Pathways to a World City: Shanghai Rising in an Era of Globalisation

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Summary. In a globalising world, cities at or near the apex of the international urban hierarchy are among the favoured few—New York, London and Tokyo—that have acquired large economic, cultural and symbolic roles. Among a handful of regional aspirants, such as Hong Kong, Miami and São Paulo, Shanghai has reasonable long-term prospects. If the Chinese economy can sustain its growth rate, it will rival the US in a few decades. And if Shanghai is able to retain its pre-eminence in the Chinese context, then it is likely to be the East Asian city with the best prospect of becoming a global centre. This paper briefly explores the makings of a world city, identifies certain necessary ingredients, examines Shanghai’s recent development, indicates national and municipal policies that may determine Shanghai’s pathway to a global city and shows how such policies are being implemented.

When one thinks of world cities, a handful of names come immediately to mind: New York, London, Tokyo and possibly Paris (Friedmann, 1998).\(^1\) They are classified as world cities because these large urbanised regions with their dense patterns of interaction are hubs of finance, other business services such as accounting, legal and advertising, communications, international transport, the global corporate sector, the publishing industry, fashion and mass culture (Friedmann, 1995). These cities are in effect the key nodes in an increasingly networked global economy (Castells, 1996). They owe their position to the ‘spatial dispersion’ and internationalisation of production. The reorganisation of the financial industry has also led to rapid increases in the already significant concentration of financial activities in these cities. Finally, the reconcentration of a considerable component of foreign investment activity and the formation of an international property market in these cities have further fed the economic core of high-level control and servicing functions (Sassen, 1991).

There are significant commercial advantages to becoming a world city with many regional aspirants such as Hong Kong, Miami and São Paulo. One such candidate is Shanghai, currently ranked as a third-tier global city, alongside Beijing, Manila and Kuala Lumpur.

Lumpur, but behind Seoul and São Paulo (Beaverstock et al., 1999; Friedmann, 1998, pp. 34–35). In this paper, we first briefly explore the makings of a world city and identify certain necessary ingredients. We then examine Shanghai’s recent development. Thirdly, we indicate the kinds of policies, devised by both the national and municipal governments, that would enable Shanghai to graduate from being a national to a regional—and possibly, in the distant future, a global hub—of the front rank. And finally, we show how such policies are being implemented in Shanghai.

**World Cities**

We start with the three premier cities—New York, London and Tokyo—and ask what is distinctive about their past history, economic environment and geographical location. How did they acquire their current status?

All three are the financial and cultural capitals of industrialised countries that are key players in the world economy.Taken together, the three countries account for close to half of global GDP and are hosts to the world’s 20 biggest companies (by market capitalisation), 22 of the 50 largest banks and 24 of the 25 biggest securities firms (Wall Street Journal, 27 September 1999). Thus, the current size of the economy or—as is the case for the UK, its worldwide preponderance in the not too distant past—is one reason for the salience of these cities.

All three cities enjoy a favoured location within their respective countries. Their economies are intertwined with and benefit from a rich, diversified and populous industrial hinterland. The neighbourhood is both a source of economic strength and also a source of competitive pressure. A vast market provides the demand and the aggressive competitors that spur continuing dynamism. Although world cities have seen their fortunes fluctuate over the past 50 years—particularly New York—on balance, they have pursued policies enabling them to maintain their historically determined positions at the top of the urban hierarchy (Abu-Lughod, 1999).

All three cities derived a large measure of their past impetus from a broad industrial base and their role as regional—or national—transport hubs. But in the past three decades, each city has relied on the growth in demand for producer services (such as financial, marketing, public relations and management services) and generalised consumer services, while retaining some manufacturing activities—Tokyo is ringed by industry (Sassen, 2000). Finance, other producer services—including management, insurance, accounting and publishing—the entertainment industry, the medical sector and education services are now the principal employers and the drivers of metropolitan prosperity in all three cities. The fruitful interaction and growth of business services and the corporate sectors have been especially critical to the continuing dominance of these cities. This has also positioned them to reap the full benefits of the communications revolution, from regional networking and from globalisation (Clarke and Gaile, 1998). For instance, New York has become the location of a ‘Silicon Alley’ comprised of companies specialising in multimedia software, creating websites, and on-line entertainment and related services.

Among the most remarkable developments during the past two decades is the explosive increase in computing power and the marrying of this capability with the equally dramatic expansion in communications capacity (Friedman, 1999). The two together have transformed and globalised the financial system and they have vastly enlarged international production networks and helped to increase the efficiency of supply chain management. These networks have dispersed sequential production processes across national borders in order to reduce costs, improve market access and enhance competitive advantage. In the process, they have boosted cross-border trade, which tends to be managed from a few global or regional hubs (World Bank, 1999a).

By being among the first to exploit the commercial opportunities offered by communications technology, the world cities have strengthened their position as financial hubs.²
In fact, because 80 per cent of all international data transmission relate to financial transactions (Graham, 1999), investment in communications technology has enabled these cities to become the corporate nerve centres of globe-spanning production networks. Modern communications have made it far easier to manage dispersed business operations from centrally located headquarters that have access to a wide range of vital producer services. After experimenting with the dispersal of headquarters to secondary cities, where commercial real estate and housing costs are lower, most large corporations have found it advantageous to locate in the main urban centres in order to have full access to the desired mix of services. London, for instance, has the largest share of international business in areas such as cross-border bank lending, foreign exchange and over-the-counter derivatives. While a trading culture of long-standing has certainly contributed, London also owes its position in these contested markets to a benign regulatory environment and the quality of professional and support services (Kynaston, 2001).

Buttressing all of these attributes is the strength of market institutions and economic openness in all three countries. Legal and commercial institutions have provided the foundations for a thriving financial system and a robust corporate culture. But it is the openness that has served as the keystone: providing the traffic in ideas that have contributed to the many-faceted commercial and cultural development of these cities, creating the vibrant milieu that attracts talented people and providing workers with the incentives both to explore and to exploit technological possibilities. Recent research has linked openness with the spirit of inquiry, fruitfulness of research, entrepreneurial drive, the growth of trade, the speed of financial innovation and the cultural fruitfulness that stimulates change (Landes, 1998). World cities draw upon a range of economic, geographical and institutional strengths but, in addition, they rely upon the energies released by openness.

The Chinese Context and the Future Role of Shanghai

Shanghai’s prospect for acquiring the status of a regional hub is undoubtedly tied to China’s future development. Can China—a low-income country where about 70 per cent of the population still live in the rural areas—provide the conditions for Shanghai to become comparable with Hong Kong (Enright et al., 1997)? Among the East Asian regional centres, Hong Kong will retain an edge in the medium term for several reasons. It enjoys the locational benefits that derive from its being at the intersection of Chinese and foreign social networks mediating the flow of capital. This is an advantage acquired over more than a century during which social relations were bolstered by formal institutions (Meyer, 2000). Hong Kong is the most centrally located city relative to the other capitals in East and South-East Asia. Moreover, if in the future, Asia’s economic centre of gravity shifts more to the south-east and the south (the clustering of high-tech industries in Guangdong and Fujian is a magnet), then cities like Hong Kong and Singapore are better positioned to service emerging demands (Ochi, 1997). These factors are underscored by a survey of 8000 North American, European and Japanese companies, which showed that 35 per cent maintained regional headquarters in Hong Kong, compared with 30 per cent in Singapore and only 9 per cent in Tokyo (Financial Times, 13 July 2001). The growing significance of scale and network economies associated with key producer services suggests that primary regional hubs will remain few in number. In addition, there are large gains from the agglomeration of corporate and service activities in a handful of centres offering ample, multilayered opportunities for face-to-face contact, learning and knowledge spillovers.

But this is not to say that the number of global and regional hubs will remain fixed. New regional centres could emerge as East Asia continues to develop and urbanise. As one of the most rapidly urbanising countries in the region, China will experience the pro-
found impact of urbanisation on economic growth, the pattern of demand, income distribution and a range of services. By one estimate, about one-tenth of China’s growth since 1980 can be ascribed to the effects of agglomeration economies. Moreover, urban Chinese hold 70 per cent of the country’s wealth, command incomes that are three times the rural average and generate much of the demand for new consumer goods coming onto the market (Fortune, 11 October 1999). Furthermore, China’s trade prospects, largely determined by urban centres, and the capacity to generate resources, give it a commanding lead over other countries in the region.

Often called the ‘crucible of modern China’, Shanghai entered the stage of modern commercial and industrial development in the second half of the 19th century (Wei, 1987). During its golden age in the 1920s, with a population over 2 million, Shanghai was a meeting ground for people from all countries, a great and a unique city, one of the most remarkable in the world (Pott, 1928, p. 1).

The incursion of Western mercantilism into this semi-colonial city and the establishment of China’s first modern institutions of higher learning made it the financial and cultural centre of the Orient. Ranked as the 7th largest city in the world in 1936, no modern Asian city from that period could “match Shanghai’s cosmopolitan and sophisticated reputation” (Yeung, 1996, p. 2).

Today, with a resident population of over 13 million and a land area of 6377 square kilometres within the metropolitan area, Shanghai is the biggest of the three cities—the two others are Hangzhou and Wuxi—that together comprise the principal urban region in China (see Figure 1). The metropolitan area, governed by the Shanghai Municipal Government—equivalent to a provincial government because of Shanghai’s special administrative status—consists of 17 urban districts (10 of them are located in the central city) and 3 suburban counties (see Figures 2 and 3). Continuing efforts of decentralisation have offered district governments substantial autonomy in tax collection, budget allocation, infrastructure provision and planning.

Shanghai, with a GDP of $55 billion, has a per capita income of $4163 (2000 dollars), a highly diversified industrial base responsible for 4.9 per cent of national industrial output and an expanding services sector (see Table 1) offering agglomeration economies (Shanghai Statistical Bureau, 2001). But only a fraction of such economies have been fully exploited because of the persisting compartmentalisation of industrial sub-sectors and research facilities, a resilient legacy of the socialist planning system now being displaced piecemeal by the market system. After a decade of industrial restructuring, municipal authorities are paying closer attention to the development of high-tech products and six manufacturing sub-sectors—automobiles, telecommunications, power station equipment, steel, petrochemicals and home appliances (Shanghai Star, 28 May 1999). At the same time, the share of services has begun rising steeply since 1993 and now accounts for 48 per cent of municipal GDP.

Entering the 21st century, Shanghai is a city competing aggressively for the mantle of China’s premier metropolis in the face of competition from an established centre—Hong Kong—and other aspirants such as Beijing (Oxford Analytica, 2001). Its share of the nation’s GDP is almost twice that of Beijing and its growth (averaging 9.5 per cent in 1999/2000) is the highest of any city in China. In Shanghai’s favour are the lower overall living and business expenses relative to Hong Kong and the support and incentives it has received from the central government. The appointment first of Jiang Zemin (1985) and then of Zhu Rongji (1987) as mayors of Shanghai put in place leaders with close links to Beijing. In 1990, Deng Xiaoping lent his support to the city by calling for rapid development of the Pudong New Area project on farmland to the east of the city, proposed in the early 1980s by the then mayor of Shanghai Wang Daohan. The project was formally
launched by premier Li Peng in April 1990. This was followed by a number of preferential measures which, for example, allowed Shanghai to establish a stock market, a free trade zone and a number of service industries. Jiang Zemin’s appointment as Party Secretary and Zhu Rongji’s entry into the ranks of the ruling circle, first as Vice Premier and then Premier, further strengthened Shanghai’s links with the capital and support for its development ambitions. Thus in 1995, 18 super-special policies gave preferential status to projects in Pudong, 700 million yuan (approximately $84.5 million) in annual loans from the centre plus a number of other benefits that have enabled Shanghai to sustain the tempo of activity and of change (Yatsko, 2001).

The attention given to Shanghai represented in part an attempt by the centre to promote development in the northern part of the country in order to balance the rapid advances taking place in the south-eastern region (Ochi, 1997). More broadly, it reflects the increasing attention being given to urban areas where China’s wealth is concentrated. Moreover, Shanghai has invested heavily in transport facilities and the latest fibre-optics-based and mobile communications technology so essential for the growth of

Figure 1. The Shanghai–Hangzhou–Wuxi urban region. Source: Shi et al. (1996).
local producer services and for integrating with the international business community (Wu and Wong, 1997).\(^7\)

Around Shanghai and extending westwards along the Yangtze River valley is one of the two most prosperous economic hinterlands in China with an urban population of 200 million and a GDP of nearly $300 billion (1995 dollars).\(^8\) The south-eastern region, comprised of Hong Kong and the Pearl River delta, has registered equivalent growth rates and has a superior transport and communication facilities. But the size of the Yangtze basin economy, its momentum during the 1990s and its contiguity with the Qingdao-Yantai-Jinan region are certainly impressive. When we look into the future, the pattern of development in the Yangtze basin, the pro-

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\(^7\) Wu and Wong (1997).

\(^8\) Figures and sources are not provided in the text.
ductivity of the diversified agricultural economy, the vast scale of rural industrial activities and the speed with which transport and communications infrastructure are being built up, all suggest that this region will compete strongly with other parts of the country.\textsuperscript{9}

Pre-eminence in a national context, however, is only one of several attributes of a regional or global hub. Several types of function are commonly associated with world city status. These include finance, transnational corporate headquarter functions, global services, transport, information, a site for international conferences, exhibitions and cultural activities (Douglass, 2000).\textsuperscript{10}

Governments across the world have begun to promote the advancement of their key

*Figure 3.* The ten urban districts of central Shanghai. In 2000, the districts of Huangpu and Nanshi were merged into a new Huangpu District. *Source:* Yeung (1996).
Table 1. Indices of gross domestic product in Shanghai (1952 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Primary sector</th>
<th>Secondary sector</th>
<th>Tertiary sector</th>
<th>Transport and communications</th>
<th>Wholesale, retail and food services</th>
<th>Banking and insurance</th>
<th>Real estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>1596.6</td>
<td>244.2</td>
<td>2602.9</td>
<td>715.0</td>
<td>1833.1</td>
<td>391.3</td>
<td>3076.7</td>
<td>1154.0</td>
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<tr>
<td>1986</td>
<td>1666.9</td>
<td>243.8</td>
<td>2707.0</td>
<td>757.9</td>
<td>1906.4</td>
<td>394.0</td>
<td>3544.4</td>
<td>1065.1</td>
</tr>
<tr>
<td>1987</td>
<td>1791.9</td>
<td>237.2</td>
<td>2907.3</td>
<td>825.4</td>
<td>1973.1</td>
<td>397.9</td>
<td>4274.5</td>
<td>1175.9</td>
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<tr>
<td>1988</td>
<td>1972.9</td>
<td>248.2</td>
<td>3180.6</td>
<td>929.4</td>
<td>2085.6</td>
<td>461.2</td>
<td>5185.0</td>
<td>1198.2</td>
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<tr>
<td>1989</td>
<td>2032.1</td>
<td>248.9</td>
<td>3231.5</td>
<td>995.4</td>
<td>2164.9</td>
<td>465.8</td>
<td>6548.7</td>
<td>1286.9</td>
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<tr>
<td>1990</td>
<td>2103.2</td>
<td>259.6</td>
<td>3322.0</td>
<td>1048.2</td>
<td>2437.7</td>
<td>476.2</td>
<td>6961.3</td>
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<td>1991</td>
<td>2252.5</td>
<td>260.6</td>
<td>3547.9</td>
<td>1137.3</td>
<td>2627.8</td>
<td>547.0</td>
<td>7135.3</td>
<td>1575.7</td>
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<tr>
<td>1992</td>
<td>2585.9</td>
<td>261.6</td>
<td>4158.1</td>
<td>1273.8</td>
<td>2869.6</td>
<td>643.9</td>
<td>7784.6</td>
<td>1905.0</td>
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<tr>
<td>1993</td>
<td>2971.2</td>
<td>254.5</td>
<td>4852.5</td>
<td>1441.9</td>
<td>3079.1</td>
<td>727.0</td>
<td>9193.6</td>
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<tr>
<td>1994</td>
<td>3396.1</td>
<td>261.9</td>
<td>5541.6</td>
<td>1669.7</td>
<td>3300.8</td>
<td>803.3</td>
<td>11924.1</td>
<td>2656.3</td>
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<tr>
<td>1995</td>
<td>3875.0</td>
<td>278.7</td>
<td>6361.8</td>
<td>1888.4</td>
<td>3565.4</td>
<td>921.4</td>
<td>12568.0</td>
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<tr>
<td>1996</td>
<td>4378.8</td>
<td>292.6</td>
<td>7067.9</td>
<td>2224.5</td>
<td>4007.5</td>
<td>1029.2</td>
<td>16313.3</td>
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<td>1997</td>
<td>4934.9</td>
<td>304.9</td>
<td>7817.1</td>
<td>2618.2</td>
<td>4344.1</td>
<td>1227.8</td>
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<td>1998</td>
<td>5433.3</td>
<td>311.6</td>
<td>8458.1</td>
<td>2992.6</td>
<td>4717.7</td>
<td>1355.5</td>
<td>23016.7</td>
<td>12696.4</td>
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<tr>
<td>1999</td>
<td>5987.5</td>
<td>318.5</td>
<td>9219.3</td>
<td>3381.6</td>
<td>5250.8</td>
<td>1506.0</td>
<td>26216.0</td>
<td>14600.9</td>
</tr>
</tbody>
</table>

Source: Shanghai Statistical Bureau (2000).
metropolises into regional or global hubs by acquiring some or all of these functions. As Figure 4 shows, in the East Asia region, Hong Kong and Singapore lead the way with respect to international flights and international airfreight movements. However, both Beijing and Shanghai have achieved respectable levels in a short space of time and are registering high growth rates as China’s economic importance continues to rise.

We believe that actions enabling Shanghai to acquire the status initially of a regional centre would need to encompass at least two strands: the first involves greater openness, comparable to that enjoyed by Hong Kong. This is primarily in the hands of the central government. The second calls for municipal policies to enhance Shanghai’s competitiveness as a metropolitan area.

**Becoming a World City: Greater Openness**

**Economic Liberalisation**

Relative to many other countries, China remains a closed society where central and sub-national governments regulate and limit contacts with foreigners, control movement into and out of the country, regulate Internet traffic and take a minimalist view of individual rights vis-à-vis the state.\(^{11}\) The political system is firmly in the grip of the Communist Party. And although the Shanghai municipality, with the status of a province, enjoys substantial fiscal and administrative autonomy, it is subject to the same strictures as the rest of the country regarding relations with the outside world.

By containing links with the rest of the world, the Chinese authorities make it harder for Shanghai to capitalise fully on foreign direct investment (FDI) in infrastructure building, international production networking and the growth of producer services. Although Shanghai’s rapid development over the past decade has contributed to its continued national dominance, key elements of national policy have kept Shanghai from moving closer to the ranks of cities that can claim to be the leading regional hubs. China’s limited attractiveness for the international business community, which affects the prospects of its cities, was underlined by a survey in *The Economist* (7 March 1998, p. 114): Hong Kong had a score of 8.5 out of 10 during the period 1992–96, ahead of Britain, the Netherlands, Singapore, Canada and the US, but China was not among the top 30 countries.
Openness has many dimensions, including trade, the legal framework, finance and culture. China’s access to the World Trade Organisation (WTO) will result in a significant liberalisation of trade through the adoption of rules and incentive mechanisms shared by other members. It will involve China directly in international governance associated with trade and related issues. It is also likely to result in a far-reaching dismantling of barriers to trade in manufacturing, agricultural products and many kinds of services, and greater penetration of foreign entities in the financial sector, telecommunications and other areas (Lardy, 2002; Wall Street Journal, 10 January 2000; The Financial Times, 21 January 2000). These would accelerate the reform of the state enterprise sector, currently being downsized through closure, merger or privatisation.

Improved communications with other countries is another dimension of the move towards openness. This already is being pursued with great vigour through heavy investments in telecommunications, amounting to $400 billion between 1994 and 2000, which have provided fixed and mobile telephone services to more than 155 million users (Far Eastern Economic Review, 4 March 1999). The number of people with Internet access is doubling every 6 months and is expected to exceed the number in the US by 2003. From 8.9 million users in 1999, the number rose to over 20 million by the end of 2000 (The Financial Times, 12 August 1999; 1 October 1999; Hartford, 2000; Oxford Analytica, 10 May 2001). For this investment and the interlinkages it provides to yield their full returns, domestic rules and laws will have to evolve to recognise individual freedoms to use the burgeoning channels of communication.

This leads to a third and related aspect of openness, which is the framework of commercial laws and regulations governing business dealings and financial transactions. Since the mid 1980s, China has been gradually building a legal infrastructure, training lawyers, assimilating laws and instituting legal procedures that are increasingly a common currency worldwide. But the nature of Chinese legal and regulatory practices, as well as the approach to enforcing regulations, still differs markedly from that of more open industrialised countries. For example, there is legislation providing redress where administrative power is misused, but only under certain conditions when the government is involved, and no redress is available when the Party is involved. The courts cannot challenge the right of the police to impose administrative punishments and send people to jail without a trial (Oxford Analytica, 29 July 1998, 25 October 1999). This can result in uncertainty, inhibits business dealings and raises transaction costs, especially for foreigners.

China’s vast potential market tempts foreign companies and financial houses and is responsible for cumulative foreign investment in China projected to reach $388 billion (committed amount) by the end of 2001 (Economist Intelligence Unit, 26 March 2001). But the lack of transparency and the problems of coping with complex local regulations are a serious disincentive. The persistence of high transaction costs resulted in a reappraisal of business opportunities in China by many foreign corporations and a slowdown of FDI in 1999 (The Financial Times, 1 October 1999). Hence, narrowing the institutional gulf in legal and regulatory matters between China and other countries will be a key aspect of greater openness.

China remains largely segregated from international financial markets. Earlier plans to liberalise transactions on the capital account were interrupted by the East Asian crisis of 1997/98 that battered five countries in the region but left China largely unscathed. In the immediate aftermath of the crisis, it was thought that China avoided succumbing to the crisis because it deferred the deregulation of the capital account until it had built up adequate supervisory capability and thereby contained the inflow of short-term and portfolio capital. Malaysia’s experience with controls on capital outflow also lent credence to this line of thinking. However, closer analysis of the entire crisis episode and of the use of capital account
controls, not just in East Asia but also in Latin America, suggests that the story is much more complex and capital controls are relatively ineffective in insulating domestic and financial markets from international markets and may have had less bearing on vulnerability than the state of the financial systems in the crisis-hit East Asian economies and their neighbours.\(^\text{17}\)

The experience of East Asia and Latin America seems to have established some new findings and reaffirmed old lessons: there is no significant relationship between the openness of the capital account and economic volatility (Easterly \textit{et al.}, 1999). However, the capital account should be fully liberalised only after achieving macro-economic stability, ensuring that the banking system is strong and competitive and putting in place an effective regulatory system (Cooper, 1999). And Malaysian experience with capital controls during 1998/99 suggests that the economy may have performed better relative to Korea and Thailand when the latter countries were implementing programmes required by the International Monetary Fund (Kaplan and Rodrik, 2000). Where countries delay needed banking reforms and use this as a reason to defer capital account liberalisation, urban development suffers, the deepening of financial markets is significantly slowed and much capital is allocated inefficiently. Producer services develop less rapidly and financial repression also affects the cost and access of small businesses to capital. All of these are likely to influence longer-term growth (Levine, 1997).

A major challenge for China during the medium term is to strengthen the financial system (Newfarmer and Liu, 1998). As markets become more sophisticated, new derivative instruments appear and trade contacts continue to expand, restraining capital outflow is likely to prove extremely difficult and even containing inflows would pose problems. Thus capital controls are likely to inflict transactions costs and raise borrowing costs for small and medium-scale enterprises without achieving many tangible benefits in terms of protection from major shocks (Edwards, 1999). If they reduce the pace of banking reform, they could involve a substantial waste of resources.\(^\text{18}\)

**Strengthening Market Institutions**

Shanghai is embarked on the road to becoming a financial centre, but it lags far behind Hong Kong. So far, the central government and the municipal authorities have taken only the first few steps by creating some of the physical infrastructure and inviting international financial entities of all kinds to establish offices in the city. Commercial banks, investment and brokerage houses, insurance firms, other market makers and telecommunications companies have responded by establishing footholds in the city (Lardy, 2002; \textit{Wall Street Journal}, 18 January 2000). By the end of 2000, 103 foreign banks had established offices or commercial operations in China, with the majority having a presence in Shanghai. But thus far, the authorities have restricted retail banking activities, securities trading and insurance, and only recently have permitted foreign banks operating in Shanghai to make loans in local currency. Many other elements must be put in place—for example, permitting foreign intermediaries to compete for local deposits and services such as credit cards and home mortgages—before Shanghai becomes even a regional crossroads for the international financial community (Chowdhury, 2000).\(^\text{19}\)

One of these is the lowering, as is proposed under the WTO rules, of barriers to trade—a step that would promote trade, sustain growth and lead to a continuing decline in poverty. Second is the opening of China’s capital account, which, along with full convertibility, would permit the freer flow of capital in and out of the country. A third is a framework of rules and laws governing financial and other entities that delineate and enforce rights in a transparent and predictable manner, especially those pertaining to contracts, intellectual property, bankruptcy procedures and foreclosure. Fourth is a regulatory framework to monitor activities, build the institutions that will ensure stable market
functioning and induce innovations conducive to growth as well as efficiency. Fifth is the reform of financial entities to enhance their autonomy and efficiency and enable them to compete against foreign organisations—a development that would permit a gradual dismantling of the many curbs on the activities of foreign firms, including investment in Chinese banks. In 2001, the non-performing loans (NPLs) at the Bank of China were estimated close to 29 per cent of assets and those of the other major state banks are likely to be comparable if not larger (The Financial Times, 16 May 2001). Furthermore, as state-controlled banks channel over 75 per cent of bank credit to state enterprises, half of which were making losses during 1998/99, the percentage of NPLs is likely to increase. Return on assets in the banking system was less than 0.2 per cent in 1999 (The Financial Times, 1 October 1999; Far Eastern Economic Review, 9 September 1999; World Bank, 1999b).

The final element relates to the continuing development and deepening of the financial and insurance markets, a process that has been on-going since the early 1990s. Markets for stocks, other financial instruments and foreign exchange are now functioning in China, along with adequate mechanisms for clearing transactions and settling payments. By 2000, over 1000 state enterprises were listed on either the Shanghai or the Shenzhen stock exchanges and market capitalisation was approaching 4.4 trillion yuan ($530 billion). But the insurance industry is still woefully underdeveloped. The institutional base created must evolve much further before China can attain parity with other industrialising countries, not to mention the advanced economies. Shanghai has a head-start in the sphere of financial market development in China, which is meaningful in a national context but not yet in regional terms.

Pathways to the World City: Competitiveness and Livability

While the critical policies determining economic openness will be largely decided by the central government and the prosperity of Shanghai’s hinterland will be a function of policies pursued by a host of entities, Shanghai’s municipal authorities also have a large role to play in enhancing the city’s competitiveness and quality of life. They have had a firm hand in determining the timing, pace and configuration of the city’s development (Han, 2000). Since the mid 1990s, a set of strategic development objectives has been defined and, to a degree, implemented. A key element is to advance into a world city level of scale of business services, transport and communications facilities, commercial facilities and availability of skills (Chan, 2000). This calls for action in a number of areas, building on a variety of on-going initiatives. Shanghai is active in each of these areas, but it faces difficult choices and many steps may involve complex negotiations with the central government as well as with neighbouring provinces.

Like cities in south China, Shanghai has acquired greater local autonomy since the late 1980s when the city negotiated a more favourable fiscal agreement with the central government. Its leadership also has undergone marked change. The current municipal leaders are generally better educated and technically trained industrial managers and professionals. More of them are now native to the city instead of being outsiders directly appointed by the central government, tilting the balance of power between the centre and Shanghai more towards the city. They share in the vision of a market economy, of the creation of formal institutions and the promotion of science and technology (Chen, 1998). This section outlines some of the progress Shanghai has made and hurdles that it is likely to face, including —Continuing efforts to build links with the world economy by improving the physical and social infrastructure and attracting FDI.
—Industrial consolidation accompanied by land-use policies inducing a shift of industry away from the core areas and permitting mixed commercial and residential use of prime urban land.
A co-ordinated development of transport, housing and infrastructure to minimise congestion and improve urban livability, through organisational streamlining and the use of new financial instruments.

Taking measures to ensure an adequate supply of entrepreneurship, skills and labour from within the municipality and through migration.

Building Regional Linkages

Enhancing its external linkages has been a key objective of Shanghai. The new international airport that opened in September 1999 marks a significant step in the city’s long-term goal to become an aviation hub in the Asia and Pacific region. It will be connected to the planned Beijing–Shanghai expressway by a proposed high-speed railway supplemented by high-speed ferries running from a terminal adjacent to the airport to nearby ports in Zhejiang Province (Shanghai Star, 19 March 1999). Foreign airlines have responded to the city’s rising significance as a business centre and the growth in airport capacity by increasing the volume of service (see above). Since 1999, several new, non-stop flights have been added, including KLM Royal Dutch Airlines to Amsterdam, Austrian Airlines to Vienna and China Eastern Airlines to Japan’s Fukushima. Shanghai now has non-stop flights reaching most of the world’s important urban centres.

Becoming a major cyber hub is yet another ambitious undertaking in Shanghai’s building of external linkages. A five-year key project has been launched to integrate all the circuits and pipelines for telecom services into an underground broadband pipeline (China Daily, 21 December 2000). Upon completion, this project will not only offer a strong backbone for the city’s development as an Internet-smart metropolis, it will also improve the aesthetic quality of the environment while reducing the number of accidents caused by open-air circuit poles and lines. Rapidly increasing Internet usage also relates to the export orientation of Shanghai-based enterprises and the steadily improving quality of the telecom facilities is helping to integrate Shanghai with the world economy. Greater broadband access and the use of mobile technology, as in Singapore and Japan, will enhance the utility of the Internet although this will require resolving some thorny issues regarding standards, technology and links with households and freedom of access ( Kennedy 2000; Oxford Analytica, 17 August 2000).

Helping Shanghai to plant industrial roots a century ago, foreign investment is now a major force pushing the city ahead with systematic change. By 2000, the stock of utilised foreign investment reached US$50.1 billion, of which about US$9.7 billion involved technology imports (Shanghai Statistical Bureau, 2001). FDI volume has grown rapidly, accounting for about three-fifths of all international investment in 2000. Because of its industrial depth, modernising infrastructure and skilled workforce, Shanghai has outpaced other Chinese cities in the race to attract FDI. By attempting to cut the time needed to receive approval for a new business from over 3 months to less than half that time, the city is hoping to draw abreast of its neighbours such as Kunshan City (Far Eastern Economic Review, 5 July 2001). A return on capital investment, 2 per cent higher than the national average (8 per cent) is an additional inducement. The city is also courting more investors from the US and Japan, while experiencing a decline of FDI originating in Hong Kong (see Table 2). Funding from overseas sources has been instrumental in the building of the city’s new subway system, new industrial districts and the hotel and other facilities needed to attract large numbers of businesses and tourists (W. Wu, 1999b; F. Wu, 2000). Shanghai’s strategic location and external linkages, on the other hand, also lure domestic firms to invest in the city and use it as a springboard to the world market.

Reflecting the city’s drive to rejuvenate its mature industrial base, manufacturing sectors are attracting more foreign investors. As of July, 2000, 254 of the Fortune 500 companies have invested or established offices here
Table 2. Utilised foreign investment in Shanghai, 1995–99 (US$ million)

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<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
<td>Percentage</td>
<td>Amount</td>
</tr>
<tr>
<td><strong>Foreign direct investment [1]</strong></td>
<td>3250.0</td>
<td>100.0</td>
<td>4715.8</td>
<td>100.0</td>
<td>4808.0</td>
</tr>
<tr>
<td>Joint ventures</td>
<td>1753.9</td>
<td>54.0</td>
<td>2561.7</td>
<td>54.3</td>
<td>2095.0</td>
</tr>
<tr>
<td>Co-operative operation</td>
<td>1088.0</td>
<td>33.5</td>
<td>1179.0</td>
<td>25.0</td>
<td>784.0</td>
</tr>
<tr>
<td>Wholly foreign-owned</td>
<td>363.4</td>
<td>11.2</td>
<td>721.3</td>
<td>15.3</td>
<td>1920.0</td>
</tr>
<tr>
<td><strong>Primary sector</strong></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Primary sector</td>
<td>2.6</td>
<td>0.1</td>
<td>3.2</td>
<td>0.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Secondary sector</td>
<td>1475.9</td>
<td>45.4</td>
<td>2520.0</td>
<td>53.4</td>
<td>2707.5</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>1771.5</td>
<td>54.5</td>
<td>2192.6</td>
<td>46.5</td>
<td>2099.8</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1450.6</td>
<td>44.6</td>
<td>2458.4</td>
<td>52.1</td>
<td>2695.3</td>
</tr>
<tr>
<td>Real estate</td>
<td>681.8</td>
<td>21.0</td>
<td>1052.9</td>
<td>22.3</td>
<td>1325.9</td>
</tr>
<tr>
<td>Social services</td>
<td>489.9</td>
<td>15.1</td>
<td>281.0</td>
<td>6.0</td>
<td>225.9</td>
</tr>
<tr>
<td>Wholesale, retail and food</td>
<td>539.4</td>
<td>16.6</td>
<td>570.5</td>
<td>12.1</td>
<td>222.8</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>25.6</td>
<td>0.8</td>
<td>8.5</td>
<td>0.2</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1894.0</td>
<td>58.3</td>
<td>2232.0</td>
<td>47.3</td>
<td>1756.1</td>
</tr>
<tr>
<td>United States</td>
<td>364.0</td>
<td>11.2</td>
<td>687.6</td>
<td>14.6</td>
<td>855.7</td>
</tr>
<tr>
<td>Japan</td>
<td>237.6</td>
<td>7.3</td>
<td>625.9</td>
<td>13.3</td>
<td>461.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>108.6</td>
<td>3.3</td>
<td>204.7</td>
<td>4.3</td>
<td>155.8</td>
</tr>
<tr>
<td>Taiwan</td>
<td>177.5</td>
<td>5.5</td>
<td>327.5</td>
<td>6.9</td>
<td>161.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>78.0</td>
<td>2.4</td>
<td>153.7</td>
<td>3.3</td>
<td>372.9</td>
</tr>
<tr>
<td><strong>Foreign loans [2]</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign loans [2]</td>
<td>2033.2</td>
<td></td>
<td>2789.0</td>
<td></td>
<td>1537.0</td>
</tr>
<tr>
<td>Other foreign investment [3]</td>
<td>15.0</td>
<td>0.5</td>
<td>5.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>All foreign investment [1 + 2 + 3]</td>
<td>5298.1</td>
<td></td>
<td>7510.0</td>
<td></td>
<td>6345.0</td>
</tr>
<tr>
<td><strong>Projects with technical import</strong></td>
<td>674.5</td>
<td>20.5</td>
<td>1015.7</td>
<td>21.4</td>
<td>695.5</td>
</tr>
</tbody>
</table>

(China Daily, 18 July 2000) and the chief examples are Alcatel, Volkswagen, General Motors, NEC, DuPont and IBM. This could be a prelude to the shift of some regional headquarters functions to the city. The largest gains in output value are registered in such rising industries as telecommunications equipment, integrated circuits and computers, bio-medical technologies and new materials (Shanghai Statistical Bureau, 1999). Shanghai is likely to regain its industrial edge and competitiveness through these industries as products from its traditional light industries (such as electronics, textiles and garments) have been losing ground in domestic markets. Efforts are also being taken to revamp the textile and garments industries through attracting more brand-name fashions from overseas, and a series of international fashion exhibitions has been organised for this purpose.

Since the early 1990s, Shanghai has been actively promoting investment in services, with the backing of the central government. Foreign insurers have been allowed to operate only in Shanghai and all 24 foreign banks currently licensed to deal in the domestic currency are in Shanghai’s Pudong New Area (Far Eastern Economic Review, 2 November 2000). The traditional face of the city’s food markets and department stores is also being altered by international companies. Deals jointly financed by funds from Hong Kong and Taiwan are helping Shanghai to rejuvenate its motion picture industry, which led to the city being known as ‘the Hollywood of China’ in the 1930s.25 FDI in the tertiary sector, however, appears to be stabilising although the real estate sectors continue to attract a substantial amount (see Table 2).

Creating Production New Space for Industrial Consolidation and Investment Promotion

To appeal to foreign investment and international businesses, several new industrial districts (often called Economic and Technology Development Zones, ETDZs) have been created since 1984. Special regulations comparable to those offered by other coastal provinces have been extended to these districts: tax exemptions for enterprises doing business with foreign companies for a limited duration, tax holidays for new factories set up with foreign investment and exemption from import duty for production materials used by these facilities (W. Wu, 1999a).

To ensure broad-based future development, the city is also strengthening the industrial, science and technology capabilities of the new districts. The existing stock of FDI and the quality of services are gradually strengthening Shanghai’s bargaining position vis-à-vis foreign companies, enabling it to press for joint ventures, local contracting and technology transfer (Yeung and Li, 1999).

The Pudong New Area is the focus of the effort to produce for the international market. The designated space is a triangular area adjacent to and east of the central city, stretching from the east bank of the Huangpu River to the south-west of the Yangtze estuary and covering over 522 square kilometres. Planned for a three-phase development, Pudong is designed to relieve the spatial pressure on old Shanghai. It already contains China’s largest free-trade zone, a fully operational export processing zone, a high-technology development zone,26 a new administrative centre and a large number of new residential communities. The modern facilities—and the concessions—in Pudong have already attracted many businesses. Baoshan Steel Corporation, China’s largest steel conglomerate, has put up a facility. The largest department store in Asia has been built here, with investment from the Japanese retail giant Yaohan. And a US$2 billion General Motors facility has been turning out Buick cars, the second major joint auto production line in Shanghai. Over 70 foreign and joint-venture companies have set up research and development facilities in its industrial parks (Far Eastern Economic Review, 2 November 2000).

Pudong also provides Shanghai with a new central business district (CBD) that can
house a variety of business activities and, most importantly, financial and business services that are the backbone of other major world cities. The traditional commercial centres of the city are formed by two avenues, Nanjing Road and Huaihai Road, which are already approaching saturation as redevelopment proceeds in downtown. The building of Pudong’s Lujiazui CBD—an area of 1.7 square kilometres on the east bank of the Huangpu River—has been guided by the long-term ambitions of the city and facilitated by an international consultative planning process in which experts from France, Britain, Italy and Japan participated (Olds, 1997). A host of financial institutions, corporate headquarters and commercial and cultural activities are being housed there, including the Shanghai Stock Market and over 40 foreign banks—the only area in the country where foreign banks are allowed by the central government to have regular business operations in local currency.

Competing with Pudong are the Minhang ETDZ, Hongqiao ETDZ and Caohai ETDZ High-tech Park, all located to the west of the central city. With more specialised functions, these zones have sought niches in such modern industries as electronics, medical equipment, computers, telecommunications, bioengineering, aerospace and precision instruments, and new construction materials. Although these zones have been more successful than past efforts of creating satellite towns, a large proportion of Shanghai’s industrial base still remains in the central-city districts (Gaubatz, 1999). This is in contrast with Beijing where industrial activities are being concentrated in the outer suburbs.

Additional measures need to be put in place to consolidate and relocate industry out of downtown locations so that their place can be taken by higher value-added service activities. Apart from being a source of congestion and environmental pollution, many of these factories are highly inefficient operations that deserve to be shut down. To solve problems associated with fragmented industrial land use, Shanghai has largely relied on relocating factories from the central city to the new industrial districts available for expansion. Between 1991 and 1998, about 12,000 work units as well as 400,000 households were moved from downtown to the city’s outskirts (Shanghai Daily, 1 September 2000).

The rationalisation of land use and the utilisation of the new industrial estates, however, will not proceed smoothly unless the prevailing system of land allocation and charges is changed. Land lease awards need to be made through auctions with standard lease terms and payments rather than being assigned through negotiation. Land values, therefore, are determined through competitive and transparent auctions and not by public authorities. Evidence from a few cities, including Shanghai, suggests that central-city factories could fully finance redevelopment if they were permitted to sell their land to real estate development corporations through competitive bidding procedures (Dowall, 1993). Shanghai has begun to experiment with the concept of location rent to speed up industrial relocation. This is based on the significant difference in land value for parcels at a central location and a remote site, which can be a critical financial gain for the industries (Han, 2000). The city also plans to set up a more transparent auction system for land-use rights.

Caution needs to be exercised as the new districts will inevitably compete with the central city for resources. It may be wise to prioritise their development as competition among them is not necessarily conducive to growth. The challenge also lies in pursuing specialisation without foregoing the benefit of agglomeration. Shanghai’s development funds will be insufficient if they are spread too widely and may be wasted in premature overbuilding. This is already evident in parts of Pudong where many new residential and commercial buildings remain vacant (approximately half at the end of 2001), largely the result of significant mismatches between supply and demand. 27

Shanghai’s property development is yet to be regulated by either a functioning land market or sound planning. 28 Many foreign
investors appear not to be disturbed by the high vacancy rates in Shanghai’s office and luxury housing markets, largely due to the belief that more overseas and provincial funds flowing into the city will continue to push the economy forward. The use of real estate business as the key to the rebuilding of the increasingly depressed domestic market (seen in the late 1990s), as promoted by China’s Premier Zhu Rongji, also makes it difficult to restrict new housing construction. However, in mid 2000, the city enacted a new regulation depriving all district and county governments of the approval right of land leasing. Instead, the Shanghai Municipal Housing and Land Administration has the sole authority and can stop the leasing approval of land for such projects as shopping malls, entertainment centres, golf courses and grade A villas and office buildings (Shanghai Star, 4 August 2000). These steps have had some effect as, by early 2001, occupancy rates for grade A office buildings were up to 94 per cent in the central business area and 78 per cent elsewhere (Far Eastern Economic Review, 19 April 2001). In addition, commercial space rents in Shanghai were firmer than elsewhere in East Asia as the slowdown in economic activity spread during the latter half of 2001.

Renewing Urban Infrastructure

Shanghai’s determination to renew itself can best be seen in its efforts to overhaul the city’s ageing infrastructure since the early 1990s. Unmet demand is shrinking as Shanghai makes progress in virtually every infrastructure service (see Table 3). Improvements are particularly rapid in road construction, park expansion and wastewater treatment. Shanghai now treats 30 per cent of its wastewater, compared to an average level of about 7 per cent in all Chinese cities. A number of large infrastructure projects have been completed, such as 3 bridges and 2 tunnels across the Huangpu River, an inner ring road, elevated north–south and east–west throughways, and 2 new subway lines. Furthermore, the first phase of a new light rail system is operational. The city recently unveiled a 20-year blueprint for the construction of 11 subway lines, 7 light rail lines and 3 suburban railways. So, by 2020, the city will have a total of 325 kilometres of subway and 136 kilometres of light rail (Shanghai Daily, 19 June 2000).

The city has also moved gradually to address infrastructure deficiencies that have a significant impact on environmental quality. An essential characteristic of a livable city is an environment with access to clean drinking water, clean waterways, effective solid waste disposal and clean air (Douglass, 2000). To rid itself from the World Health Organisation’s list of heavily polluted cities, Shanghai has invested in a new combined wastewater collection system, solid waste and nightsoil management and environmentally friendly diesel engines for buses (as well as imposing tighter restrictions on exhausts), and has also moved the water take-

Table 3. Improvements in Shanghai’s infrastructure services, 1991 and 1998

<table>
<thead>
<tr>
<th>Service</th>
<th>1991</th>
<th>1998</th>
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<tbody>
<tr>
<td>Per capita paved road (square metres)</td>
<td>2.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Per capita open space (square metres)</td>
<td>1.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Per capita living space (square metres)</td>
<td>6.7</td>
<td>9.7</td>
</tr>
<tr>
<td>Capacity for treating wastewater (million tons/day)</td>
<td>0.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Access to gas (percentage)</td>
<td>62.0</td>
<td>91.5</td>
</tr>
<tr>
<td>Per capita annual domestic water consumption (tons)</td>
<td>71.2</td>
<td>104.6</td>
</tr>
<tr>
<td>Wastewater treated (percentage)</td>
<td>7.6</td>
<td>30.2</td>
</tr>
</tbody>
</table>

*1996 figures.

off point further upstream to increase the supply of potable water from the Huangpu River. One of the most ambitious undertakings has been the Shanghai Environment Project, initiated in the mid 1990s with the backing of World Bank loans (World Bank, 1994).

Investment in infrastructure services has increased steadily, with a greater emphasis on city streets, sewerage systems and other municipal works (see Table 4). The infrastructure sector now receives the level of attention from the municipal government it deserves and accounts for about one-tenth of Shanghai’s total fixed asset investment. About 2 per cent of the city’s GNP went into environment-related capital works in 1995 and this share is likely to be increased to about 4 per cent. Much of Shanghai’s success in renewing infrastructure can be attributed to a comprehensive programme of resource mobilisation and expenditure management beginning in 1990 (Yusuf and Wu, 1997).

First, municipal authorities have increased user charges for some infrastructure services including bus fares, gas supplies, water, wastewater discharge and municipal sanitation services. Secondly, Shanghai has begun to raise funds by leasing land, in the process attracting a large volume of FDI into real estate development including commercial and apartment complexes catering for foreign companies (F. Wu, 2000). Shanghai’s population density, its relative prosperity and the nature of commercial development now underway, mean that real estate in the municipality is extremely valuable. This has induced many state enterprises to move their factories out of the downtown areas and lease the land for commercial purposes (Far Eastern Economic Review, 13 April 2000). Thirdly, the city has set up separate transport and energy funds in municipal revenue collection, guaranteeing much of the funding for the two sectors. Last, since 1986, Shanghai has tapped into the international market to lure direct investment and build-operate-transfer schemes (Wall Street Journal, 9 November 1998). The issuing of domestic construction bonds has also been growing steadily, capturing the high level of household savings.

In addition, progress in infrastructure building would not have been possible without large-scale organisational reforms. As a part of Shanghai’s reform to unify financial and administrative responsibilities for municipal bureaus, the Shanghai Urban Construction Investment and Development Company was formed in 1992 to mobilise, allocate and manage funds for urban construction. This state-owned company has employed a wide range of financing mechanisms, particularly through such non-state channels as construction bonds, the stock market and service concessions. It has entered into concessions with non-state enterprises to operate the bridges and tunnels across the Huangpu River. It has also established a number of subordinate entities, mainly in charge of water supply, which are listed on the Shanghai Stock Market (W. Wu, 1999b). Available official information shows that, in 1995 and 1996, funds mobilised by the company accounted for about 76 per cent and 90 per cent, respectively, of Shanghai’s total urban infrastructure revenue.

Another important element of Shanghai’s institutional reform is greater managerial autonomy for public utility agencies. To the extent feasible, municipal service departments have been given full responsibility for planning, investment, operations and maintenance. These departments are also adopting an independent cost-accounting system to facilitate sector management and financing. For instance, a sewerage company has been created to maintain the newly constructed sewerage system. A major reform materialised in 2000 when the city consolidated water and urban transport functions—scattered across up to nine different municipal agencies in the past—into two bureaus that would have full authority over decision-making, operations and maintenance (China Daily, 15 May 2000). Other avenues, which would allow enterprises serving as contractors to provide selected services, are under consideration and some bus services are al-
Table 4. Investment in Shanghai’s urban infrastructure (billions of yuan), 1981–99

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<tr>
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</thead>
<tbody>
<tr>
<td>Electric power</td>
<td>0.35</td>
<td>0.57</td>
<td>1.98</td>
<td>1.97</td>
<td>2.58</td>
<td>4.16</td>
<td>5.73</td>
<td>7.76</td>
<td>8.02</td>
<td>8.96</td>
<td>8.31</td>
</tr>
<tr>
<td>Transport</td>
<td>0.24</td>
<td>0.66</td>
<td>1.45</td>
<td>1.50</td>
<td>3.18</td>
<td>3.68</td>
<td>2.59</td>
<td>6.97</td>
<td>8.51</td>
<td>10.88</td>
<td>10.22</td>
</tr>
</tbody>
</table>
| Postal and
telecommunications | 0.04 | 0.18 | 0.46 | 0.64 | 1.47 | 3.59 | 5.34 | 7.76 | 6.10 | 7.27 | 6.39 |
| Public utilities\(^a\) | 0.06 | 0.57 | 0.92 | 1.26 | 3.79 | 2.68 | 3.50 | 4.83 | 5.22 | 5.84 | 6.42 |
| Municipal works\(^b\) | 0.09 | 0.50 | 1.34 | 3.06 | 5.78 | 9.71 | 10.21 | 10.57 | 13.43 | 20.20 | 18.80 |
| **Total**           | 0.78 | 2.48 | 6.14 | 8.43 | 16.79 | 23.82 | 27.38 | 37.88 | 41.29 | 53.14 | 50.14 |
| As a percentage of TIFA\(^c\) | 14.4 | 16.9 | 23.8 | 23.6 | 25.7 | 21.2 | 17.1 | 19.4 | 20.9 | 27.0 | 27.0 |

\(^a\)Public utilities include water supply and drainage, residential gas and heating supply, and public transport.

\(^b\)Municipal works include city streets, bridges, tunnels, sewerage, parks, sanitation and waste management, and flood control.

\(^c\)TIFA = total investment in fixed assets.

ready under concession. The city is also commercialising some of its waste disposal business and a company from neighbouring Jiangsu Province has won the contract to collect garbage, a job shunned by many locals (Shanghai Star, 24 July 1998).

Substantial progress has been made in raising the supply of better quality housing since the early 1990s through heavy investment (increasing from 2.6 billion yuan in 1990 to 43.3 billion in 1997; Shanghai Statistical Bureau, 1998). The objective is to raise the per capita living space from 11 square metres currently to 23 square metres (Business China, 7 May 2001). The city is replacing 3.6 million square metres of endangered structures and shanty apartments, mostly in the old central city. The accessibility of housing to the average family is on the rise as a result of reforms, among the most comprehensive in the nation (W. Wu, 1999a). But the quality of apartment dwellings, their location and associated facilities remain a source of dissatisfaction with half of all buyers. The city, employers and employees all contribute through a public reserve fund to finance housing purchases over time. Since 1998, all banks have been able to supply mortgages to qualified home-buyers on behalf of the public reserve fund assisted by the establishment of clear land titles. In addition to new home purchases, many people have bought property or use rights to the homes they were assigned under the old welfare housing system and some also trade such rights on the secondary housing market to acquire better housing. By early 2001, officials estimate that about 60 per cent of all families may have bought their own homes, either from their employers or from private developers (Far Eastern Economic Review, 3 May 2001).

The creation of a mortgage finance market, the assignment of leasehold rights and the permission to trade in the secondary market are important steps in housing reform. But the coverage remains fairly restricted, the residential property market is insufficiently differentiated and collateral requirements enforced by banks are strict, while the credit provided is relatively short-term (The Financial Times, 1 October 1999). Further reforms will be required to ensure that the large volume of public-sector housing is properly commercialised by granting property/use rights to current residents and the remaining publicly owned welfare housing is adequately maintained. Moreover, for a secondary market to emerge, fees, taxes and rules interfering with the sale of apartments will have to be eliminated (The Economist, 16 June 2001).

Further institutional reform also will be needed to minimise political pressures on infrastructure providers, giving them sufficient autonomy to collect fees, make price adjustments, undertake service planning and have incentives to assume full financial responsibility. Public agencies still have a long way to go in devising appropriate commercial rules and encouraging private participation and competition. Permitting majority private shareholders in infrastructure construction or wholly private infrastructure facilities is unlikely in the foreseeable future unless underwritten by build-operate-transfer schemes. And the private sector may be hesitant to incur greater responsibility and risk as investment in infrastructure provision is usually for a significant duration and the period of implementation can affect investment return. Private interests, therefore, may be better utilised in the areas of infrastructure operation and maintenance, with public transport, waste disposal and sanitation services as prime candidates.

Labour Market Prospects

While policy, infrastructure and investment are certainly important, successful cities draw their energy from entrepreneurial dynamism and the quality of the workforce. In an economy with accelerating technological innovations and rising specialised service functions, the labour force needs good basic education and skills, and market institutions should permit a high degree of flexibility. Measures to ensure an adequate supply of entrepreneurship, skills and labour will be one of Shanghai’s biggest challenges as its
state enterprises move away from the practice of providing the workforce with tenured employment and guaranteed pensions along with health, housing and other benefits.

The foremost challenge is relocating workers displaced by the large-scale closure and divestiture of state enterprises, which is particularly difficult for middle-aged workers close to retirement in the city’s core industries like textiles. Labour use in these enterprises is highly compartmentalised with workers trained in a narrow specialisation. Therefore, the retraining of workers, either for reassignment within their enterprises in response to production shifts or to facilitate employment after closure, greatly influences internal and external labour mobility. For the moment, the city has opted for the absorption of surplus workers in low-skill service operations where job prospects have multiplied and retraining is minimal. Specifically, these workers find employment in retail, repair and maintenance work, grounds maintenance, household services and cleaning services.

Shanghai’s workers command a wider range of skills compared with other industrial cities in China, but the share of professional and technical personnel lags far behind key global centres. Shanghai has begun to address this educational gap and two measures have been taken to attract new, young talent into the city. Enrollment for local students in universities and colleges, as well as in vocational schools, has been increased substantially. Shanghai has also relaxed restrictions on enterprises in hiring personnel with college or graduate education from other parts of China by allowing them more quotas for urban household registration. In particular, the city welcomes students who are returning from overseas, either temporarily or permanently, to open new businesses.

The rapidly ageing population presents Shanghai with another difficult challenge. Those over age 65 accounted for 12.5 per cent of the total population in 1996 and 13.3 per cent in 1998 and, on current trends, are expected to account for 26 per cent in the year 2020 (Shanghai Star, 5 June 1998). Shanghai now ranks uppermost among Chinese cities in ageing population, about 20 years ahead of the national trend. It is perhaps the only city in China that is witnessing a phenomenon similar to that occurring in countries with substantially higher income levels. A growing number of retirees demand better pensions, housing and medical benefits.

The significant growth in the share of old age-cohorts in the population is partly the result of a low birth rate. As the one-child family planning policy has been fairly effective in large cities, natural growth of the population was only about 0.35 per cent in 1990 and −0.23 per cent in 1996 (Shanghai Academy of Social Sciences, 1997). At the same time, life expectancy for men rose from 71 years to 75 years, and for women from 74 years to 79 years between 1969 and 1998 in Shanghai (Liberation Daily, 29 July 1999). Much of the growth of the resident population between 1985 and 1995 can be traced to the return of Shanghai-born youth, displaced during the Cultural Revolution (1966–76).

The projected decline in the city’s workforce can be offset by an increasing volume of migrant workers, as is the case elsewhere in the world. Shanghai is already relying on temporary migration (without change of household registration) as an alternative to permanent migration (with household registration change) in meeting its labour force needs. About 3 million temporary migrants and transients, largely permitted by relaxed migration policies, are now working and living in metropolitan Shanghai, most of whom do not have urban status and are, therefore, not counted as part of the resident population. Nevertheless, many temporary migrants stay in the city for a prolonged period of time and often with their families. Without urban household registration, these temporary migrants do not have access to free education, subsidised housing and pensions. The impact can be severe for migrant families with children. When families of large size migrate together, income disparities between urban residents and migrants also increase (World Bank, 1997).
Accommodating migrants and attracting those with the required skills are likely to be long-term issues facing municipal authorities. They will require a change in the provision of adequate housing as well as services. A new type of housing is becoming available in some areas of Shanghai—migrant housing complexes managed by sub-district and township agencies. Some involve reuse of old temporary housing while others are new residential compounds built by large enterprises. Yet enterprise-provided dormitories and private housing rentals are still the most common housing choices available to migrants, in which they live in conditions considerably worse than local residents.

To sustain, let alone improve, the quality of its workforce while preventing social stratification and urban poverty, Shanghai will have to tackle the laws governing migration. Migrant workers and entrepreneurs will provide much of the human impetus for the city’s future development. Housing reform, for instance, can help improve migrants’ quality of life and prevent slum formation. Specifically, migrants can be allowed to participate in the secondary housing market, where apartments are more affordable. Migrants also need greater access to jobs and educational facilities previously open to local residents only. Of course, these measures do not fully address the costs and hardship migrants bear as a result of the household registration system, whose reform will have to be initiated by the central government. It is clear that the current practice of linking household registration and the provision of urban services is likely to widen the rural-urban divide and social differentiation within cities. To respond properly to the need for migration requires that this linkage be reformed.

Conclusion

In a globalising world, cities at or near the apex of the international urban hierarchy are among the favoured few that have acquired large economic, cultural and symbolic roles. As urbanisation continues and service activities—especially information technology (IT) and finance-related—take on an even greater prominence, the number of regional and global centres could increase, but only if they satisfy some exacting requirements. Shanghai, located in one of the most rapidly developing parts of the world, may well be one of them. If the Chinese economy can sustain its growth rate, it will rival the US in a few decades. And if Shanghai is able to retain its pre-eminence in the Chinese context, then it is likely to be the East Asian city with the best prospect of becoming a global centre.

However, Shanghai’s chances depend on the extent to which China ‘opens up’. It also rests on a host of municipal policies that focus the municipality’s industrial strength, substantially enlarge its base of IT and producer services, ensure an adequate supply of skills, expand the availability of housing and infrastructure services in line with demand, and improve the quality of life. Shanghai is in the vanguard of change in a number of areas but, as we have indicated, the tempo of reforms needs to be sustained. In particular, it needs to nurture an internationally competitive service sector by dint of reform and by attracting FDI. The emphasis on industry, housing and infrastructure will certainly have pay-offs, but while the volume and quality of services continue to lag, Shanghai will have difficulty making it into the ranks of regional hubs. Openness, combined with policy measures that induce competitiveness, is most likely to lead to outcomes that are in Shanghai’s long-term interests.

Notes

1. Friedmann defines world cities as a class of cities that play a leading role in the spatial articulation of the global economic system or designate a dimension of all cities that in varying measure are integrated with this system (Friedmann, 1998, p. 26).

Sassen (1991) uses the term global city to describe the very same cities—New York, London and Tokyo. She views these cities as nodal points for the co-ordination of processes and sites of production. Following the
stock market collapse in Tokyo in the early 1990s, the metropolitan administration switched from the objective of a global city to one of becoming a lifestyle city (Gordon, 1999).

2. Because Tokyo has lagged behind with its reforms, its role as a financial hub is far less significant. On financial reform in Japan, see Hayes (2000).

3. Many academic volumes have been devoted to Shanghai’s past, chief among which are Murphy (1953), Howe (1981), Wei (1987), Johnson (1995), Goodman (1995) and Lu (1999).

4. This population figure includes only registered permanent residents; it is the same throughout the text unless otherwise noted. An estimated 3 million temporary migrants, largely from rural China, also reside in Shanghai. The other major urban regions are Beijing–Tianjin–Tangshan and Hong Kong–Guangzhou–Shenzhen (Wang, 1998, p. 265).

5. Shanghai is the leading producer of many items in each of these categories, accounting for nearly half of all sewing machines produced and close to one-third of power-generating equipment (Yeung, 1999).

6. A comparison of Hong Kong and Shanghai compiled by Business Week in mid 2001 indicates that living and business operating expenses in Shanghai are far lower than in Hong Kong—for example, rental for prime office space is US$6.30 per square foot versus $1.90; a 2-bedroom apartment is $3500 versus $1000; a personal assistant, $3500 per month versus $500; a business lunch for 2 is $51 versus $24; a taxi to the airport from downtown is $48 versus $24 (Business Week, 23 July 2001).

7. By the end of the 1990s, the number of phone lines per 1000 people had reached 286 and of mobile phones 155 per 1000 in Shanghai, as against 299 and 45 per 1000 respectively in Beijing (Asiaweek, 15 December 2000).

8. Yeung ad Li (1999) note that the Yangtze basin accounts for one-third of China’s population and 40 per cent of GDP.

9. Shanghai is China’s largest seaport, accounting for 18 per cent of total cargo. The total volume of traffic handled by the Shanghai Port Authority in 1998 was 90.5 million tons, of which 21 million tons was coal and 27.6 million tons was containers. Bulk-traffic coal and fertilisers declined through the 1990s (Shanghai Statistical Bureau, 1999).

10. In recent years, Shanghai has created the facilities to hold international exhibitions and has made considerable efforts to become a part of the global conference and exhibition circuit.

11. Notwithstanding the fact that total trade is in the region of $420 billion (2000), making China the ninth-largest trading nation with one of the highest B2B transactions in the world (Pearson, 2000).

12. See Martin et al. (1999). Recent work by Frankel and Roemer (1999) provides added support for the relationship between trade and increase in incomes. They find that a 1 per cent increase in the ratio of trade to GDP raises per capita incomes by 0.5 per cent by stimulating factor accumulation and productivity. The relationship between trade and growth has been noted in cross-country studies by Sachs and Warner (1995, 1997). On China, see Yu (2000), Li and Zhai (2000), Yu (1998) and The Financial Times 9 February 2000.

13. China surpassed Japan in the first quarter of 2000 as the country with the largest number of cell-phone users—51.7 million (China Business, 11 September 2000). The number of landlines exceeded 100 million in June 2000 (Hartford, 2000).

14. The number of Internet users in Shanghai rose from 3300 in 1996 to 102 000 in 1998 and the number of long-distance telephone lines (not all local phone lines can dial long-distance directly) increased from 59 000 to 84 000 over the same period (Shanghai Statistical Bureau, 1999, p. 244).

15. Attempts by the Chinese government to control the use of the Internet through closer regulation and the fostering of state-owned websites would only slow the process of opening (The Financial Times, 22 March 2000; Kennedy, 2000).

16. During the first 8 months of 1999, contracted foreign direct investment fell by 20 per cent over the previous year to $25.3 billion (Oxford Analytica, 21 December 1999). However, inflows rose in 2000 and are expected to reach $45 billion (China Business, 17 July 2000).

17. Poorly managed and lightly supervised banks in some of the East Asian countries invested their resources without due analysis of risk, often in sectors favoured by the government, in affiliated businesses or in real estate. This gradually increased the proportion of non-performing assets and implicitly enlarged the contingent liabilities of the government. As awareness of this banking fragility became more widespread and doubts grew as to the ability of governments to rescue the banking sector, a silent flight of capital commenced. A succession of events then precipitated a full-fledged crisis. Even China was not immune to this silent flight, reflected in the country’s large errors and
omissions in the balance-of-payment accounts and the huge flow of FDI into Hong Kong, which exceeded $52 billion in 2000. See Kaminsky and Schmuckler (2000) on capital controls on financial market institutions.

18. Nonetheless, with capital flowing back into the East Asia region and financial reform still in its early stages, the risks from bubbles and a resurgence of problems remain. Capital flows increased sixfold from 1998 to 1999, reaching $39 billion, and are projected to rise to $59 billion in 2000 (South China Morning Post, 21 March 2000).

19. With accession to the WTO, competition in financial services could increase if China reforms its banking sector and levels the playing-field (Harner, 2000).

20. Development of the domestic financial market will be aided by a series of government moves, among which is the raising of the ceilings on stock market investments by insurance companies from 5 to 10 per cent. This will increase the volume of liquidity available to finance new share issues (The Financial Times, 21 March 2000).

21. It is projected that 2000 firms will be listed by 2010 and market capitalisation could reach 13 trillion yuan (Oxford Analytica, 17 August 2000).

22. It is debatable whether with two major financial centres already in the region—Tokyo and Hong Kong—there will be a role for a third centre of equivalent scale, especially given the advances in communications favouring a few large nodes linked to many smaller ones in a hierarchical system (Coyle, 1997). However, CFSB estimates that the capitalisation of China’s stock markets could grow to $2 trillion by 2007, putting China in second place in Asia after Japan (The Economist, 9 September 2000; Economist Intelligence Unit, 12 March 2001).

23. The airport opened with a 4000-metre runway and 1 terminal building, with an annual capacity to handle 20 million passengers and 0.75 million tons of freight. When eventually completed with the planned 4 runways, the airport will be able to handle 70–80 million passengers and 5 million tons of cargo every year (Shanghai Star, 19 March 1999).

24. For instance, FDI in-flows to Shanghai in 1998 were $3.64 billion as against $2.06 billion in Beijing and $2.52 billion in Tianjin (Shanghai Statistical Bureau, 1999).

25. Recently, a powerful animation company has been set up, with dreams of becoming China’s Disney and subsequent creation of the nation’s first higher-learning animation programme (Variety, 3 January 2000).

26. A Software Park is being developed jointly by the Ministry of Information Industry and the city government.

27. By the first quarter of 1999, for instance, grade A office space in Pudong had a vacancy rate reaching 65 per cent (Shanghai Star, 28 May 1999).

28. It is not clear whether, in a capitalist system, a functioning land market should be the sole mechanism through which urban land is allocated (see Haila, 1999).

29. China devotes 10 per cent of GDP to infrastructure and housing development, with housing alone accounting for 6 per cent of GDP. This has resulted in an oversupply of housing in the medium and higher price ranges.

30. Shanghai’s Narada Group, a private company, is one of a number of new firms involved in building and operating toll roads in the metropolitan area (Far Eastern Economic Review, 23 September 1999).

31. Total fixed asset investment includes investment in capital construction, technical upgrading and transformation, investment by urban and rural collective units, real estate investment, investment by urban and rural residents in private housing construction and other investment in ownership units (Shanghai Statistical Bureau, 1999).

32. In the first half of 1999, more than 20 000 families engaged in such trading (Shanghai Star, 30 July 1999). This sale of secondhand housing has expanded substantially since (The Financial Times, 2002).

33. In 1999, Shanghai terminated the welfare housing system that had been allocating housing to all urban residents at nominal rent levels, in either work unit housing or municipal public housing. However, qualified low-income residents can still acquire such housing in the future and many existing residents are not forced to purchase property/use rights to their housing.

34. The city has seen an increase in annual enrollment for universities from 19 000 in 1991–95 to 30 000 in 1996–2000, for adult continuing education from 10 000 to 18 000 and for vocational schools from 22 000 to 35 000 (see Shanghai Academy of Social Sciences, 1997).

35. Projections by several local research institutions show that, because of the ageing population, the volume of resident workforce (age 15–59) will begin to decline after 2005 and by about 2 million in 2030 (see Gui, 1999).

36. For instance, the city’s 1997 floating population survey reports that close to a half million migrants have lived in the city for
over 5 years (Zhang et al., 1998). So far, the city allows migrants to stay for a prolonged period as long as they properly maintain and renew temporary residence permits. Periodically, the Public Security Bureau conducts random checks and deports those without work and residence permits back to their origin.

37. An important influence will be the significant degree of foreign ownership of assets resulting from FDI. This could approach one-third of total assets in 5–6 years.

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