amp; Tel. Corporation</b>
4. Chase Manhattan Corporation	4. LG International Corporation	4. Hitachi, Ltd
5. American International Inc.	5. Hyundai Motor Co. Ltd	5. Sony Corporation
6. Merrill Lynch & Co., Inc.	6. Korea Electric Power	6. <b>Dai-ichi Mutual Life Insurance</b>
7. <b>ITT Corporation</b>	7. Yukong Ltd	7. Toshiba Corporation
8. Travelers Group, Inc.	8. LG Electronics Co. Ltd	8. Honda Motor Corporation
9. Loews Corporation	9. Hyundai Engineering & Construction	9. <b>Bank of Tokyo-Mitsubishi</b>
10. American Express Co.	10. Kia Motors Corporation	10. Tokyo Electric Power Co.
11. RJR Nabisco Holdings Corporation	11. Ssangyong Corporation	11. NEC Corporation
12. <b>Morgan J.P. &amp; Co.</b>	12. Hyundai Motor Service	12. Fujitsu Ltd
13. Bristol-Myers Squibb Co.	13. Ssangyong Oil Refining	13. Japan Tobacco, Inc.
14. <b>Lehman Brothers Holdings</b>	14. <b>Korea Exchange Bank</b>	14. Mitsubishi Motors Corporation
15. Nynex Corporation	15. Daewoo Electronics Co.	15. <b>Meiji Mutual Life Insurance</b>
16. Morgan Stanley Group Inc.	16. <b>Hanil Bank Ltd</b>	16. Mitsubishi Electric Corporation
17. <b>Viacom, Inc.</b>	17. <b>Cho-Hung Bank, Ltd</b>	17. Kanematsu Corporation
18. Pfizer Incorporated	18. Korean Air Lines Co. Ltd	18. Mitsubishi Heavy Industries
19. Chase Manhattan	19. Ssangyong Cement	19. Nippon Steel Corporation
20. <b>Time Warner, Inc.</b>	20. LG Chemical Co. Ltd	20. Ito-Yokado Co.

*Note:* Producer services firms are shown in bold.

*Source:* Disclosure (1998).



**Table 3.** Largest foreign affiliates in Seoul and Mexico City, 1990 (industrial sector companies ranked in terms of sales)

Major foreign investor, Nationality (ownership percentage)	
<i>Companies in Seoul</i>	
1. Hyundai Motors Co. Ltd	Mitsubishi Group, Japan (5.8); Mitsubishi Auto, Japan (4.5)
2. Honam Oil Refinery Co. Ltd	First Chemical, Japan (33.6)
3. Kia Motors Corp. Ltd	Ford, US (10); Mazda, Japan (8)
4. Daewoo Motor Co. Ltd	General Motors (NA)
5. Gold Star Cable Co. Ltd	Hitachi Cable, Japan (12)
6. Hyundai Precision Co. Ltd	GRAFF, Germany (NA); Japan Steel Works, Japan (NA)
7. Samsung Electronic Devices Co.	NEC, Japan (10)
8. Tong Yang Nylon Co. Ltd	Zimmer AG, Germany (NA)
9. Cheil Synthetic Textile Co. Ltd	Toray Industries (20.8)
10. Nhong-Shim Kellogg Co. Ltd	Kellogg, US (NA)
<i>Companies in Mexico City</i>	
1. General Motors de Mexico SA CV	General Motors, US (100)
2. Chrysler de Mexico SA CV	Chrysler Motors Corporation, US (100)
3. Ford Motor Co. SA CV	Ford, US (100)
4. Volkswagen de Mexico SA CV	Volkswagen, Germany (100)
5. Nissan Mexicana	Nissan, Japan (100)
6. Celanese Mexicana SA	Hoechst, Germany (100)
7. IBM de Mexico SA	IBM, US (100)
8. Compania Nestlé SA CV	Nestlé, Switzerland (100)
9. Kimberly-Clark de Mexico SA CV	Kimberly-Clark, US (100)
10. Cigarros La Tabacalera Mexicana SA CV	NA

Sources: UN (1994a, 1994b); Dun & Bradstreet, Inc. (1992); Hoopes (1994); Stopford (1992).

ate profitability. As long as they satisfied the government by expanding exports and constructing new plants, firms ensured their access to credit.

*Economic organisation.* According to the world city paradigm, the decentralisation of manufacturing and the associated shift to a service-based economy occasion a massive loss in a world city's manufacturing employment, the exodus of manufacturing headquarters and a downgrading in the manufacturing jobs that remain in the city (Sassen-Koob, 1986; Sassen, 1991). But Seoul does not fit this profile, either. As we have seen (Table 2), the headquarters of Korea's major manufacturing companies continue to concentrate in Seoul, one-quarter of Seoul's labour force continues to work in manufacturing and the city's manufacturing base is the most advanced in the nation.

To be sure, manufacturing firms have relocated from Seoul to other parts of the capital region and nation, and service employment has grown in importance in the city's economy. For example, Seoul's share of the capital region's industry declined from 64 per cent of manufacturing firms and 70 per cent of manufacturing employees in 1960, to 48 per cent and 36 per cent in 1991. But manufacturing decentralisation was not the outcome of market forces, as argued by world city theorists, but a planned move by the state to curb the vast concentration of population and industrial activities in Seoul.<sup>26</sup> And the city's manufacturing base has remained much more diversified than is implied by the market-centred, world city paradigm.

The Korean state has controlled industrial location since 1964, and Seoul's industrial policies discourage permits for new manufacturing firms. City policies also encourage

the relocation of existing factories that cause serious pollution problems, and use heavy or antiquated equipment. But Korea's high-tech industries, as measured by R&D investment and technology content, continue to concentrate in Seoul and its satellite cities. Over 60 per cent of the nation's semiconductors are produced in Seoul, for example, and more than 50 per cent of Korea's high-tech products are produced in the capital region. Universities and research institutes likewise cluster in Seoul and the capital region. Over two-thirds of Korea's industrial research institutes were located in the capital region in 1989, one-quarter in Seoul (Hong, 1996, p. 160).

*Social and spatial polarisation.* Seoul's population multiplied five times between 1960 and 1990. With limited finances and a severe housing shortage caused by devastation during the Korean War (1951–53), Seoul could not accommodate the massive rural-to-urban migration set off by rapid industrialisation.<sup>27</sup> Much of Seoul's physical infrastructure was in dire need of repair, and public services lagged well behind population growth. Many migrants took up residence in squatter settlements on the outskirts of the city. City officials attempted to restrict, yet accommodate, the influx of newcomers through a green belt around the city, and by encouraging high-rise apartments in varied sizes and prices in open spaces south of the Han River.

Thus you can certainly find class-segregated residential areas in Seoul. Squatters, most of whom work in construction, as street vendors, housemaids and taxi drivers, or in small factories (FEER, 1988b, p. 86), have settled on the hillsides surrounding the city. But, contrary to world city theory, most are migrants from Korea's countryside not from abroad. Seoul's foreign residents numbered 39 246 in 1994, only 0.4 per cent of the city's population (Hong, 1996, p. 162), much lower even than Tokyo's 1.8 per cent (Cybriwsky, 1998, p. 16), let alone New York City's 28 per cent! (Crahan and Vourvolais-Bush, 1997).<sup>28</sup> Several wards south of

the Han River, on the other hand, are well planned, mixed residential and business districts for the middle classes.<sup>29</sup>

Still, Seoul has few of the plywood shanty towns visible in many Asian cities, and nothing like the bombed-out-appearing districts in New York's South Bronx or Harlem. And, contrary to world city theory, income disparities among Seoul's wards are hard to discern. In 1993, the average monthly household income of the poorest of Seoul's 26 wards was 97 per cent that of the wealthiest (see Table 4). By contrast, per capita income in the Bronx, New York City's poorest borough, was just 38 per cent that of Manhattan, the wealthiest.

Equity in the distribution of wealth has nonetheless been a persistent bone of contention in Korea. The aggregate net sales of the top 10 *chaebols* in 1985 came to nearly 80 per cent of South Korea's GNP, up from 15 per cent 10 years earlier. Concentration of business wealth has been further augmented by intermarriage among the leading *chaebol* families (Eckert, 1993, p. 122).

Education is also a stratifying force. Under the influence of Confucianism, Korea has one of the most fiercely competitive K-12 educational systems in the world. The best high schools and universities are located in Seoul. Parents consider it essential to put their children in the best school system possible and are willing to pay huge costs, including migration from another region, for an opportunity to send their children to secondary schools and universities in Seoul (Kim and Choe, 1997, p. 26).<sup>30</sup>

And yet, even with the extreme concentration of capital in the hands of a few business groups, and the relationship between education and career opportunity, the distribution of income among Korean families is among the most egalitarian in the world (Kim and Choe, 1997, p. 36; World Bank, 1993, p. 31).

*Seoul's bureaucratic élite.* The Yi Dynasty preceded Japanese colonialism in Korea. The royal palace headed a highly centralised government in Seoul. Palace decisions affect-

**Table 4.** Income disparity in Seoul and New York

Seoul (1993)		New York (1989)	
Gu (ward)	Average monthly income ( <i>won</i> ) <sup>a</sup>	Boroughs	Average annual per capita income (\$)
Chongno	965 378	Bronx	10 535
Chung	955 149	Brooklyn	12 388
Yongsan	949 010	Manhattan	27 862
Songdong	955 721	Queens	15 348
Tongdaemun	959 383	Staten Island	17 507
Chungrang	952 040		
Songbuk	958 976		
Tobong	958 819		
Nowon	964 934		
Uunpyong	979 983		
Sodaemun	971 203		
Mapo	964 586		
Yangchon	965 732		
Kangso	969 517		
Kuro	969 875		
Yongdungpo	959 926		
Tongjak	960 597		
Kwanak	967 924		
Socho	965 940		
Kangnam	982 859		
Songpa	981 658		
Kangdong	971 956		

<sup>a</sup>In 1993, there were 808 Korean *won* to US\$1.

Sources: US Bureau of the Census (1993); Lee *et al.* (1995).

ted all aspects of Korean life. The palace's annual civil service examination, known as the Kwageo, was the signal event in the lives of young people aspiring to serve the Kingdom. Young men flocked to Seoul where they spent years living in boarding houses and preparing for the civil service examination. The few who passed the exam were allowed to relocate their family to Seoul (Kim and Choe, 1997, p. 20).

Seoul is not under the sway of a transnational class, as posited by world city theory. Rather, the large political power of Korea's small bureaucracy continues to the present day. As in Japan, Korea's state officialdom, not the bourgeoisie, led the industrialisation effort. And political bureaucrats controlled the state. Most parliamentary statutes originated with the bureaucracy, not with legislators, and administrative policies were also orchestrated within the bureaucracy. Korean

bureaucrats, also on the Japanese model, have their own mutual aid associations, and there is a great deal of policy co-ordinating and consensus-building within the civil administration (Woo-Cumings, 1995).

The strongest conflicts within the Korean state are among regional factions. Regional differences became even more acute after the military coup in 1961. President Park and his inner circle were from the south-eastern region and, while promoting Korea's economic development, they channelled new projects disproportionately to their home region. Particularly disadvantaged was the south-western region where Park's political opposition was centred. The concentration of the nation's people and resources in Seoul and the capital region has further aggravated regional factionalism because it pits provincial interests against the home territory of the central state.

*Seoul's integration with the nation-state.* Korea, like Japan, is a unitary state. Until recently, the city of Seoul was simply an appendage of the central government. The central government appointed provincial governors and important local bureaucrats down to the county level and rotated them frequently among jurisdictions to prevent the consolidation of local power. The mayor of Seoul was appointed by the cabinet prior to the passing of municipal self-government legislation in 1991.

There is no material basis for arguing that Seoul is severing economic ties with the rest of Korea, as world city theory would predict. Just the opposite is true. Seoul's gross product per capita was almost twice that of the nation in 1960, but the gap has steadily diminished, and by 1991 the city was about on a par with the nation as a whole (Kim and Choe, 1997, p. 36).

## 6. Conclusion

Like Tokyo, Seoul does not conform to the world city model. Seoul, like Tokyo, is a national basing-point for the global operations of Korean transnational corporations, not a global basing-point for the global operations of borderless firms. Like Tokyo, Seoul's industrial policy and social structure are geared less to attracting investments from abroad than to facilitating the foreign trade and investments of Korean corporations. Command and control functions are concentrated in Seoul, but so too is industrial production, particularly knowledge-intensive manufacturing, as in Tokyo. Seoul, like Tokyo, has not experienced severe manufacturing decline, rapid expansion in producer service employment, extensive foreign immigration or much social and spatial polarisation. Like Tokyo, Seoul is under the sway of a political bureaucratic élite, not a transnational capitalist class. And, as with Tokyo, it would be senseless to claim that Seoul is severing ties of mutual interest with the nation-state; if anything, the capital city is becoming even more integrated with the rest of South Korea.

Tokyo and Seoul challenge world city theory's assumptions about the nature of globalisation and the role of world cities in the globalisation process. How damaging are the east Asian anomalies to the validity of the world city paradigm? It depends upon how one interprets the discrepancies.

One could argue, for example, that Tokyo and Seoul do not fit the world city definition and therefore their anomalous characteristics have no bearing on the model. This resolution hardly seems satisfactory, however, for it would drastically reduce the geographical scope and empirical testability of the theory—not to mention that Tokyo, along with New York and London, has been held to *exemplify* the world city (Friedmann, 1995, p. 24; Sassen, 1991). In any case, Tokyo and Seoul do fit the world city definition since both cities provide an infrastructure that enables TNCs to control their global operations. However, both cities emphasise the global operations of indigenous not foreign companies, and their international infrastructure is primarily rooted in state ministries and bureaus not in private finance and producer service firms.

One could also argue that while Tokyo and Seoul may not have conformed to the world city model in the past, they are being forced by global pressures to move in that direction today and will continue to do so in the future. For example, Mikuni (1998) has argued that as financial markets become more deregulated and integrated on a global scale, Japanese banks will find it ever more difficult to reconcile their interests as business enterprises with their role as instruments of national industrial policy. Unlike the relatively closed and regulated national capital markets of the past, competition will be too sharp, clientèles too diverse and transactions too dispersed to support special, long-term attention to selected national business groups, especially if those groups are internationalising their own operations.

Saskia Sassen (1999) has recently modified her argument along these lines and now claims that Tokyo's world city status is 'unclear'. Tokyo's "ascent toward global

financial status", which seemed a sure thing in the late 1980s, was stunted by Japan's refusal to accept "international accounting and financial reporting norms", she argues. While "global finance means abandoning national ties and embracing supra-national alliances", Tokyo's problem is that it "stayed too Japanese" (Sassen, 1999, p. 86). Nonetheless, she goes on to say, Japan's US\$10 trillion in bonds, savings and pension schemes continues to preoccupy global investors, and the recent financial crisis, by letting foreign firms into Asian markets, may yet bring Tokyo the "denationalized expertise" in producing and exporting sophisticated financial services that is necessary for world city status.

Indeed, one could argue that this scenario is unfolding in Korea, too. When the whole Asia-Pacific region went into a financial panic in 1997, investors began scrutinising the payment structure of Korea's foreign debt.<sup>31</sup> The nation's short-term obligations were estimated to be US\$110 billion, more than three times Korea's official foreign exchange reserves.<sup>32</sup> The IMF put together a US\$57 billion loan package for Korea in return for an overhaul of the economy meant to reshape Korea's state-centred financial system into the Western market-centred mould (Chossudovsky, 1997; Cumings, 1998; Wade and Veneroso, 1998).<sup>33</sup> Korea's leaders agreed to open their banking, insurance and securities markets to foreign firms, and the OECD pushed Korea, along with other signatory governments, to treat foreign and domestic companies equally.

These agreements, if institutionalised, will preclude many of the policies of the developmental state.<sup>34</sup> Still, it is premature, to say the least, to equate the very real crisis in the east Asian developmental state with the end of east Asian developmentalism let alone with the transition to liberal market capitalism (Coombs, 1999; Woo-Cumings, 1999; Taggart-Murphy, 2000). There is considerable popular support in Japan and Korea for more state decentralisation, deregulation and policy transparency, but there is no similar groundswell support for market-driven capi-

talism. Neither Japan nor Korea has the historical, ideological or political underpinnings for Western neo-liberalism (Morishima, 1981; Eckert, 1993). Indeed, there is entrenched opposition to market liberalism in the state bureaucracies, business groups and trade unions (Sakakibara, 1993; Y.-S. Lee 1998). The current restructuring is more likely to result in a new phase of east Asian developmentalism than anything approximating Anglo-American liberalism (Chang, 1999; Taggart-Murphy, 2000).

A third way to resolve the east Asian anomaly is to conclude that Tokyo and Seoul are a different type of world city from that conceptualised by Friedmann and Sassen. The world city paradigm makes sense in market-centred New York and London, but not in state-centred Tokyo and Seoul.<sup>35</sup> But this resolution would put the state square in the centre of world city analysis, and that clashes with two of the paradigm's central assumptions: that globalisation diminishes the power and integrity of the nation-state, and that cities are replacing states as central nodes in the world economy. This approach is compatible, however, with comparative findings that national institutions, politics and culture mediate the impact of global processes to produce diverse urban outcomes (Pickvance and Preteceille, 1991).

We believe Tokyo and Seoul's divergence from the world city model reflects more than national variation within a common global context, however. Japan and Korea have developed a different kind of political economy from Western market capitalism, one nurtured, ironically, under the US geo-political umbrella during the Cold War (Sakakibara, 1993; Matsumoto, 1991; Amsden, 1989; Eckert, 1993; Woo-Cumings, 1995). IMF pressure for financial reforms indicates 'system friction' (Ostry, 1996) between Anglo-American and east Asian political economies, a kind of economic Cold War.

The globalist world city paradigm is seriously flawed because it fails to address the role of the state and national interest in the formation of *all* world cities. By equating Anglo-American market liberalism with in-

ternational norms *tout court*, the world city paradigm bestows universality on a particular cluster of national interests and hazards turning into a world city ideology.<sup>36</sup> The role of the state and national interest in the formation of Western, market-centred world cities, like New York and London, must also be conceptualised. For example, the global strength of New York City's finance and producer service firms is rooted in the US dollar as an international means of payment, unit of account and store of value (McKinnon and Ohno, 1997) and the global role of the dollar is inconceivable apart from the strength of the US federal government. Then too, New York City development strategists, not to mention Wall Street investment bankers, openly call upon Washington to ensure that the city's finance and producer service firms have access to foreign markets (Rosen and Reagan, 1997) and the federal government acts vigorously on behalf of their demands (Kristof and Sanger, 1999).

Understanding Tokyo and Seoul necessitates a different conception of the world system from that underlying the globalist world city argument. Tokyo and Seoul differ from New York in so many salient respects because these cities are lodged within a non-hegemonic and interdependent world political economy divided among differently organised national systems and regional alliances (Stallings and Streeck, 1996). To be sure, market-driven investment, trade and corporate organisation are meshing cities in various parts of the globe. Equally important, however, is the global shift, caused by the end of the Cold War, from a bipolar system of military opponents to a tripolar system of regional economic competitors, centred on the US, Japan and a unified Europe, each pursuing different models of capitalism (Ohmae, 1985; Albert, 1993; Stallings and Streeck, 1996).

Countries are attempting to open their markets to foreign competition *and* to pursue national and regional industrial policies *simultaneously*. Concepts like 'managed openness' (Weiss, 1997), 'market access regimes' (Cowhey and Aronson, 1993, p. 14) and non-

hegemonic interdependence (Stallings and Streeck, 1996) better capture the trajectory of cities in today's world political economy than claims about cities 'abandoning national ties' in order to embrace supranational alliances and 'denationalised expertise'. In short, the economic base, spatial organisation and social structure of the world's major cities are strongly influenced by the national development model and regional context in which each city is embedded.

## Notes

1. John Friedmann uses the terms, 'world city paradigm' and 'world city hypothesis' interchangeably. We will follow the same terminology in this paper.
2. Friedmann (1995, pp. 30–31) notes that Tokyo is an "exception among core countries" in the degree to which Japan has restricted foreign capital penetration and immigration from abroad. He also speculates that central states may have more influence over world cities that are national capitals, like Tokyo (but also like London), than over those that are not, like New York.
3. In a breathless *paean* to global high finance, Sassen recognises differences in specialisation among the world's major financial centres but not institutional differences, save those outside "international norms", because insufficiently "denationalized", as in Japan. Compare this line of reasoning to Wade and Veneroso's argument in note 33 below.
4. Friedmann prefers the term, world city; Sassen, global city. We will use the two terms interchangeably, as well.
5. According to Friedmann (1986, p. 318),

We would expect to find significant differences among these cities that become the 'basing-points' for global capital. We would expect cities to differ among themselves according to not only their mode of integration with the global economy, but also their own historical past, national policies and culture influences. The economic variable, however, is likely to be decisive for all attempts at explanation.

6. According to Sassen (1991, p. 3),

these cities now function in four new ways: (1) as highly concentrated command points in the organization of the world economy; (2) as key locations for finance and specialized business services which

have replaced manufacturing as the leading economic sectors; (3) as sites of production, including the production of innovations, in these leading industries; (4) as markets for the products and innovations produced.

7. The world city hypothesis, according to Friedmann (1986, p. 317), refers to "loosely joined statements which link urbanization processes to global economic forces". It is "intended as a framework for research. It is neither a theory nor a universal generalization about cities but a starting point for political inquiry". We do not know what Friedmann means by "political inquiry" in this instance, but precisely because it is a "hypothesis", we presume the world city "paradigm" is amenable to evaluation by empirical evidence.
8. In his most recent ranking effort, Friedmann (1995, p. 24) presents a table of "Spatial articulations among 30 world cities". He ranks Tokyo with London and New York in the first tier as a "global financial articulation", and he ranks Seoul with Paris, Zurich, Madrid, Mexico City, São Paulo and Sydney in the third tier as an "important national articulation". Also see Beaverstock *et al.* (1999a).
9. More recently, Sassen (1997, p. 183) has argued that
 

instead of the traditional zero sum dualism between global and national economy, a series of 'triangulations' are emerging whereby subnational units, such as global cities, and supranational units, such as the World Trade Organization emerge as players on the global scene.

What Sassen means by the "traditional zero sum dualism" is not readily apparent, nor is how these "triangulations" fit with her earlier argument.
10. New York City now accounts for 5 per cent of non-farm US payrolls while possessing 43 per cent of the national payroll in the securities industry, 24 per cent in advertising, 14 per cent in banking, and 10 per cent in legal services (O'Cleireacain, 1997, p. 24).
11. The five top groups were from the Dominican Republic (145 000), China (75 000), Jamaica (74 000), Columbia (67 000) and Korea (58 000) (Beveridge, 1996).
12. About half of employed New Yorkers work in industries where the real wage is lower than it was five years earlier. New York's unemployment rate remains persistently high, at times exceeding the national average by as much as three percentage points. The proportion of the adult population active in the labour force, about 56 per cent, is significantly below the national average of 67 per cent. While the demand for skills has been rising, the city's high school performance has been falling. New York City employers face a labour market filled with the growing ranks of city high school drop-outs and unqualified graduates (O'Cleireacain, 1997, p. 26).
13. Japan's Securities and Exchange Law of 1947 prohibited banks from engaging in securities transactions other than those involving national bonds, thereby dividing the roles of banks and securities firms. Until recently, the banking industry comprised 13 city banks, 63 regional banks, 3 long-term credit banks, 7 trust banks, 71 mutual banks, 462 credit associations, 483 credit co-operatives and a large number of agricultural co-operatives (Mabuchi, 1995).
14. In addition to the Federation of Bankers' Associations, the umbrella organisation for Japan's banking industry, each type of bank forms an association, such as the City Bank Roundtable, the Federation of Regional Bankers' Associations and the Federation of Mutual Bankers' Associations. Credit associations and credit co-operatives organise their own national federations as well. All these voluntary organisations are forums where banks forge common positions *vis-à-vis* MOF and where the ministry can consult with them regarding financial policies. Representatives of banks are also given opportunities to express their opinions in MOF advisory councils, such as the Committee on Financial System Research and the Financial Problems Research group (Mabuchi, 1995).
15. Okimoto (1989, pp. 152–158) refers to Japan as a 'network' state. Legitimation resides in the state's capacity to co-ordinate social groups to achieve collective goals. Public/private organisations binding government and industry are the networks state's arms and legs. These 'public policy companies' function like regulated monopolies. They raise revenues for development and social infrastructure; they channel funds for industrial targeting; they gather information from abroad; they promote trade and investment; and they do industrial research. In short, they implement industrial policy.
16. Takashi Machimura (1992) is one of the few Japanese urbanists to investigate Tokyo within a world city framework. He also pinpoints distinctive Tokyo characteristics, but takes a different approach and emphasises different issues from those addressed in this paper. Tokyo, Machimura argues (1992,

- p. 114), has gained "global control capability as a major world financial center". But there are essential differences between Tokyo and other "primary world cities in core countries", including (1) Tokyo is a "purely economic world center, unsupported by political or military hegemony of the state"; (2) Tokyo is more dependent on a global network system than New York or London due to geographical distance from Western countries and traditional centres of the global economy; and (3) Tokyo has been closed to foreign immigration but this is gradually changing.
17. We do not have data on class segregation in Tokyo, but see Hill and Fujita (1997) for a depiction of the relative absence of social and spatial polarisation in Osaka, Japan's second world city.
  18. 'The Dead Fukuzawa Society', an Internet discussion forum providing Western finance, producer service and cultural professionals with the opportunity to share their Japan experiences, is the liveliest expression of clashing bourgeois and political-bureaucratic values we know of.
  19. Provincial capitals were key components of Korean central administration from the 6th century onwards (Henthorn, 1971, p. 49; Smith, 1996, p. 124). The exact bureaucratic arrangements varied with changing dynasties but, in general, the country was divided into eight or nine districts, each largely administered from its own capital (Hatada, 1969).
  20. Korea's Economic Planning Board—a super-ministry responsible for national budgeting, economic planning, high-level co-ordination and social mobilisation for economic development—especially evoked the Japanese colonial pattern as did the country's bureaucratic centralisation and weak local autonomy (Woo-Cummings, 1995).
  21. Korea's GNP rose from \$90 per capita in 1955 to \$7660 in 1995 (Korea Ministry of Reconstruction, 1958; World Bank, 1995).
  22. When the ruling party and strong political figures intervened in the economy, they did so without rules for the reallocation of resources. State officials organised a relatively independent central bank, modelled on the US Federal Reserve Board, and banks were privately controlled. However, the government did regulate external financial transactions and restricted imports. Some of Korea's major business conglomerates (*chaebol*) came into being through these import subsidies (Lee, 1998).
  23. Korea's shift to heavy and chemical industries (HCI) in the 1970s required enormous amounts of cheap financing and a departure from the export-oriented, non-sectoral-based strategy adopted throughout the 1960s. The state created the National Investment Fund (NIF) to finance long-term investments in HCI plants and equipment, and it expanded BOK discounts. The government also restricted business entry into HCI to encourage economies of scale and packaged the choice of market entrants with financial support (Cho, 1995, p. 219).
  24. In fact, *chaebol* were really the result of government financial policy, especially during the heavy and chemical industrialisation drive in the 1970s. When the Korean government helped to establish 10 general trading companies in the 1960s, the trading companies received most of the subsidised loans and became very big, very quickly and became *de facto* holding companies for their affiliates, acting as pipelines supplying financial resources. The firms affiliated with a trading company developed into *chaebol* (Y.-S. Lee, 1998).
  25. As of 1990, two-thirds of FDI (3170 cases, amounting to US\$3.8 billion) came from Asian countries, with Japan responsible for 1922 cases and US\$3.5 billion. The US, West Germany, Hong Kong and the UK were next in order. About three-quarters of the FDI was invested in manufacturing (Hong, 1996, p. 163).
  26. National policy-makers attempted to develop outlying regional industrial sites through industrial location and legislative plans from 1964 onwards, emphasising sites for export-oriented manufacturing industries. The main policy tools were indirect incentives such as preferential treatment of public land and, from 1970, financial incentives to attract industries to designated areas through the Local Industrial Development Law. Tax exemptions and reductions for a certain time-period were awarded to firms relocating out of the SMR. The Industrial Distribution Law in 1977 laid out new national industrial zoning and allowed a reduction of corporate income tax by 10 per cent of the relocation building cost for firms moving to a designated industrial zoning area, along with corporate income tax breaks and other incentives. As the robust growth of Seoul and the SMR continued, the SMR Redevelopment Planning Law—the basic relocation plan—was introduced in 1982 to curtail further development of industries in the region as well as to aid the relocation of heavily polluting existing industries. The revised law of 1993 assesses congestion charges thereby prohibiting large industrial developments of any sort (Kim and Choe, 1997, p. 56).



27. Seoul has grown from a small city with one distinct central business district in the 1960s to a multinodal megalopolis. Population density does not decline as one moves outwards from the traditional town centre. Some of the most spectacular growth in skyscrapers housing banking, information services, offices, hotels and restaurants has occurred 20 and 30 km from the traditional core. The cost of land in and around these CBDs prohibits conventional residential development, forcing people to seek homes at greater and greater distances from the urban core.
28. Foreign residents include 90 nationalities but are primarily made up of Americans (15 032), Chinese (11 521) and Japanese (4603). (Seoul Metropolitan Government, 1998).
29. Kangdong-gu, Kangnam-gu, Songpa-gu and Seocho-gu, for example.
30. Seoul has eight school districts for K-12 education, and the performance of a school district is generally measured by the percentage of high school students who receive admission to a few highly selective universities in Seoul after taking a nationally conducted test. Because of shortages of housing, national law prohibits residents in Korea from owning more than one home per head of household. People seeking a better school district lease their current residence and rent another home in the school district of their choice. Consequently, in one of the most highly coveted school districts south of the Han River, the cost of leasing a home is often higher than the actual selling price of the home (Kim and Choe, 1997, p. 28).
31. Korea's huge investment requirements for rapid industrial expansion had been financed largely with domestic and foreign loans. The debt to equity ratio of the Korean manufacturing sector increased more than fourfold during the 1960s, from 92 per cent to 394 per cent, and Korean firms continued to remain highly leveraged to the present day. Vulnerability to financial crisis was thus built into the Korean development model and for this reason the state took an active part in risk management through credit intervention. The Korean government, for example, implemented major business bail-outs in 1969/70, 1972, 1979–81, and 1984–88 to help *chaebols* ride out recessions and avoid major financial crises (Cho, 1995, p. 228).
32. Korean banks had borrowed low-cost foreign funds and then invested heavily in 'junk' bonds, with high yields and high risks, in an essentially speculative way, always on the assumption that the exchange rate would hold.
33. By instituting a world-wide regime that allows easy entry and exit from any particular country, the financial reforms sought by the IMF were meant to open up Asian economies to the owners and managers of international capital, and particularly, US capital. In the words of Wade and Veneroso (1998, p. 17):

Troubled financial institutions are to be closed down or recapitalized; foreign financial institutions are to be able freely to buy up domestic ones; banks are to follow western ("Basel") prudential standards; "international" (read "western") accounting standards are to be followed and international accounting firms to be used for the auditing of the bigger financial institutions. The government is required not to intervene in the lending decisions of commercial banks, and to eliminate all government-directed lending; also to give up measures to assist individual corporations avoid bankruptcy, including subsidized credit and tax privileges. The Fund also requires wider opening of Korea's capital account, to enable even freer inflow and outflow of capital, both portfolio capital and direct investment. All restrictions on foreign borrowings by corporations are to be eliminated.
34. South Korea's unemployment rate rose from 2.6 per cent in 1997 to 6.8 per cent in 1998 (*Korea Herald*, 1999a). The income of urban workers in the bottom fifth of the income distribution dropped 17.2 per cent in 1998 while the income of the top fifth dropped only 0.3 per cent (*Korea Herald*, 1999b).
35. Our typology of world cities does not exhaust all possibilities, of course. Tokyo and Seoul could be thought of as a developmental sub-type of the state-centred world city, an urban configuration particularly germane in Asia. One might hypothesise, for example, that Taipei, Singapore and perhaps even Shanghai are variations on a developmental state urban model and that these cities would look, under closer comparative inspection, a lot more like Tokyo and Seoul than New York City or London.
36. We take Jagdish Bhagwati's comments quite seriously:

Wall Street has become a very powerful influence in terms of seeking markets everywhere. Morgan Stanley and all these gigantic firms want to be able to get into other markets and essentially see capital account convertibility as what will enable them to operate everywhere. Just like in

the old days there was this 'military-industrial complex', nowadays there is a 'Wall St.-Treasury complex' because Secretaries of State like Rubin come from Wall Street ... So today, Wall Street views are very dominant in terms of the kind of world you want to see (quoted in Wade and Veneroso, 1998, p. 18).

According to Wade and Veneroso (1998, p. 22),

the U.S. Treasury made it clear that Korean financial opening was a condition of US contributions to the bail-out, on the understanding that financial opening would benefit US firms that would in turn give political support for US contributions.

For definitive evidence in support of this account, see Kristof and Sanger (1999).

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