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# China Meets Korea: The Asian Games, Entrepreneurial Local States and Debt-driven Development

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## Introduction

Less than two weeks after the closing of the 2010 Shanghai Expo, Asians shifted their gaze to mainland China, this time, the opening of the 2010 Asian Games in Guangzhou. This was the second Asian Games to be held in mainland China, the first one being the 1990 Beijing Asian Games. The 2010 Asian Games in Guangzhou, the capital of Guangdong province, was a more regional event than the 2008 Beijing Olympic Games or the 2010 Shanghai Expo. Nevertheless, the Guangzhou Asian Games provided an opportunity for the host city, and by extension the Guangdong province, to attain added global reputation and to strengthen its position in the Asia-Pacific regional economy. Guangzhou's hosting of the Asian Games also exhibited a unique trait of China's localism, albeit negotiated with the central state (Shin, 2014). Since the late 1970s, China's local states had been given greater power during the period of economic decentralization in terms of expanding their grip on territorial economic activities. Local states also exhibited a certain degree of state entrepreneurialism to maximize economic gains through an active use of state agencies (Duckett, 2001; Wu and Phelps, 2011). The rise of local autonomy, however, was achieved under the auspices of the Party State that ensured the political centralization to bring about national security, territorial integrity and sociopolitical stability.

On the day of the closing ceremony of the Guangzhou Asian Games, the Games flag changed hands, ultimately reaching the then mayor of Incheon, the city that was the next host of the Games taking place four years later. The 2014 Incheon Asian Games was the third Asian Games for South Korea: Seoul, the national capital, had it in 1986 and Busan, the second largest city of the country, in 2002. Previously, Incheon fell from grace when it had to give up the host city status for the 1997 National Games due to poor preparations. The 2014 Asian Games was a chance to erase the dishonour. For Incheon, the 2014 Asian Games would also have been a means to revitalize its sluggish economy. Incheon developed rapidly as one of the major industrial centres during the country's rapid economic development guided by the developmental state. About one-third of Incheon's gross regional product is still generated by the secondary industry

(e.g. manufacturing, mining, etc.), but the city's economy has been trailing behind Busan and had been recently overtaken by Ulsan. From the early 1990s, South Korea implemented a number of measures to liberalize its economy and also to promote decentralization (Pirie, 2008). Local elections were also adopted to allow the direct election of mayors and provincial governors, but there is a strong presence of the central state, a legacy of the developmental statism. Nevertheless, enhanced local autonomy provided the foundation of a prominent rise of regionalism and place-based growth politics. State entrepreneurialism, one of the key characteristics of the South Korean developmental state, has become a more distinctive characteristic of South Korean local states, when the central state itself was going through mutations vis-a-vis neoliberal pressures (Park et al., 2011).

In this regard, the two Asian Games were embedded in political economic contexts that showed both similarities and differences. Notable differences arose given the domination of the Party State in mainland China (Liew 2005), on the one hand, and the mutations of the South Korean developmental state on the other hand (Park et al. 2012). Yet, the experiences of hosting the Asian Games by Guangzhou and Incheon also testified to the importance of local states proactively pursuing economic development through an active mobilization of resources to make productive investments. By juxtaposing the experiences of Guangzhou and Incheon in their preparation for the Asian Games, this chapter aims to show how both cities attempted, sometimes successfully and at other times unsuccessfully, to make use of the Asian Games to realise their developmental aspirations by investing heavily in the built environment. These attempts included fast-tracking the development process by launching ambitious mega-projects as part of channeling capital into the secondary circuit of the built environment (Harvey, 1978; see also Shin, 2012). As the chapter shows, these efforts were unfortunately speculative and debt-driven, placing a heavy burden on each city's future developmental prospects.

### **Local State Entrepreneurialism and Urban Development**

Developmental statism has been associated with the rise of Asian tiger economies such as South Korea, Taiwan, Singapore and Hong Kong in the 20th century (Castells, 1992) under conditions that were influenced not only by the domestic politics dominated by authoritarian states but also by the prevailing geopolitical economy such as the Cold War and armed struggles in the region (Glassman and Choi, 2014). Entrepreneurialism underpins developmental statism, which is characterised by the state's active intervention in the economy to maximize capital accumulation. State institutions worked hand in hand with private business interests to excavate new business opportunities. Public corporations were often set up to assume the risk of venturing out into a new industrial sector or to address collective consumption (e.g. housing). A developmental state was not only a market regulator but also an active entrepreneurial participant in the market.

In times of democratisation and liberalization, such as the rise of local elections as witnessed in South Korea from the 1990s, local states tend to exhibit a more acute entrepreneurial orientation, as local politicians running for elections espouse place-based interests to appeal to their constituencies. As cross-border activities and the influence of transnational capital grow, entrepreneurial local states at the municipal level may adopt 'glurbanisation' strategies "to secure the most advantageous insertion of a given city into the changing interscalar division of labour in the world economy" (Jessop and Sum, 2000, p.2295). Growth politics thus prevail, but this has inherent limitations when the local coffer is heavily dependent on central government subsidies (see Cochrane et al., 1996).

In mainland China, the initiation of market reform has resulted in the transformation of the central and local states in the way they relate to the economy and the society. Restructuring of the state and its rescaling through decentralization provided local states with a stronger grip on territorial economies, gradually overcoming (though not diminishing entirely) the constraints of the vertical hierarchy of work-units inherited from the planned economy era. Earlier discussions of how the nature of the local state transformed during the reform era resulted in several studies that highlighted both the developmental and entrepreneurial roles of the local state. For instance, Jean Oi (1992, 1995) examined the rise of township and village enterprises and their integration in the county-level economy in Shandong and Tianjin, arguing that local county governments displayed local state corporatism treating "enterprises within their administrative purview as one component of a large corporate whole" (Oi, 1995, p.1132). Local governments showed both entrepreneurial and governmental roles, transforming into "*economic* actors, not just administrative-service providers" (Oi 1995, p.1137; original emphasis). As economic actors, local states exercised entrepreneurship, taking risks and absorbing benefits, which then led to the rise of "a corporatist strategy to pool resources and debt" (Oi, 1995, p.1140). Duckett (1996, 2001) referred to state entrepreneurialism to examine the business-oriented activities of municipal departments of Tianjin, discussing how the state administrative bureaucracy adjusted to market-reform policies. Her main focus was on the establishment of new enterprises by state bureaux, and how these enterprises retained bureau personnel and governmental functions, essentially paving the way for 'bureaucrats in business' (Duckett, 2001).

The entrepreneurial nature of China's local states has become more pronounced due to their strong growth imperatives, which relied heavily on spatial strategies implemented by local states to drive 'productive investment' in the secondary circuit of capitalist accumulation; that is, investment in fixed assets and collective consumption. While the local state's financial capacity got somewhat restricted when the central Chinese state promulgated tax reform in 1994, local governments were given the power to administer the transaction of land-use rights from the state (as the ultimate owner of urban land) to end-users such as developers. This provided the basis for local states becoming *de facto* landlords in the emerging land (use right) market (Shin, 2009), and for their

accumulation of land-related income as part of extra-budgetary revenues that contribute heavily to financing local development (see Lin et al., 2014 and Hsing 2010).

These processes in turn laid the foundation for the exercise of entrepreneurial urban and regional policies by local states to expand their land assets. Development zones were set up as zones of exception across the country by local states, prompting Wu and Phelps (2011, p.427) to argue that “[t]he political economy of Chinese municipal entrepreneurialism has, on the whole, been altogether more complete in terms of the state’s control of the land-development process, the supporting infrastructure, and, as a consequence, the location of that growth”. You-tien Hsing (2010) discusses how urban governments have concentrated their resources on establishing ‘new towns’ (*xincheng*). The latter is identified as being promoted under the banner of “urban operation and management” (or *chengshi yunying*), which involves developers as key partners of urban development and aims at producing “property values” through following “the logic of the real-estate market” (2010, p.104).

It is in this context of local state entrepreneurialism that this chapter comparatively discusses the experiences of pursuing mega-event hosting by major regional cities such as Guangzhou and Incheon. The existing literature has shown that mega-event hosting tends to be favoured by growth advocates (i.e. businesses, politicians or their joint coalition) as a means to address wider developmental agendas that include not only the attraction of investment capital and experts but also a local state’s productive investment in fixed assets. Some projects may get a green light to be fast-tracked (e.g. transportation projects or urban beautification), while some other projects may be pursued “even if they have little relevance to a sporting event” (Burbank et al, 2001, p. 29). The fact that local states pursue economic development in an entrepreneurial way does not necessarily mean that they would only target transnational capital for its inward investment. To a varying degree, local states are dependent fiscally on the central state, and this characteristic is more pronounced in times of mega-event hosting when the local state usually enters into negotiation with the central state to leverage as many national resources as possible (Cochrane, 1996).

Major events such as the Olympic Games and the FIFA World Cup also make it compulsory for the central government to pledge a certain level of financial input into the Games preparation in order to make sure financing responsibility is apportioned between the host city and the central government, although the actual share of the central government contribution is up to further negotiation. In summary, mega-events are regarded as attractive strategies by both central and local states for their pursuit of political and economic interests. For local states that are relatively freed from the central state’s key concern for national security, territorial integrity and sociopolitical stability, their entrepreneurial characteristics would be even more pronounced when it comes to the use of mega-events to advance their development aspiration.

## **Spatial Manifestation of Regional Developmental Aspirations**

Event promoters in Guangzhou and Incheon saw the use of the Asian Games as a means to facilitate spatial restructuring and make productive investment in the built environment to accumulate fixed capital. For Guangzhou, the city's development vision evolved throughout the 1990s to aspire to become an international central city in the Asia-Pacific region (see Xu and Yeh 2003: 365-368). This places Guangzhou, and by extension Guangdong Province in direct competition with neighbouring economies such as South Korea and Taiwan. In fact, Guangdong's economy has already overtaken those of Singapore, Taiwan and Hong Kong in terms of the gross regional product. It is catching up fast with that of South Korea. The gross regional product of Guangdong was a little less than two-thirds of that of South Korea in 2010, but reached about three-quarters three years later. Guangzhou's gross regional product in 2010 was three times larger than that of Incheon.

The Guangzhou municipal government produced an important strategic development plan in 2000. However, in 2004, soon after having successfully bid for the 2010 Asian Games, the municipal government announced a revised plan known as the *Outline of Urban Planning and Construction for Guangzhou's 2010 Asian Games*. The 2004 plan also facilitated the development of the Pearl River New Town along its new central axis that is identified as the site for the city's new central business district (CBD), as well as other new towns across the city to serve as new regional cores (see Shin 2014). The construction of this brand new CBD was a municipal effort that has spanned nearly two decades, and the Asian Games turned out to be a significant facilitator for its completion. Guangzhou's keen interest to promote the new CBD was expressed in the city's decision to have the Asian Games' opening ceremony outside the main stadium on Haixishan Island, positioned along the Pearl River at the southern end of the new CBD (see Figure 1).



Figure 1: The venue of the opening ceremony with the brand new Guangzhou Tower in the background (top) and the view of the new CBD (bottom) (Photographed by the author in 2011)

Furthermore, domestically, Guangzhou's use of the 2010 Asian Games and related developmental activities could be understood as the rise of the Pearl River Delta region, often dubbed as the 'factory of the world', in its competition with other city-regions such as the Beijing-Tianjin city-region and the Yangtze River Delta city-region. The need to direct national resources more towards the Pearl River Delta city-region was further justified by deploying a unique set of 'centre' and 'periphery' discourses, framing the development of the Guangdong province simultaneously as *advanced* (in comparison with its own past and other regions) and *lagged* (in comparison with what it should be) (see Cartier 2012). Such a strategy also provides the rationale for a strenuous negotiation with the central Chinese state to consolidate Guangzhou's leadership position within the Pearl River Delta city-region vis-a-vis Shenzhen and neighbouring special administrative regions of Hong Kong and Macau (Shin 2014; Cheung 2012).

This was particularly pronounced in the 2008 Outline of the Plan for the Reform and Development of the Pearl River Delta region (hereafter 2008 Outline), produced by the

National Development and Reform Commission in consultation with the provincial government four years after Guangzhou won the host city status of the 2010 Asian Games. It is noteworthy to state that all these efforts especially at the provincial level were under the leadership of influential political figures who rose to prominent positions in the vertical hierarchy of the Chinese Party State: the Party Secretary of the province, the top political figure, was Dejiang Zhang between 2002 and 2007, succeeded by Yang Wang between 2007 and 2012, both of whom were promoted to become one of the vice-premiers in the central government.

In line with a number of development projects to transform the city, the Guangzhou municipal government further established its ambitious plan to promote city-wide urban redevelopment projects. The municipality was already showing keen interests in transforming its city-scape by tackling a large number of ‘dilapidated’ housing stocks, as one of the media reports suggested:

“According to the Guangzhou Land and Housing Management Bureau, the total registered size of dilapidated housing in Guangzhou reached 911,000 square metres by the end of 2004. In 2005, another 57,000 square metres were newly added to this...The Guangzhou municipal government decided that these dilapidated houses will be the key to the city’s old city redevelopment works in the coming years. It was also put forward that the redevelopment of dilapidated houses in the city was to be completed before the 2010 Asian Games” (Huang, 2007).

The new ambitious plan to redevelop the city targeted in particular what the municipality defined as the “Three Olds”, that is, old inner-city neighbourhoods, old brownfield sites and old urbanised villages. The urban redevelopment policy was initially advocated and announced by the provincial government of Guangdong in 2009, and put into practice in Guangzhou in the same year. A special bureau was opened in February 2010 to oversee the progress and supervise municipal-wide “Three Olds” projects, helping the government to implement so-called “environmental improvement” projects that covered 318 square kilometres. More than one-third of the target areas was to go through wholesale demolition and reconstruction over the next 10 years or so (Nanfang Daily, 2010). A number of redevelopment projects were streamlined to be completed in time for the opening of the 2010 Asian Games. For instance, a planning official in one of the old city districts in Guangzhou, indicated that the district government received about 0.22 billion yuan from the municipal government for the city’s Games-related environmental improvement projects, and another 0.38 billion yuan for the waterside renovation along the creeks in the district, all to be completed before the Asian Games (interviewed on 17 September 2009).<sup>1</sup>

In the case of Incheon, the initiative to strengthen investment in the built environment was led by its mayors directly elected in local elections since 1995. The two mayors who were influential in urban politics in the city and who reigned successively until 2010 were all from the right-wing political party, which ruled South Korea for most of



its industrialisation period until the 1990s. These mayors advocated urban policies that emphasized state-led development. They aspired to expand the capacity of the municipality to design and implement a number of real estate and infrastructure projects, which were centred on accumulating land assets through reclamation as a means to secure revenue sources (Shin forthcoming). Although an opposition party candidate with a more liberal stance took the mayoral seat for the first time in 2010, the boosterish policies begun under the previous mayors were difficult to overturn, including preparation works for the Asian Games that had fixed and irreversible deadlines,

In Korea, Incheon's primary concern was to come out of the shadow of the economic and political influence of neighbouring Seoul, the national capital city, and to transform its earlier reputation as a manufacturing centre<sup>2</sup> into a city of high-tech and international business. Incheon's gross regional product (at current prices) was only about one-fifth of that of Seoul (Incheon Metropolitan Government 2014a). For Incheon, its developmental aspiration was embedded not only in the context of declining economic position of the city within South Korea, but also in the context of its regional future threatened by rapidly developing China across the sea. Bidding for the Asian Games therefore reflected Incheon's enthusiasm "to help elevate South Korea's third largest city onto the world map as a new economic hub of Northeast Asia" (Kositchotethana 2007).

Similar to Guangzhou's desire to build the Pearl River New Town as the city's new CBD, Incheon also aimed to build an international centre of business and finance, focused on the use of reclaimed land adjacent to South Korea's international gateway, the Incheon International Airport. This ambition emerged back in the early 2000s when Shanghai, only about two hours away by flight from Incheon, was seeing the initial completion of the development of Pudong (Chen 2007). The ambition was also closely entwined with the then national policy to promote the country as a Northeast Asian business hub centred on high-tech and global service industries including finance and logistics (Shin forthcoming). This ambition resulted in the designation of the new Incheon Free Economic Zone (IFEZ) as a zone of exception in August 2003, aimed "to attract investments and offer world class business environment that guarantees high returns for investors" (Ghawi 2007). Bolstered by this, the then mayor Sang-Soo Ahn, who got elected in 2002, propagated a successful bid in 2007 for the 2014 Summer Asian Games. As the section chief in urban design at the metropolitan government says:

"the previous mayor wanted to promote Incheon as an urban brand globally, and the sporting mega-event was combined with the IFEZ... By having the Asian Games, Incheon would be known to the Asian population, raise its position in the region, and attract the attention from emerging economies including China and encourage their investment" (interviewed on 12 December 2011).

Moreover, at the time of running for re-election in 2006, Ahn made 100 key election pledges out of which 90 were urban and regional development projects that centred on

mega-scale real estate projects. These were mostly to redevelop existing historic urban cores, and to develop new towns, as well as to concentrate resources on the IFEZ and the Asian Games-related facilities (Lee 2010: 73-74). Revenues from selling reclaimed land to investors and developers were meant to pay for subsequent infrastructure development as well as state-led redevelopment in existing urban cores.

The Asian Games and other development projects were all streamlined to raise the international profile of Incheon and, in return, attract further investment. The seeds were initially sown in the establishment of the 2020 Incheon Urban Master Plan, which received the final approval in May 2006 by the Ministry of Construction and Transport at the central government. The preparation of the 2020 Urban Master Plan was given a full thrust under the leadership of mayor Sang-Soo Ahn, who started serving his first four-year term from July 2002. At the time of preparing the 2020 Urban Master Plan, Incheon was already proposing an ambitious plan to increase the total metropolitan population from 2.62 million people in 2005 to 3.5 million by 2020.

This was downsized by the Central Urban Planning Committee of the Ministry of Construction and Transport during the approval process. However, only two years after the approval of the 2020 Urban Master Plan, a new proposal was put forward by the Incheon metropolitan government to revise the previous plan and prepare a 2025 Urban Master Plan. Led again by mayor Sang-Soo Ahn, who successfully ran for his second term in the 2006 local election, the metropolitan government argued that the revision was necessary as Incheon was awarded in April 2007 the right to host the 2014 Summer Asian Games. The proposal for the 2025 Urban Master Plan put forward for public consultation was even more ambitious, setting the planned size of the total municipal population to reach 4 million (Lee 2010, p.89; Incheon Metropolitan Government 2009). About 1.2 million people were meant to be migrating from outside Incheon by 2025, to be accommodated by various development projects envisaged in the proposal for a new master plan.

All these were put together to promote Incheon globally and place the city on the global investor's map, helping it to achieve its openly pronounced aspiration to become (somewhat over-ambitiously) one of the world's top ten cities. These objectives were to be assisted by "mega-scale development projects, changes to the transportation system, and urban redevelopment projects for a balanced development of existing urban areas" (Incheon Metropolitan Government 2009, p.2). Incheon also organised a World Urban Fair (officially named later on as the Global Fair & Festival) in 2009. The aforementioned IFEZ constituted one of the major growth poles for Incheon and itself became a major mega-project for the metropolitan government's drive to transform Incheon into a city of multiple centralities and global prominence. The IFEZ was given multiple roles, destined to become sites for international business and finance, high-tech knowledge industry, culture, tourism, leisure, transportation hub centred on the existing international airport, and upmarket residential estates. The IFEZ alone was planned to accommodate 0.9 million new residents (ibid, p.23). To showcase the newly emerging

IFEZ, the Asian Games also saw the allocation of some of the strategic events, such as triathlon and beach volleyball, to the Songdo Free Economic Zone, an epicentre of Incheon's aspiration to become a regional centre in the East Asian region (see Shin forthcoming on Songdo City development). New development areas, such as the Songdo International Business District saw the accommodation of and the opening of the Games' media centre.<sup>3</sup>

### **Debt-driven Speculative Development**

During the years of preparing for the Asian Games, the developmental aspiration held by the governments of Guangzhou and Incheon translated into various urban redevelopment, beautification and infrastructure projects. These projects naturally required the mobilization of large financial resources, eventually placing a heavy burden on local government. The Guangzhou and Incheon governments dealt with the financial situation in differing ways, reflecting the divergences by which urban political economy was structuring state actions despite their differentiated modes of establishing state entrepreneurialism. However, the common thread was the fact that these projects were largely speculative and debt-driven.

In the case of Guangzhou, the city's Games-related finance showed some similarities with the way in which Beijing spent its money for the 2008 Olympic Games (Shin, 2009b). That is, much more money was spent on infrastructure provision and beautification. As an expert at the Guangzhou Asian Games Organizing Committee pointed out (interviewed on 16 September 2009), as far as the Asian Games were concerned, the public facilities that received the greatest emphasis would have been "the transport, which is definitely the most important". An earlier report suggested that about 122.6 billion yuan was spent on the Asian Games and the related urban projects (see Shin 2012). About 90% of the total expenditure were thought to have gone into infrastructure and urban redevelopment projects, while the remaining 10% were to pay for the Games operation costs. The suggested total amount of spending by Guangzhou for the Games preparation was larger than the total annual budget of Guangzhou in 2011 (103.8 billion yuan) (Qiu 2011). An academic with frequent experiences of providing policy consultation services for the municipal government suggests in an interview with the author that the Guangzhou Asian Games came as a huge opportunity to make things possible in a shortened amount of time:

"Actually, I think direct organising is not too much money, but the infrastructure change or construction is an opportunity for the city, so they take this opportunity. and, also they always use this word 'to take the opportunity from the event', because the economic, the industrial development and planning is also based on this. And, also the urban planning is based on this... They consider money as not quite a problem" (interviewed on 16 September 2009)

In particular, local government finance is heavily dependent on land-related revenues generated by selling land use rights as part of expanding extra-budgetary revenues that have become a major source of local finance since the 1994 Tax Reform (Lin et al. 2014). In Guangzhou, the debt issue was also raised but it is not clear what impact this may have on municipal development, as most developmental projects in China had in fact been debt-driven and speculative, in particular by means of using state investment companies often known as local government finance vehicles or LGFVs to issue bonds or borrow from financial institutions on behalf of local governments. In the case of local states in mainland China, concerns were raised about the possibility of a large amount of local debts incurred by local government finance vehicles (LGFVs); that is, public enterprises set up by local governments to issue bonds or borrow loans. It is reported that the total amount of borrowing by LGFVs across the country totalled 17.89 trillion yuan that would amount to about one third of China's GDP (Anderlini 2014; Sweeney 2014).

While the debt situation was not rising prominently at the time of Asian Games preparation, it became a concern about two years later. For instance, a deputy with the Guangzhou People's Congress named Nanshan Zhong accused the municipal government for having invested far too much on the Games preparation, and claimed that after the Games, the city was left with a huge debt that reached 210 billion yuan (Qiu 2011). His claim was quickly rebuked by the director of the city's finance bureau, questioning the source of such figures. However, at the end of December 2012, Guangzhou revealed that its excessive debt level reached 241.4 billion yuan by mid-year 2012 (Yang 2012). This is about 233% of Guangzhou's budget for government expenditure for the year 2011 (103.8 billion yuan) (Zhang 2011), which may sound an alarm bell for many observers. On 30 July 2013, Guangzhou further revealed that "it needs to pay loans worth almost 26.1 billion yuan this year. That is 19.37 percent of the city government's projected income for this year" (Wang 2013).

Similar concerns about Incheon's financial health were raised by some council members, but at the time of Incheon's bid these concerns were not extended to the Asian Games. The whole city celebrated the award of the Games when Incheon comfortably defeated Delhi in Kuwait in April 2007. On 28 June 2011, a ground-breaking ceremony was held in Incheon for the construction of the main Games stadium (see Figure 2). This however accompanied increasing awareness of the host city's shaky finances. Incheon's mounting debt was the main source of contention in the 2010 local election, which saw the defeat of mayor Sang-Soo Ahn by the opposition party candidate Young-Gil Song, whose election pledges included the reduction of metropolitan debt, including a reduction in expenditures for the Asian Games. He even considered giving up the Asian Games altogether, although this turned out to be damaging for his political reputation. An alternative plan was to refurbish an existing stadium (which had been incurring operational losses at the time) instead of building the brand new one originally pledged by the previous mayor. However, the news of cancelling the construction of a new stadium provoked severe complaints from those residents and businesses who had

vested interests in the proposed new site and mayor Song gave in and agreed to resume the construction of a new stadium.

Figure 2: Main stadium for the Incheon Asian Games (photographed by the author in 2014)



Over the years, Incheon's financial situation had been aggravated as the metropolitan government's drive to realise its growth ambition was put into high gear. The city's debt level, known to be manageable until the mid-2000s, rose rapidly, largely due to the promotion of mega-projects and the preparation for the 2014 Asian Games (Kim 2012). While the total amount of municipal bonds issued was 1.41 trillion Korean Won by the end of 2007, it soared to reach 2.33 trillion Korean Won in 2009, and then 3.26 trillion Korean Won in 2014 (Kim 2012: 262; Incheon Metropolitan Government 2015).<sup>4</sup> Accordingly, the ratio of total municipal debts to the annual budget also surged over the years, recording 26.9% in 2007, 29.8% in 2009 and 37.5% in 2014, dangerously approaching the 40% ceiling, a threshold defined by the Local Finance Act to identify local government's fiscal crisis (ibid). Out of the 3.26 trillion Korean Won of municipal debts by the end of 2014, nearly one-third (31.8%) resulted from the bonds issued to finance the construction of the Asian Games facilities (see Table 1 below). The direct costs of the Asian Games preparation related to the Games facilities were effectively debt-financed (Kim 2011: 59-60).

Another 5% (121 billion Korean Won) of the total debts was due to the project to construct the second line of Incheon's urban rail network. The project was originally scheduled for completion before the opening of the Asian Games to showcase Incheon's public transportation. However, the project saw various delays and is now to be completed by mid-2016. According to a report provided by the Incheon Asian Games Organizing Committee in 2011 for the Incheon Metropolitan Council, the total costs of the Games preparation were expected to reach 2.74 trillion Korean Won, which would have been a little more than two-fifths of Incheon's total annual budget in 2011. These included the costs of constructing Games facilities (1.90 trillion Korean Won) as well as the operational costs of the organising committee and other supporting offices. Of all the Games preparation costs, the metropolitan government was to undertake 71.9% while the central government was to cover only 19.4% of the total costs.<sup>5</sup>

Table 1: Total Debts of Incheon Metropolitan Government

Unit: Billion Korean Won

	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Balance</b>	<b>2,740</b>	<b>2,802</b>	<b>3,159</b>	<b>3,258</b>	<b>3,171</b>	<b>3,008</b>	<b>2,796</b>	<b>2,542</b>	<b>2,228</b>
General account	1,150	1,111	1,130	1,064	1,042	936	795	654	515
Asian Games facilities	585	685	1,023	1,035	1,008	948	883	798	692
Urban Rail Construction	116	154	170	188	190	193	170	158	121
Other Urban Transport Projects	2	2	0	0	0	0	0	0	0
Sewerage Projects	164	150	134	118	98.1	78.5	60.5	45.4	31.6
Regional Development Bonds	626	611	626	648	637	668	714	723	725
Incheon Free Economic Zone (IFEZ) Project	97.6	89.5	75.5	206	195	185	174	163	143
Debt Level	37.7%	35.1%	35.7%	37.5%	37.7%	38.2%	36.6%	32.7%	29.0%

Source: Incheon Municipal Government web site

Note: For 2015-2019, the numbers refer to estimations

Incheon's financial situation was further aggravated by its use of a municipal development corporation, Incheon Development & Tourism Corporation (hereafter IDTC), to pursue a number of infrastructure and real estate projects as set out in the Incheon Urban Master Plan. Although the debt incurred by the IDTC was kept separate from the aforementioned metropolitan debt, the Incheon metropolitan government was ultimately responsible for the accrual of debts by the IDTC. Financing the IDTC projects occurred through bond issues and reliance on project-financing, but this eventually placed a financial burden on the municipality. The total amount of financial debts owed by the IDTC increased from 401.3 billion Korean Won in 2006, and surged to 1.5 trillion in 2007, and 3.5 trillion in 2009. During the next four years, the financial debts doubled again, reaching 7.0 trillion Korean Won in 2013 (Incheon Metropolitan Government 2014b: 6). About 90% of all the financial debts as of the end of 2013 were from the metropolitan government's real estate projects, especially centred on mega-

projects such as the Yeongjong Sky City land development and the Geomdan new town development, located west and north of Incheon's historic core respectively. These two mega-projects were designed to be new sub-centres of Incheon, aimed at contributing to the diversification and invigoration of Incheon's economic activities and land use.

However, the heavy upfront costs poured into the land assembly, as well as compensation for property owners in the process of land expropriation, meant that the IDTC had to bear a substantial degree of financial pressure. In particular, the land development of the Yeongjong Sky City site was accompanied by a lack of business interest in land purchase: the rate of land sales was only 24% -- far below the expectation of the metropolitan government, and therefore preventing it from recovering costs and raising profits that were meant to go into other development projects, especially the redevelopment of Incheon's historic centre. The Geomdan new town development has also been substantially delayed since the announcement of compensation measures for existing property owners in October 2009. The financial debts incurred by these two mega-projects constituted about 56% of total financial debts as of the end of 2013 (Incheon Metropolitan Government 2014b: 7).<sup>6</sup>

It is difficult to see how these grim situations may change in the near future. The designation of a number of inner-city redevelopment projects, in particular, were hit not only by the global financial crisis in 2007-8, but also by the emphasis on real estate projects in the IFEZ. As the section chief responsible for urban redevelopment in the Incheon metropolitan government says, "if inner-city redevelopment projects are to succeed, there should not be other new-build apartment projects nearby. Certainly, the new-build projects in the IFEZ and the Asian Games village has become hindrance to the inner-city redevelopment, as those are more sought after by buyers who are from Seoul or neighbouring province" (interviewed on 12 December 2011).

## **Conclusion**

Once awarded, mega-events have their own momentum due to unavoidable deadlines and the host city's ambition to showcase itself to global and domestic spectators. The need to stage a highly visible and recognizably impressive event, under time and budget constraints, creates a sense of urgency, and induces a high level of concentrated investment in the built environment (e.g. Games facilities, transport infrastructure, beautification, etc.). As this chapter shows, mega-events are often embedded in larger plans to transform the built environment and promote the global reputation of the host city and country. In both Guangzhou and Incheon, the preparation for the Asian Games was actively incorporated into their overall urban development plans. The two mega-events reflect each host city's ambition to achieve increased global visibility and prominence. In Guangzhou, the city was focused on consolidating its position as the "dragon head" in south China and, at the same time, rising to become an international regional centre. Incheon also aspired to become an international regional centre, aided

by its free economic zone and the international airport. Both cities witnessed a heavy emphasis on expanding the investment in the built environment in the form of promoting urban redevelopment, new town construction, infrastructure provision and so on.

Incheon's local state entrepreneurialism was evident in its promotion of various boosterish projects that aimed at transforming the city-scape through real estate projects and infrastructure construction as well as the promotion of the central state-endorsed free economic zone, one of its first kinds in South Korea. As discussed elsewhere (see Shin forthcoming), Incheon made efforts to make use of land reclamation as a means to expand its land asset basis, which could then be sold to developers and other private businesses to raise revenues that would in turn be used to finance other imperative developmental projects. For Incheon, the promotion of a large number of development projects encompassing both infrastructure and real estate produced a deepening speculative urbanisation process, which was built on a dangerously high level of local debts incurred by both the metropolitan government and its public corporation. In essence, Incheon's state entrepreneurialism was driven by debts.

For Guangzhou, the event-led development proved to be useful in both times of inflationary expansion (when the central government actually cautioned excessive investment) and of recession, all of which characterised the economic climate during the Asian Games preparation period between 2005 and 2010. During the former inflationary period, while the central government warned local governments not to make excessive investments, the Asian Games preparation was an excuse for Guangzhou to justify further investments. In times of economic recession after the global financial crisis, the Asian Games preparation was also useful for Guangzhou to minimise, if not overcome, negative impacts of the crisis on the city and on the PRD region as a whole. Guangzhou also exhibited the usual 'land-based accumulation', which makes proactive use of land-related extra-budgetary revenue for financing fixed asset investments (Hsing 2010; Lin et al. 2014). This practice is built on the local state acting as a de facto landlord (Shin 2009), the power endowed in the local state by the central state-led reform to commodify land assets and let local states administer land (use right) transactions. The Guangzhou municipal government turned out to be excessively indebted, a shared feature in mainland China among local governments. Such indebted conditions have become a source of major concern more recently, as China's economic growth is expected to slow down in comparison with previous years' growth records.

In conclusion, despite the apparent differences in the political economic structure of the two cities, the ways in which both Incheon and Guangzhou pursued their entrepreneurial state agenda present a lot of similarities, especially in terms of how the state-led investment in the built environment had been largely debt-driven in both cities, and how this process was facilitated by the mega-event preparation. Incheon's high level of local debts resulting from issuing municipal bonds was a source of concern



especially during the final phase of its Games preparation. Guangzhou's debt level also came to the attention of the general public more recently, raising doubts about the effectiveness of China's local governments' unrestrained investment in fixed assets. Recently, the central state implemented a pilot scheme to allow key local governments such as Zhejiang, Guangdong, Shanghai and Shenzhen to experiment with the issuing of municipal bonds (Anderlini 2011). This was expanded in May 2014 to cover ten local governments: Shanghai, Zhejiang, Guangdong, Shenzhen, Jiangsu, Shandong, Beijing, Qingdao, Ningxia and Jiangxi. From September 2014, all local governments were given the go-ahead to issue bonds to finance their development without having to face restrictions as before (Sweeney 2014). The true effect of this new scheme is yet to be seen. While the scheme has been designed to allow local governments to find an alternative avenue of raising funds for development and depend less on land resources, it is highly possible that without diminishing development aspiration and GDPism, the practice of speculative and debt-driven development is likely to continue in the foreseeable future in China.

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<sup>1</sup> As per the mid-market rate as of December 31, 2010, US\$1 was equal to 6.6 yuan. See "Current and Historical Rate Tables", XE, accessed April 5, 2015, <http://www.xe.com/currencytables/>.

<sup>2</sup> The share of the secondary sector (manufacturing, construction, mining, electricity, gas and water supply) had been a little more than one third of the gross regional product between 2007 and 2012 See Incheon Metropolitan Government, *Incheon Statistical Yearbook 2013*. The share of agricultural production, forestry and fishing was 0.5% or less during the same period.

<sup>3</sup> "Introducing the fields of the 2014 Incheon Asian Games in Songdo," Songdo IBD, accessed April 5, 2015, <http://songdoibd.tistory.com/721>.

<sup>4</sup> As per the mid-market rate as of December 31, 2009, US\$1 was equal to 1170.5 Korean Won. As of December 31, 2014, US\$1 was equal to 1092.0 Korean Won. See "Current and Historical Rate Tables", XE, accessed April 5, 2015, <http://www.xe.com/currencytables/>.

<sup>5</sup> Part of the reasons behind the municipality's undertaking of heavy investment in the Asian Games facilities was the less-than-expected support from the central government. This becomes evident when compared with the experience of the 2002 Summer Asian Games hosted by Busan, which received government subsidies to cover 35.9% of all the Games preparation costs. See Kim, Myung-Hee, "Fiscal crisis of Incheon and the Asian Games," *Welfare Trend* 150 (2011): 60.

<sup>6</sup> Incheon's excessive debt level was the main source of contention in the 2010 local election, which saw the defeat of the incumbent mayor Sang-soo Ahn by the opposition party candidate Young-gil Song. For Incheon, this was the first time in many decades that a liberal mayor was in the seat. Mayor Song's election pledge was to reduce the metropolitan debts and to reduce the metropolitan expenditure on preparing for the Asian Games. This led to the cancellation of the plan to build a brand new main stadium for the Asian Games, going against its own commitment at the time of winning the host city status. The plan was to refurbish as much as possible the city's existing Munhak Stadium, which was already incurring operational losses, rather than building a new stadium that would drain the metropolitan government's resources and also become the source of further financial constraints by adding another under-used stadium in addition to an existing one. However, the news of cancelling the construction of a new stadium provoked severe complaints from those residents and businesses, and Mayor Song gave in to resume the construction of a new stadium.