

Urban Constellations

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CRISES AND PERTURBATIONS

VERTICAL ACCUMULATION AND ACCELERATED URBANISM: THE EAST ASIAN EXPERIENCE

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Shin, H.B. (2011) *Vertical accumulation and accelerated urbanism: the East Asian experience*. In Gandy, M. (Ed) *Urban Constellations*. Berlin, Jovis Publishers, pp.48-53



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1 Seoul, South Korea (2006)
Source: Photo by Hyun Bang
Shin

When visitors from outside East Asia arrive at a city like Seoul or Hong Kong, a short drive from the airport takes them to a cluster of high-rise buildings, giving the impression that they have arrived at the city's central business district. They soon realise, however, that they are mistaken; continuing their drive, they face more, sometimes endless, strings of high-rise building clusters. What has driven this overwhelmingly vertical cityscape is a decades-long compressed urban accumulation process built upon massive investment in property development in many East Asian economies that share some particular characteristics: strong developmental states; weak civil societies; export orientation; rapid industrialisation and urbanisation; and heavy investment in human and fixed capital.

Those highly industrialised East Asian economies, which rose from poverty-stricken conditions, have been heavily dependent on the real-estate sector, resulting in often speculative property development booms. This phenomenon prevails not only in advanced capitalist cities like Seoul, but also in mainland Chinese cities in transition. For nearly three decades since China opened its door for economic policy experimentation, Chinese cities have also found themselves at the heart of a property boom. The frenzy of property development initially occupied cities in eastern provinces,¹ but the zeal has spread out to other inland cities such as Nanjing and Chongqing. A favourable environment for sustained investment has been sought after by strong states in East Asia, which support the promotion of urban development and accelerated urbanism.

From this perspective, it may be possible to draw out distinctive commonalities to establish some sort of "Asian urbanism" in the shaping of East Asian urban morphology. Despite each city's disparate political, economic, and socio-cultural backgrounds compounded by historic events and institutional innovations, the neo-Marxian political economic perspective on capital accumulation processes provide the following three aspects that stand out prominently as East Asia's shared urban accumulation experience: (i) the acquisition of property-related revenues; (ii) strong developmental states; and (iii) the prominence of real-estate capital built on speculative home-ownership aspirations.

The finance of city development in East Asia relies heavily on the use of property-related revenues. This is particularly obvious where state ownership of urban land has been firmly established. In Hong Kong, for instance, studies suggest that between 1970 and 1991, land and lease revenues accounted for 20 per cent of the total government incomes and financed 80 per cent of the total infrastructure expenditures. In Singapore, these rates were about 19 per cent and 62 per cent respectively.² Chengri Ding reports that the revenues generated from land conveyance fees and loans from using land as collateral "accounted for 40 to 50 per cent of the municipal government's Year 2002 budget in Hangzhou, a city located south-west of Shanghai; in turn these revenues were used to fund more than two-thirds of the city's investments in infrastructure and urban services."³

East Asian states have been known for their developmentalist approaches to economic development, with heavy investment in the built environment.⁴ The developmental states

commonly emphasised national economic stability and expansionary economic performance often at the cost of redistribution. They have established close ties with business interests and performed strong state intervention during investment decision-making. For example, the development path of urban China has seen a surge of state-sector investment in fixed assets, including those in the real estate sector, in order to lay the foundations for further economic growth. In national accounts, fixed assets refer to those production assets that are used continuously in production processes without full exhaustion, and include tangible assets such as buildings, houses, equipment, and infrastructure provision (such as railways, roads and airports). In Beijing, the share of gross fixed capital formation (hereafter, GFCF)—that is net investment in fixed assets—in the city's regional GDP was around 60 per cent for the second half of the 1990s about 30–40 per cent of the GFCF went into real estate.⁵ In the case of Hong Kong, about a quarter of the city's GDP has been invested in the construction and real estate sectors since 1980.⁶ East Asia as a whole has seen a strong presence of state entrepreneurialism fuelling the urban accumulation process.⁷

Finally, real estate capital in East Asia has been prominently accumulated upon home-ownership aspiration. The desire for asset increase is shared by an extensive range of property-based interests, which include prospective home-buyers, speculators, private- and public-sector developers, as well as states. States, in particular, make strong interventions in overall housing systems through regulating land supply and taking control of financial institutions, while working closely with construction firms and developers.⁸ The rush towards real-estate markets where the availability of land is limited is illustrated by the connection between speculation and mass construction of high-rise buildings, spearheaded by Hong Kong and Singapore. South Korea and mainland China also joined the dominant trend, while Taiwan was involved to a much lesser extent, being prone to earthquakes. In Korea, government statistics indicate that the majority of new housing construction has been in the form of high-rise apartments since the mid-1980s; in 2005, their share even reached 90 per cent of the dwellings approved for construction. This situation was supported by a housing policy oriented towards home-ownership.⁹ As a result, modern high-rise apartments have been identified as the means of asset-building as well as the loci of an urban way of living. A vicious circle of capital investment and reinvestment has been paired with a repeated, compressed cycle of property-led development and redevelopment in the urban landscape to achieve what could be termed as “vertical accumulation.”

Now, the question is, does this property-led development and vertical accumulation in East Asia have a viable future? Until recently, the region was successful in sustaining its economic development, inducing its surplus capital as well as foreign capital into the built environment. It may be worth noting that even in times of economic difficulties, particularly since the 1997 Asian financial crisis, many East Asian states tried to use their power to facilitate more investment in fixed assets and the built environment as an effort to keep their momentum of economic growth. The long-term prospect of the cities in the region, however, is

subject to more intrinsic challenges. Three aspects can be highlighted: (i) property speculation and over-accumulation; (ii) aggravating inequalities and debt-financing; and (iii) the sustainability of development.

Japan's experience of property boom and bust in the late twentieth century provides a striking example of the vulnerability of a national economy closely linked with property speculation. Nonetheless, lessons do not seem to have been learnt by other East Asian states where the property sector is intertwined with economic development, public finances, and people's asset-building aspirations. Even during the 1997 Asian financial crisis, states were more interested in keeping their growth momentum leveraged by property markets. The consequence was over-accumulation in the built environment. One of the striking examples would be so-called ghost towns in China, where unleashed local state actions have led to the construction of new towns with scarce occupants. In spite of various warning signals of an overheated market, curbing over-accumulation in the property sector seems a daunting task for East Asian states whose GDPs are substantially generated from the property con-

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2 Guangzhou, China (2010)
Source: Photo by Hyun Bang
Shin

struction market. For example, 13 per cent of China's GDP is reportedly from the property sector.¹⁰

The recent crisis generated by the collapse of the US sub-prime mortgage market illustrates the vulnerability of a speculative property market financed by debt.¹¹ East Asia's speculative property markets have also seen debt-financing expand for housing production and consumption. The very speculative nature of East Asia's property markets is now failing an increasing number of prospective buyers unable to meet their housing needs and aspirations. Intergenerational inequality or difference is also increasingly envisaged in the ways and capacities housing needs are met. Ray Forrest and Yosuke Hirayama¹² persuasively argue that the younger generation in contemporary Japan and Britain has not been able to become homeowners in the way their previous generation was able to manage. High levels of economic inequality aggravate the situation. Singapore and China are known for their high-income inequality, with their Gini index reaching 0.43 in 1998 and 0.47 in 2004 respectively.¹³ Hong Kong has recorded a much higher figure, 0.533 in 2006, based on monthly household income.¹⁴ These income inequality figures exceed those of the USA (0.41 in 2000) and the UK (0.36 in 1999). Where locals face increasing difficulties in financing their properties, overseas investors or ex-pat populations play prominent roles. For example, Hong Kong has seen the influx of mainland Chinese buyers to the city in recent years. The situation poses a potential to fuel dissatisfaction that may damage the legitimacy of the ruling regimes as well as the viability of the property-led development and urban accumulation model in East Asia.

Examples from former industrial centres and boom cities of the twentieth century (such as Detroit and Leipzig) suggest that cities go through cycles of historical and geographical uneven development in the global expansion of capital accumulation. This point is particularly applicable to Chinese cities that experienced the "concrete revolution" in recent decades, taking massive densification and so-called creative destruction as part of the development process. This transformation has been facilitated by "obsolescence" and "deterioration" of the buildings built prior to the 1990s. Those buildings are facing demolition well before reaching their usual design life cycle, experiencing compressed cycles of demolition and reconstruction for maximising returns on investment. The sheer amount of construction work in a short time frame also signals a possibility of poor building quality. It is apparent that Chinese cities will sooner or later face the urgent task of upgrading and reconstruction. But how will the upgrading and reconstruction be made possible? Will the Chinese economy keep its current rate of growth in the future? The Singaporean government first introduced its main upgrading programme in 1990 in order to arrest the degradation of buildings that are twenty years old or more.¹⁵ If Chinese cities are to follow the same footsteps and make use of existing dwellings instead of wholesale reconstruction, they will need to immediately start working on devising a similar upgrading programme.

East Asian cities differ from one another in terms of their historical experience of urbanisation, not to mention the geopolitical position derived from the World War II and Cold War period. Nevertheless, they share many aspects in their developmental paths that could be considered vertical accumulation. Accelerated cycles of creative destruction and concentrated investment in fixed assets, including real estate, have been central to the sustaining the economic growth of cities. This process has created a myriad of networks and a spectrum of property-based interests, to an extent that the rapid growth and modernisation process of East Asian cities could be termed a "concrete revolution." However, concrete does not last forever. The East Asian model of property-led development and urban accumulation evolved during the region's rapid industrialisation and urbanisation is seeing the rise of more challenges and greater burdens, created by the model's very own success. Property speculation and over-accumulation built on aggravating socio-economic inequalities create conditions for long-term fragilities, suggesting that the existing East Asian model will not be able to dictate future cities in the same way.

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The author would like to thank Chris S.J. Lee for help with clarifying the arguments presented in this paper. Thanks are also due to Matthew Gandy for constructive suggestions.