

# A Study of Introducing Private Sector on Korea Urban Development Undertakings

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## I. Background and Purpose of the Research

The high rate of growth in modern states accelerated the concentration of population in the cities. As a result, the urban developments were

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undertaken in a situation that the speed of constructing the infrastructure was far behind that of urbanization. Therefore, the urban living environments, such as shortage of housing and severe traffic problems, are being improved very slowly. Then, there has been a growing expectation of carrying out the urban development projects in order to solve those urban difficulties: there has also been recognized the need of promoting those projects as a governmental policy.

There is a need of promoting domestic demand, providing more infrastructure, and adjusting international structure of the industry: nonetheless, there is a limit of government spending. Moreover, high-technologization, diversification, and conversion are coming to be open in industries such as heavy industry. This means that making full use of private force in the field of urban development has come to be a very critical issue. And now introducing private capital to urban development is seriously under consideration in order to vitalize Korean society, which is now in the process of democratization, decentralization, and regionally (by the reestablishment of local governments).

Therefore, examining the situations of Korea, having a grasp of current problems of private force in the field of urban development, and through awareness survey on role-sharing between the government and private sectors of Korea, the purpose of this paper is to investigate what the new methods of private sector policy are.

## **II . Private Force Vitalization System on Urban Development in Korea**

### **1. Current Trends of Private Force Vitalization System**

The Korean measures on private sector vitalization in urban development

are not different from those of developed countries in a sense that the private sector has been always participating. However, there is no separated law on a system of private sector participation.

Nonetheless, the partial or individual urban development undertakings based on the law of particular business area, carried by private enterprise, are possible. One possible defining law is the "collaboration of the public sector and the private sector," and another law is "the vitalization program of private sector, carried out by a Third sector(combination of the public and private sectors)". The ground law of this is the second Article and the seventy-ninth Article of the Local Finance Law which defines the occasions of local government establishing or managing (1) the local enterprises run directly, (2) the joint-stock company, collaborating with private sector, (3) the foundation defined in private law.

Moreover, the participation of the private force to the Korean urban development projects are not at full-scale yet; it can be said that the concrete establishment of the system on the law, applied undertakings, and the aid projects, have not been provided. This is actually only at the beginning.

Currently, the urban development is mainly done partially and inclusively on the basis of individual laws with a form of public-private collaboration at local government level, form of local public development, and form of public enterprise by local public enterprise law, which are similar to the Third Sector method, and also by the individual private sector participation. The objective projects of public-private collaboration are fifteen: the water service, the water service for industrial use, the urban rail-way, the sewerage system, the cleaning-sanitary system, housing, medical treatment, burial and cemetery, parking lot, land development, market project, and tourism. And the seven voluntarily applied projects are: automobile terminal project, sport and recreation center project, culture and art project, park project, transportation project, and other projects that are passed by the local parliament.

## 2. Problems of Private Force Vitalization on Urban Development

There is a growing awareness of Korea's necessity of introducing private participation on social indirect infrastructure and on urban developmental projects, but the reality is that there is not a comprehensive law on this issue yet.

However, considering the fact that a part of the urban development project is carried out with private participation, all these private participation's are authorized by the individual and separate laws. And thus the private participation's are not utilized for full scale because of the confusion caused by separation of the laws.

① In large-scale public undertakings and urban development projects, the amount of the capital invested is usually large, and its length of collecting debts period is very long.

② Thus there is a need of providing a mature monetary system on financial aid, subsidy, and mediation, and also there should be more deregulation system and tax system.

③ More inclusive problems are, as the government's New Five Year Plan mainly objected to vitalize private sector on urban development, that the private participation in this field are considered to promote a back-scratching alliance of government and big business, and that the private sector is still so inexperienced that they only look for shortterm profits out of these projects.

### Ⅲ. Awareness Survey: the Roles of Public and Private Sectors on Urban Development Undertakings

#### 1. An Outline of the Survey

The questionnaire survey(1994. 7. 20~7. 30) was distributed and collected directly on voluntary-will method. The questionnaires were distributed to the public entities(central government, local government, and public enterprises) and private enterprises.

Out of 300 questionnaires, 88 from public entities and 77 from private enterprises, total of 165 were collected: the collecting rate of 55% was representing unusually serious concern on these issues.

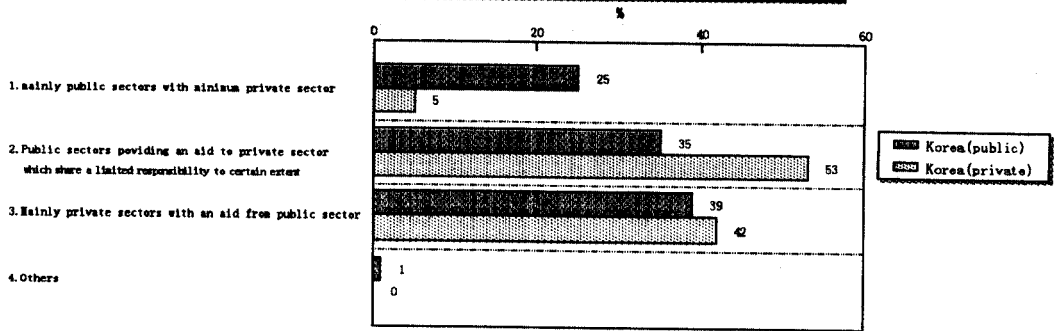
## 2. Basic Policies of the Role-Sharing between Public Sector and Private Sector on Urban Development Undertakings

### 1) Basic Concepts of the Role-Sharing between Public Sector and Private Sector

On the question of "what the basic concepts and principles of role-sharing between public and private sectors are, from the viewpoint of the government or the private sector," the most popular answer was, "public sectors providing aid to private sector which share a limited responsibility to certain extent" from both public and private sectors. However, the opinion of "the urban foundation infrastructure and public facilities should be constructed basically by the public sector, and the private sector should work on minimum projects" comprises only 5% from the private enterprises.

Moreover, 42% of the private enterprises answered that "the private sector should mainly work on the urban foundation infrastructure and public facilities with an appropriate aid from public sector. This means that the private enterprises have a strong desire for urban development.

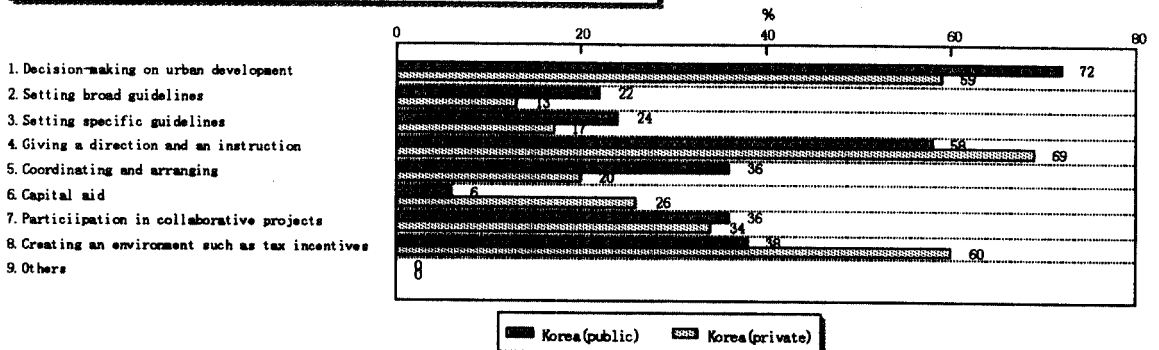
Chart1-1: Basic Concepts of the Role-Sharing between the Public Sector and the Private Sector



2) The Role of Public Sector on Urban Development

On a question of "on which part of the project should the public sector play an important role," it became clear that more than 50% of both public entities and private enterprises think there are three main roles. They are: planning urban development projects, making a broad direction of the urban development in a long-run, and setting up an environment that promotes urban development such as creating tax incentives. On the contrary, the private enterprises strongly emphasized their hope that the role of the public sector should be "setting up an environment that promotes urban development such as creating tax incentives and planning urban development project(60% and 59% respectively). On the other hand, 26% of private enterprises want financial aid from the public sector.

Chart2-1: The Role of the public Sector on Urban Development

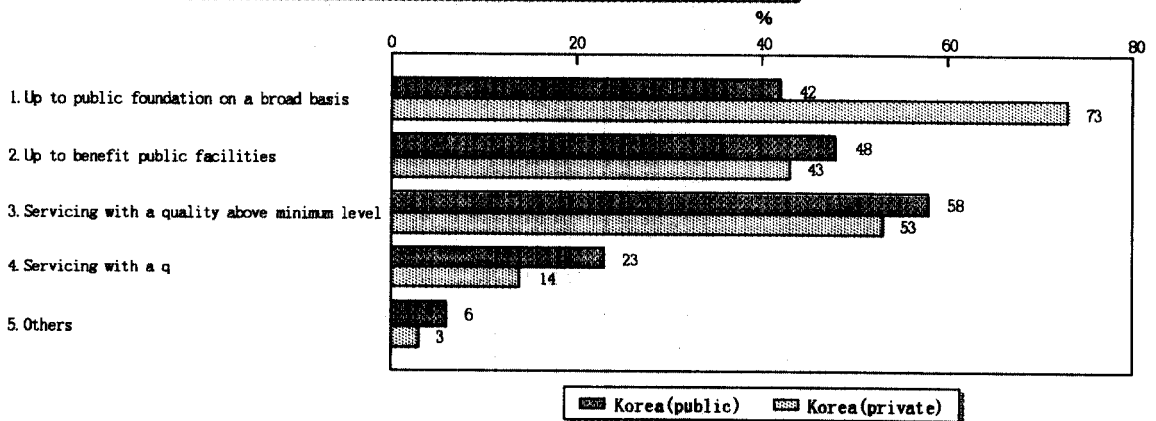


3) The Role of private Sector on Urban Development

On the issue of the private sector's role, 58% of the public entities expect that the private sector will service with a quality above minimum level. As for the opinions of the private enterprises, 73% of them wish to participate up to maintaining public foundation on a broad basis.

Moreover, more than 40% of both public and private entities hope that "the private sector should share a responsibility on benefit public facilities such as a sewerage system which has been maintained mainly by public sector."

Chart2-2: The Role of Private Sector on Urban Development



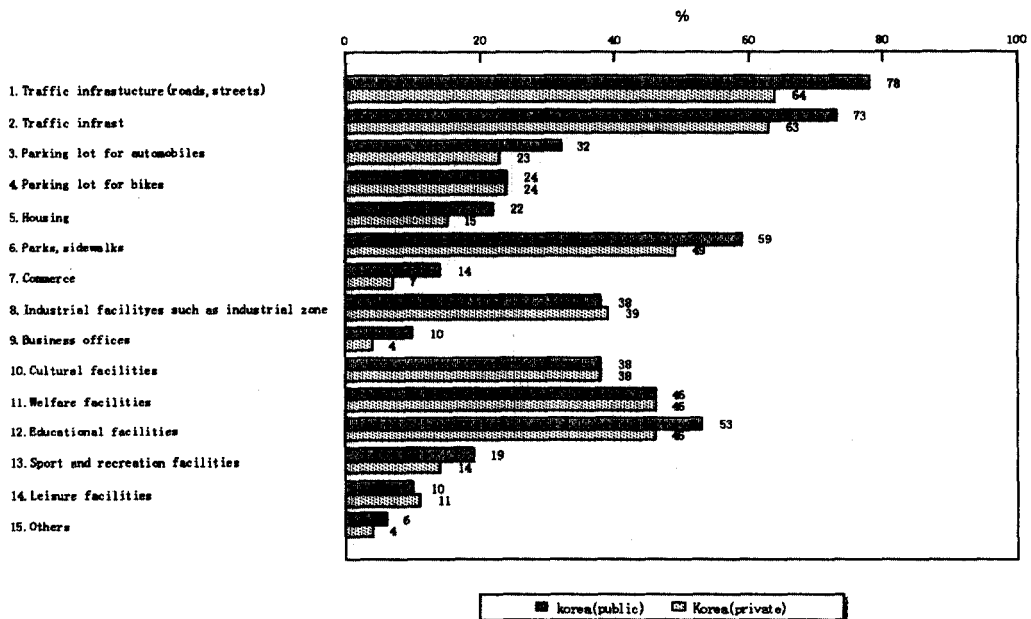
3. The Concrete Contents of the Public and Private Sectors on Urban Development

Here are the characteristics of what public and private sectors think of their concrete roles. First, the public and private sectors basically agree on what public sector should do. Second, there is a significant disagreement on what they think on what private sector should do. Third, they basically agree on what both public sector and private sector should do together.

1 Concrete Plan of What Public Sector Should Do

Both public sector and private sector consider that public sector should play a main role on "road and streets in traffic arrangement," and "trains, new traffic systems of traffic infrastructure. "On the contrary, they don't consider that "cultural facilities," "welfare facilities," "educational facilities," and "sport and recreation facilities" are not what public sector should play a dominant role on.

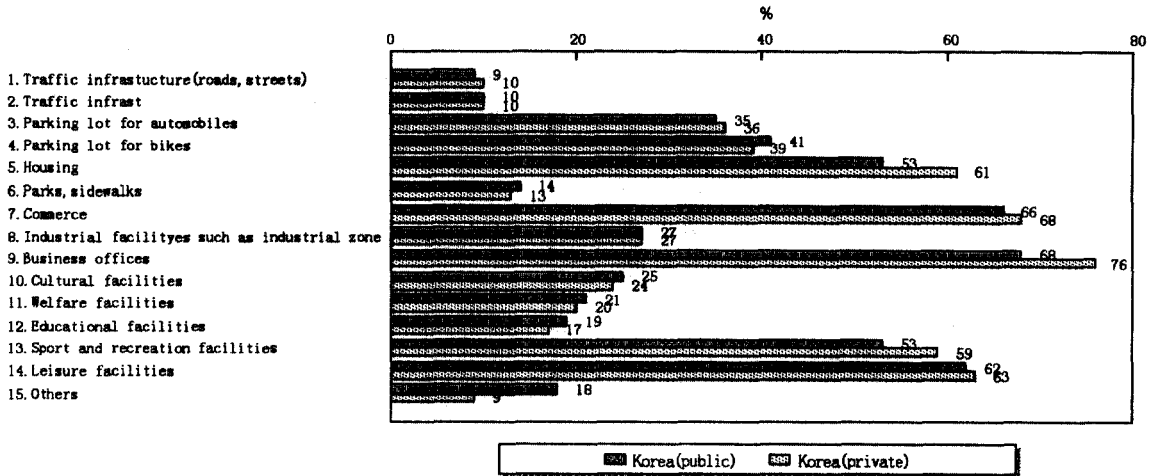
Chart3-1: The Concrete Contents of the Public Sector's Role



2) The Concrete Plan of What Private Sector Should Do

Both public and private sectors consider that the role of private sector should be on "commerce," "business offices," and "sport and recreational facilities" while they don't think that "cultural facilities," "welfare facilities," and "educational facilities" are to be maintained by the private sector.

Chart3-2: The Concrete Contents of the Private Sector's Role

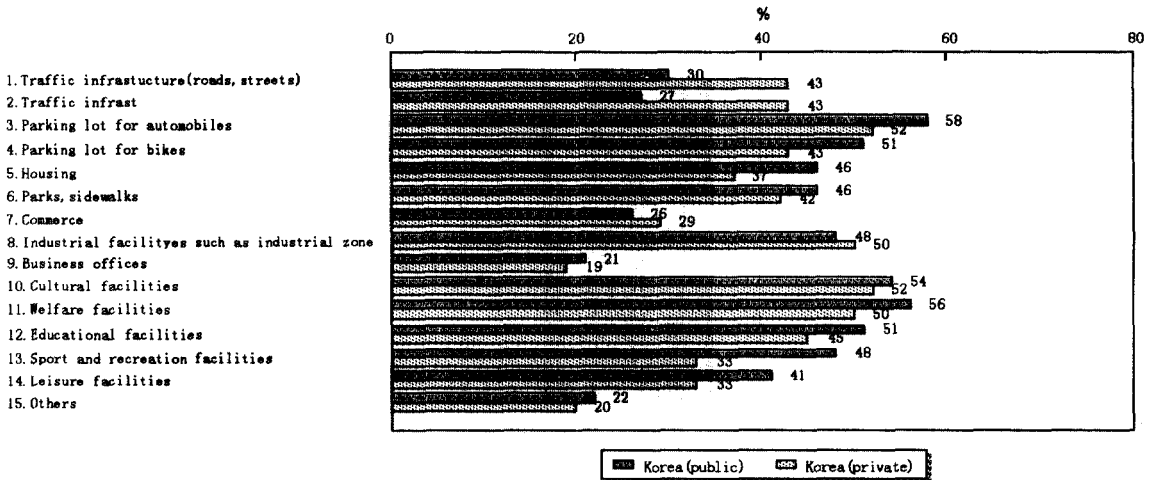


3) The Concrete Plan of What Public and Private Sectors in Collaboration Should Do

There is no big disagreement on this issue between the opinions of public and private sectors, but more than 40% of the private enterprises consider that both public and private sectors should work together on "traffic infrastructure(trains and new traffic systems)" while very few public entities think so.

Moreover, more than 50% of the public entities expects that both public and private sectors with collaboration should service the "parking lot facilities."

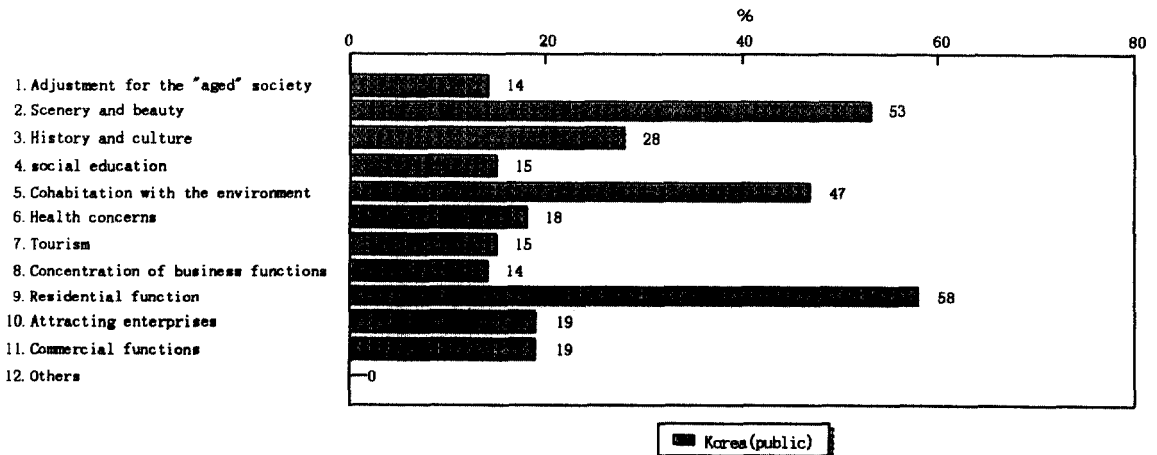
Chart3-3: The Concrete Contents of the Public and Private Sectors Should do Collaborately



4) The Important Themes on Urban Development

The public entities in the cities were asked what the important themes of Urban development are. The result was that more than 58% pointed out “the functions of the residential areas”. Also, “the scenery and the beauty” and “cohabitation with the environment” were suggested; these are the priorities they wish to solve among all Korean problems on housing.

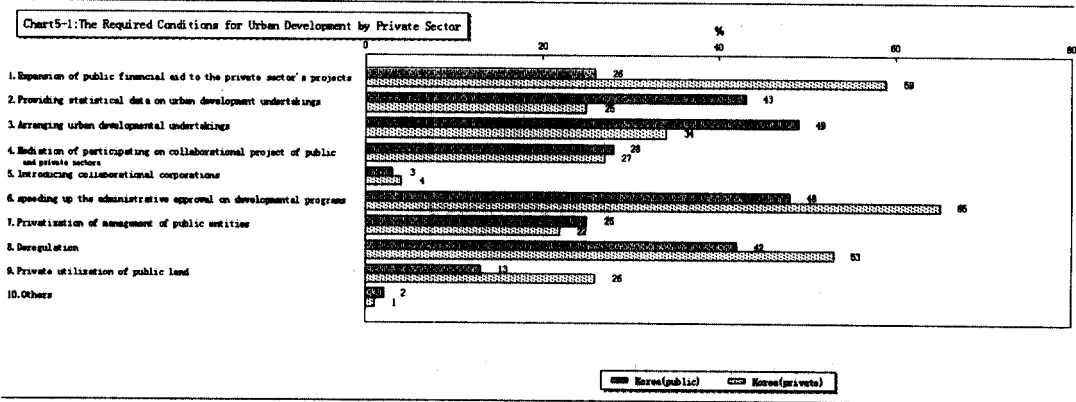
Chart4-1: The Important Themes on Urban Development



5) The Required Conditions for Urban Development by Private Sector

On the question of the prerequisites for promoting urban development projects by the private sector, the private sector replied at higher rate than the public sector.

About 65% of the private sector mentioned "speed up of the process of the administration's approval on private undertakings," and the 59% pointed out "expansion of public financing for private undertakings." On the contrary, more than 40% of the public sector mentioned "mediation for adjusting urban development projects" and "deregulation". Therefore, it can be said that the public sector expects the private sector's participation.



IV. How to Utilize the Private Sector

On the issue of how to utilize the private sector in Korean urban development under taking, the private sector wishes to play a dominant role with adequate contributions, as shown in the survey. Examining the result of the survey on the whole, the private sector is eager and positive to participate in the urban development projects. The public sector also

expect the private sector to take part as well.

Now what should be done for private sector's participation? There are three things to be done. First, as pointed out above, arranging the existing individual, separated laws into more simple one or creating new law on the urban development is necessary.

Second, if we suppose that the private force's participation is a "must," the reforms on tax system and monetary policy are needed. For example, privatization of the public corporations will produce a huge fund that will enable us to rearrange the unbalanced profit ratios of the public and private sector. Ultimately this could lead to more stabilized condition of the projects. Third, more compound policy with variety of needed in order to avoid a trial-and-error confusion.

## V. Conclusion

We have to grasp the profitability, benefits, and private sector's opinion on private sector's participation. At the same time, we need to examine which and how many facilities are suitable for the private force to build, and ultimately examine, in detail, what the role of the private sector is, and what the appropriate plan of public aid should be on urban development. If there are excellent or problematic precedents in other developed countries, we should actively learn from these, and we should adopt good precedent systems.

My next research theme will be on finding the best governmental policy in order to keep the balance between "geographically balanced growth" and "industrial policy" on vitalization of the private sector.

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