

## **Shanghai: The World's Most Rapidly Globalizing City** *Xiangming Chen*

Shanghai is recognized as the most rapidly globalizing city in the world. As the first city from the modern developing world, it appears well on its way to host the World Expo in 2010. Shanghai's rise has caught worldwide attention. It is no surprise that the city of Chicago and its can-do mayor Richard M. Daley, which launched an aggressive bid to host the 2016 Summer Olympics, opened its first overseas development office in Shanghai in February 2007. If the rest of the world were not aware of Shanghai's rising global importance, it received a wake-up call through the worldwide financial shock waves unleashed by the Shanghai Stock Exchange's plunge on 27 February 2007.

Shanghai has experienced the fastest economic growth of any mega-city in the world since the early 1990s, averaging about 15 per cent annually. Shanghai has attracted US\$ 120 billion in direct foreign investment since 1992, averaging well over US\$ 10 billion annually in recent years, more than any other city, and most countries, in the world. Simultaneously Shanghai has arguably been undergoing the most dramatic spatial transformation of any city anywhere during the past two decades or so. Rumour had it that half of the world's cranes were working in Pudong (east of the Huangpu River) in the latter half of the 1990s. The massive build-up turned a former agricultural region of rice paddies and farm houses, largely cut off from the rest of Shanghai, into a booming district filled with modern skyscrapers and factories, including the world's fastest train and tallest hotel. Shanghai has gone through 'the greatest transformation of a piece of earth in history. It's mind-boggling', according to a Baltimore-based architect who has done planning work in the city.<sup>1</sup> With a clever design, another American architect Benjamin Wood turned a small piece of gigantic Shanghai, located in an old central city neighbourhood, into Xintiandi (translated as 'New Heaven and Earth'), which has become a top tourist destination full of luxury shops, outdoor cafés, and trendy restaurants, drawing numerous foreigners and fashionable locals.

### **Shanghai in Rear View Mirror**

The new boom and glamour of Shanghai is, in a sense, a renaissance of old Shanghai. A relatively small market town and a cotton production centre throughout the seventeenth century, Shanghai blossomed during the nineteenth century into China's most cosmopolitan city and had by the 1920s become known as 'the Paris of the East'. Shanghai then ranked as the world's sixth largest city behind London, New York, Tokyo, Berlin, and Chicago in that order. More importantly, it had become by far the most dominant financial, industrial, shipping, and cultural centre in China. By 1936, Shanghai was host to half the number of bank HQs, bank branches, and trust companies, both foreign and domestically owned, in the whole of China. By 1933, Shanghai accounted for more than half of China's total industrial output. Between 1886 and around 1930, Shanghai consistently handled about half of China's foreign trade, and it absorbed 34.3 per cent of China's total foreign investment in 1931. Between 1902 and 1904, Shanghai accounted for 69 per cent of the market for the 529 western books translated into Chinese

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<sup>1</sup> Reported by Frederik Balfour, 'Shanghai Rising'. *Business Week*, 19 February 2007, p. 53.

in China.<sup>2</sup> But Shanghai's star dimmed during the tumultuous years of the Chinese Communists' wars with Japan and the Nationalists from the late 1930s through to 1949.

Just as Shanghai was poised to rise again after the Chinese Revolution of 1949, its growth stagnated until the late 1970s due to the central government policy of redistributing its economic and technical resources to financing the development of poor interior cities. Shanghai turned over 350 billion Yuan (US\$ 40 billion) in revenue to the central government during 1949-1985 but got back only 3.5 billion Yuan (US\$ 44 million) for building municipal infrastructures, a lopsided ratio of 100:1 in favour of the central government.<sup>3</sup> Shanghai languished again behind the booming cities in South China such as Shenzhen and Guangzhou, which were favoured by the central government during the 1980s. The onset of the 1990s, when former Shanghai mayors Jiang Zemin and Zhu Rongji rose to power on a national level, ushered in the dawn of a 'golden decade' for Shanghai. Groomed and guided by both the national and municipal government, Shanghai has been steaming along an upward trajectory to becoming China's pre-eminent global city. 'The Paris of the East' of the past appears to be jumping forward to becoming 'the New York of China' in the future. Can that future be very far away for Shanghai, which is already home to the Asia headquarters of more than 150 global corporations, including General Motors and IBM?

### **The Shanghai 'Miracle': What Lies Behind It?**

The torrential growth of Shanghai during a relatively short time span amounts to a 'miracle' of global-city building. What has been driving this 'miracle'? The most powerful driver is a state-led model of urbanization anchored to a specific policy of allowing a few coastal cities to experiment with leasing the use rights of state-owned land to foreign investors in the 1980s. Shanghai was one of those cities. By 2000, Shanghai had raised over US\$ 13 billion from leasing land for infrastructure construction and urban redevelopment. As a former mayor of Shanghai commented then, if Shanghai had depended on the central government for traditional budget allocation, instead of raising funds through land lease, the urban renewal projects completed between 1990 and 2000 would have taken a total of hundred years to complete. Considering that Shanghai has attracted US\$ 120 billion in foreign investment since 1992, that was not necessary. Almost 4,000 buildings with 20 or more storeys have cropped up in the city since the early 1990s, doubling the total number of buildings in New York and in Shanghai's own housing stock. The massive scale of land lease amounts to a highly rational, calculated move by the government to use its sole control over non-priced land to create a lucrative land-lease market to finance rapid urban build-up. If land lease is the defining feature of state-led urban development in Shanghai, it injects a strong dose of hybrid capitalism into

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<sup>2</sup> Weiping Qi and Zhaoqing Xiao, 'The Historical Background and Contemporary Implications of the Establishment of Shanghai's Central City Position in Modern China', in Xiaomin Feng (ed.), *A Collection of Modern Shanghai Studies*, The Century Publishing Group, 2005, p. 13.

<sup>3</sup> Shi Lei, Qi Ge, and Yuan Min, *Shanghai Ren Da Zhihui (The Smart Shanghainese)*, World Knowledge Press, 2004, p. 6.

the latter, relative to the 'free-market' of Hong Kong, where the government would auction valuable properties for development.

In Shanghai the transformed nature of the new Chinese city (see on the chapter on China) is both more evident and subtle regarding the four themes of the Urban Age project. The already heavily eroded state sector, which accounted for only 24.3 per cent of all employment in 2000, lost further ground with 20 per cent of all employment in 2004. In the meantime, the share of jobs in foreign-owned enterprises grew from seven per cent to 10 per cent, while the proportion of private and informal sector jobs jumped from 11.7 per cent to 27.2 per cent.<sup>4</sup> Another important dimension of the state-led reorganization of Shanghai's economy is reflected in the relative decline of the manufacturing sector (from 63.8 per cent of the city's GDP in 1990 to 48.6 per cent in 2005) and the gain of the service sector (from 31.9 per cent to 50.5 per cent). This shift from manufacturing to services goes in the direction of the state-set goal of turning Shanghai into a world-class centre of financial and advanced business services. The finance, insurance, and real estate (FIRE) sectors (key producer services in Saskia Sassen's global city model) as a share of Shanghai's total services output rose to about 30 per cent in 2005, closing a little of the gap with true global cities such as New York and London. These services however remain functionally limited in a city that continues to be a dominant regional manufacturing centre in the Yangtze River Delta and in China as a whole. Aggressive as it is, the government's push for Shanghai to become a global city rubs up against the resilient dependency rooted in the city's industrial tradition.

With the most densely populated central city in China, Shanghai's central Huangpu district has a whopping 126,500 people per m<sup>2</sup>, giving each person less than eight m<sup>2</sup>. In addition, the average housing price in central Shanghai is four times as high as that in the areas far removed from the centre. To reduce this density and to take advantage of the large housing price differential, Shanghai's municipal government has drawn up a massive plan to build 'One New City and Nine New Towns' with a combined population of 5.4 million and 60 new small towns with populations of around 50,000 each between 2006 and 2010.<sup>5</sup> Each of the nine new towns was designed to resemble the typical city of a different European country. For example, Thames Town in Songjiang New City – about 40 kilometres southwest of central Shanghai – looks like a British village with cobbled streets, Tudor-style houses, and red telephone boxes. Since mass transit lines don't yet link Thames Town to downtown Shanghai, it has few permanent residents and feels like a ghost town during the week. During weekends, however, couples find the town and its stranded tram a perfect backdrop for photo opportunities. While these towns will develop more connections to Shanghai, they are planned as self-sufficient satellite cities where people can live, work, and shop without having to commute to central Shanghai.<sup>6</sup>

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<sup>4</sup> These figures were calculated from *China Statistical Yearbook 2005* and *Shanghai Statistical Yearbook 2005*, respectively.

<sup>5</sup> M. South, 'Urbanites head for new life in suburbs', *China Daily*, 3 July 2006; reprinted and accessed on Asian Development Bank Institute (ADBI)'s Web site at <http://www.adbi.org/e-newsline/index.html>.

<sup>6</sup> See F. Balfour, 'Shanghai Rising'. *Business Week*, 19 February 2007, p. 54.

To allow for people to live further from downtown Shanghai, while they can easily commute into the centre for work, the Shanghai government is planning to expand the transport networks including the underground, roads, railways and a maglev train to the regional edges. Millions of Shanghainese already have had, or may soon have to decide between moving out to the new and more spacious suburban housing or staying put in the old and crowded central-city dwellings. Those who have moved like the lower mortgage payments, larger living spaces, better air quality, green parks, modern facilities, and less noise in the suburban towns of Pudong, but they miss the familiar social networks and the shopping and transport convenience, and even the noise in downtown Shanghai. Despite the fairly generous compensations from the government and/or real estate developers for vacating their housing units slated for demolition, some residents refuse to move because they do not like the inconvenience of a long commute to and from downtown Shanghai, where the affluent families that are their most likely employers still reside. Others do not like the inconvenience of lacking commercial facilities and social services. However, as more amenities such as shopping centres, schools, and hospitals become available in the suburbs, more families are likely to relocate there. While this will reduce the high density in central Shanghai, it may trigger the type of suburban sprawl that characterizes so much of American metropolitan development. As the growing population pressure calls for 200,000 new housing units to be added in Shanghai annually for the next decade, it will be sooner rather than later that the city will spread and stretch out further.

### **Shanghai as China's Global City? Lessons from Shanghai**

The apparent role of the Chinese state in building Shanghai into a global city lends strong support to the side of the debate that argues that the state remains powerful, as opposed to its powers being eroded, in the face of accelerated globalization and autonomous global cities. The unparalleled speed with which the building of Shanghai as a global city has occurred simply would not have happened elsewhere. However, is the same Chinese state capable of managing the less positive consequences that occur just as rapidly? What must and could the state do to offset these negative developments? In a democratic society there is a system of rights and a history of local participation that limits the extent to which any government can suddenly reverse course. In contrast, the state's handling of the 'backlashes' of globalization and marketization in Shanghai continues to rely on top-down macro-control and administrative interference, although the latter approach works less well than before, exposing the growing weakness of a still powerful state as a global-city builder. For example, it was only after repeated administrative measures pushed down by the central government that Shanghai's 'hot' real estate market slowed with a 10 per cent drop in property prices in mid-2006. But it might reflect the municipal government's push to sell more less-expensive, lower-end housing units across the city. In late 2006, the central government removed Shanghai's Party Secretary and a number of senior municipal government officials for misappropriating around US\$ 400 million from municipal pension funds for property development. The rumoured story about factional struggles aside, this episode exemplifies the reasserted will of the central state to rein in the powerful and autonomous Shanghai leadership.

Although the Shanghai government has demonstrated some political muscle in holding the central government off in its global-city building project, it faces an increasing range of local challenges such as creating enough jobs to reduce the pressure of unemployment on social stability in China's most populous city of 20 million people including over three million migrants. As the mayor of Shanghai acknowledged in 2003, 'Job creation will be one of the priorities, or one of the most difficult challenges in future'. The official unemployment rate in Shanghai has been around five per cent since 2003, or more than 300,000 jobless, according to the municipal government's latest statistics. But the city could only create some 100,000 new jobs in 2003 as the city's 400,000 – plus job opportunities were offset by 300,000 job cuts that happened due to the restructuring and reorganization of state-owned enterprises.<sup>7</sup> The shrinking formal labour market is also accompanied by a growing informal economic sector, which has gradually been recognized by the government as a timely, complementary source of jobs. While the relative size of Shanghai's informal economy is smaller than those of Mexico City and Johannesburg, its emergence and expansion marks Shanghai's departure from its socialist past and entrance into the ranks of global cities shaped by the capitalist economy. It also exposes a weakness of the strong Chinese state in building Shanghai as a global city and in handling its burden of economic restructuring.

The lessons from and about Shanghai appear to revolve around the state's strengths and weaknesses in its ability to build a new and dynamic global city. There is a dilemma for the government, which also concerns its role in relationship to the rapidly changing local communities, which have become more autonomous due to earlier government-initiated administrative reforms. In 1996, the Shanghai government introduced administrative reforms intended to strengthen street offices' power in community service, education, sanitation, social security, social safety and so forth. The government decided to return 1-2 per cent of taxes to street offices for community development. Measures like this changed the street office from a weak branch of the district government to a sort of grassroots-level governance. The 'Shanghai Model' of community reform is characterized by the power transition from higher-level government to local level on one hand, and the reconstructing of a local administrative system on the other. These are two related but different processes with different orientations. Any merging of these two processes could burden a local community with governmental tasks and turn it into another local administrative unit, which would lead to an expansion of existing government functions and a deviation from the essence of community building.

Finally, Shanghai teaches us something about the power of individual choices, or the lack of them, in a state-directed but increasingly independent market-driven residential housing market. As the blocks surrounding Xintiandi get torn down for the building of luxurious flats and a proposed theatre district that aspires to rival New York's Broadway or London's West End, the existing low-income residents, who are largely without any choice, may have to purchase low-cost housing away from the city centre or beyond, whether their relocation compensation from the government would make the move economically feasible or not. On the other hand, the new rich live in downtown luxurious

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<sup>7</sup> Mayor Han Zheng's speech at the 12th Annual Asia Leadership Forum, November, 2003; reported by China Xihua News Agency, 5 December 2003.

flats or detached villas in suburban gated compounds as elite members of a new and privileged community. Looking at the Gini index (a standard measure of income inequality with the number of 1.00 representing complete inequality) for Pudong, Shanghai rose from .37 in 1994 to .45 in 2001, approximating the high level of inequality in the United States. With their wealthy status and exclusive nature, the gated communities in Shanghai differ little from their counterparts in Mexico City, Johannesburg, and even in American metropolitan regions. In this regard, Shanghai is much less a typical Chinese global city. It is simply a globalizing city on a familiar development trajectory. But it is the blazing speed of its growth and globalization in a transitional socialist system that makes Shanghai quite distinctive. This in turn renders Shanghai a live laboratory for the Urban Age project and beyond.

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