

Two Million Houses: Multiscalar spatial fixes in Korean housing policy

Cuz Potter*

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* Division of International Studies
Korea University
522 International Studies Hall
Anam-dong, Seongbuk-gu, Seoul, Korea
Email: cuzpotter@korea.ac.kr
Tel: +82 2 3290 2427
Fax: +82 2 3290 2427

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Abstract

In less than four years (1987–1991), a newly democratic Korea constructed over two million new housing units. Typical explanations of this achievement credit the monolithic developmental state with effectively responding to pent up demand for housing. More sophisticated explanations suggest that massive investment in the built environment reflected an effort to get ahead of the inflation induced by the country's rapidly growing manufacturing exports. This paper does not deny that there were housing market pressures nor that the accumulation of capital through exports shifted capital into the secondary circuit of capital. Rather, it argues that the timing of the Two Million Houses Plan that drove the massive expansion of housing was the result of the dynamic interaction of two multi-scalar processes. On one hand, the loss of international construction orders as the price of oil dropped in the mid-1980s created an organizational crisis within the Korean construction industry assemblage that was temporarily resolved through the spatial fix of replacing overseas construction projects with highly localized production in the domestic housing market, primarily in the capital region. On the other hand, the massive expansion of middle class housing served as a means of coopting Korea's primarily urban middle class and neutralizing their potential support for the working class's accelerating demands for economic justice after democratization in 1987. This, in turn, contributed to the construction of contemporary housing and lifestyle aspirations. The argument is built through archival research and the analysis of data collected by Korea's regional and central governments, trade groups, and private sector firms on, inter alia, construction starts, unsold apartments, ODA, and overseas projects. The paper concludes that Korean development was not a simple product of developmental state planning's long term vision and embedded autonomy. Rather, by situating this major housing program within the context of highly contingent responses to shifting and multiple inter-scalar processes, the paper identifies vulnerabilities and potential challenges to state assemblages.

Keywords: uneven development, construction, Korea, built environment, spatial fix

1 Introduction

In April 1988 new President Roh Tae-woo announced an ambitious national housing plan: by the year 1992, the public and private sector would collaborate in building two million new housing units. These were to be in the form of large

scale apartment complexes and would include the construction of five complete New Towns in the capital region. This goal was actually reached in 1991 and the aptly named Two Million Houses Plan (2MHP) was discontinued. As a result of this rapid expansion, apartments emerged as the cultural standard for middle class housing.

Many accounts simply stop with the assertion that this policy was in response to pent up demand (e.g., Sohn 2003). More descriptive macroeconomic explanations suggest that economic stagnation following the second oil shock in 1979 reduced investment in housing while simultaneously laying the foundation for rapid economic growth and increasing housing demand.

This paper argues that these explanations are incomplete. The first hint is that, though the rise in housing prices may only have become apparent in early 1988, data indicates that the turning point is precisely the moment of democratization in June 1987, prior to the announcement of the housing Plan. The second hint is that construction orders for Korean firms from the Middle East had declined precipitously after 1985, creating a crisis for the construction sector. This paper argues that the Roh Tae-woo government's strategy for addressing these two crises underlie the sudden willingness to address pent-up demand.

Drawing primarily on the work of David Harvey (1982; 1989), this exploration is undertaken in two parts. The first employs the notion of uneven geographical and sectoral accumulation to suggest that the primary driver of Korean overseas construction is surplus profits from rising oil prices in the Middle East and North Africa (MNA). This explanation is augmented by the introduction of the idea that economic accumulation can also be accompanied by organizational accumulation in the form of an assemblage of skills, social networks, institutional relations, and so on. This paper argues that the Korean government facilitated domestic investment to sustain the construction industry to preserve this assemblage. The second part of the paper argues that the specific actions taken by government were contingent upon national and urban level processes, specifically seeking to establish legitimacy and political control in the wake of democratization and unrest.

2 Oil and construction

David Harvey (1982) suggests that when an economy achieves profit rates that exceed its ability to productively reinvest in further production, it faces a "switching crisis". If gains are not to be whittled away through devaluation, capital and

labor must switch to new outlets to maintain their expansion. Such relief can generally be achieved through a *spatial fix* that exports capital, commodities or productive capacities or imports fresh labor from other regions (427).

Harvey (1989) expands on the possibilities for “new outlets” through an exploration of three “circuits of capital”. The primary circuit of capital represents the flow of capital through the production process, including machinery, raw materials, and labor. The secondary circuit of capital derives from what Harvey calls the “consumption fund”, which is formed by commodities that serve as aids to production rather than direct contributors. It is divided usefully into two components. The first is composed of goods that are enclosed in the production process, like computers and stoves, and the second of goods that provide the physical framework for consumption, including roads, houses, and sidewalks. The tertiary circuit of capital is also comprised of two components. The first is science and technology—effectively research and development. The second is the whole raft of social expenditures like education, health, and policing that contribute to the reproduction of labor power. As Smith (1984, 165) points out, the three circuits are “thoroughly integrated and difficult to distinguish absolutely”, but the central logic remains. Thus, a switching crisis generated by an overaccumulation in one circuit can temporarily be relieved by directing excess capital into another circuit. This implies that a spatial fix may be accompanied by a switch between circuits of capital.

Figure 1 implies that the Korean construction industry has experienced multiple spatial fixes. From the mid-1970s to the mid-1980s, overseas construction orders far outstripped domestic orders, and with the collapse of overseas orders, domestic orders accelerated rapidly. This would suggest that some sort of overseas crisis forced the Korean construction industry to shift its activities back to Korea. The graph also hints that in recent years, particularly since the onset of the financial crisis of 2008, declines in domestic orders are being compensated for by overseas orders and Korean firms are shifting back overseas.

In combination with these demand factors, the Korean government also supported the expansion of supply. According to Kim (1988), the government passed the Overseas Construction Promotion Act (OCPA) to provide support for and control of the Korean construction industry, which became effective in 1976. This was bolstered the same year by the establishment of the Middle East Economic Cooperation Commission, a top level commission for coordinating the policies of various ministries, and the Overseas Construction Association of Korea (now the International Contractors Association of Korea) through government initiative

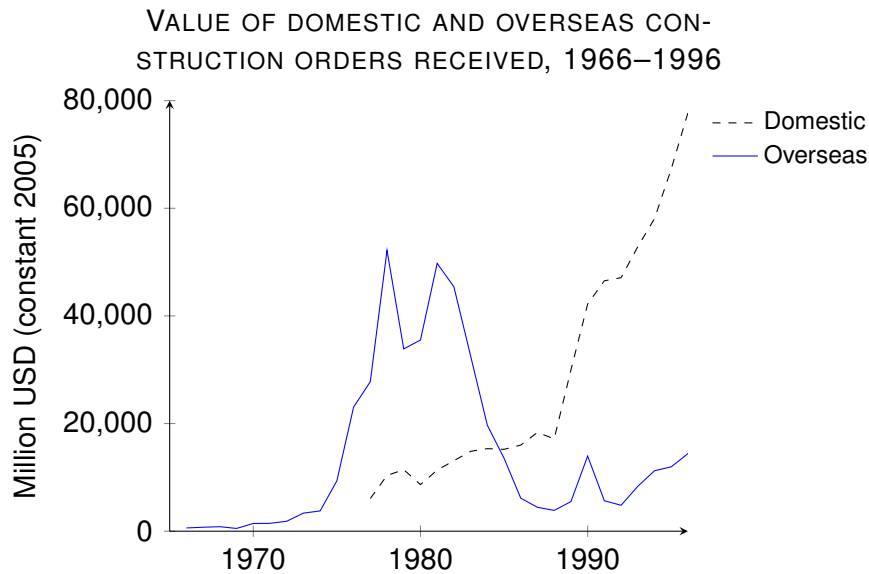


Figure 1: Value of domestic and overseas construction orders received, 1966–1996 (at 2005 prices). Domestic orders climb rapidly from 1989 with major decreases in the wake of the economic crises.
Source: Statistics Korea and International Contractors Association of Korea

to promote overseas construction and industry self-regulation. Labor laws were also revamped to facilitate overseas migration and the repatriation of earnings.

However, government-established financial incentives were more important than the simple organizational supports. The OCPA designated construction-related exports for equal export promotion support, which gave the industry preferential access to bank credit and low interest rates as well as tax deductions on foreign exchange revenues and a 50 percent reduction on corporate taxes on income generated by overseas construction. Before the early 1980s, companies had access to a government organized consortium of banks to provide advance payment bonds to construction firms, who were facing difficulties obtaining the credit necessary to keep up with the rapidly expanding orders. Finally, costly competition was reduced through government control of overseas construction licenses, the possession of which was often contingent upon explicit permission to bid for a given project (Kim 1988).

A closer look at the source of these overseas orders provides an indication of the nature of these shifts in activity. Figure 2 clearly illustrates that the overwhelming source of orders are the oil producing economies of the Middle East and North Africa (MNA). A comparison of crude oil prices (Dubai crude) with orders received by the Korean construction industry from MNA countries com-

VALUE OF OVERSEAS CONSTRUCTION ORDERS RECEIVED BY REGION, 1966–1996

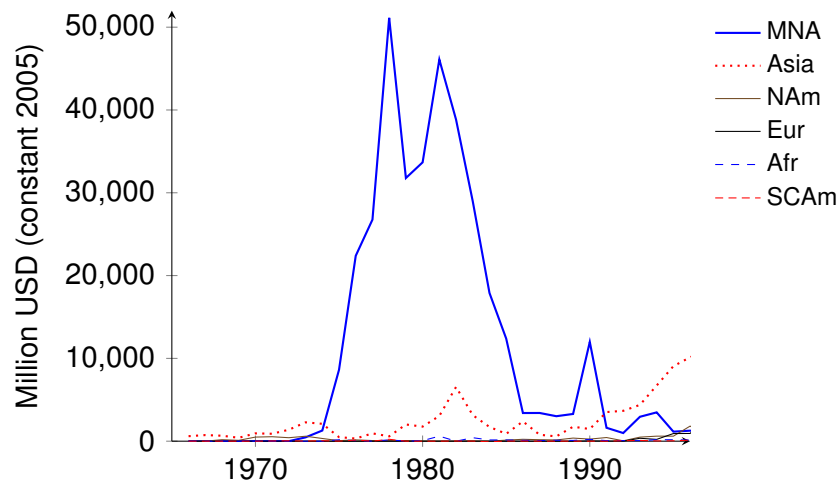


Figure 2: Value of overseas construction orders received by region, 1966–1996. Overseas orders are dominated by the Middle East and North Africa, but there are some orders from Asia.

Source: Statistics Korea and International Contractors Association of Korea

pletes the story. When oil prices rise during the oil crises of the 1970s and more recently, the value of orders from the MNA countries increase in lockstep. The strong relationship is quantified by calculating the Pearson’s r coefficient for oil prices against the value of orders received lagged by one year. The resulting value exceeds 0.6, reinforcing the visual impression offered by Figure 3.

This account suggests that the Korean construction industry’s expansion overseas is tied to sudden increases and decreases in oil prices. The sudden increases brought about by the Organization of Petroleum Exporting Countries (OPEC)’s successful restriction of supply in the 1970s generated monopoly profits for these economies whose production costs had not changed significantly. For these economies the issue of how to manage these profits became vitally important. Investment in the primary circuit of capital, i.e., in increased and more efficient oil production and other industries, was limited by the cap on production volumes and inefficiencies in other industries due to the familiar contours of the natural resource curse. Improving the built environment (the secondary circuit of capital) thus became a major outlet for these surplus profits. For Korean construction firms, which lacked technological sophistication, these orders were concentrated on the construction of buildings and civil engineering projects(see Figure 4).

Thus, surplus profits from oil production resulted in a switching crisis for

MIDDLE EAST AND NORTH AFRICA CONSTRUCTION ORDERS AND CRUDE OIL PRICES, 1966–2011

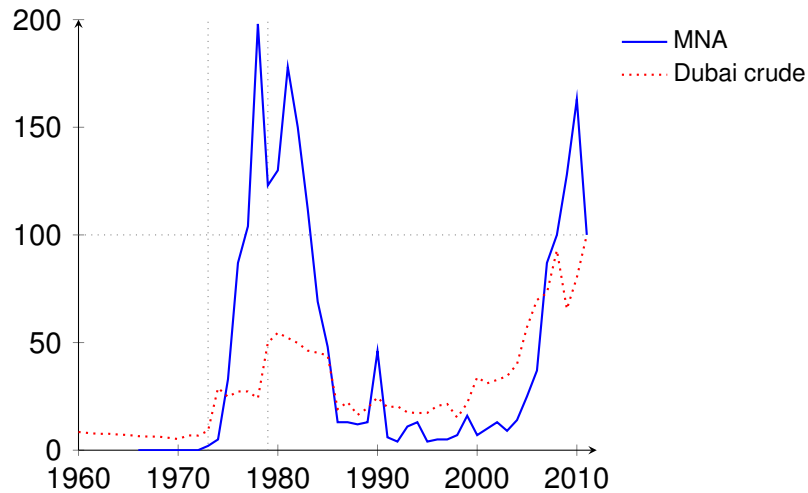


Figure 3: Comparison of value of overseas construction orders received from the Middle East and North Africa and crude oil prices, 1960–2011. Index based on real 2005 prices, using 2011 as base index. Orders closely follow crude oil prices. The Pearson correlation for real values with a one year lag exceeds 0.6. Vertical lines indicate the two oil crises of the 1970s.
Source: World Bank

the MNA countries that was partially resolved through a spatial fix. On the one hand, these profits were redirected (“switched”) from the primary circuit of capital to the secondary circuit of capital to improve the physical infrastructure. On the other hand, cheap labor was imported from Korea and other countries to increase overall domestic production. And this temporary resolution of the switching crisis was facilitated through major organizational and financial support from the Korean government, which resulted in an exceptionally rapid growth of the Korean construction industry.

3 Construction assemblage

While this explanation of events captures the nature of the spatial fix from the perspective of the MNA nations, it does not explain related changes on the Korean side. In particular, it does not explain the steep increase in domestic construction orders after 1989 that is evident in Figure 1. As international orders dried up after 1985 due to energy conservation policies and the development of new oil sources, the productive relations could simply have ceased. But just as capital can accumulate in the form of profits, the social infrastructure established to pro-

VALUE OF OVERSEAS CONSTRUCTION ORDERS RECEIVED FROM MIDDLE EAST AND NORTH AFRICA BY TYPE, 1973–1996

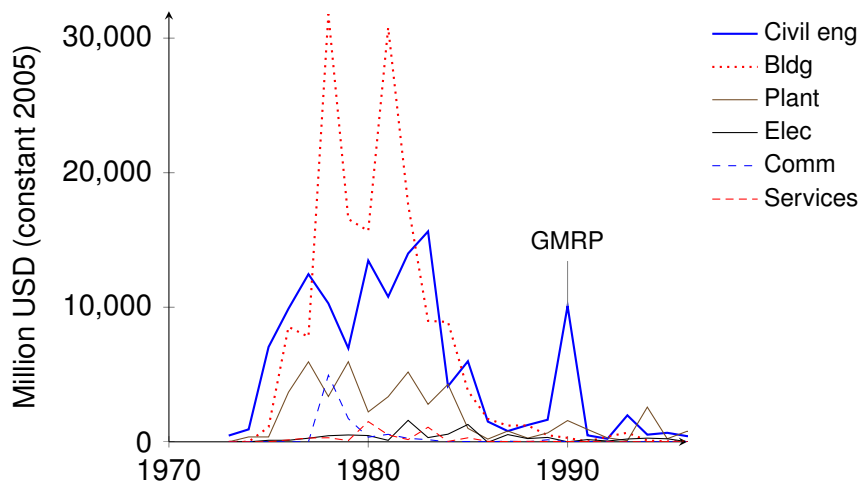


Figure 4: Value of overseas construction orders received from Middle East and North Africa by type in constant 2005 Korean won, 1973–1996. Exports centered on buildings and civil engineering. “GMRP” indicates the year Libya signed a USD 5.3b contract with Dong-Ah Construction for the second phase of its Great Man-Made River Project.

Source: Statistics Korea and International Contractors Association of Korea

ductively invest these profits also functions as a site of accumulation. In this case it is not capital *per se* that accumulates, but rather the specialized skills of workers and the social networks of workers and institutions (banks, firms, insurance, government, etc.). The connection to capital becomes clearer when we recognize that these intangibles are often referred to as “human capital” and “social capital”—at least in the sense of Bourdieu (1985).

This assemblage of workers, firms, and financing was actively developed and supported by the government from the early stages of entering overseas construction markets. According to Kim (1988), the government passed the Overseas Construction Promotion Act (OCPA) to provide support for and control of the Korean construction industry, which became effective in 1976. This was bolstered the same year by the establishment of the Middle East Economic Cooperation Commission, a top level commission for coordinating the policies of various ministries, and the Overseas Construction Association of Korea (now the International Contractors Association of Korea) through government initiative to promote overseas construction and industry self-regulation. Labor laws were also revamped to facilitate overseas migration and the repatriation of earnings.

However, government-established financial incentives were more important than the simple organizational supports. The OCPA designated construction-related exports for equal export promotion support, which gave the industry preferential access to bank credit and low interest rates as well as tax deductions on foreign exchange revenues and a 50 percent reduction on corporate taxes on income generated by overseas construction. Before the early 1980s, companies had access to a government organized consortium of banks to provide advance payment bonds to construction firms, who were facing difficulties obtaining the credit necessary to keep up with the rapidly expanding orders. Finally, costly competition was reduced through government control of overseas construction licenses, the possession of which was often contingent upon explicit permission to bid for a given project (Kim 1988).

As international orders dried up after 1985 due to energy conservation policies and the development of new oil sources, the assemblage could simply have been dismantled. But assemblages strive for “consistency” and constancy. Dismantling the Korean construction industry assemblage would have decoded flows of specialized workers and established institutional relations (with banks, firms, insurance, government, etc.). To avoid destruction this assemblage had to find a new outlet. However, switching resources faces the major challenge of overcoming the immobility of social infrastructure (Harvey 1982). Social organiza-

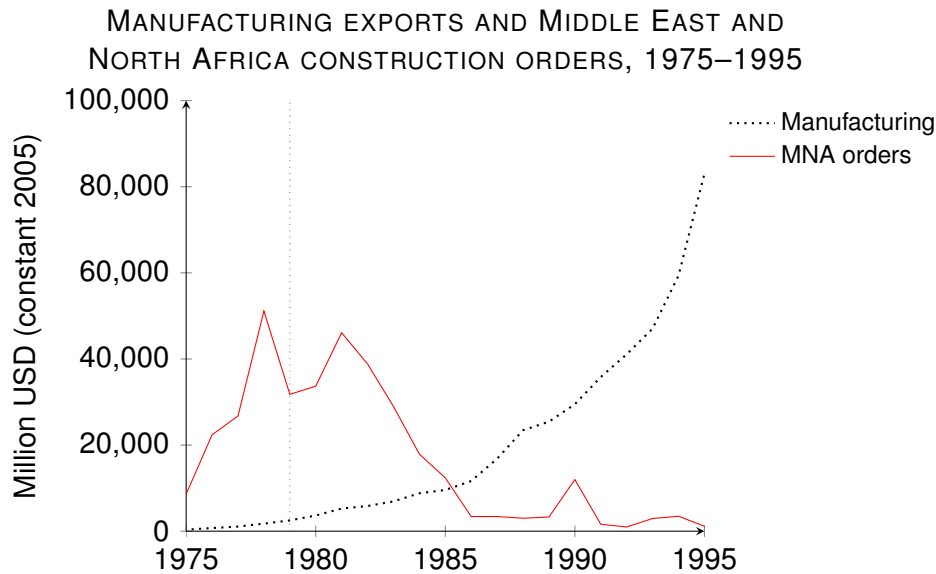


Figure 5: Value of manufacturing exports and construction orders from the Middle East and North Africa in real 2005 prices, 1975–1995.
Source: World Bank

tion can be fairly resistant to change, as systems of distribution, production, and consumption are closely interconnected and hierarchical organizations like firms, governments, and NGOs are particularly slow to alter the flow of resources through them. Thus, actors involved may seek minimal disturbance to established structures through a spatial fix.

The data is consistent with the Korean construction industry seeking a spatial fix by directing its organizational resources and accumulated skills back to the Korean economy. The foreign exchange earnings from overseas construction had facilitated the import of capital goods essential to President Park, Chunghee’s Heavy-Chemical Industry Drive (HCI) Kim 1988, resulting in the country’s export boom. As Figure 5 indicates, the growth of exports after 1987 quickly compensated for the loss of foreign exchange from overseas construction, obviating the dependence on construction exports. Also, unemployment was at an all time low of less than three percent, so there was little impetus for Korean workers to go overseas for employment. Thus, the construction industry was facing limited drive and support for overseas activities.

Nevertheless, the return of firms and workers from overseas is closely tied with President Roh Tae-woo’s promulgation of the 2MHP. These government-led initiatives were supported by additional market incentives. Chief among these was the establishment of a system in November 1989 that provided an additional 12 percent of construction costs for buildings taller than 15 stories, mak-

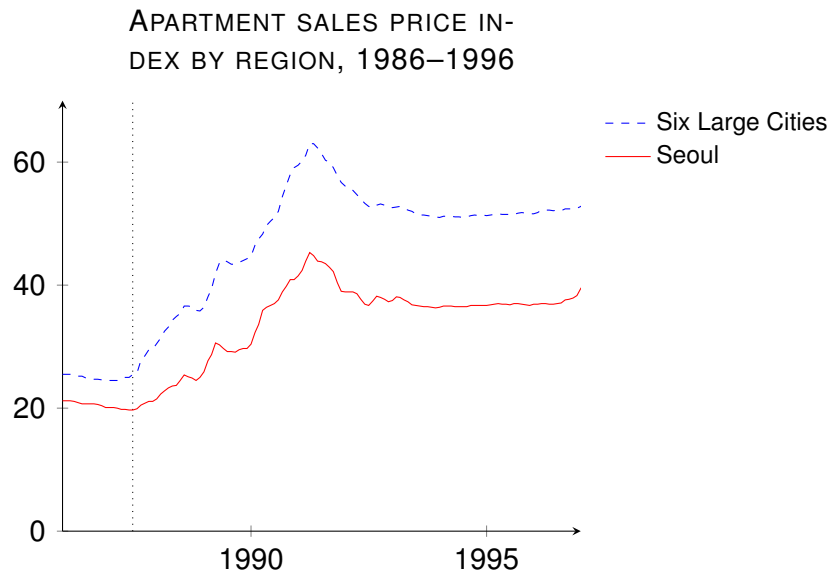


Figure 6: Apartment sales price index by region, 1986–1996 (2011.06=100).
Source: Statistics Korea

ing such super high-rise apartment buildings the profitable building form (Kang et al. 1999, 253). These policies, I argue, were designed to maintain the Korean construction industry assemblage. And they were successful in doing so. Domestic construction increased the production of new units from 244,301 in 1987 to 316,570 in 1988, 462,159 in 1989, and 750,378 in 1990, after which the industry has averaged 600,000 units per year (Kang et al. 1999).

The government also converted the moribund Citizens’ Housing Fund into a vehicle to provide funding for domestic construction. That is, the CHF was overcoded as a new system for supporting the Korean construction industry assemblage.

This section suggests that the government’s policies for supporting the domestic construction assemblage was facilitated by a spatial fix. As construction companies’ valuable overseas contracts were fulfilled and the MNA nations reduced orders as their oil revenues dropped, the accumulation of value in skills and organization—as well as related domestic industries—were threatened with devaluation. Instead, the government stepped in with policies designed to take up the slack and sustain the construction sector.

4 Middle class cooptation

The preceding sections have explained the multiscalar, structural drivers of a large campaign to support the Korean construction industry assemblage. However, it does not explain why this intervention came in the form of housing rather than more traditional investment in infrastructural improvements. This section argues that apartment housing for the rapidly emerging middle class was intended to address “pent-up demand” that might otherwise have surfaced as opposition to the current government. That is, the Roh Tae-woo government sought to mute the critical opposition of the middle class by coopting them with higher quality housing.

By some accounts (Choi 1993; Koo 1991), the middle class was an essential actor in the democratization process. The country’s rapid, large-scale growth required a rapid expansion of management, clerical, and professional workers, causing the middle class to swell from less than five percent of the working population in 1955 to nine percent in 1970 and over 17 percent in 1985. These educated, better paid workers began to demand greater democratic control, first in their workplaces and then in society at large (Koo 1991). Labor unions also formed and grew quickly, especially from the early 1980s, in response to wage suppression.

Though the widespread protest by students and workers against Park Chung-hee’s dictatorship in the early 1970s was viciously suppressed in the second half of the decade, protest climbed again in the 1980s culminating in the June Democracy Movement in 1987. With the 1988 Olympics on the horizon and the country’s international image at stake, in June 1987 tacit middle support became explicit and the number of participants increased immensely, leading the second-in-command Roh Tae-woo to promise fair democratic elections by the end of the year (Koo 1991; Shin et al. 2007).

This convergence of labor and the middle class in the 1980s to pursue “social democracy” was perceived as an alliance that must be avoided if the new regime was to maintain power. As illustrated in Figure 7, after democratization, these two classes began to pursue different agendas (Choi 1993). Koo (1991) suggests that the middle class’s notion of social democracy was limited to political democracy and that once this end was achieved they no longer pursued economic democracy. In fact, the middle class immediately reoriented their organizations to function as consumer advocates (Shin 1999). Meanwhile, the labor movement redoubled its protest activity in pursuit of economic equity (Choi 1993; Shin et al. 2007). The government actively encouraged this split, blaming the economic

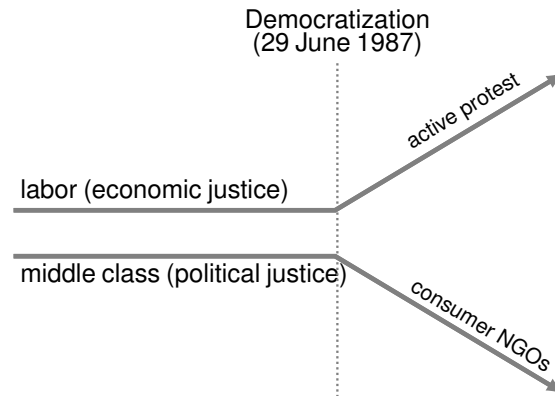


Figure 7: Split between labor and the middle class after democratization (following Choi (1993) and Koo (1991))

woes that emerged at the end of the 1980s on the labor movement to turn the middle class against labor (Koo 1991).

In addition to encouraging this split, more sophisticated explanations of the origins of the 2MHP make reference to growing class tensions (Kang et al. 1999, 65). Another suggests that “the newly heightened housing crisis... threatened even the economic stability of the middle class” (Kim and Choe 1997, 119). But the direct connection to political cooptation remains suppressed in the urban planning literature.

The aggressive housing construction policy muted middle class opposition in at least two ways. First, it began to address a central complaint of the middle class, directly reducing opposition. Second, it fostered household consumption in much the same way suburbanization did in the US, leading to the social subjection of citizens as consumers and users.

5 Conclusion

This paper has sought to explain the multiscalar processes that drove the adoption and implementation of one of Korea’s grandest megaprojects, the Two Million Houses Plan. The most common explanations, which rely on decontextualized notions of pent-up domestic demand, were found to be incomplete. Rather, the paper identifies economic, social, and political processes that interact at the urban, national, and international level to drive decision making.

Economically, the paper argues that MNA countries sought a spatial fix for the excess profits acquired as oil prices rose in the 1970s by importing Korean labor and investing in the secondary circuit of capital, the infrastructure of the built

environment. Socially, it argued that crises of accumulation can occur within social assemblages and that the Korean construction industry faced massive devaluation and disintegration if it could not find a new outlet for the organization and skills developed in the MNA countries. They found this back home in Korea through active governmental support for an expansion of the built environment. Politically, the paper makes the claim that the particular form of solution, apartment housing for the middle class, was intended to legitimize the first post-authoritarian government and to eliminate the threat of middle class opposition.

In the process of developing this argument, the paper makes three wider contributions. First, employing methods similar to Harvey (1989), it has demonstrated the continuing utility of understanding spatial practices through the theory of uneven spatial development elaborated by Harvey (1982, 1989) and Smith (1984) by examining the determinant forms this process has taken for the Korean construction industry. Second, it suggests that uneven sectoral development, often overlooked by geographers, can play a critical role in understanding uneven spatial development and can be fruitfully evaluated through its concrete form as a social assemblage. Finally, the paper makes evident the importance of interdisciplinary analysis in understanding the evolution of the built environment.

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