

In Xiangming Chen (ed.) (2006) *Local Transformations in Global Cities: Shanghai in Comparative Perspective*. Minneapolis: University of Minnesota Press.

Part 3

GLOBAL PENETRATIONS AND LOCAL TRANSFORMATIONS IN SHANGHAI: A MULTI-SCALAR EXAMINATION

Chapter 11

Globalization, the Changing State, and Local Governance in Shanghai

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Acknowledgement: This research is supported by the Leverhulme Trust project (RF&G/7/2001/0090). Thanks to Xiangming Chen and two anonymous reviewers for comments on an earlier draft.

The re-emergence of Shanghai as a major world city in the 1990s onwards has drawn extensive attention from both scholarly research and journalistic commentary (see Gu and Tang, 2002; Haila, 1999; Murphey, 1988; Olds, 1997; 2001; Ramo, 1998; Yusuf and Wu, 1997; 2002; W. Wu, 1999; F. Wu, 2000a, 2000b, 2002, 2003; Yeung and Sung, 1996; Yatsko, 1996a, 1996b, 2001, Yatsko and Forney, 1998). Joshua Ramo, a senior editor of *Time* magazine, provided a vivid personal observation of the changing urban landscapes, 'if you are lucky enough to fly into Shanghai in the late afternoon, up along the coast from Hong Kong, you will be treated to a remarkable sight. As the sun fades to twilight, the pink and then purple light reflects back up at you, first off the East China Sea, then off the Huangpu River, and finally off the 1,000 dappled mirrors of Shanghai's exploding commercial district. After you land, and as you make your way out to a taxi at Hongqiao airport, you will be greeted by another

sight – hundreds of twinkling lights atop the city's skyscrapers and construction cranes (Ramo, 1998, 64).

Pamela Yatsko, a journalist of *Far Eastern Economic Review*, reported that ‘..throughout the city, whole blocks are being flattened, turning parts of the former 'Paris of the East' into huge construction sites – a chorus of cranes, jack-hammers and bulldozers chiselling out the foundations of skyscrapers, elevated expressways and subway tunnels. Architects are having their fling with modernism – designing huge glass-faced office complexes and luxury apartment blocks’ (Yatsko, 1996a, 69). In her recent book, Yatsko (2001) emphasized that Deng Xiaoping, the architect of economic, saw Shanghai’s revival as crucial to China’s national development strategy: ‘for Deng, Shanghai and its Pudong project provided perfect symbols at home and abroad that China was forging ahead with reform’ (Yatsko, 2001, 22). Deng Xiaoping said in his 1992 southern China tour that, ‘...looking back, my one major mistake was not to include Shanghai when we set up four special economic zones. Otherwise, the situation of reform and opening to the outside in the Yangtze River Delta, the entire Yangtze River Valley, and even the entire nation would be different’ (Yatsko, 2001, 22).

Shanghai’s renaissance in China’s new open economy is beyond doubt. Considering Shanghai’s gateway position in China’s embrace of the world economy, it is understandable that the global city paradigm is readily picked up to explain rapid urban growth in the 1990s. Shanghai’s rise in an era of globalisation is seen as a process of moving away from the Third World city to the global city – a converging process towards the ‘favored few – New York, London and Tokyo – that have acquired large economic, cultural and symbolic roles’ (Yusuf and Wu, 2002, 1213).

What can we learn from the story of Shanghai about worldwide urban restructuring, especially in the periphery region of the globalizing world?

The application of the global city thesis to Shanghai is obviously confronted with such an analytical tension: on the one hand, Shanghai's renaissance cannot be understood without referring to China's increasing integration into the global system, on the other hand, measured by whatever indicators that are used to quantify the global city status, such as the number of multinational headquarters and the size of finance market, Shanghai is far from being a global city; in fact, it may not even occupy a low-tier position of the list of global city hierarchy. Although China has now gained access to the WTO and its economy will subsequently be subject to further integration with and competition in the global economy, it still has a long way to go before becoming a 'free market economy.' While the tension can be technically solved by arguing that Shanghai will be eventually *re-globalized*, (re)-gaining its fame of 'Paris of the Orient' after the interrupted relationship with the world since 1949, it is indeed questionable that the global city thesis can be applicable to whatever city under the influence of globalization.

Readdressing elegantly the global city hypothesis, Sassen (2001a; also this volume) continues to emphasize the economic logic of creating the global city. In particular, she stresses that 'economic globalization and the ascendance of information technologies and industries such as finance have had the effect of concentrating massive resources in major cities. Firms that operate globally need the cutting edge telematic infrastructure and human resources markets that typically only large cities or metropolises can offer' and that 'economic globalization has raised the complexity of economic transactions enormously: firms need to buy more and more specialized inputs and it is still major cities that are the best production sites for such

specialized services'. On the other hand, she does reiterate the importance of the local: 'Yet the term *global city* may be reductive and misleading if it suggests that cities are mere outcomes of a global economic machine. They are specific places whose spaces, internal dynamics, and social structure matter; indeed, we may be able to understand the global order only by analyzing why key structures of the world economy are *necessarily* situated in cities' (Sassen, 2001a, 4, emphasis original).

The recent study of Tokyo and Seoul (Hill and Kim, 2001) set off debates over whether the global city hypothesis is applicable to the cities under the so-called 'development state' (see Wade, 1990 for an extensive treatment of the concept and its analytical reference to East Asia states; (Sassen, 2001b; Friedmann, 2001). Is there a different trajectory of becoming the global city or globalizing the city into the world system? Many studies on non-western region do show some distinct local structures, which are more than just accommodating the global (Machimura, 1998; this book; Kim, this book; Kamo, 2000; Hill and Kim, 2001). Sassen (in this book) identified the third element in the global city, namely, 'privatization and deregulation have brought with them a shift of governance/coordination functions from the government to the private sector; this often means that what the national government loses, local (i.e., city) government gets.'

At the core of concern is to what extent the third element is a pre-condition or a consequence of climbing into the ladder of the global city? In a recent comment, John Friedmann (2001) carefully distinguished the world city paradigm and the world city hypothesis: 'the former concerns the underlying assumptions of a research program that is focused on the incorporation of major city-regions into the global economy; the latter proposes a series of questions for research posed within the broad framework of the paradigm' (p. 2535). This is important because such a distinction

removes the burden of the converging assumption from the world city research. The world city does not need to be modeled in accommodating financial and production services, because ‘in my view, the true meaning of hierarchy has less to do with the number of transnational corporate headquarters, financial institutions and high-level business services than with the overall economic power of the territorial economy which city-regions articulate’ (Friedmann, 2001, 2535). In this chapter, these issues are addressed by linking globalization of Shanghai with the changing state and local governance, as the city provides a timely case and context for addressing this complex relationship.

Globalizing Shanghai in a Historical Perspective

The discourse of remaking Shanghai as a global city is embedded in the strategic re-orientation of national development strategy from self-reliance to participation in the global economy. Globalizing Shanghai is more than just a restoration of Shanghai’s past prominent international status but rather a more proactive one – through the ‘dragonhead’ role of Shanghai China can actively participate in the new global economy. Shanghai is thus a strategic locus for fostering the domestic economy and an important venue where China can host international affairs such as the APEC meeting, the Fortune Global Forum in 2001, and the World Expo in 2010. The role of the gateway in the new phase of globalization is very different from its historical international role. After Shanghai became a major treaty port as a result of the Treaty of Nanking in 1842, it developed a stronger international orientation than other cities in the Far East. The penetration of foreign capital sped up industrialization and led to the development of local industrial entrepreneurs in Shanghai and its environs. Shanghai played a metaphorical role of the bridgehead – a

channel through which foreign products were distributed to the region and domestic agricultural and mineral products processed and exported. With the unprecedented trade prosperity, Shanghai was truly a cosmopolitan city and a city of services. By the period of its great prosperity in the 1930s, about 90 percent of the nation's banks and over half its foreign trade were concentrated in Shanghai (Gu and Chen, 1999).

After 1949, the bridgehead function was transformed into a production-oriented city under socialist industrialization. The service functions such as trade, finance and distribution dwindled. While no longer an *international* city, the city, for the first time in history, developed a comprehensive industrial system, including heavy industries. This was impossible in a free-trade world system in which the comparative advantages of the industrialized countries would prevent Shanghai from developing its own industrial sectors. In the 1970s, Shanghai's industrial output accounted for one seventh of the national total; its fiscal revenue was about one fourth to one sixth of the national total; and the volume of freight handled and the value of export goods were about one third of the national total. In the heyday of socialist development, Shanghai was the source of innovation and production capacity. For example, China developed the large 178-seat passenger jet with the largest take-off weight of 110 tons in Shanghai. Such a preeminent position prevented Shanghai from being tested with bolder policy experiments under the export-oriented development strategy, initially introduced in southern China in the early 1980s.

By 1990 the need for further opening Shanghai and the Yangtze River Delta had been recognized by the state. In fact, the announcement of Pudong New Area in 1990 helped to break the temporary isolation of the Chinese government after the Tiananmen Square incident in 1989. Globalizing Shanghai indicated the continuity of economic reform policies and opening to the world economy. Shanghai's re-

globalization is of national significance for at least two reasons. First, the politics of Shanghai has been closely associated with the new generation of leadership of China. President Jiang Zemin, Premier Zhu Rongji, and Vice Premier Wu Bangguo were leaders of Shanghai before they moved to Beijing. Second, the significance of Shanghai is defined by its effect on the entire Yangtze River region and further on the national economy. There is a strategic need to have a finance and trade center in the core of coastal region to engage in economic globalization. In 1992, the 14th Chinese Communist Party Congress (CCPC) announced that the primary task for the development of Shanghai was to 'seize the opportunity of development and opening of Shanghai Pudong, and to build Shanghai as the dragon-head and one of international economic, finance, and trade centers, so as to drive the growth of the Yangtze River Delta and in turn the take-off of the whole economic region.' This announcement formalized the policy vision of re-globalizing Shanghai as a strategy-based state project.

If we see the emergence of Shanghai's global city functions through the historical imperative, we can understand more deeply its institutional foundation (see Orum, this book). Such an imperative lies more prominently in the political vision than in the practical need from the arrival of foreign capital in economic globalization. During the Cold War, the confrontation of ideologies and hence the purity of socialist ideology was predominant. With the easing of East-West tension, China reoriented its national politics. Now that military confrontation is no longer a top concern, the coastal region has regained its favorable location. Deng Xiaoping, the architect of the country's reform and open-door policy, pointed out that the key task for the CCP is to focus on economic development. However, somewhat surprisingly, the survival of the state in the era of globalization is of the same urgency as it was in history. Globalizing

Shanghai can be justified through Deng's wisdom – 'development is the "hard" truth.' The slogan is now widely displayed along many streets and on top of major buildings in Shanghai. The pervasive state power in economic regulation has been translated into fully-fledged place promotion, a practice that uses business-like marketing tactics to promote local attractiveness to external investors (Hall and Hubbard, 1998). Only the state has such a regulatory capacity.

Changing Urban Dynamics

Globalization has brought about a profound change in the accumulation strategy of the Chinese state. Under socialism the state adopted a productionist view of urban development, which constrains 'non-productive investment' in the urban environment. Shanghai obtained low-cost materials allocated through central economic planning, sustained cheap labor costs, and thus benefited from the strategy. On the other hand, Shanghai was required to turn over the revenue to support national industrialization. The problem of such a strategy lies in that it prevented the city from upgrading its economic structure. The strategy of globalizing Shanghai has brought the city to the 'frontier' of a planned urban development regime to encounter the world market. The export-oriented policy in southern China has weaker entanglements with the socialist accumulation strategy, as both the resources (materials) and capital come from outside the region. But foreign investment in Shanghai means more than just utilization of cheap labor in industrial processing and assembly.

Shanghai was a major manufacturing center and had established economic linkages with the Yangtze River region before foreign investment flowed into the city. Foreign investment in Shanghai has demonstrated stronger multinational origins and

management functions. In short, Shanghai presents an opportunity of accessing the massive Chinese market for multinationals, and therefore market penetration is a major incentive for them to locate in Shanghai. This effectively boosted up land prices. We can compare this process to gentrification. The rent gap theory argues that in the central area the potential rent exceeds the current rent due to the constraint of land uses (Smith, 1996). Gentrification allows the developer to capture such a gap by changing the social-demographic profile of residents. While totally different from the context of gentrification, urban redevelopment in Shanghai represents a similar motivation – under-valued urban assets (including land) sustained a high intensity of production capacity. The cost of production factors is low because it was constrained by the socialist accumulation strategy.

Since the 1990s Shanghai has maintained a high rate of investment in urban development. Cumulative infrastructure investment reached 365 billion yuan (approximately US\$45 billion) and housing investment accumulated to 350 billion yuan, accounting for, respectively, 90 percent and 60 percent of the total amount of investment in the previous 50 years. Intensive investment has greatly eased traffic congestion, housing shortage and pollution, and subsequently improved the urban environment. In the 35th annual meeting of the Asian Development Bank in 2002, Mr. Chen Liangyu, the mayor of Shanghai, enumerated major achievements. For example, a three-dimensional transport network consisting of elevated roads, fast surface roads and highways, mass transportation has been constructed. Although the number of vehicles increased by 3.5 times, the average speed in the city area rose from 10 km per hour to 25 km per hour. The new light-rail system has been built, and by the end of 2000 the length of operational lines had reached 65 km. Pudong and Puxi (west Shanghai) are now linked with four bridges across the Huangpu River. The

first phase of Pudong International Airport has generated an annual passenger capacity of 20 million (see Kasarda, this book). Since the 1990s about 31million m² old housing has been demolished and more than 100 million m² has been built, which raised per capita living space from 6.6 m² in 1990 to 12.1m² in 2001. Large-scale greening raised per capita green space from 1 m² in 1990 to 5.5 m² in 2001 (Chen, 2002).

How could Shanghai sustain such a high level of investment? Mayor Chen's speech reveals three main stages of capital formation. In the first stage, from the mid-1980s to the early 1990s, the scale of government investment was enlarged through expanding bank loans. The lack of capital severely constrained infrastructure investment, which amounted to as little as 1.9 billion yuan (US\$232 million). Shanghai succeeded in obtaining 3.2 billion US\$ in loans from the World Bank, the Asian Development Bank and other financial organizations. For example, the Nanpu Bridge and Yangpu Bridge were built with the loans from the Asian Development Bank. Meanwhile about ten government investment corporations have been set up.

The second stage began from the mid-1990s. The establishment of the land leasing system has allowed the government to extract landed revenue. In total, Shanghai has raised 100 billion yuan (US\$12 billion) through land leasing. The third stage, which began from the late 1990s, has raised capital through 'asset management' and the stock market. Since the Asian Financial Crisis in 1997, land leasing has diminished significantly. In contrast, the domestic stock market has witnessed dramatic growth from scratch. Household savings have been increasing, leading to surplus capital within the society. The government thus raised funds through listing profitable projects as companies in the stock market. About 10 billion yuan (US\$1.2 billion) have been raised. Moreover, the municipal government authorized user

charges for projects like the highways and tunnels. Through built-operate-transfer schemes and the issuing of domestic construction bonds, the government raised another 10 billion yuan or about US\$1.2 billion (Chen, 2002).

The change in the capital formation and investment mechanism clearly reflects the initial role of foreign capital in boosting urban investment. Since the designation of Pudong in 1990 and especially the deepening of economic reform after Deng Xiaoping's tour of the south in 1992, foreign investment has risen rapidly. Actual utilized foreign investment rose from US\$0.78 billion in 1990 to US\$5.3 billion in 1995, among which foreign direct investment increased from 0.18 to US\$4.72 billion (see Table 11.1 below). Utilized foreign investment continued to grow and peaked in 1996, while FDI had been growing until 1997. Since the Asian Financial Crisis in 1997, foreign direct investment fell to about US\$3 billion in 2000 but rocketed back up to US\$11 billion in 2003 (Chen, introduction to this book) and US\$11.69 billion in 2004. To measure the scale of foreign investment, the ratio of foreign investment to gross domestic product (GDP) is calculated (using the actual exchange rate between the US\$ and yuan). The ratio change increased from 0.72 percent in 1985, to 5 percent in 1990. After a dramatic increase to 21.5 percent in 1996, the ratio decreased to 9.8 percent in 2000. The modest level of foreign investment is due to the sluggish increase in foreign investment and a significant jump in GDP. But the ration increased to 12.99 in 2004. The value of export, however, shows a strong growth tendency since the 1980s. The ratio of export value to GDP hit a record high of 46 percent in 2000, suggesting Shanghai's strong outward orientation. This figure has jumped to 82 percent in 2004, reflecting the role of export in Shanghai's economic growth.

Table 11.1

Change in the Scale of Foreign Investment and Export Value Relative

to GDP, 1985-2004 (Selected Years)

	Actual use of foreign investment (AUI)	Realized foreign direct investment (FDI)	AUI : GDP %	Export value Billion USD	Export : GDP %
	Billion USD	Billion USD			
1985	0.115	0.062	0.72	3.361	21.17
1990	0.780	0.177	4.93	5.321	33.62
1995	5.298	3.250	17.96	11.577	39.25
1996	7.510	4.716	21.50	13.238	37.90
1997	6.345	4.808	15.65	14.724	36.33
1998	4.816	3.638	10.81	15.956	35.82
1999	5.999	3.048	12.31	18.785	38.55
2000	5.391	3.160	9.81	25.354	46.13
2004	11.69	6.541	12.99	73.50	81.69

Source: Shanghai Statistical Yearbooks, various years.

Note: Foreign investment and export values are converted into Chinese yuan by actual exchange rates to make the figures comparable to GDP.

To evaluate the contribution of foreign investment to capital formation, the source of total investment in fixed assets (IFA) is examined (see Table 11.2). Information was not available for the period before 1995. Table 11.2 shows the declining share of the state-owned sector in IFA. The figure decreased from 60 percent in 1995 to 44 percent in 2000, and further to 36 percent in 2004. The collective sector's share also dropped over time. In contrast, foreign-funded economies (including investments from Taiwan, Hong Kong and Macao) rose from 13.4 percent to 17.1 percent in 2000 and jumped to 32.5 percent in 2004. However, the biggest growth occurred in the private and shareholding economies, jumping from 10 percent to 29 percent during that period. The share of foreign investment in IFA was higher than the national figure, which stood at 10.6 percent in 1997. While state investment still dominates in IFA, foreign investment became an important source of capital. Moreover, the importance of foreign capital not only lies in the contribution to capital formation *per se* but also in enforcing the transition toward a more diversified, market-based mechanism of raising capital for investment.

Table 11.2
The Contribution of Foreign Investment to Investment in Fixed Assets in Shanghai, 1995, 1999 and 2000, 2004

	1995		1999		2000		2004	
		%		%		%		%
State-owned	93.59	60.26	98.68	53.15	83.00	44.39	95.21	36.45
Collective	24.71	15.91	22.72	12.24	15.63	8.36	14.66	5.59
Private and shareholding	15.77	10.15	30.08	16.20	54.60	29.20	66.75	25.47
Foreign-funded	20.83	13.41	32.56	17.54	31.91	17.07	85.14	32.49
Others	0.42	0.27	1.63	0.88	1.83	0.98	0.00	0.00
Total	155.32	100.00	185.67	100.00	186.97	100.00	262.06	100.00

Source: Shanghai Statistical Yearbooks, various years (unit: billion yuan).

Now globalizing Shanghai means a change in the strategy – for the Chinese state it is ‘using the (domestic) market to obtain the (foreign) technology’ (*yi shichang huan jishu*). In this context, ‘technology’ means more than the narrow definition of technological inventions but includes the methods of production. Shanghai has been used as an experimental site to initiate such a transition from the socialist productionist regime based on industrial surplus to a regime of flexible accumulation based on the service sector. The strategy of developing Shanghai into one of the international economic, trade, and finance centers marks the shift toward a service-oriented economy (see Table 1.1 in Chen’s introduction to the book). The development of the stock market is just one example of forging a different mechanism of capital circulation. Property-led development is another case in point. Real estate is the second largest sector in attracting foreign direct investment. In 1997, over 1.3 billion US\$ of actual foreign investment flowed into real estate, accounting for 27.5 percent of the total, in comparison to US\$2.7 billion invested in secondary industries. With the building boom, property prices had risen, especially in the high-end market, until the Asian Financial Crisis in 1997. Since then property-led development has been confronted with enormous difficulties, one of which was the persistent high rate

of vacancy (Halia, 1999). Foreign investment in real estate fell subsequently to US\$0.42 billion in 2000, halting property-led development. In contrast, the manufacturing sector has been absorbing more foreign investment, with its share rising to 63.5 percent of the total actual utilized foreign investment (see Table 11.3). While foreign investment contributes to industrial restructuring and facilitates export, it also squeezes out the share of domestic enterprises and exerts a negative impact on local products. Since 2000, foreign investment in the tertiary sector has demonstrated substantial growth. The tertiary sector absorbed about 45 percent foreign investment.

Table 11.3
The Distribution of Realized Foreign Investment by Economic Sector, 1996, 1997 and 2000, 2004

	1996		1997		2000		2004	
Sectors	Billion USD	% Billion USD	Billion USD	% Billion USD	Billion USD	% Billion USD	Billion USD	%
Primary	0.003	0.064	0.001	0.020	0.006	0.195	0.036	0.550
Secondary	2.520	53.435	2.707	56.309	2.006	63.469	3.587	54.838
Tertiary	2.193	46.501	2.100	43.671	1.148	36.336	2.918	44.614
Real estate	1.053	22.328	1.326	27.576	0.422	13.340	n.a.	
Wholesale & retail	0.571	12.108	0.223	4.634	0.047	1.484	n.a.	
Total	4.716	100.000	4.808	100.000	3.160	100.000	6.541	100.000

Source: Shanghai Statistical Yearbooks, various years.

Re-Inventing the State in Economic Competition

Economic globalization brings new opportunities for cities in late industrialization. Inflow of foreign investment helps to transform industrial structures and globalize real estate. More significantly, it creates a new mentality for growth and justifies the re-engineering of local governance. Machimura (this book) suggests that ‘now globalization seems to symbolize an unavoidable and possibly cruel fate for both the state and its people caught up in a relentless rhetoric of trying to be competitive.’ Through the hegemonic project of global cities, which invokes the sense

of urgency under the challenge of globalization, the state mobilizes and sustains social support and in turn has found a survival strategy in the era of globalization. It is hegemonic because it prioritizes the economic goal and subjects other concerns such as social policy and benefits under this mentality of economic growth (see Ho, this book for Singapore).

Progressive fiscal regime supported by the central state

Shanghai has always been important to revenue collection of the central state. Between 1949 and 1983, as much as 87 percent of Shanghai's revenue of 350 billion yuan (US\$43 billion) was remitted to Beijing (Yeung and Sung, 1996, 9). In the late 1980s, recognizing Shanghai's strategic importance and the shift of foreign investment to the Yangtze River Delta region, the central state granted progressive fiscal policies to Shanghai. In 1985, the State Council granted a fixed baseline expenditure to Shanghai, allowing the city to spend more than it had in its local revenue. In accordance, Shanghai government aggressively expanded the fiscal expenditure, increasing from 2.1 billion (US\$256 million) in 1984 to 3.6 billion yuan (US\$439 million) in 1985, equivalent to a rate of increase of 72.6 percent. In 1988, the central state fixed Shanghai's revenue submission to 10.5 billion yuan (US\$1.3 billion). Consequently Shanghai raised its fiscal expenditure to 6.6 billion yuan (US\$829 million), a 22.3-percent annual increase. Interestingly, the central state sent a working team composed of ministerial officials to help Shanghai government get a better deal and prepare the report (Yang and Han, 1999, 12). Again, in 1993, in order to get a better position in the 1994 fiscal negotiation, Shanghai's government increased incentive for revenue generation and expenditure. In that year local revenue rose to a record high of 24.2 billion yuan (US\$3 billion), a 30.6-percent increase; and

local expenditure reached 12.9 billion yuan (US\$1.6 billion), an increase of 36.1 percent. In fact, Shanghai began to operate an expansionist expenditure regime. During 1993-97, local expenditure exceeded local revenue by 19.3 billion yuan (US\$2.4 billion). The fiscal balance was maintained by generous central state tax rebates, amounting to 72.5 billion yuan (US\$8.8 billion) (Cheng, 1999). Deducting a total of 48 billion yuan (US\$5.9 billion) revenue submission, Shanghai received a net 24.5 billion yuan (US\$3 billion). The substantial support from the central state has made it possible for Shanghai to sustain its massive investment in urban development in the 1990s.

State-led marketization of urban development

Market-oriented reform not only generates entrepreneurial activities *within* the city but also creates the entrepreneurial agent *of* the city. The transformation toward an entrepreneurial city is a major feature of global competition and place promotion (Hall and Hubbard, 1998). But in the post-reform context, this also means the use of market instruments to manage state assets so as to generate a return on investment. The term of *jingying chenshi*, literally ‘the city of business management,’ emphasizes the operational side of urban entrepreneurialism. The pressure to generate revenue and to capture mobile resources that are unleashed by market-oriented reform has driven decentralized urban asset management. For example, new entrepreneurial space in terms of physical and regulatory preferential treatment has been created. A total of 40 special zones have been set up, among which three are national-level Economic and Technological Development Zones, nine municipal industrial parks, and four development zones in Pudong. Land development corporations have been formed to

use the state land as collateral for bank loans. By using land leasing as an instrument, the state no longer invest in urban development through direct capital injection.

Strategic investment in infrastructure

To strengthen the structural competitiveness, the state has committed massive investment to infrastructure development since the 1980s. In the eighth five-year plan (1990-95), 10 major infrastructure projects were completed, amounting to a total of 25 billion yuan (US\$3 billion). These projects included the Nanpu Bridge and Yangpu Bridge, Inner Ring Road and Waigaoqiao Deep Water Berths. In the ninth five-year plan (1995-2000), the second round of infrastructure development included 10 large projects, such as the Pudong International Airport, Metro Line II, Outer Ring Road, and Pudong International Information Port. The total investment from 1996 to 2000 is estimated to be around 100 billion yuan (US\$12 billion). Intensive investment significantly improved the urban environment. For example, the opening of Pudong International Airport with the first phase investment of 13 billion yuan (US\$1.6 billion) in 1999 enabled the city to host corporate jets for the Fortune Global Forum.

According to Mayor Chen Liangyu, Shanghai is strategically investing the development of Yangshan Deep-water container port in the Tenth Five Year period (2000-05). The starting of the second phase of Pudong International Airport and the teleport project will enhance the city's competitiveness for a major aviation and information hub in Asia (see Kasarda, this book). The city also initiated the city beautiful movement to construct the 'ecological city,' which will increase the green space to 28-30 percent of the built-up area. About 20 million m² of old housing will be redeveloped. Dilapidated and substandard housing will be demolished, while those with historical values will be preserved and renovated into special areas to attract

tourists. The new phase of urban redevelopment will sustain the momentum of urban development started since Deng's southern tour in 1992. During the past decade, about 2.6 million m² old housing was demolished; 660,000 households in the inner urban area were relocated; and 115.9 million m² new housing was built.

Re-engineering entrepreneurial local governance

Globalization accelerated the dismantling of a planned regime. The devolution toward the local level is seen as a way to manage and capture mobile resources. For example, an actual occupant of state land is allowed to negotiate with developers to convert its use through state land leasing. In most cases, the negotiation between occupant and developer precedes the approval of the land management authority. In 1995 Shanghai adopted a new administrative structure of 'two tiers of government and three levels of management' (also see Lu, Ren, and Chen, this book). Urban districts have thus gained substantial autonomy in organizing urban development (Zhang, this book). The Street Office, used to be the agent of district government, has been incorporated into the base level of the management structure. In turn, these lower levels of government are not only encouraged to take over the management responsibilities but also driven to be more 'entrepreneurial', i.e. increasing local revenue by forging local business partnership. Local officials are evaluated for their performance in attracting business into their jurisdictions.

The downscaling of the state is effective in that a contract is signed between different levels of the government, thus 'hardening' the budget constraint that was 'soft' in the past. This in turn mobilizes firm-like government departments (Walder, 1995), which become active agents in economic development. The lower levels of government have a strong incentive to promote local development. The downscaling

of governance is also a response to the management vacuum left by the dismantling of economic planning in the face of increasing economic and social mobility (e.g., increasing migrant workers and foreign and domestic capital) so as to maintain the state's control over urban development. The aim is to create a governable society during rapid economic growth and social change.

Designing competitive strategies

Since the 1990s a series of policy initiatives have aimed to create competitive strategies. For example, the strategy of 'dragon-head' designates Shanghai to be one of the international economic, trade, and finance centers. Subsequently the city government designated six pillar industries (automobile, telecommunication and electronic equipment, iron and steel industry, petrochemical, fine chemical, biological and pharmaceutical industry, power generation and electric equipments, household electronic appliance industry). The city promotes the merger of enterprises to large industrial conglomerations and encourages outward development. Since the Lujiazui finance and trade zone became the new business center, a comprehensive plan has been introduced to integrate it with the Bund, the traditional financial area, into Shanghai's new CBD. Along the Huangpu River, a new waterfront redevelopment project started in 2002. The 100-billion-yuan project of waterfront redevelopment aims to convert warehouses and docks along the bank of Huangpu River into residential, leisure and business complexes in anticipation of the demand from the World Expo in 2010. The proportion of greenery will be increased to 26 percent of total land from the current 2.53 percent, reinventing an image of world-class waterfront like the River Seine in Paris (Muzi, 2002).

Conclusion: Re-Globalization as a State Project

The imperative of rebuilding Shanghai into a global city should be understood in light of the state's survival strategy given China's peripheral and vulnerable position within a new global order. Market-oriented reform and the open-door policy have unleashed the resources that were constrained by the planned system and introduced new forces of globalization, thus leading to enormous complexity and mobility. As such we witness a dialectic tension between the waning of state capacity and the state reinventing itself in a new regulatory space, following the mentality of the Asian 'development state.' Although the launch of economic reform was initially more a response to its internal logic, remaking Shanghai as a global city is instrumental for the state to justify its legitimacy in the face of globalization. What we have seen in the case of Shanghai is the fostering of place-based entrepreneurialism through a *state* project of city remaking in a peripheral part of the world economy.

Shanghai is not a global city and perhaps will never be *re*-globalized in the sense of its glorious history as 'Paris of the Orient' – if we regard the term more than just a cosmopolitan metropolis but rather the dominance of international capital. The term in fact referred to its French Concession's resemblance to its Western counterpart. What we have seen in Shanghai is that re-globalization is a strong state-led campaign to rescale and reinvent the state in the era of globalization. The (local) state can use various market instruments to promote property-led redevelopment (He and Wu, 2005) so as to remodel the urban economy. We should remember that China is a developing country now subordinated to the 'global standards' with WTO membership. Therefore, it is irrelevant to ask whether Shanghai is a global city. It may be true that global forces penetrate into the local place according to their economic and technological logics. It is also important to ask what the state can

remake so as to conform to global standards. Literally the image of the gateway city is treated mirrors an intersection where ‘the track is being connected’ (*jie gui*). The case of Shanghai conveys an important message regarding the importance of the local dimension to the formation of the global city.

In the global city literature, no one seriously denies the importance of local conditions in overall urban development in the era of globalization. Sassen (2001b, 2538) stresses that ‘the development of global city functions is filtered partly through thick local institutional environments and legal/administrative frameworks, so it is not simply a standardized implant that looks the same everywhere.’ However, the role of local dimension is often seen as secondary if not passive in facilitating the concentration of foreign capital and high-level production services that are major driving forces behind global city status. In this sense, the institutional environment is regarded in essence the same as resource endowments and more than just a key *condition* for place competition. The literature of ‘place promotion’ mainly focuses on the linear causal mechanism from increasing mobility of capital, to inter-city competition, and finally to place promotion as a local response (Hall and Hubbard, 1996). To a lesser extent, the local dimension is seen working independently and having its own agenda, whereas the buzzword of ‘globalization’ is *symbolically* used to justify the local agenda (Machimura, 1998, this book).

In fact, the opening of Pudong itself was used to indicate continuing economic reform, which helped to break the state from the international isolation after the Tiananmen incident in 1989. What we have seen in Shanghai is a socio-political project of building a global city via the state’s promotion of local economic development. As such the development of Shanghai as a globalizing city does not rely on the quantity of foreign capital *per se* but rather the subsequent institutional

transformations, which generate the momentum of market transition and strengthen the traditional functions of Shanghai and add new ones to it.

What we have seen in Shanghai does not disapprove the validity of the global city model – exactly because Shanghai is not a global city and not located in the core of the world system. But it does suggest a critical implication of globalization for cities in the periphery of the global economy. This is related to ‘how the modes through which a leading international business and financial center ...articulates with the global economic system are shaped in significant ways by the presence of a development state’ (Sassen, 2001b, 2537). In the core of globalization, the global (read ‘Western’) is indigenous, and therefore a neo-liberal discourse adopted by the nation-state in fact facilitates the expansion of the multinational capital to a global scale. In the global periphery, privatization and marketization have created enormous mobility and if not economic uncertainty. While urban entrepreneurial activities have emerged at an unprecedented rate, it is the responsibility of the state to translate them into structural competitiveness. More often than not global forces and local interests do not overlap. The state thus has to promote place-based competitiveness through transcending its direct involvement in economic production into strategic management, thus retaining part of its functionality (see N. Chen, Ho, Kim, Lui and Chiu, Machimura, this book, for varied roles of the state in influencing other dominant Asian cities).

Two implications for future urban development of Shanghai can be derived from this understanding. First, global cities are not autonomous agents themselves in the triangular relationship between the global economy, national states, and global cities. For example, the dominance of New York in international finance is tied up with the US economy and its ability to define the rules of the game in international

financial markets. Shanghai's growth cannot divorce itself from overall national growth. Indeed, the headquarters of People's Bank of China (China's central bank) remains in Beijing, which indicates that Shanghai cannot afford to overlook the importance of attracting domestic conglomeration in order to be globally competitive.

Second, instead of emphasizing the quantity of foreign capital, Shanghai needs to devise a strategy to better serve its hinterland and to connect its economy to the world market. This requires a different thinking from the import-substitution strategy, which underlies the rationality of six pillar industries. Rather, Shanghai needs a new strategy to foster globally competitive high-tech industries (Markusen and Yu, this book) and to nurture Chinese entrepreneurs in global economic competition. This requires enhancing innovation and production capacity through strategic investment. Meanwhile, there is a need to constrain the property boom and prevent production costs from escalating out of control, which may trigger a decline of these industries. Moreover, Shanghai needs to adjust its relationship with the neighboring provinces – Jiangsu and Zhejiang – to seek a greater level of regional cooperation and integration rather than just competition. In fact, the two provinces are often hostile to Shanghai's aggressive policies and unwilling to cooperate in regional integration. Shanghai has to convince them of the benefit from voluntary participation in a globally oriented regional network (see Kim, this book for Seoul's role in Northeast Asian regional networking).

Finally, China's accession to the WTO has created an enormous opportunity for foreign investors to enter and expand in China, especially in the financial and production services. Now there is also an enormous opportunity for China to have a broader access to the world market. Shanghai needs to serve its economic hinterland more effectively. In Friedmann's (2001, 2535) word, 'world cities articulate territorial

economies with the global system, and like cities everywhere, they reflect the power of their “colonized” space.’ To further increase its global competitiveness, Shanghai must do a lot more to ‘colonize’ its space by developing closer and more cooperative ties with the Yangtze River Delta. This strategy calls for a weakened central state and stronger and more aggressive local governments to work across rigid administrative boundaries in creating a new regionally based and yet globally competitive economic system.

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