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Urban neoliberalism in the Antipodes? Towards a comparative case-study analysis on state, market agents, and property-led urban redevelopment in South Korea and Chile

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Urban neoliberalism in the Antipodes? Towards a comparative case-study analysis on state, market agents, and property-led urban redevelopment in South Korea and Chile

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This study aims to shed light on the ways in which neoliberalism is understood and experienced in distinct urban contexts in cities of the world. It is hypothesised that the nature, characteristics and degree of power practiced by the nation-state and sub-national actors determine how global actors and institutions attempt to influence the local accumulation systems. In order to examine this, we bring together the experiences of South Korea and Chile, and focus on the evolutionary trajectories of property-led urban redevelopment in recent decades. Based on a small-N case-study methodology that draws on a combination of quantitative measurement of secondary dataset and qualitative analysis of original local archives, the analysis here compares: i) general historical politico-economic transformation from 1970 to 2007 (the latter year is relevant as it precedes the global financial crisis, which is out of the scope of this paper); basic macro-economic data such as GDP, gross savings and fixed capital formation; iii) scale of real estate projects developed and their financing; (iv) state entrepreneurial agendas in urban redevelopment, implemented at varios geographical scale; and v) implicaciones of Asian financial crisis on domestic capital accumulation and urban espacial restructuring processes. The paper argues that the rise and consolidation of property-led approach towards urban redevelopment in Korea and Chile reflects the way in which state-led entrepreneurial approaches to urban accumulation has become increasingly prevalent at global scale regardless of cities' geographical positioning. These similarities demonstrate that real estate properties and investemnt in the built environment have played an essential role in the maximisation of profits and ground rent extraction especially in times of recovery from the external shock, that is the Asian financial crisis. However, there are also particular elements of urban entrepreneurialism in Korea and Chile, which are rooted in each nation's distinctive political economic development experience during the last few decades. These particularities indicate that there are features of the current stage of urban capitalism in the global periphery, which deserve careful attention and revised conceptualisation beyond the usually accepted definitions of neoliberalism that are confined to the Global North contexts.

* This is a work-in-progress paper. Please do not cite without the authors' written consent.

Introduction

Urban comparative studies are acquiring increasing importance among researchers for their ability to shed light on issues like the contingencies and regularities of neoliberalism as a global phenomena, the roles of state and market agents in the process of neoliberalisation, and for its capacity to focus simultaneously on radically different contexts in search for structural regularities rather than mere geographical particularities (Nijman 2007). In particular, there is an increasing demand and need for the study of what Colin McFarlane (2008) calls "urban shadows", which refers to the "vast terrain of urban life" that remained on the edge of urban theory (ibid, p.341). In this fashion, the present paper seeks to compare the urban trajectories, from 1970 to 2007, of South Korea and Chile with a focus on their capitals, Seoul and Santiago; literally, two cities in the global antipodes with some obvious differences in terms of historic and political background, cultural particularities, macro-economic indicators, and the level of industrialisation. This goal seeks to address the historical and contextual trajectory of recent redevelopment amidst and after IMF-commanded national economic liberalisation[1]. Furthermore, both countries have developed analogous policies of housing and inner city land renovation in the last four decades. Drawing on Lefebvre's (2003) largely substantiated prediction of the dominance of secondary circuit of capital accumulation, this paper examines how neoliberalisation is understood and experienced in distinct urban contexts. Instead of focusing on cross-sections of multiple urban settings for comparison, this paper looks at historical and contextual development of urban redevelopment practices in recent decades. In doing so, it is hypothesized that the nature, characteristics and degree of power practiced by the nation-state and sub-national actors determine how neoliberalisation interacts with local accumulation systems.

In this paper, we identify some important shared conditions of urban accumulation: the state-led switching of the national economic base from primary into secondary circuits of capital (the extent of this differs nonetheless), the role of specific and highly sophisticated urban policies seeking to renovate the urban central areas (creating gentrification among other effects). We also identify the shared vulnerability of the property-led, state-subsidised real estate market to global financial investment and crises, as both markets were especially hit by the Asian financial crisis in the late 1990s, which resulted in the bail-out of the Korean economy by the International Monetary Fund. The selection of two apparently regionally disconnected cases might help identify what is economically prevalent and what is contingent, in the process of being exposed to neoliberalisation and property-led redevelopment throughout the world. A general regularity observed in both cases are the post-industrial imposition of a property-led real estate market as a way to create surplus from hitherto idle financial capital, the dominance of an urban structure of land values as a pattern for housing allocation that produces high levels of social exclusion, the limited capacity of the public policy to regulate the financial instability of the cycles of real estate market production and the inability of this market to meet the growing social demand for shelter, to name the most important common factors. Given the neoliberalisation of Chilean state under the Pinochet regime by the so-called 'Chicago boys' and the gradual liberalisation of the Korean developmental state, the shared experiences of urban property-led redevelopment and state entrepreneurialism forces us to question the developmental path of neoliberalism in a given country's urbanisation processes.

As Nijman (2007) claims, comparative urban studies have sought something of a renaissance, as the so-called postmodernist approach to individual realities and multiplicity of causes and effects led to the abandonment of the positivistic search for politico-economic regularities. Yet, currently, this is changing, as comparative studies need to be fuelled from globalisation debates,

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[1] For reviews of Korea's and Chile's processes of liberalisation, see Crotty and Lee (2006), and Gilbert (2002) respectively

as well as the need to resolve the actual applicability of a number of theoretical backgrounds (usually taken as universal) and to overcome the limitations of what has been done in terms of "continental" comparisons and the dichotomy third-world/industrialised-world typologies (Fourcade-Gourinchas and Babb 2002; Gilbert 2004). The latter approach has usually led to overgeneralisations, such as the search for an archetypically Latin American or Asian city, usually based more on apparent physical regularities rather than internal or structural factors for their occurrence (Griffin and Ford 1980; Ford 1996).

Loretta Lees (forthcoming) claims there are four issues around the resurgence of comparative urbanism that deserve careful scrutiny, such as: first, questions about the spatial identification of the city itself in relation to its broader urban, economic and political system; second, the role of the state or city-state in its development; third, the relationship between globalisation and the urban, as well as the impact of globalisation on urban processes, networks and categories; and fourth, questioning whether globalisation means urban convergence or not. The present paper basically deals with the first two issues, and in a lesser extent, the third and fourth ones, especially addressing the role that the global Asian financial crisis had in the disjuncture of either city's trajectories of urban redevelopment from the late 1990s-early 2000s forwards.

Being part of a larger project of comparative studies between Chile and Korea, this paper relies on the secondary analysis of existing dataset as well as qualitative analysis of original local archives and bibliographic references, systematising them for presentation in a comparative fashion. We do not aspire to produce a fully variable-based analysis, as we follow a small-N case study approach (Ragin 1997; Flyvbjerg 2006; Yin 2009), which sees every case as contexts that need to be addressed in all their complexity, rather than a predefined set of variables to compare through, therefore seeking to establish general paths rather than statistical representativeness. We renounce the notion of statistical representativeness and claim for a sort of 'contextual comparative study' that accepts both particularities but also provides general explanations to the observed phenomena. More important, though, is the relevance given to the relation between 'path-dependence', geographical place and historical moments (Mahoney 2000). We argue that path dependence and to some extent historical moments are as influential as external forces, if not more, than what has been usually accepted.

The analysis here compares the trajectories of the two countries (South Korea and Chile) with a focus on two cities (Seoul and Santiago) in terms of: i) general historical politico-economic transformation from 1970 to 2007 (the latter year is relevant as it precedes the global financial crisis, which is out of the scope of this paper); basic macro-economic data such as GDP, gross savings and fixed capital formation; iii) scale of real estate projects developed and their financing; (iv) state entrepreneurial agendas in urban redevelopment, implemented at various geographical scale; and v) implications of Asian financial crisis on domestic capital accumulation and urban spatial restructuring processes. The following section deals with a general explicative theory of neoliberalisation, real estate and urban development, living consideration to the rise of state entrepreneurialism.

Neoliberalisation, real estate and urban development

Nearly four decades ago, Henri Lefebvre perceived the inevitability of the rise of real estate in deregulated and unrestrained capitalism, which facilitated the growth of the 'secondary circuit of capital':

> "I would like to highlight the role played by urbanism and more generally real estate (speculation, construction) in neocapitalist society. Real estate functions as a second sector, a circuit that runs parallel to that of industrial production, which serves the nondurable assets market, or at least those that are less durable than buildings" (Lefebvre, 2003, p.159)

Here, the secondary circuit of capital accumulation gains importance especially, due to its function to absorb shocks generated from the main production circuit. This shock absorption can take place in several ways. First, it may operate as a buffer to absorb low profitability in the production circuit. In doing so, especially for urban technocrats, there is a growing need to use the secondary circuit as a means to boost the economy and sustain economic growth. This has been a classic strategy widely known by the New Deal projects in times of the Great Depression in the US and more recently, has also gained popularity among urban elites in crisis-struck East Asian developmental states. Lefebvre further points out the possibility of the second circuit of capital being dominant in capitalist economies, largely stemming from the inherent risks of falling profits and heightened competition that capitalism faces in perpetuity.

> “As the principal circuit-current industrial production and the movable property that results-begins to slow down, capital shifts to the second sector, real estate. It can even happen that real-estate speculation becomes the principal source for the formation of capital, that is, the realization of surplus value...The second circuit supplants the first, becomes essential” (Lefebvre, 2003, p.160).

The theory of capital switch as a measure for crisis resolution in the process of capital accumulation has been also highlighted by David Harvey (1978), who is however more cautious about the secondary circuit supplanting the first (Harvey, 2009, p.312 cited in Merrifield, 2006, p.85). Here, related to the above, it could be argued that once part of the primary production circuit capital is ‘trapped’ in the secondary circuit, and feels the poisonous seduction of speculative profits, it is difficult to get rid of this especially in times of global economic ups and downs affecting the national economy. This process accommodates various spatial investment strategies in order to facilitate valuation and re-valuation of real estate properties. These strategies range from gentrification and place promotion to beautification and mega-event promotion, which all lead to the re-writing of the urban landscape.

If the investment in the built environment is at the centre of crisis-prone capitalism’s crisis-aversion strategies, what is the role of the state in creating this environment? Rachel Weber suggests that the built environment experiences a greater degree of flexibility and is receptive to real estate capital investment in times of neoliberal urbanisation because “discursive practices that stigmatize properties targeted for demolition and redevelopment” have become increasingly neoliberal” (Weber, 2002, p.519). It is argued that obsolescence has become “a neoliberal alibi for creative destruction”, which concentrates on areas with the highest return on investment in a market that has been increasingly entwined with the global financial capital (ibid, p.532). To aid this process to perpetuate, local state “operates through decentralized partnerships with real-estate capitalists, and what remains of the local state structure has been refashioned to resemble the private sector, with an emphasis on customer service, speed, and entrepreneurialism” (ibid, p.531). Such views coincide with the argument by Shin (2007), which emphasises the ‘stickiness’ of capital in the age of globalisation with increased fluidity of mobile assets. The stickiness of mobile assets (or capital) to a particular locality is enhanced by the competitive edge of less mobile assets. Shin’s (2007) discussion focuses on local governments but, insofar as the capital switching is concerned, improving the quality of the built environment to make it more receptive to real estate investment capital would be essential. In this regard, improving the quality of the built environment has been one of the main urban accumulation strategies, increasingly adopted by many governments at both national and sub-national scale.

State-entrepreneurialism as a strategy for property-led urban renewal

More than 30 years ago, David Harvey called state-entrepreneurialism the replacement of the fading managerial state-roles with local speculative governance (Harvey 1989), seeking to revive the competitive position of urban economies, especially through the liberalisation of private enterprises and a sort of advanced commodification of the social networks and infrastructures, i.e. community-support systems, schools and churches, and so on (Leitner 1990;

MacLeod 2002). Entrepreneurial governments play highly supportive and/or direct roles in the creation of new enterprises, preserving and increasing labour, providing infrastructure, sites, tax lures, and cultural and social attractions (Shaw 2005).

A different and probably generalised feature of the entrepreneurial state, from earlier periods, is its willingness to assume financial risks without properly guaranteed returns (Zukin 2006). New local roles are directed to negotiating with the finance capital for offering specific local attractions, not the urban whole, in order to make these constrained spaces competitive and its economies tied to global circuits of exchange (Vigar, Graham et al. 2005). The dialectic global/local finds one of its major expressions through urban entrepreneurialism. Five main features of entrepreneurialism are:

a) Notions of public-private partnership seek to attract external sources of funding such as new direct investments or new sources of employment. Therefore, if ideas for redevelopment originate from the private sector they should be enhanced by business-friendly environments set by local and state governments (Mitchell 1998). At any rate entrepreneurial urbanism does not mean less but more active state engaged in real estate business, as well as more open involvement of business elites and other groups of interests in strategic spheres of the state (Ward 2003).

b) The entrepreneurial public sector needs to be speculative in stages of design and execution. Financial dangers come from speculation whilst political dangers are inherent to unequal prioritisation and distribution of resources. Since the state-backed infrastructure reduces costs and risks to private interests, those back-ups make the private investment more volatile. Entrepreneurial urban investments simply cannot predict exactly which endeavour will succeed and which not, in a global context which is considerably unstable and hazardous. Another consequence is social concern in the adjacent territories and residential communities, when speculation with land and rapid changes in land prices take place. But the entrepreneurial resource distribution diminishes the local provision for the underprivileged, because mobile private capital needs the maximum investment for itself as a way to assure better local comparative advantages (Harvey 1989). Therefore, entrepreneurialism sets a zero-sum game of public-private investment, deeply easing the increase in capital circulation and revenue competition (Peck 2005).

c) Entrepreneurialism is based on advances in transportation and communications and the gradual speeding up in the overcoming of regional and global spatial barriers, namely ‘space-time compression’ (Harvey 1990). As places have been drawn into a web of global exchange, governments have therefore turned to local initiatives to avoid urban decline and annihilation of their economies, privileging investments in certain spatial nodes, such as state-backed large urban projects (Lungo 2002; Lungo and Smolka 2005; Biderman, Sandroni et al. 2006), urban waterfronts, major urban festivals, events and ‘glocal’ infrastructural and technological development, in spite of needed funding for social development in the most deprived areas. Entrepreneurialism mechanically supposes there would be a trickle down into the latter.

d) The concentration of investment in strategic local areas secures the city’s position within national and international circuits of exchange and investment but at the cost of bypassing their adjacent territories, this being one of the main features of the neoliberal ‘splintering urbanism’ (Graham and Marvin 2001). However, the concentration of investment in well-delimited spaces also responds to the need of landed capitalism to secure its monopoly forms of accumulation, assuring enough scarcity of renovated space as a way to keep it at its maximum exchange value. Hence, the largest rent gap areas (often close to the urban core) are the object of reinvestment while others – with narrower rent gaps and hence riskier for reinvestment – are left waiting for future operations.

According to Peck & Tickel (2002), the entrepreneurial normalisation of a ‘growth first’ approach has made social investment and distribution antagonistic to the anticompetitive common good. Entrepreneurialism bans and replaces collective, non market-based forms of social organisation developed for instance by means of working-class mobilisation, whereas the “shifting role of the state from provider of social support for lower-income populations to supplier of business services and amenities for middle- and upper-class urbanites” diverts public funding from untargeted, non-competitive areas (Wacquant 2008). Instead, market-driven logics are taken as normal societal and economic behaviour, such as choice, social competition for resource allocation, aggressive economic competition between urban areas (including the punishment of non-competitive zones or economic sectors). Hence a de-politicised and de-ideologised society becomes vital for assuring localised growth (Hackworth 2007).

Entrepreneurial state, developmental state and neoliberalisation

The rise of state entrepreneurialism has been increasingly discussed as one of the profound evidences of state transformation in the age of neoliberalisation. This, however, begs a question when juxtaposed with the presence of developmental states whose core activities are known to have geared towards coordination of national development activities and investment decision-making as well as the provision of environment for entrepreneurial activities and technological innovation (Woo-Cumings, 1999). How they fare in the age of neoliberalisation is subject to on-going scrutiny. Here, the experience of the East Asian developmental states can be usful. They have experienced a shared development path that is epitomised by centralised policy-making for economic growth, strong state intervention for investment decision-making, control of finance, export orientation, investment in human capital (e.g. education), the authoritarian control of civil society and close ties with business interests (Pirie, 2008; The World Bank, 1993; Woo-Cumings, 1999). Another important similarity in times of its rapid growth would be the state-led heavy investment in the built environment. As the key mobilizer of national assets, the state-led investment to produce and expand collective consumption has been phenomenal. Depending on the nature of state-economy and state-society relations, the particular type of collective consumption that was prioritised differed across countries.

The neoliberal shift of developmental states has been subject to some academic debates especially during the time of recovering from the Asian financial crisis. Commentators argue that the developmental states in late industrialised economies have become increasingly neoliberal, either proactively to strengthen their position in the neoliberalising global economy (e.g. Singapore and Taiwan) or reactively to survive the economic turmoil that swept the Asian economies in the late 1990s (e.g. South Korea) (Henderson, 1999). Some advocate a clear neoliberal shift in the South Korean regulatory regime, which occurred in the post-1997 period when the country went through IMF bail-out programmes and fundamental economic, financial and social security reforms to conform to so-called ‘global practices’ (see Pirie 2006 for instance). This perspective,in essence, is in line with the process that took place in the Central and Eastern European states where the disintegration of the former Soviet bloc in the 1990s came with the neoliberal prescription of economic transition (Stenning et al, 2010). It is however yet to be verified if the developmental states have been completely subsumed by and transformed into neoliberal states. The question is whether the exposure of developmental states to neoliberal influence results in the transformation of the development state itself, or in the re-invention of developmental states.

National and urban development of South Korea and Chile in comparative contexts

The recent decades have seen both South Korea (hereafter Korea) and Chile liberalise their economies, though the degree of opening and its trajectories differ. Economic liberalisation and free trade doctrine was the guiding principle of Chile during the period of dictatorship in the 1970s and 1980s, and this has continued to be so under more democratic civilian governments since the 1990. Korea also experienced dictatorship between 1960s and 1980s, and coincidentally, democratisation in the 1990s. Hence, the two countries share a similar modern history of political environment. Korea, however, displays a more variegated industrialisation experience. The country went through a brief spell of import substitution until the early 1960s, and this was followed by the promotion of accelerated industrialisation through intense investments in heavy and chemical industries by the authoritarian, developmental state. Korea has been pursuing a more liberalised economy since the early 1990s, further facilitated by the experience of the Asian financial crisis in the late 1990s. On the other hand, Chile was one of the experimental grounds of neoliberal reform initiatives under the Pinochet regime, spearheaded by the privatisation of state-owned enterprises, economic liberalisation and inflation control.

In recent decades, both Korea and Chile come to share more simililarities than differences, especially when looking at the macro-economic development trends. As seen in Figure 1 below, the growth rates of real gross domestic products (hereafter GDP) indicate that the economic development of the two countries has come to synchronise, displaying a similar cycle of ups and downs over the years. Both countries are also members of the Organisation of Economic Co-operation and Development, with Korea's accession having taken place in December 1996 and Chile's in May 2010. Moreover, in April 2004, a free trade agreement (hereafter FTA) between Chile and Korea came into effect. While Chile was already bound by the FTA with EU and the US at the time, it was the first FTA for Korea to ratify (Bridges Weekly Trade News Digest, 2004).

Figure 1. Real GDP growth rates 1980 – 2009

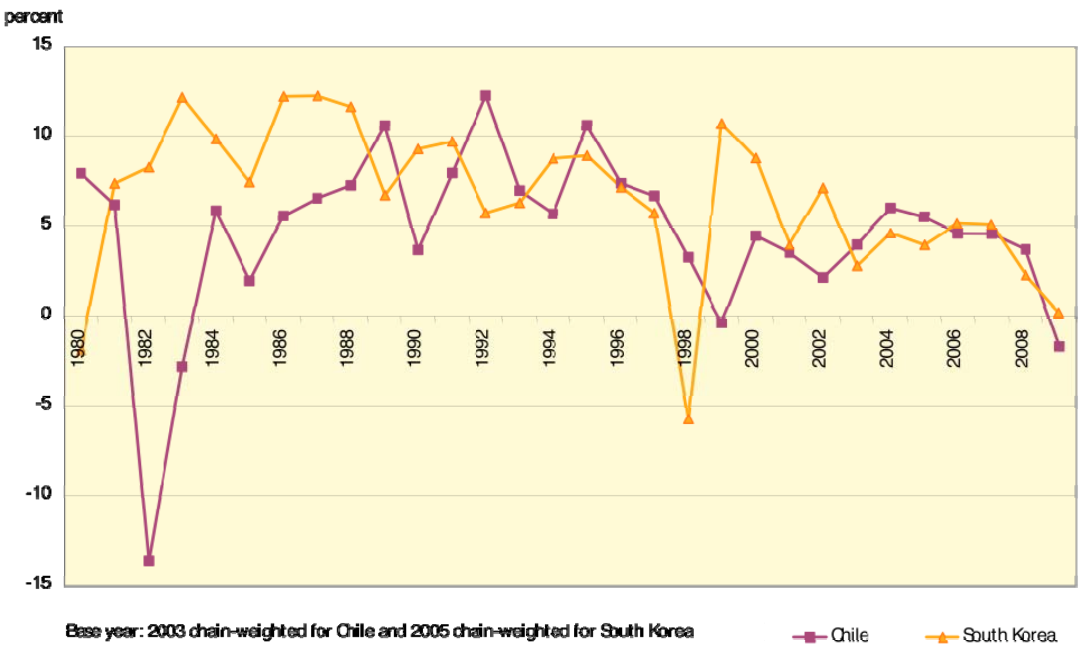


Table 1 below summarises some of the basic socio-economic indicators of Korea and Chile. The indicators suggest that Chile was urbanised much earlier than Korea, but its overall size of the economy and population is comparatively small. Both countries are highly urbanised by 2000, with about four-fifths of the national population in urban areas. Urbanisation experience was more pronounced for Korea, which saw the increase in the rate of urbanisation from 56.7 percent in 1980 to 79.6 percent in 2000. During the same period, Chile experienced only a small change. In terms of the population size, Korea accommodates about 46.4 million people in 2000, three times more than that of Chile. Urban primacy, especially the dominant position of the national capital, is evident in both countries, though this is more pronounced in Chile: the share of capital city population in the national population reads 26.6 percent for Korea and 39.8 percent for Chile.

Table 1. Comparative basic socio-economic data - Korea and Chile

Categories	Year	South Korea	Chile
Urbanisation Rate (midyear)[(1)]	2000	79.6%	85.9%
	1980	56.7%	81.2%
National Population (million)[(1)]	2000	46.4	15.4
	1980	37.5	11.2
Population Density (people/sq.km)[(2)]	2000	470	20
Capital city population (% of national urban population)[(2)]	2000	26.6%	39.8%
Urban household connection to improved drinking water[(2)]	2006	96%	98%
Gross national income (PPP$ per capita)[(2)]	2007	24750	12590
	2000	17300	9100
Gini (income)[(2)]	2003	n.a.	0.55
	1998	0.32	n.a.
GDP (current US$, billion)[(3)]	2009	832.51	163.67
Human Development Index (World Rank)[(4)]	2010	0.877 (12)	0.783 (45)
Index of Economic Freedom (World Rank)[(5)]	2011	69.8 (35)	77.4 (11)

Sources:

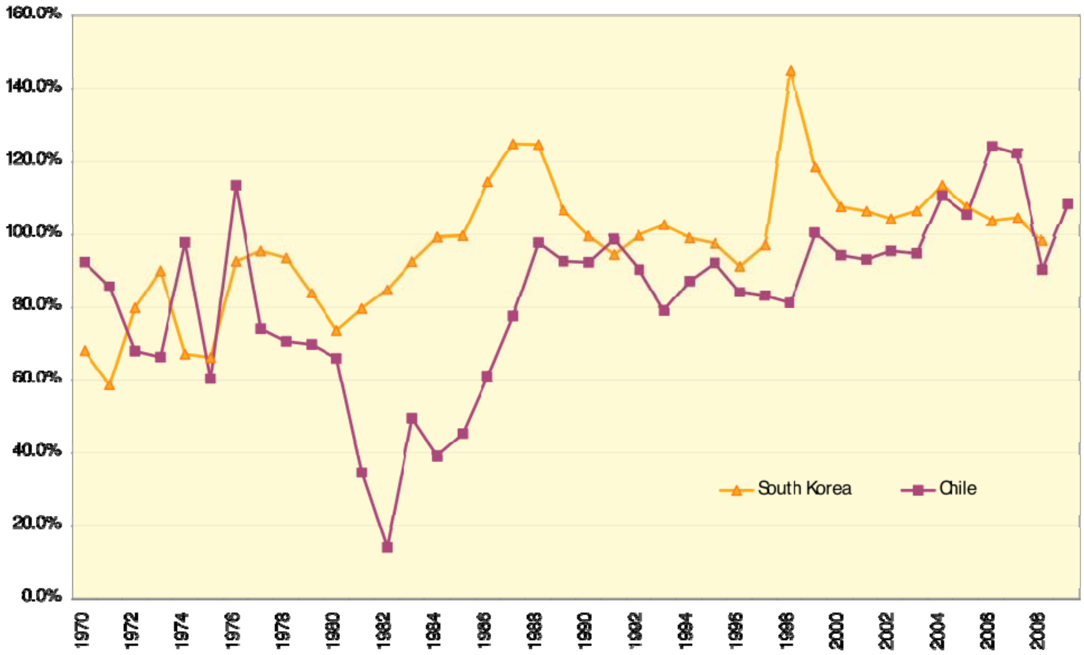
(1) UN Population Division, World Urbanization Prospects: The 2009 Revision Population Database, URL: http://esa.un.org/unpd/wup/index.htm
(2) UN Habitat (2009) Planning for Sustainable Cities: Global Report on Human Settlements 2009. London: Earthscan
(3) The World Bank Data, URL: http://data.worldbank.org
(4) UNDP Human Development Index, URL: http://hdr.undp.org/en/statistics/hdi
(5) The Heritage Foundation, URL: http://www.heritage.org/index/ranking

The Korean economy is much larger, with its GDP reaching 832.51 billion dollars at current US dollars by 2009. This is about five times bigger than the size of Chilean economy. The industrial structure also indicates some differences between Korea and Chile. The industrialisation of the Korean economy has led to the increase in the share of manufacturing output in the national GDP from 18.5 percent in 1970 to 27.5 percent in 2005, with about four-fifths of the industrial production coming from heavy industries (The Bank of Korea, 2009). The industrialisation also led to the shrinkage of the output of the primary industrial sector (agriculture, forestry and fishing), which was decreased from 29.1 percent in 1970 to 3.3 percent in 2005. Data from the Chile Central Bank show that during the same period, Chile experienced a reverse trend, with the share of its manufacturing sector in the GDP decreasing from 25.6 percent to 17.5 percent. Chile’s manufacturing sector is more or less evenly balanced between light and heavy industries, which again contrasts with what is observed in Korea. Chile turns out to have comparative strengths in primary industrial output and mining, their shares in the GDP reaching nearly 5.2 percent and 7.1 percent in 2005 respectively.

The two countries are in high ranking positions in their respective region in terms of material prosperity and human development. For instance, as one of the widely used indicators for the well-being of societies, the composite index of the United Nations Development Programme's Human Development Index shows that Korea was ranked at 12th worldwide in 2010, being second in Asia only after Japan. Chile was ranked at 45th, which was in fact the first among Latin American countries. What is interesing from Table 1 above is the level of economic freedom as measured by the Index of Economic Freedom compiled by The Heritage Foundation, one of the thinktanks that advocate free market economy. The overall score of this index puts together scores from ten individual indices, which include business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labour freedom. The higher the overall score is, the more liberalised and freer a country is for capitalist accumulation. Hence, a country will be higher in the ranking table, if its government makes less intervention in the economy, spends less, guarantees clear, formal property rights and its protection, ensures less corruption and fewer restrictions on transfer of capital and labour in order to create an ideal business environment. Reflecting the decades-long dedication to free trade and liberalised economy, Chile is praised as the 11th most free country in the world, and certainly the 1st in the Latin American region. On the other hand, Korea lags behind, being positioned far lower than Chile and ranked at 35th in the world, lagging behind other so-called tiger economies (Hong Kong and Singapore, ranked 1st and 2nd in the world and Taiwan at 25th).

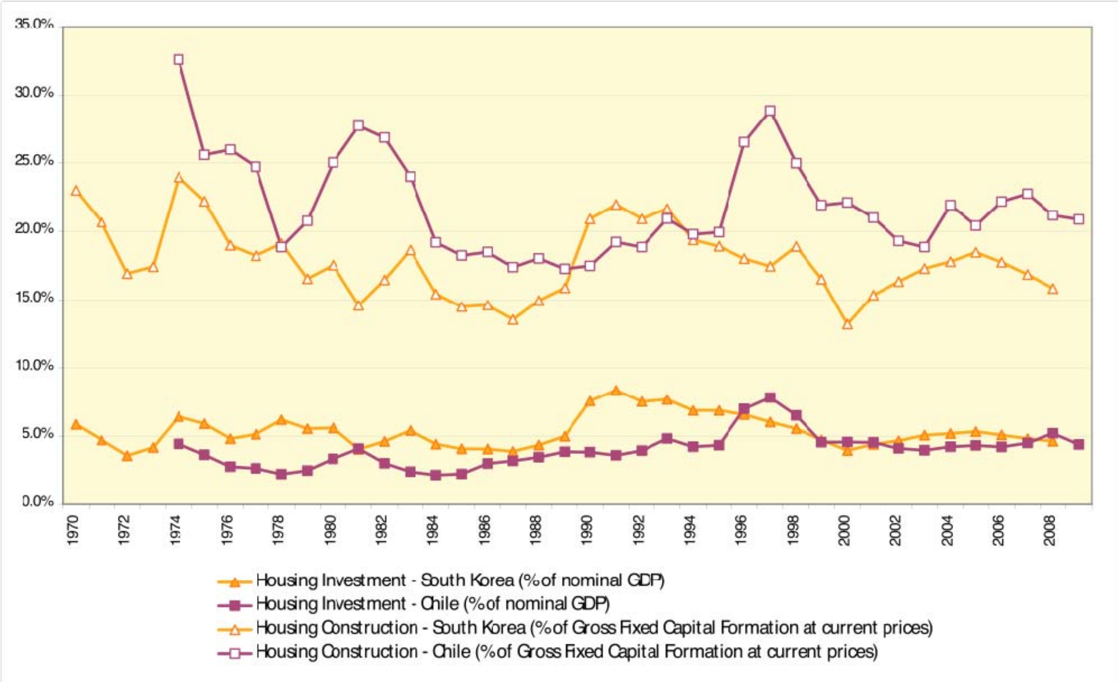
A closer look at the gross domestic capital formation (hereafter GDCF) and gross savings (hereafter GS) ratio in Korea and Chile show a further differing degree of experience of capital accumulation in the two countries (see Figure 2 below). In Korea, the ratio of GS to GDCF began to exceed 100 percent in the mid-1980s, and remained above this level except for occasional drops in the late 1990s. This suggests that for most of this period since the mid-1980s, as explained by Shin (2009), a considerable amount of capital was formed as surplus capital, searching for profitable sources of investment. The booming property market in Korea, accompanied by large-scale housing and land development including new towns and urban renewal projects as well as falling rates of profits in the manufacturing sector, made the switching of this surplus capital into the real estate sector in the 1980s and up until the late 1990s (Shin, 2009). This capital switching into the built environment (Harvey, 1981) was accompanied by the continuous increase in the GS ratio that reached about 40 percent in 1988, accompanied by the relatively high level of GDCF. On the other hand, the creation of the surplus capital in the 2000s when the ratio of GS to GDCF peaked at more than 140 percent in 1998, was the result of shrunken domestic investment in Korea after the Asian financial crisis. This provides the basis of more speculative situation in the property market that was highly developed in the pre-crisis period, as there existed less areas of profitable investment areas to absorb this surplus capital in the country.

Figure 2. Ratio of gross savings to gross domestic capital formation



In Chile, the situation differs greatly in that the ratio of GS to GDCF remained below 100 percent for most of the period until 2000. Only during the last ten years or so did Chile begin to experience the rise of GS ratio above the level of domestic investment. The substantial fall in the ratio of GS to GDCF between 1977 and 1986 can be explained by the severe crisis that affected the country, with more than 30 percent unemployment rates, lack of capitalisation and poor records of GDP growth that reached nearly -15 percent. This crisis was amidst the set-up of the country's neoliberal projects, and basically originated from a radical adoption of monetarism that fixed the dollar/peso currency exchange at a fixed price for several years. After this period of negative growth, Chile began to show signs of recovery and fixed capital accumulation until it suffered again from the effect of the Asian financial crisis in the late 1990s (see previous Figure 1). Interestingly, like Korea, the post-crisis recovery was followed by the lower level of domestic investment in comparison with the pre-crisis figures. Chile, however, saw a noticeable increase in the level of GS ratio during the post-crisis recovery period, which indicated the presence of expectant buying power in the real estate market.

Figure 8. Housing investment in fixed capital and housing



This is also evident in the interpretation of housing investment trends during the last four decades shown in Figure 8 above. In Chile, the share of housing investment in nominal GDP stayed at rates below 5 percent for most of the period between 1974 and 2009, with a brief exceptionally period in times of the Asian financial crisis when the economic growth and fixed capital formation were both severely affected. However, the pre- and post-crisis comparison suggests that a higher share of annual housing investment in the national GDP was made during the post-crisis period, supporting the earlier arguments that property-led urban development has become more rampant. This is again evidenced in the share of housing investment in Chile's gross fixed capital formation, which recorded more than 20 percent for most of the post-crisis period, while the same rates stayed below this level in the 1990s (see the figure above).

The case of Korea: Pre-Asian financial crisis property development under the liberalising Korean developmental state

The economic growth of Korea from the 1960s under the developmental state had been accompanied by a rapid urbanisation that saw the emergence of its capital city, Seoul, as the national urban primacy. The heavy concentration of population through migration and natural growth in Seoul and its immediate surrounding areas led to a soaring demand for housing, which was only met through the growth of informal settlements. The municipal government response was an alternation between periodic demolition and tolerance in the 1960s and 1970s, though tolerance was losing its ground over time as a response to the modernisation drive by both national and sub-national governments. From 1980, the new military government that had seized its power through a coup d'état embarked on large-scale urban development projects to address several critical demands that emerged at the time.

First, there was the demand for affordable housing, which was addressed by the state through pursuing new housing production and home-ownership promotion. The new housing construction was oriented towards high-rise flat construction for single-family owner-occupation. Long-term public rental dwellings were scarce in new-housing programmes and, if provided, were located outside Seoul or in peripheral areas (Shin, 2008). In the 1970s, large-scale new housing construction in Seoul can be epitomised by the central government's announcement of its ten-year urban housing programme (1972 – 1981). This programme gave emphasis to the development of large-scale medium- to high-rise estates (called danji in Korean) in order to realise economy of scale and maximum utilisation of land (Planning and Coordination for the Cabinet Office, 1972, pp.253-254). These estates were largely found in newly developed residential areas located in south Seoul where land mobilisation was relatively easier and cheaper. Each estate was huge in scale, comprising of medium- to high-rise flats: for example, Mokdong danji in southwest Seoul accommodated 26,629 flats (Yoon, 1994, p.86). The danji model has become the norm of new housing construction in Korea.

Second, in order to address the prevalence of substandard settlements in Seoul, the municipal government established the Joint Redevelopment Programme (hereafter JRP) in the early 1980s, which governed the nature and the directon of urban redevelopment in the following years up until the present. The JRP programme was essentially based on heavy reliance on the private sector initiatives and state coordination. A development partnership was to be formed in every redevelopment district between property owners and construction companies as developers and financiers of redevelopment. The government was to provide various subsidies and make sure development partnerships operated with maximum efficiency and prioritised private property rights over other informal rights (for more details, see Ha, 2001; Shin, 2009). The essence of this arrangement was to realise property-based and profit-led redevelopment, feeding upon the home-ownership aspirations of the emerging middle-class populace in times of rapid economic growth and per capita income increase. This was achieved at the expense of low-income owner-occupiers and tenants who were mostly facing permanent displacement, for various reasons, (Shin, 2008).

Third, the acceleration of urban redevelopment in Seoul was also aided by the military government's commitment to showcase the city in time for the 1988 Summer Olympic Games in Seoul. The military government that took hold of power at the 1980 coup d'état attempted to legitimise its illegitimate ruling by 'sanitising' and 'beautifying' the city at the time of the preparation for the Games. The city subsequently witnessed a major exercise of beautification, demolition, eviction and reconstruction, most of which were carried out in the name of the Olympic Games preparation. Both central and municipal governments made attempts to massively embark on urban spatial restructuring especially in the 1980s, to ensure the central business district become more business-oriented and Seoul more modern in appearance.

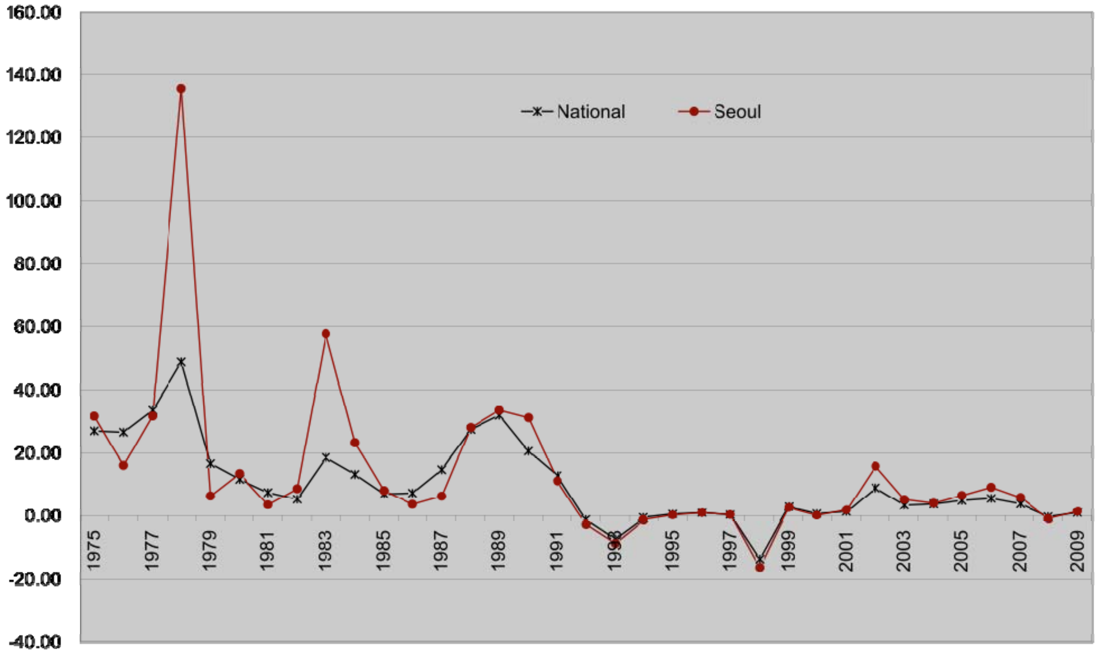
Speculative land and housing markets under the developmental state

Fourth, Lefebvre and Harvey's notion of a secondary circuit of capital accumulation as a means to absorb economic shocks may partly explain what happened in Korea. The country experienced a very high rate of growth in the construction industry and in its share in the economy, as well as a speculative market that attracted the siphoning-off of the industrial capital. Investment in the built environment in the form of urban (re-)development was enabled by the rise of surplus capital in the Korean economy that made its switch from the primary production circuit into the secondary circuit of the built environment. As Shin (2009) explains, the 1980s saw declining profit rates in the Korean economy compared to those experienced during the more labour-intensive growth under the developmental state in the 1960s and 1970s (see Jeong, 2009, for further discussions on the decline of the manufacturing sector in Korea).[2] The surplus capital made its way into the secondary circuit in order to tap into the speculative property market that had experienced major price increases throughout the 1980s (see Figure 3 below). The claim that South Korea had seen less speculative investment in the property market by overseas investors (see, for instance, Henderson, 1999 – check if this can be applied here)

[2] Jeong (2009) clearly shows that there was a declining tendency of profit rates (as measured by the ratio of operating surplus to sales) in South Korea especially in the 1990s, with a small gain in the 2000s when the economy experienced major restructuring in the aftermath of the 1997 financial crisis..

may be justified by the lack of foreign direct investment. However, this does not necessarily suggest that there was no property speculation especially in the real estate market. On the contrary, the South Korean conglomerates were heavily engaged in property speculation in the South Korean land and housing market (Sohn, 2008, pp.116-117). Not only were they operating major construction companies, in order to engage with the restructuring of the built environment often led by the state, but they were also with speculative property investment. Many companies in the late 1980s and 1990s seem to have invested a great deal in acquiring real estate holdings, while they experienced low rates of profit (see Pirie, 2008 for his account of the South Korean market and firm activities). For instance, in 1989, it was reported that these conglomerates had been possessing real estate properties whose total value reached more than a half of their combined equity capital (ibid). In Korean contexts, some public corporations especially those in charge of land and housing development tended to act and expand their business scope to cover urban redevelopment in areas where private businesses found it less financially viable to carry out projects. Hence, the state institutions picked up the slack that the private interests tend not to pay attention.

Figure 3: Land price index (year-on-year increase rates) for Seoul and the whole country



Source: Data from the Ministry of Land, Transport and Marine Affairs, South Korea

Asian financial crisis and continuing emphasis on property (land and housing) development

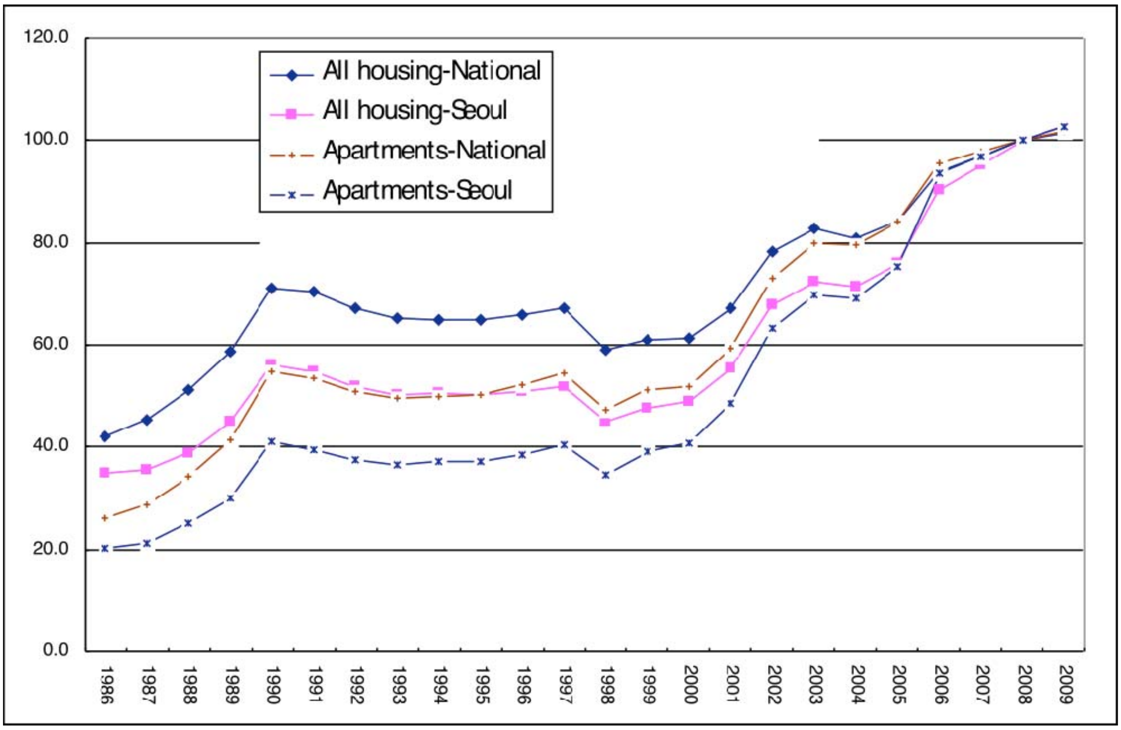
The liberalisation of the South Korean economy and the state regulation that took place especially in the early 1990s was implemented without putting adequate risk management and regulatory systems in place. The resulting instability in the financial sector was particularly vulnerable to the culture capital in times of the financial crisis that culminated in 1997 (Crotty and Lee, 2006; Pirie, 2008; Shin, 2007). The liberalisation in the early 1990s came with the state abandoning its role to coordinate economic policies (e.g. disintegration of the economic planning board, which formerly acted as the headquarters of economic decision-making), as well as loosening its control over foreign debt: "on the eve of the financial crisis, the short-term foreign debt stood at a staggering 58 percent of total debt in 1997, although the country's total debt to GDP ratio was at a perfectly manageable 25.5 percent level" (Shin, 2007, p.41). These liberalisation arrangements made it difficult for the state to check 'over-investment' by individual firms (ibid). All this led to the undermining of achievements the country had realised in the previous era. Economic restructuring in the aftermath of the 1997 financial crisis has made profound impacts upon Korea, some of which are characterised by slow economic growth, increases in foreign capital and rising inequality (Crotty and Lee, 2006).[3]

The financial crisis was followed by more speculative activities in the real estate sector. One of the main concerns of the new government, led by the Nobel Peace Prize winner President Kim Dae-Jung, was to make sure the national economy recovered from the crisis. While the central government was focused on introducing a more comprehensive social safety net for the new urban poor as well as creating the next driver of South Korea's economic growth (e.g. IT industries), the central government was also taking measures to boost the sluggish real estate and construction sector. Various measures were announced during the post-1997 period that largely included: (1) expanded coverage in providing financial subsidies to builders; (2) relaxation of requirements and simplifying administrative procedures for initiating urban renewal projects; (3) lifting of the price control on new housing; (4) introduction of mortgage-backed securities (Yoon and Kim, 2000). In particular, the introduction of mortgage-backed securities was regarded as the globalisation of the country's housing finance industry at the time, and the first company to trade MBS was set up in September 1999. Although about 65 per cent of the equity capital of this company was financed either by the government (35 per cent) or by government-funded banks (30 per cent), the remaining share came from the subsidiaries of large conglomerates such as Samsung and Hyundai. The South Korean economy has also continued the expansion of its housing finance industry, with the emergence of a house mortgage industry, as well as the introducton of a reverse mortgage system and the development of real estate investment trusts (REITs).

Furthermore, housing loans rather than housing mortgages expanded substantially with the participation of crisis-affected commercial banks that saw household loans backed by housing as collateral were at much less risk. The South Korean banking sector was increasingly infiltrated by overseas banks through government-supported acquisition and merger activities and, in particular, these banks with overseas investors as key shareholders increased their involvement in expanding housing loans. They also decreased the share of loans to businesses by 33.3 per cent between the end of 1998 and September 2003 (Sohn, 2008, pp.120-121). This accompanied the increase in the share of household loans in their loan portfolio from 32.8 per cent in 2000 to 56.6 per cent in 2004 (ibid). Needless to say, much of these loans to households were related to house transaction, feeding into the speculative housing sector that saw a very sharp increase in housing prices. As seen in Figure 4 below, since the late 1990s, the rate of increase in housing prices in Seoul's apartment sector, the most popular and dominant housing sector in South Korea, was much higher than that for the whole nation.

[3] See Table 1 in Crotty and Lee (2006, p.671) on the economic performance after the crisis in South Korea.

Figure 4: Housing Purchase Price Composite Index (Year 2008 = 100)



Source: Kookmin Bank web depository

Post-crisis property speculation and the rise of 'New Town Programme'

By the end of the 1990s, urban renewal projects fell in one of the four main programmes that targeted different types of urban space: (1) the Joint Redevelopment Programme mentioned earlier; (2) A Reconstruction Programme; (3) A Residential Environment Improvement Programme; (4) An Urban Environment Improvement Programme. The Joint Redevelopment Programme (hereafter JRP) targets dilapidated substandard neighbourhoods that have a high concentration of detached houses, and has been implemented since the mid-1980s. The institutional and financial arrangements the JRP entails have become exemplary for another three programmes, with some minor adjustments. The Reconstruction Programme is implemented in more established residential areas where medium- to high-rise flats are largely concentrated. Therefore, the programme only became popular from the mid-1990s when those flats built in the 1970s and 1980s began to decay and/or became obsolete. The Residential Environment Improvement Programme (hereafter REIP) is carried out in areas where the JRP could not be implemented, which means that it is often those areas overlooked by developers or deemed unattractive in terms of project financing that are usually subject to the REIP. The Urban Environment Improvement Programme covers largely non-residential areas that require substantial improvement work in order to revive urban functions. Each of these programmes was governed by different regulations but, since the end of December 2002, they have all come together under the Act on the Maintenance and Improvement of Urban Areas and Dwelling Conditions for Residents.

Under this circumstance, the case of the 'New Town Programme' (hereafter NTP) in South Korea is an exemplary case that displays the expansion of pre-crisis urban renewal practices, tapping into ordinary people's aspiration to build up their property assets during the post-crisis recovery period. The title of this urban renewal programme is somewhat misleading, as it is focused largely on those areas within Seoul that had escaped urban renewal in the 1980s and

1990s. It was proposed initially by the then Mayor of Seoul as an area-based initiative, re-packaging various urban renewal programmes as one holistic programme.

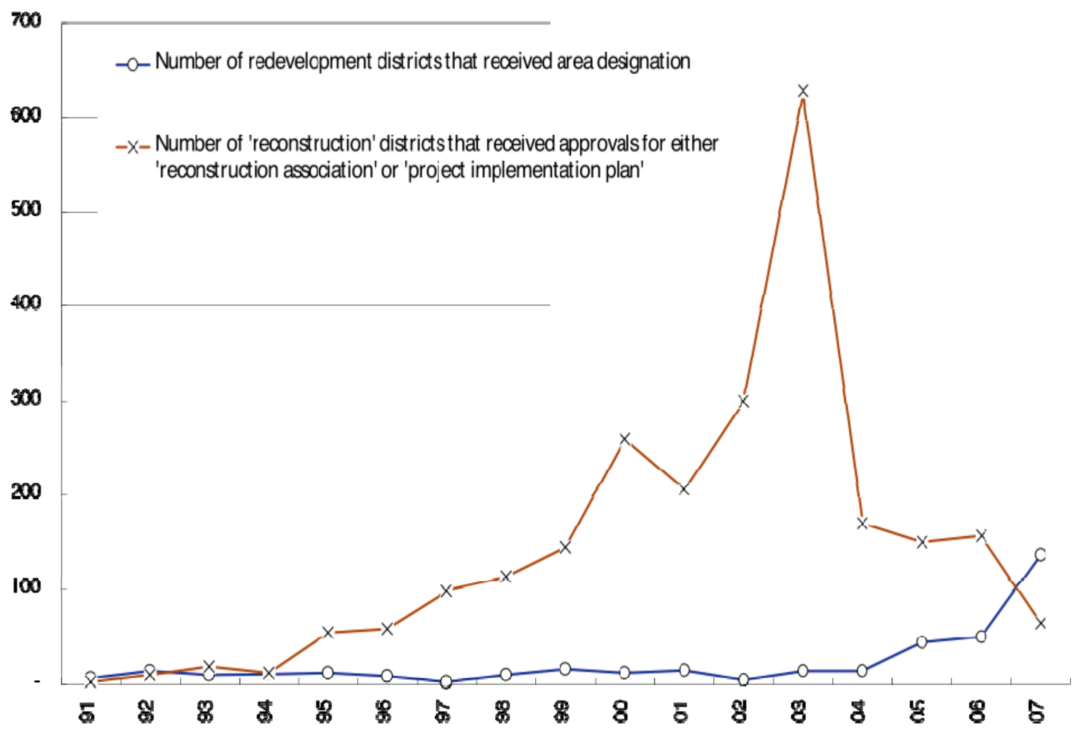
Although they target different types of urban space and residential neighbourhoods, the programmes essentially facilitate capital investment for revalorisation of urban space, and are largely led by property owners who form a development partnership with developers. Usually, on-site property owners form an association (known as either a redevelopment association in the case of the JRP and a reconstruction association in the case of the Reconstruction Programme), which becomes the legal initiator and enters into negotiation with developers. Apart from the REIP, the renewal method is based on demolition and reconstruction. All three programmes other than the Reconstruction Programme have had provision for eligible tenants' compensation in-kind and in-cash since the late 1980s, and the Reconstruction Programme has been heavily criticised for having no provision for tenants, and there seems no sign of fundamental change in this arrangement.

The NTP produced by the Seoul Municipal Government was to designate a mega-district for urban renewal so that, within each mega-district, the four renewal methods above could be considered at the same time in order to maximise the economic impact of urban renewal. As of July 2010, 35 districts have been designated for the implementation of NTP since the announcement of pilot project districts in 2002; these included 372 sub-districts (Seoul Municipal Government, 2010). This covers a total area of 27.34 square kilometres, about 6 per cent of the surface area of Seoul (excluding forest areas). Out of these 372 sub-districts, 247 sub-districts are to experience intense investment for urban renewal activities, while the remaining sub-districts are largely for incremental upgrading and maintenance (see Table 1 below). Out of 247 sub-districts, 134 sub-districts or 54.2 per cent would see a JRP applied, while only 8 sub-districts would experience a Reconstruction Programme. Again, given the fact that the NTP targets largely those urban districts that escaped intense redevelopment in the 1980s and 1990s, this is not quite unexpected. The aggressive attacks on the built environment by means of profit-led real estate development involved stigmatisation and brutal oppression of any opposition movement that delayed the profit realisation by employing blocking strategies (e.g. occupation of buildings to stop demolition). While being victims of profit-maximising speculative real estate strategies, protestors against the NTP or similar development projects were stigmatised as being motivated by self-interest to damage public interests for personal gain. The recent tragedy that resulted in the death of six protestors and one riot policeman was the culmination of this stigmatisation and excessive law enforcement (The Hankyoreh, 2009).

The birth of the NTP has been essentially led by the Seoul Municipal Government, partly owing to the ambition of the then mayor who regarded the promotion of NTP as one of the few tickets to his road to presidency (to which he eventually succeeded). It also owes heavily the aspiration of property owners (as was the case with the implementation of the JRP) to expand their property asset basis, as well as to the desire of construction companies as subsidiaries of large conglomerates to realise profits from their development partnership and investment in the built environment. While individual projects at the sub-district level within each NTP district are to be led by the aforementioned development partnership between property owners and developers, the municipal government has made every effort to make sure the NTP proceeds, which includes setting up a separate office for overseeing NTP progress. Since January 2007, it has also been publishing progress reports to summarise NTP-related news and publicise its activities every two or three weeks. As Weber notes, "Although markets drive obsolescence, state institutions continue to provide assistance in identifying its presence and reclaiming it" (Weber, 2002, p.533). The NTP case in Seoul fully demonstrates this process in action. The local state is essentially in a bid for real estate-generated asset accumulation and economic growth in times of recovering from the Asian financial crisis, tapping into local people's desire to build on their property assets and homeownership. It is largely the local state that has been providing the frameworks and assistance to facilitate private investment by individuals, and especially real estate and construction companies, to actively engage with the resulting redevelopment and reconstruction activities within the NTP districts. Periodic review meetings were taken at both municipal and sub-municipal governments in order to ensure timely progression of these projects. This effectively makes existing dwellings mostly detached or multi-household units obsolete, in spite of their contribution to building social capital and community building among low to lower-middle income residents. Through redevelopment, buildings get demolished and reconstructed, resulting in a homogenising high-rise environment that is only distinguished by 'brands' and 'symbols' that developers and construction firms have created and assigned.

The proliferation of New Town projects with emphasis on the JRP as the main means of urban renewal, however, does not suggest that other areas have been sidelined from renewal activities. In fact, the renewal of more established housing estates has been heavily subject to the Reconstruction Programme, that is, demolition and reconstruction to a higher density for maximum profit realisation. As seen in Figure 5 below, the post-crisis period has seen a very rapid increase in the number of districts to receive government approval either to form a reconstruction association (a partnership organisation and legal entity for the promotion of neighbourhood renewal based on the Reconstruction Programme) or to project implementation plans. The speculative environment to extract exchange value from their properties has been fuelling the desire of property owners and real estate capital, leading to the exponential growth of renewal activities.

Figure 5: Number of 'redevelopment' and 'reconstruction' districts in Seoul, 1991-2007 (as of the end of December 2007)



Source: Seoul Municipal Government web data repository

The case of Chile: 'Post-industrial' real estate development in Santiago

Chile's path to import substitution industrial development appears very different to South Korea's industrialisation, as it started earlier from the 1930s to 1973 whereas the national state performed a crucial role in its command and control. Although this process did not seek to transform the roots of the country's dependent capitalist economy (it relied on a Kuznetsian idea of triggering cycles of production, accumulation, and take off), this period saw the general increase of social consumption as result of a state-subsidised way to increase the labour force, raise the organic composition of capital, and so create more surplus (Castells 1974). Policies for state-led social housing production were the main drivers for the inner city urban development. Much as a result of this, from 1965 to 1973, Santiago witnessed the allocation of an increasing number of state-promoted site-and-service lots, social housing estates, and – more crucially – politically organised squatters occupying even many of the wealthiest districts of the city.

From the mid 1970s onwards, during General Pinochet's military dictatorship (1973-1990), Chile abandoned the logic of import substitution industrialisation as the national economy started to increasingly rely on raw-material production (mainly mining, forestry, fishing and fruit production) and services sectors. Pinochet's policies radically transformed the national structure: from 1970 to 2010, the share of the service sector had grown from 49% to 63% of the GDP, as the manufacturing sector decreased from 25% to 15% (see Table 2). In the 1970s, Chile's deindustrialisation implied disinvestment and abandonment of the spatially localised industrial milieu in Santiago's inner city, basically garment and light manufacturing industries, as national and international capital flew from the agonising manufacturing sector switching into a booming financial sector, increasing their rates of investment on real estate mainly in the periphery aimed both to middle- and lower-income strata (Daher 1991; Borsdorf, Hidalgo et al. 2007). Population growth rates between 1982 and 2002 in the most booming peripheral districts were extremely high: 190% in San Bernardo, 354% in Puente Alto, and 413% in Maipú. These numbers are astonishingly high if compared with the rates of depopulation experienced in the inner city for the same period: -11% in Cerrillos, -12% in San Miguel, and -13% in Santiago-Centre districts, the latter where Santiago's main CBD is located.

Nonetheless, it would be from the 1990s onwards that Santiago's inner city would start again being an effective means of capital reproduction and accumulation. The following sections address two policies oriented to produce real estate property-led renaissance: the middle-income-oriented Urban Renewal Subsidy Area (URSA), and the more recent policy of socially-oriented Supportive Housing Fund (Fondo Solidario de Vivienda, FSV). Both have proven successful at creating market niches whilst meeting the housing demands for the four lowest quintiles of the city's population. Both also substantiate the fact that Santiago's inner city is currently being gentrified, as the demand for social housing is gradually exclusively met in the distant periphery beyond the limits of the city, where land prices are affordable, creating a type of segregation at a regional scale, never seen before.

Towards a model of high-rise, property-led urban redevelopment

Ten years after the first implementation of the Joint Redevelopment Programme in Seoul, Santiago's Urban Renewal Subsidy Area (URSA) policy for urban redevelopment was first implemented in the early 1990s. One event that triggered the launch of this policy was the 1985 massive earthquake that struck the already derelict Santiago-Centre inner city district, destroying around 30% of its many already dilapidated residential areas, and accelerating its negative rate of population growth. Differently to Seoul, Santiago's renovation was not aided by a dictatorial military seeking to impose a political agenda of sanitisation and beautification, but a democratic regime that attempted to open up a new niche for real estate production and to develop Santiago CBD's comparative advantages for business. After the deep state rolling-back experienced in the 1970s and 1980s (Rojas 2001), the state policy for inner city, from the 1990s onwards, would evolve into a model of urban development – close to entrepreneurial urbanism (in the way defined by Harvey 1989; see López 2010) – whereby the state and its technical apparatuses are the main promoters of the restructuring of this inner city.

The first attempts for urban renovation were made by the politically autonomous Santiago-Centre District[4], one of the municipal administrations which have so far shown best managerial capacities and created a special municipal/private agency for inner city redevelopment, the Corporation for Santiago-Centre Development (CORDESAN). By the early 1990s, the country exhibited the highest national GDP growth average rate in more than 30 years (around 7%) and Santiago's inner city was being 'rediscovered' by the CORDESAN who struggled to convince hitherto reluctant real estate developers to come and operate there. Then a combined national and municipal strategy rebranded Santiago-Centre district as a regional global financial centre with several state-financed, medium-scale emblematic architectural and urban projects.

However, an additional and far more decisive incentive was the national Ministry of Housing and Planning's Urban Renewal Subsidy (URS) programme, consisting of a voucher equivalent to US$ 9,500[5] (a flat rate, equivalent to the 10% of the maximum selling price allowed for newly built units eligible), granted to individual applicants to help them finance the purchase of a new residential unit in high-rise buildings. This subsidy was aimed to attract professional middle-income strata into a well-delimited 8,500-hectare Urban Renewal Subsidy Area (URSA). This policy was officially justified by the need to reverse several decades of decay and depopulation in the inner city, as it was also expected to trigger an increase in the revenues of a growing number of inner city municipalities included within URSA (currently up to eleven), via the issuing of construction permits (1.5% of the total construction cost). Between 1991 and 2001, the market of urban renewal rose from 1% to 11% of the total square meters built in the metropolis (Rojas 2004). Even further, whilst in 1990, URSA hosted a mere 8% of the total residential units built in the city, by 2008, it had come to receive 52% of Santiago whole region's new residence production (see Figure 6 below).

The expansion of the market of urban renewal has been astonishingly high for the last decade in the 11 districts included within URSA, compared with the production of mainly houses in the 23 peripheral districts and 15 satellital (intra-regional) districts. However, from 2000 to 2010, as the average floor area of the units produced (total square metres versus total units) has tended to decrease from an average of 70 m2 to 50 m2, exactly the opposite has happened regarding selling prices of new properties, which have tended to increase in a considerable rate. Average selling prices in 2001 were around US$ 50,000, and only in 2005 these jumped up to US$ 57,200 for equivalent unit sizes. By 2010, the units sold within URSA averaged around US$ 70,000. Yet most of these units, currently as small as 20 m^2 studio-flats, whose number normally are up to 50% of the total number of apartments in a condo, attract only small households that tend to move out as soon as families expand.

Figure 6: 1990-2007 evolution of number of residential units produced within URSA versus total produced in the rest of Santiago Metropolitan Area

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[4] The Greater Santiago Metropolitan Area currently comprises 34 different and politically independent districts, called comunas or municipalities. Mayors are elected by universal democratic election, every four years.

[5] All US$ amounts at 2011 exchange currency rate.

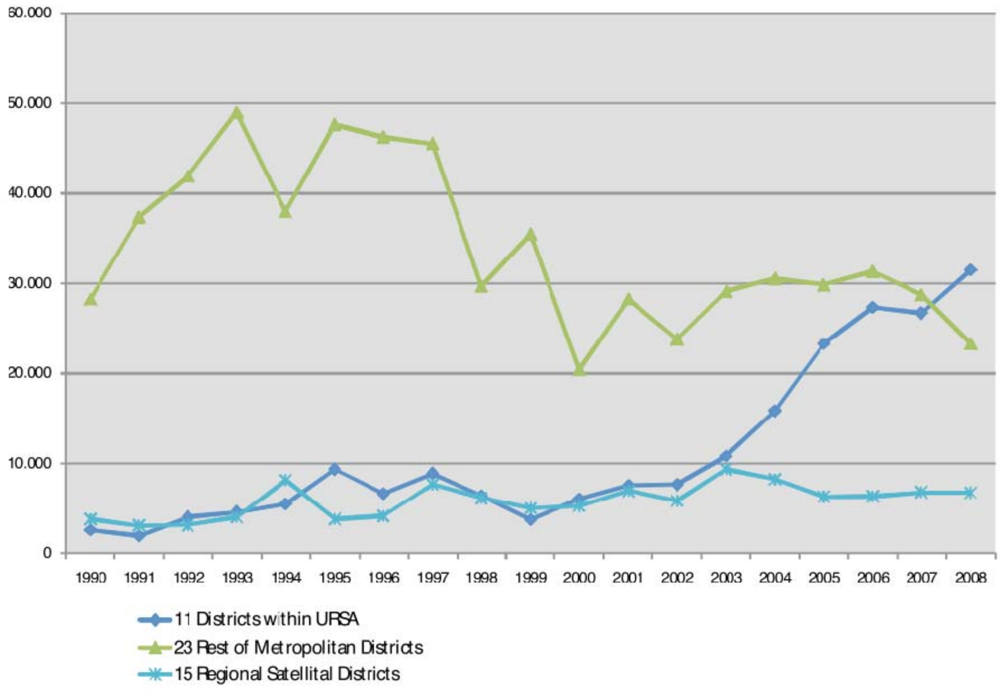
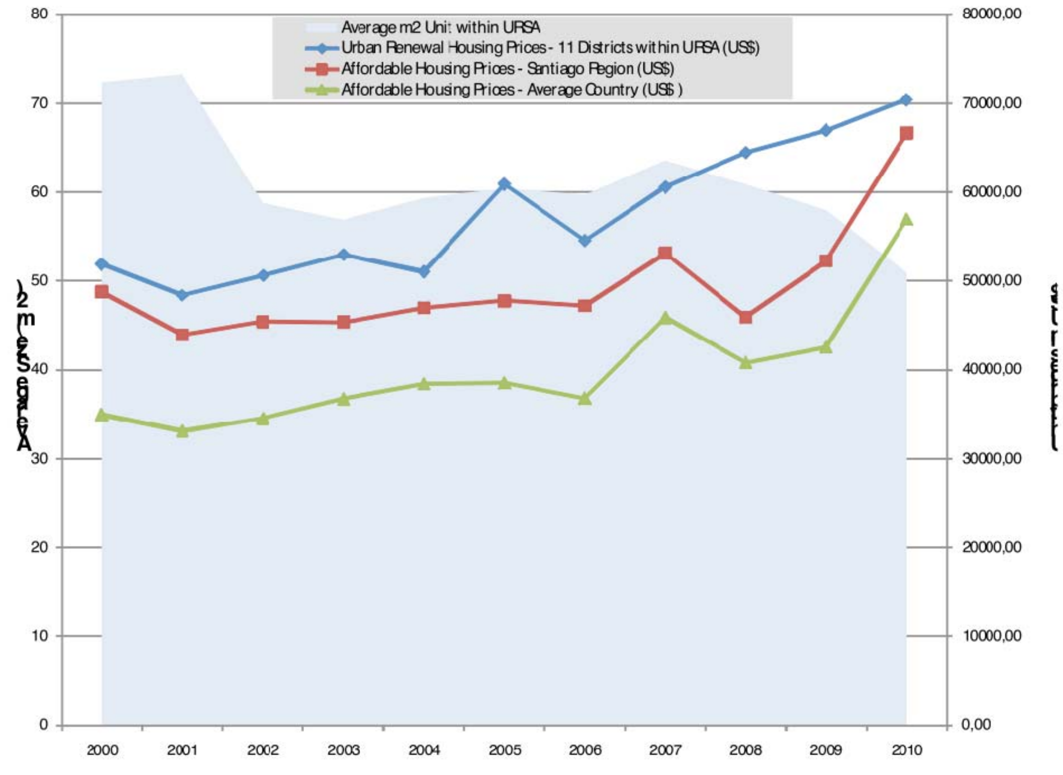


Figure 7: 2000-2010 selling price evolution of different types of residential units, with reduction of average floor size in units built within URSA



Speculation and crisis: causes and effects of the Asian financial crisis

Just after seven years of initiating the subsidy, the so-called Asian financial crisis (that contracted the national economy between 1997 and 2001) slowed down to one quarter the construction rates within URSA. Whilst in the municipality of Santiago-Centre only, the total production of residential square meters was around 400,000, in 1999 this level dropped to 90,000 m^2 and would only increase up to around 200,000 m^2 during the following three years. A second (shorter) cycle of privately-led disinvestment in Santiago's inner city was taking place due to the crisis. But this was due to the lack of a guaranteed rate of return, as financial capital previously invested in large-scale renewal momentarily fled to other more secure economic sectors, basically retail and foreign investment, proving highly volatile and speculative. Needless to say, Chile's government did not have risk management mechanisms and/or control of foreign investment in key economic sectors, as international capital found no resistance to siphon financial assets abroad, and the volume of incoming financial capital decreased on -7.3% and -36% in 1998 and 1999 respectively. The reasons for the vulnerability of Chile's economy to the Asian Crisis are manifold. The dependence of a high rate of exports like copper to the emerging (but suddenly bankrupted) economies of the Asian region was one of the most important ones. Yet the openness of Chile's economy to foreign financial investment was also a good reason that explains why the real estate sector was hit so severely.

During the post-crisis recovery period, Santiago saw the crystallisation of the model of property-led urban renewal, its expansion in terms of units and square meters produced, and a contraction in the number and enlargement in the size of the firms participating. If there was capital shift, this was produced from the real estate sector to the financial sector and (after passed the crisis in 2003) back to the real estate sector but with different conditions. Beyond that, the market of state-subsidised urban renewal did not receive any correction, but to increase inner city land building capacity via the continuous redrafting and rezoning of local master plans, creating much higher potential ground rents.

When the national and Santiago's regional economies recovered by 2003, the flows of capital returned to the urban renewal areas. The national Central bank had previously reduced the interest rates, from 7.3 in 1996, to 5.3 in 2000, to 2.7 in 2003, and 1.9 in 2004. This reduction was crucial for the recovering of the real estate activity, as it was seen as a considerable incentive for banks to issue loans. But in the meanwhile, financial institutions withdrew support to many small scale companies (now considered as too risky), so the whole market of urban renewal in Greater Santiago, composed hitherto by a wide range of large and small building companies, was reduced to fewer agents with larger capital base, production scale and financial funding capacity. After the crisis, the 'survivors' had considerably absorbed the market (a kind of 'post-recessionary' gentrification; see Hackworth 2002; López 2010) as they also became more aggressive in the production and marketing of their projects. Moreover, firms profit from tax exemptions, and also from the infrastructure created by the state or private-public partnerships, e.g. new Metro lines and motorways.

The permissive guidelines contained in the National Law for Constructions aimed at developments on larger sites produces that the scale of developers has been constantly larger, leading in consequence to a smaller number of developers with enough capacity of undertaking the risks of these operations. Basically, it is the banks who decided who and when to lend the capital for real estate production. For this reason, in 2003, urban renewal firms were accounted as 12 by Rojas (Rojas 2004). In 2007, key informants claimed there were five or six which were really important operating in the market, a number that has tended to be stable even though the number of small firms (developing projects sporadically) tended to increase again from 2006 onwards.

Recent development: post-crisis model of urban renewal

As an effect from the contraction and growth of the main firms after the crisis, the average size of buildings within URSA increased from 11-storey buildings in 1996 to 18-storey buildings in 2006, while the number of flats built per condominium also soared from 78.5 in 1991 to 207.5 in 2005. Also, until 2008, the market composed by large to medium-sized developers seem to have absorbed most of the redevelopment in inner city areas, producing residential blocks of similar scale, density and architectural style. These large-scale developers absorbed both the long-term cash flows (i.e. land purchase and construction) and short-term cash flows (marketing, assistance to application to the URS subsidy, and selling), monopolizing the entire process of dwelling production. If during the 1990s, it was the building firms who monopolised the market, from 2000 onwards, the enlarged real estate firms have tended to absorb the construction firms as part of their conglomerate, to the point that the latter have become irrelevant for consumers. The dependence of this market on foreign financial credit, mainly Spanish pension funds, also increased, as by 2008, 24% of the bank credits in the country financed property market, 50% of which were controlled by foreign banks, and 27% of which by banks from Spain only (Kouyoumdjian 2008).

There is also a connection between the corporatization of the market of high-rise renewal and national and municipal building regulations. Larger firms receive state incentives if new-build developments are higher and denser and the volume of the investment is bigger. Building sizes or heights are not directly controlled in Chile, but they are regulated through the application of Floor Area Ratios (FAR) and ‘setback planes’ altogether. Therefore, it is the size of the plot what determines the size of the building. The National Law of Planning and Construction allows increments up to 50% of the FAR if several plots are transformed into a larger one, and developers pay taxes only when making a subdivision but not when merging plots. More recently, an increasing number of municipal administrations within the Urban Renewal Subsidy Area (URSA) do not require the fulfilment of FARs but have liberalised the already meagre norms towards a more flexible model based on the fulfilment by the new building of a maximum shadow-cast area. As a result, the scale of the inner city landscape has brutally changed from 1990 to 2007, with environmental damage related to the large-scale construction, loss of historical heritage and low architectural quality in many redevelopments designed with standardized layouts, on top of the rapid form of accumulation of rising ground rents (López 2010).

Land plots are generally acquired in advance (up to two years) by developers seeking to fully capitalize the ground rent increased by the externalities generated by public investment or rezoning. In Santiago’s inner city, the number of properties awaiting redevelopment largely exceeds the number of properties actually developed. A report in 2006 counted a total of around 8,000 hectares of empty or unused lots within the urban perimeter of the Greater Santiago (this is only 500 hectares less than the entire main URSA) and a total of 1,000 hectares of abandoned or sub-utilized plots in the inner city area (Trivelli 2006) that produce further devaluation in their surrounding areas. It is usual that developers easily accumulate up to 20,000 or more idel square metres. This phenomenon is possible in Chile because the law against land speculation was removed by the military dictatorship (1973-1990), and regulations to control these practices have been left extremely soft by the more recent democratic governments. Land values inside URSA have increased more intensively than in the rest of the metropolis (Figure 7).

Most inner city municipalities unilaterally modify their local codes implying considerable land expropriations and more fundamentally rezoning, attempting to increase as much as possible the building capacity via amplifying the FAR in their local districts, seen as a form of increasing potential ground rent in loco, as new local regulations produce potential ground rents increases above 200%. Nonetheless, changes in local codes are conducted with frequently insufficient channels of social participation involved. In the mid 1990s, Santiago-Centre municipal government received numbers of complaints from local residents, claiming that the massively destructive effects of the high-rise construction were diminishing their quality of life and devaluing their properties. That local state responded by exerting major control through its local building regulations in certain districts. More recently, neighbourhood activism has been observed in Ñuñoa, Recoleta, and Pedro Aguirre Cerda inner city districts, to name but a few districts facing rapid urban renovation that generates social concern.

Nevertheless, wherever municipalities tighten their local guidelines in a zone, they amplify the allowed FAR in others, and so developers can start to operate in these new areas, also moving into other neighbouring municipalities that are at the same time liberating their local master plans too. The closure of rent gaps in some particularly renovated zones also propels developers to depart towards other soon to-be-renovated inner city neighborhoods where the chances for fully capitalization of increased rent gaps are still high, public action provided. The renewal of Santiago's inner city is in fact a zero-sum system, as any zone tightened produced a trickledown into adjacent, less controlled zones with larger profitability.

A joint development programme: the Supportive Housing Fund (Fondo Solidario de Vivienda, or FSV)

A second type of policy came from 2001 onwards, namely the FSV. This is similar to Korea's JRP, as it is aimed to improve social participation in the production of social new housing and social housing upgrading, for the lowest-income social strata. The FSV programme deserves analysis for it partially reveals the incapacity of previous policies of urban redevelopment to meet the social demands for housing allocation in inner city areas, especially due to the increasing land values within the metropolis. The FSV has also emerged as the largest and most important subsidy for social housing in the country, also largely proving that the social housing demand is being increasingly met in the 15 distant satellital allocations, whilst the close ring of peripheral and central land is being exclusively aimed to upper-class house and apartment construction market.

Early in the 2000s, the Chilean government completely passed the steering wheel of the social housing production and management to property developers and building firms, as the state agencies would not purchase land anymore. The new strategy from 2001 onwards would seek to unify the several existing programmes and subsidies aimed at the production of social housing, those targeting the lowest two quintiles of the national population (around 6.2 million people, with per capita income below 67,000 Chilean Pesos or US$ 120)[6], seeking to replace them, a single flexible instrument of subsidy with direct participation of small scale private building firms.

From then on, the national FSV programme subsidises new residence and/or site-densification with low required minimum savings, and exempt beneficiaries from paying mortgages. This subsidy is designed to use the residents' own capacity of self organisation given that applications to the FSV must be always collective. The programme is also largely more flexible than the hitherto individual Chilean housing subsidies, making it possible to build additional and rebuild dilapidated houses in situ. The fund is centrally managed by the Ministry of Housing and Planning (MINVU); applicant households are prioritised according to a national system of Socio-Economic Ranking.

Among other ends, the FSV programme is meant to be suitable for small scale urban regeneration in already inhabited inner city areas. To be eligible, FSV projects have to be submitted to the national authority by organised local communities composed of 10 or more households. They have to be technically operated by an Organising Entity which channels the demand (the group of applicants), external firms of Technical and Legal Assistance and a

[6] By 2003, the average per capita monthly income in the country was 150,000 Chilean Pesos, or US$ 270.

'social realtor'. Households must be 'in a condition of poverty', as the programme consists of three types of 'solutions', such as: a) to buy new dwellings, b) densification via extra house building or by dwelling extension with repair, and c) dwelling replacement via new unit construction. By 2009, the funds allocated for any of the three modalities of densification ranged between US$ 12,300 and US$ 14,500 that can be extended to a range between US$ 14,500 and US$ 16,300 for projects located within Greater Santiago, for it considers the city produces the highest land values in the country.

From being a 'pilot programme' in 2001, the FSV has turned in to the main social housing programme for subsidy of the lowest-income sectors of the country, since 2006. Between those years, a total of 2,000 FSV projects were approved nationally, benefiting around 125,000 households. From 2005 to 2006, the state budget for FSV increased by 15% (from approximately US$ 236 million to US$ 271 million FSV national total budget). If the total national annual budget for social housing is approximately US$ 480 million, considering subsidies and 'solutions' completed and allocated by SERVIU, the FSV in 2006 represented around 56% of the total budget aimed at social housing in the country. Yet the FSV has been more successfully applied in Santiago's peripheral districts, usually those with larger availability of unoccupied and cheaper land (for a total of 8,500 subsidies allocated in Santiago's Region in 2010, 70% of them went to peripheral land), and for the last five years, emphasis has been given to the allocation of extra-metropolitan districts (from 10% to 17% between 2009 and 2010), a land which is considerably more affordable for social housing production. As a consequence, the application of the FSV in the inner city districts has been modest with a mere 13%. Generally speaking, land prices in the central districts are still considerably above the purchasing capacity (even subsidised) for social housing, as the only choice in central areas seems to be the urban renewal market, which is largely unaffordable for the lowest two quintiles of the country. As a result, the increasing centrifugal migration of lower-income strata reinforces the historical patterns of social segregation in the city.

Concluding discussions: Entrepreneurial agendas of urban redevelopment at multiple scales

The development of the Korean and Chilean states and their spatial strategies to address urban development and redevelopment needs have resulted in an interesting array of similarities and differences in the way state entrepreneurialism is manifested in urban space. In both cases, entrepreneurialism at national scale operates as a form of crisis-solving machine, attracting domestic and/or foreign financial capital to finance investment in the built environment.This requires co-ordination at both metropolitan and national level. Property-led urban redevelopment model has been at the core of these efforts at various urban scales in both countries, and these efforts are comprised of rezoning of spaces of large rent gaps (with little or non-existing mechanisms of social accountability for these processes); direct and indirect state subsidies to buyers of new units aimed at middle-income strata; indirect subsidies to large-scale developers aimed at facilitating the acquisition and assembly of land for large-scale construction.

The property-led nature of urban spatial restructuring appears to have been more pronounced in times of recovery from the Asian financial crisis, operating as a much sought-after policy tool for the states to address sluggish economy and restructure the real estate sector itself. Since the early 1980s, the Korean developmental state has been relying heavily on the initiatives of property owners and developers, who have the capacity to provide financial resources, while the central and local states have been ensuring the provision of market-friendly investment environment. The proactive and interventionist nature of the Korean developmentalist state has continued to exert influence on urban renewal practices in times of economic recovery from the Asian financial crisis, and the property-led nature of urban redevelopment in Seoul has remained persistent. A similar trajectory is found in Chile where the state (previously rolled-back until the 1980s) came to the fore to become the main facilitator of inner city restructuring since the 1990s. Especially during the post-Asian financial crisis period, the renewal practices in Seoul and Santiago depicted the crystallisation of the model of property-led urban redevelopment, building upon the belief that higher ground rents would be reaped through neighbourhood revalorisation and the implementation of various state apparatus. These include various direct and indirect subsidy schemes that help spawn urban redevelopment projects, as well as relaxation of density requirements so that redeveloped high-rise flats could be constructed to the maximum density permitted. While the urban redevelopment projects in Seoul saw the domination of influential developers associated with large conglomerates since the 1980s, Chile also came to see the domination of a limited number of key developers becoming more important and dominant in urban renewal projects especially during the post-Asian financial crisis recovery period in 2000s.

At metropolitan scale of Seoul or Santiago, the details of implementing urban renewal practices tend to show some differences, largely reflecting the historical trajectory of urban renewal policies accumulated over time as well as the macro-economic and political environment. The major difference would lie in the presence of a unified metropolitan government that produces some guidelines and parameters for lower-level governments would maneuver. In Seoul, the devolution of local governments led to the establishment of independent district governments, which meant that both district government mayors and the mayor of Seoul metropolitan government were all elected. However, while district mayors had their own planning power to intervene in renewal projects within their jurisdiction, the Seoul metropolitan government and the metropolitan assembly had greater power in the planning processes. The example of the New Town Programme in Seoul in the 2000s was a clear example of the local state at metropolitan scale, executing dedicated actions to facilitate asset accumulation through real estate development and property-led urban renewal.

The governance structure in Seoul differs greatly from that of Santiago where 34 districts within Greater Santiago have its own municipal governments (equivalent to district governments in Seoul) without the presence of a metropolitan-level government. Therefore, in comparison with Seoul, Santiago experiences a greater chance of fragmentation and inter-government competition in terms of attracting resources and promoting development projects. Local-level district authorities (known as municipalities) have the exclusive power to do re-zoning and re-drafting of the building capacity as incentives for the market. This is creating a situation where the market operates increasingly active in central city and its surrounding regions, as land revenues are being more profitable in both places. Peripheral areas on the other hand tend not to grow at the same pace regarding its residential stock, and become increasingly the recipient of social housing schemes, thus creating a further room for residential segregation at metropolitan scale. Therefore, while it may be assumed that local states perform a more specific role at attracting and anchoring capital into the place, there is a greater room and need for cooperation in Seoul (and at times, shaping of local-level policies) than in Santiago due to the degree of fragmentation of local governance.

There also seems a marked difference between Korea and Chile in terms of urban finance. This reflects the ways in which each country has developed its financial market since the 1970s. In Chile, the dependence of the real estate market on foreign financial credits is very noticeable. As discussed earlier, by 2008, about one quarter of the bank credits in the country financed property market, half of which were controlled by foreign banks (Kouyoumdjian, 2008). This reflects the liberal nature of capital market environment of Chile, a market that was endorsed by the Heritage Foundation in the US for its high degree of economic freedom (see previous Table 1). The net inflow of foreign direct investment (hereafter FDI) steadily increased from 1.03 billion US dollars (at current price) in 1993 to 5.27 billion in 1997, and then to 15.18 billion in 2008, an all-time peak estimate since 1975. It is yet to be verified how much of this net inflow of direct investment went to the property market, but heavy influence of foreign banks and investment funds as put forward by Kouyoumdjian (2008) suggests a close connection. This has not been the case for Korea. Its net inflow of FDI remained lower than that of Chile until 1997.

Korea’s all-time peak estimate was 9.33 billion US dollars in 1999, attributed to the inflows of FDI that attempted to take the advantage of depreciated asset values in the aftermath of the Asian financial crisis and the bailout by the International Monetary Fund. However, the level of net FDI inflow remained below 4 billion dollars since 2004, comparatively very small when juxtaposed with the figures from Chile. This owes to the fact that Korea has been traditionally more in favour of foreign loans rather than FDI when resorting to overseas capital for investment purposes. This tendency is also evident with regard to the government attempts to introduce project financing in urban redevelopment projects in Korea. The use of various financing tools such as real estate investment trusts or project financing-related asset-based securities. Investment funds for real estate were provided mostly by domestic financial institutions that either deployed its own savings or borrowed money from overseas capital market.

In conclusion, the rise and consolidation of property-led approach towards urban redevelopment in Korea and Chile reflects the way in which state-led entrepreneurial approaches to urban accumulation has become increasingly prevalent at global scale regardless of cities’ geographical positioning. The central and local states have worked as land suppliers, subsidisers or even boosters of wholesale redevelopment. These similarities demonstrate that real estate properties and investemnt in the built environment have played an essential role in the maximisation of profits and ground rent extraction especially in times of recovery from the external shock, that is the Asian financial crisis. The degree of recovery efforts and their influence on urban accumulation depended on the extent to which previous regulatory practices and institutional framework maintains its influence, hence the importance of path-dependency.

However, there are also particular elements of urban entrepreneurialism in Korea and Chile, which are rooted in each nation’s distinctive political economic development experience during the last few decades. In particular, we note the continuity of the essence of urban redevelopment practices in Korea under the pre-crisis developmental state and post-crisis (neo-)liberalising developmental state. The basic structure of investment and institutional set-up has seen little change. Given the nature of the developmental states that puts a heavy emphasis on market orientation and proactive state intervention, prioritisation, developmental states may have an ally in neoliberal states. The emergence of neoliberal governance that emphasises partnership or coalition with business interests as well as with other civil society interests to further economic competence and freedom, may not be opposed by developmental states that have already been founded on a strong alliance with business interests (e.g. large conglomerates in South Korea, commonly known as chaebol). The examination of the experiences of urban redevelopment and spatial restructuring in Korea and Chile with a focus on their capital cities, Seoul and Santiago, demonstrate that there are features of the current stage of urban capitalism in the global periphery, which deserve careful attention and revised conceptualisation beyond the usually accepted definitions of neoliberalism that are confined to the Global North contexts.

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