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## Globalization and Shanghai Model: A Retrospective and Prospective Analysis

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### **Abstract**

Intended to shed light on the debate on the results of globalization and provide better understanding of the influences of globalization upon China as well as the world, this article traces the history of Shanghai's economic globalization over the past 170 years since 1843 and demonstrates the benefits and problems Shanghai received from (or connected to) its economic globalization. Divided into three sections (Globalization, de-globalization and re-globalization of Shanghai's economy; Manufacturing-Oriented vs. Tertiary-oriented—Shanghai's Double Priority Strategy of Economic Growth; Free market, state enterprises, and Shanghai's mixed economy) the article summarizes and analyzes several characteristics that made Shanghai a unique model in the history of globalization: In adapting and adopting inevitable economic globalization, Shanghai created its unique model of economic development—widely embracing economic globalization; placing Shanghai's economy on a solid foundation of both strong modern manufacturing and strong tertiary industry (consisting of finance and insurance, real estate, transportations, post and telecommunication, wholesale and retailing); and creating a mixed economic structure with hybrid of private and state owned enterprises. The Shanghai model proves that globalization has been an unavoidable trend as science and technology have made the world “smaller” and “smaller.” Actively engaging into economic globalization is the only way for Shanghai, as well as many developing countries, to accelerate its economic growth.

## Introduction

Economic globalization has been a hot topic among scholars since the 1980s. Debates have never stopped over the advantages and disadvantages of economic globalization for the world, particularly for the developing countries. Some scholars look at globalization with skepticism and criticize economic globalization for causing serious problems such as the north-south conflict, the gap between rich and poor, and environmental deterioration, thus triggering the global economic crises. In the meantime, other scholars look upon globalization favorably and see a more diverse and better life for all resulting from economic globalization. They believed that economic globalization has accelerated free market flows and enabled the optimal distribution of productive elements in the world and thus promoted the growth of world productivity and provided more opportunities for the developing countries, which have greatly benefited from foreign capital and international market.<sup>1</sup> As China's most globalized city, Shanghai has demonstrated all the benefits and problems resulted from (or connected to) its economic globalization. The history of Shanghai's economic change over the past 170 years may shed light on the debate regarding whether economic globalization has been more harmful or more beneficial to the world and will be certainly helpful for our understanding the influences of globalization upon China as well as upon the world.

### **Globalization, de-globalization and re-globalization of Shanghai's economy**

While some scholars believe globalization is a phenomenon with a long history, most scholars put the nineteenth century as the advent of globalization,<sup>2</sup> when national economies across the world became increasingly interdependent through a rapid increase in cross-border movement of goods, services, technology and capital (Joshi, 2009). Shanghai's economic globalization also started in the middle of 19<sup>th</sup> century, when the Western countries forcefully drew Shanghai into the world market after the First Opium War.<sup>3</sup>

Unlike many of China's well-known cities, Shanghai's history as a metropolitan city is short, and, until 1843, it was still not an independent city. The surging demand for tea, silk, and other Chinese products in the western countries in the 19<sup>th</sup> century provided a great historical opportunity for Shanghai's globalization. With the rich and vast hinterlands of the Yangtze River Valley, Shanghai quickly emerged as a booming international trading port. Engagement into the global economy triggered Shanghai's geographical advantages as a port city, which greatly strengthened its import and export function. Very soon, Shanghai replaced Guangzhou as China's largest treaty port for foreign trade. By the 1870s, over 60 percent of China's foreign trade was handled through Shanghai (Luo, 1932, p. 90). By the 1920s, Shanghai had become one of the 14 largest trade ports in the world. The imports and exports of Shanghai made up more than 50% of China's total foreign trade before 1949 (Zhang, 1991, pp. 87-88; Cheng, 1956, p. 23).

Stimulated by the expansion of international trade, Shanghai's modern industry prospered. Thanks to the globalization of Shanghai's economy, a large number of modern factories appeared in Shanghai. With the advanced technology and equipment and systematic management, these new enterprises transformed Shanghai into China's modern industry center. By the early 1930s, about half of China's modern manufacturing companies (1,200 out of 2,435) were located in Shanghai. These factories employed 43% of China's industrial workers and manufactured 51% of China's total industrial products. Shanghai's modern factories produced about 60% of China's

cigarettes from 1925 to 1935 and generated 58% of China's electric power in 1936 at the lowest price in the world (Liu, 1940, pp. 26; Murphey, 1953, pp. 196, 197, 200).

The economic boom and population growth yielded new demands. Modern banks, insurance agencies, financial trusts, a stock market, a commodity market, and other modern business service institutions boomed in Shanghai, popping up one after another. By 1935, 35% of China's modern banks, including 81% of China's largest banks, set their headquarters in Shanghai. In 1936, almost half (47.8%) of all Chinese banks had their paid-up capital, banknotes, and deposit and bank reserves in Shanghai (Jiaguan, 1990, pp. 328-9). Shanghai's gold trading market was "the sole gold market in whole Far East," and the gold trading volume in Shanghai was behind only that of London and New York and much higher than that of Japan, France, and India (Jiaguan, 1989, pp. 21-22). The booming of international trade, expansion of modern industry, and increase of various business service institutions attracted more people into Shanghai. Shanghai's population jumped from about 200,000 in the early 1840s to one million by early 20<sup>th</sup> century and to over 5 million by the 1949 (Zhang, 1991, pp.53-55).

By the early 1930s, Shanghai had undoubtedly consolidated its position as China's financial center, modern industrial center, international and domestic trade center, transportation center as well as cultural center. Though many problems existed and many people were still suffering economically at the time, nobody could deny the fact that economic globalization greatly benefited Shanghai and made Shanghai the most energetic and the richest city in China.

Shanghai hit a wall, however, when it was forcefully de-globalized after 1949. Confronting the economic embargo imposed upon Chinese exports by western countries after the Communists took over Shanghai in 1949 Chinese leaders deliberately chose to pull China as well as Shanghai off the course of globalization. Most foreign companies had moved from Shanghai to Hong Kong by 1949. The ones that had not left before 1949 departed shortly thereafter, as no remaining foreign companies could survive due to unreasonably high taxes and numerous restrictions set up by the new Chinese government and were forced to escape from Shanghai (Jiaju, 1983).

The newly-established Chinese government tightened their control over China's foreign trades. Other than trade with Soviet Union blocs and very limited trade with Hong Kong, Shanghai's economy was almost entirely secluded from rest of the world. In the meantime, Shanghai lost its position as China's financial center. The gold market, stock market, bond market, and commodity market were all banned. China's People's Bank in Beijing controlled Shanghai's finance so tightly that Shanghai's banks became little more than an accounting house for the government. Compared to other East Asian centers of commerce, such as Tokyo, Singapore, Seoul, Taipei, and Hong Kong, all of which experienced spectacular growth after the Second World War, Shanghai was left far, far behind in the next three decades.

The people of Shanghai made great efforts to save Shanghai's economy under such unfavorable business conditions and kept Shanghai's position as China's most advanced city before China's economic reform started in 1978. For several decades, Shanghai won "ten number one" positions in China, as measured by major economic matrixes, including industrial output value, foreign export value, labor productivity, industry profit and assets turnout rate per capita gross national product, energy efficiency rate, revenue submission, etc. Despite falling from the international trade scene, Shanghai still made one eighth of China's industrial product value, handled one fourth of China's exports, and contributed to one third of the Chinese central government's revenue before the middle of 1970s.<sup>4</sup>

These “ten number ones,” however, were sharply contrasted by Shanghai’s “five tailenders,” as measured by the matrixes of social, human, and environmental development. Shanghai’s high revenue contribution came at the cost of severely crippling Shanghai’s infrastructure and the deterioration of the standard of living for the people of Shanghai. The rapid population explosion made Shanghai the most crowded city in China. Additionally, since the government invested almost nothing in building houses, roads and other basic public facilities, the crowding was compounded by poor and unsanitary living conditions. By the late 1970s, Shanghai’s per capita road length was 1.57 square meters, and the crowded roads led to high incidences of car accidents. With auto casualties as high as 42.5 persons/per 10,000 cars, Shanghai’s car accident rate was the highest among China’s large cities. Even more notorious were Shanghai’s terrible living conditions. In 1979, Shanghai’s population density was 41,000 per square kilometer, the highest in China. Since very few housing complexes or apartments were added after 1949, the average size of a person’s living space was smaller in Shanghai’s than in any other of China’s large cities. Each Shanghai resident had only 4.3 square meters of living space on average and 50% of households, or 918,000 households, had less than 4 square meters of living space per person.<sup>5</sup> Shanghai’s per capita green space was only 0.47 square meters, just as big as a piece of newspaper. The unrestricted industrial expansion and the ignorance of public facilities also brought serious environmental problems to the city. Crowded public space and congested residential space and the pollution took a heavy toll on people’s health. Shanghai’s per capita cancer rate ranked the highest among China’s large cities.<sup>6</sup>

Shanghai’s economic superiority in China was ruined by years of overproduction and underinvestment. Particularly when China’s other provinces were developing by leaps and bounds after China’s economic reform started, Shanghai was rapidly left behind. During the 1960s and 1970s, Shanghai kept its GNP growth rate at about 40% higher than China’s national average. By 1980s, however, it was 12.6% lower than China’s national average (Zhou, 2004).

Re-globalization saved Shanghai from its economic downturn and possible bankruptcy. Immediately after China began to open itself to the world (after 1978), the people and government of Shanghai repeatedly requested that the Chinese central government release its tight control over Shanghai’s economy and give Shanghai more space to connect to the world directly. The opportunity finally came in early 1990, when China’s paramount leader Deng Xiaoping was considering taking a significant step to show the world that China would continue to open itself to the world, something he especially wanted after the Tiananmen Square incident of 1989. Zhu Rongji, the then Shanghai mayor, formally submitted the proposal of “opening and exploiting Pudong.” For historical reasons, Shanghai had previously developed in a strange model until the 1980s: Shanghai’s main river, the Huangpu River, divided Shanghai into two distinctive economic regions. Almost all modern factories and other industrial facilities were concentrated on the west side of Shanghai (Puxi), leaving the area east of Shanghai (Pudong) almost entirely an agricultural zone. In the 1980s, the government of Shanghai planned to set up a special economic zone in Pudong and make Pudong Shanghai’s second modern economic center.

The Chinese central government accepted this proposal and decided to make Shanghai’s Pudong the focal point of China’s economic reform for the subsequent decade by allowing Shanghai to widely open its port back up to the world. From that time on, the keystone of China’s reform shifted decisively from the Zhujiang Delta region centering in Guangdong province back to the Yangzi Delta region, centering in Shanghai. If the decade of 1980s was the “Guangdong era,” represented by Shenzhen, the first year of 1990s started a whole new

“Shanghai era.” If Shanghai was forcefully drawn into economic globalization by western powers in the 1840s, Shanghai’s leaders and Shanghai people consciously and wholeheartedly embraced globalization, hundred-fifty years later in the 1990s,

Shanghai made very bold moves to re-initiate or simply invent crucial institutions for China’s market economy. The Shanghai Stock Exchange opened for business in 1992, and more and more state or private owned enterprises went public, thus providing huge potential for corporate financing. Soon, the Shanghai Stock Exchange became one of the largest stock markets in the world. Gold, metal, and other commodity exchanges and option market were reestablished one after another in Shanghai. The Shanghai Property Exchange was invented in Shanghai to facilitate property transition and to merge and purchase companies or company stock shares. The establishment of these institutions and market systems provided great opportunities for Shanghai to get necessary capital, various materials, and crucial manpower for improving and upgrading its economic capacity, thus competing and winning in the world market.

Starting from 1990, Shanghai spared no efforts in engaging its economy in globalization efforts by turning all of Shanghai into a sort of paradise for international as well as domestic investors. Shanghai’s public investment in the city’s own infrastructure held double digit increases year by year. In 2007 alone, the Shanghai government invested about RMB 147 billion (30% more than 2006) in Shanghai’s public infrastructure, including RMB 16 billion on electricity and RMB 84 billion on transportation.<sup>7</sup>

Having a first class infrastructure is obviously important, but more important for attracting investors is to provide the best services. Having had a long-standing command economy made for notoriously burdensome levels of bureaucracy a common phenomenon in China, which severely hindered economic progress. To open a new company, for example, one had to pass through numerous government offices and apply for a long list of licenses or certificates. It was not uncommon for a new company to spend months, if not years, just getting the government’s permission to do business. To accelerate Shanghai’s economic development, the government of Shanghai was determined to make swift, red-tape reducing changes so that government officials would provide investors excellent, real help in acquiring the necessary approvals (rather than lip service) in order to set up a new business establishment. For example, it set up the so-called “one-stop shopping” service for foreign investors. Staffs from various departments of the Shanghai government were clustered in one office (or office building) so that investors could, in one location, get all necessary certificates to set up companies and to start to operation.

This hard work yielded excellent results. Since 2004, for example, Fortune magazine has published its annual investigation about China’s best city for business. The magazine sent its questionnaires to 25,000 senior managers and entrepreneurs asking for their opinion on the business environments in China’s large cities. For five consecutive years, Shanghai has always ranked as “the best city for business” because Shanghai has “the best labors,” “the highest life quality,” “the highest business efficiency” and is China’s “best city for starting [a] business,” the “best city for business entertainment” and has most potential for business.<sup>8</sup>

Re-globalization saved Shanghai from a downward spiral, and Shanghai’s economy once again grew by leaps and bounds. Shanghai’s foreign trade expanded even faster. For more than 15 years, until to 2007, Shanghai’s international trade value jumped more than 20% annually. By 2008, Shanghai’s import and export value reached 322 billion USD.<sup>9</sup> By 2010, Shanghai became

the world's busiest cargo port. In 2011, Shanghai's ports handled 730 million tons of cargos with 31.74 million containers, far more than any other ports in the world (Xinhua News Agent, 2012).

Shanghai's financial industry has also made a significant progress. More and more financial and insurance institutions began to gather in Shanghai. By the end of 2008, 395 foreign financial institutions had set up their China headquarters or branches in Shanghai, (53.1% of China's total foreign banks and 84.8% of capital assets of total foreign banks in China) were located in Shanghai (Shanghaigang, 2009).

Though the Chinese economy as a whole has made great progress over the past 30 years, Shanghai obviously achieved the most economic success among China's 31 provinces, metropolitans, and autonomous districts. In 1990, Shanghai's per capita GDP broke US\$1,000 for the first time. Five years later, in 1995, the per capita GDP doubled to US\$2,000. The figure doubled again and again and reached more than US\$11,809 in 2010.<sup>10</sup> After sixteen years of double digit growth, Shanghai's GDP reached more than RMB 1.69 trillion (about US\$268 billion) in 2010, or 62 times what it was in 1978 when Shanghai's GDP was RMB 27.2 billion (about 17 times in terms of US dollar because US\$ 1 = RMB 1.7 in 1978) (Shanghai Overview, n.d.).

In building an international metropolis, Shanghai has played and continues to play a significant role in national economic development and shoulders the great responsibility of providing services to the whole country. Despite constituting only 1% of China's population and 0.06% of China's land space, Shanghai contributed 1/8 of the national fiscal revenue. In 2008, Shanghai's import and export goods made up one-fourth of the nation and its cargo handling capacity occupied 1/10 the nation's total.<sup>11</sup> Additionally, the health of the people of Shanghai now matches that of those in developed countries. As of 2011, the average life-expectancy of an individual living in Shanghai increased to 82.1 years, and all major health indices in Shanghai have reached the same average levels as developed countries.<sup>12</sup>

Anybody who has visited Shanghai recently, particularly those who had previously witnessed or known of Shanghai's situation in the later 1970s would be impressed by Shanghai's great changes. Shanghai's remarkable record of rapid economic growth and return to prosperity since early 1990s has resulted a new, pretty Shanghai with numerous glittery skyscrapers, an F-1 racing ring, and the world's fastest maglev trains. All of this has been achieved in addition to the major improvements in the average health and standard of living of the people of Shanghai (Olds, pp. 109-123; Gu and Tang, 2002, pp. 273-303). Whatever opinion a person may have regarding globalization, he or she would be hard pressed to challenge the fact that Shanghai has benefitted greatly from globalization and remains one of the biggest winners in China's process toward globalization since the 1840s. The history of Shanghai's globalization, de-globalization, and re-globalization demonstrates from both positive and negative angles the fact that Shanghai benefitted greatly from its embracing economic globalization.

### **Manufacturing-Oriented vs. Tertiary-oriented: Shanghai's Double Priority Strategy of Economic Growth**

The world financial crisis, initiated in the United States, dealt a heavy blow to both China's and Shanghai's economy. Shanghai's GDP growth rate dropped to 9.7% in 2008 (down from 11.6% in 2007). Though a 9.7% growth rate could still be considered comparatively high, worldwide, it was the first time in 17 years (since 1990) that Shanghai's economy had experienced a less than double digit rate of growth. In discussing Shanghai's economic situation,

Shanghai's mayor, Han Zheng, acknowledged the negative impact the world financial crisis imposed upon Shanghai, but he was very confident on Shanghai's economic future. As he said, "All difficulties are temporary because Shanghai's economic structure remains healthy .... Shanghai's competent enterprises would certainly walk out the predicament in advance." (Jiang Yu, 2009).

All economic evidence demonstrates that Han Zheng's confidence was realistic because it was based on solid economic reality. Shanghai's economic structure is more resilient against economic crisis than the structures of other cities and/or nations due to another characteristic of the Shanghai model: a strategy of "double priority" (i.e. on both goods—in the form of manufacturing—and services) for economic growth. In another words, Shanghai's rapid economic growth has been the result of a combination of the city's strong manufacturing output and a parallel tertiary industry of providing services (i.e. in the areas of finance and insurance, real estate, transportations, post and telecommunication, wholesale and retailing). In studying Shanghai's role in China, various scholars have pointed out Shanghai's position as China's financial center, trade center, transportation center, and various other centers, but it is Shanghai's position as both China's manufacturing and tertiary industry centers that have made Shanghai a winner in economic globalization since it emerged as an international city in early 20<sup>th</sup> century.

It is a common trend in the world that the more advanced a country is, the higher the proportion of its economic structure comprises tertiary industry. This is particularly true in large cities, where the cost of manufacturing escalates as the costs of labor and land keep rising over time. In addition to such cost escalation, the manufacturing industry has more recently been neglected or given up in many cities, as the concepts of green economy is becoming more popular. People and governments are requesting stricter regulations to restrict, or better, to eliminate the air, water, and other kinds of pollution that manufacturing companies might bring to the city. Understandably, cities with the means to do so are thus inclined to expand the service economy, particularly since services can usually generate more added value while requiring fewer material resources. Stock exchanges and other financial institutions working in virtual capital markets (options, insurance, mortgage, and derivative agents) generate even more profits. Compared to the manufacturing industry, the per capita profitability an investment bank could bring to its investors and the tax revenue it could bring to local government is certainly much higher, maybe tens or even hundreds of times higher, at least in the short term. It is hardly a wonder that modern cities seek to attract businesses based on virtual economy. In fact, widespread use of the Internet and easy capital flow has made some cities nearly reliant upon virtual industry as economic bases. In recent years, the tertiary industry accounts for 60% of global GDP. In most developed countries, tertiary industry makes up more than 70% of GDP. These proportions are even more pronounced among the world's top cities. It was 80.5% in Seoul, 82.8% in Tokyo, and 84.1% in New York in 2004 (Liu, 2007). In Hong Kong manufacturing industry dropped from 25% in 1980 to about 8% in 2002 (Fishman, 2005, p. 75). In today's age of digital information, science and technology became major players in international competition. It seems that the high proportion of tertiary industry signals the advancement of a city or a country and manufacturing industry seems no longer as important as it was before.

Shanghai is no exception. Once China started its economic reform, one of priorities for Chinese policy makers was to accelerate the growth of China's tertiary industry. Because of China's manufacturing-orientated economic structure, established in the 30 years since the People's Republic of China was born, accelerating the growth of the service industry posed one of the most serious problems for the Chinese economy. Before Shanghai had shut its doors



toward the world in 1949, both the manufacturing and tertiary industries had developed side by side, making Shanghai both the financial and manufacturing center of China before 1949. Indeed, until 1952, the tertiary industry still made up 41.7% of Shanghai's economic structure, and manufacturing accounted for 52.4% of the economy (Zhou and Yan, 2004). After that, however, Shanghai's tertiary industry was largely ignored and the Shanghai government carried out a manufacturing-only strategy of economic growth. By the early 1980s, Shanghai's tertiary industry had dropped dramatically, making up only 18.6% of Shanghai's GDP (Shanghai Chronography office). This was one of the major reasons why Shanghai lost its competence and was left behind other large cities in the world from the period of time between 1950s and 1980s. Therefore, when Shanghai began its return to the world economy in the late 1980s Shanghai's officials, as well as many scholars and experts, called for the accelerated transition of Shanghai's economic structure and advocated strongly for the promotion of tertiary industry in Shanghai. As such, starting in the late 1980s, a major strategic transition of Shanghai's economic structure was carried out. The Shanghai government was determined to withdraw from the secondary industry and engage into the tertiary industry. Thousands of small factories were closed or were forced to leave Shanghai. Upon the departure of so many factories, there was a strong focus by city planners to develop more "green areas" and public parks among the apartment complexes in order to improve the quality of life for Shanghai's residents, in accordance with the "Better City Better Life" theme of Shanghai's 2010 Expo. In the meantime, the Shanghai government paid special attention to attracting foreign, financial, and other service companies to Shanghai.

This strategic transformation achieved great success. Thousands manufacturing factories disappeared from downtown Shanghai and were replaced by numerous fancy shopping malls, high-rise apartment complexes, and modern office buildings with various heights, colors and designs. The tertiary industry of Shanghai has expanded rapidly, with an annual growth rate at 12% since 1989. As of 2010, the tertiary industry constituted more than half of Shanghai's industry structure for 12 consecutive years and made up 57% of Shanghai's GDP that year.<sup>13</sup> Hundreds of foreign and domestic financial institutions clustered around the Lujiazui and Bund areas. Law firms, insurance firms, consulting firms, and various other service companies mushroomed in Shanghai, serving the booming economic activities. The four primary sectors of the tertiary industry (finance and insurance, real estate, transportations, post and telecommunication, wholesale and retailing) accounted for 62% of total output. It is partly for this reason that Shanghai has benefitted so clearly from its re-emergence as a global player. Currently, more than 80% of world's 50 largest banks have set up branches in Shanghai. The assets, deposits, and loans of these banks accounted more than 50% of all foreign banks in China in 2011 (Shanghai investment development board).

Despite this massive success, it is impossible, at least in near future, for the economy of Shanghai to depend only on tertiary industries or on a virtual economy without a strong manufacturing industry as its solid base. Attempting to maintain only tertiary industries would be akin to having a tree without roots or a building without a foundation. In New York, London, or Tokyo, tertiary industries are big enough to fully sustain their respective economies because each of these cities has had more than hundred years of continuing growth and has developed into one of the world's financial centers, trading centers, or fashion centers. Many companies in these cities are providing various services to their clients throughout the world. Though Shanghai's firms are rapidly catching up to cities such as New York, London, and Tokyo, there is still a long way to go before Shanghai's service companies dominate Shanghai's own service industry, let

alone provide their services around the world. For example, so many fancy high-rising buildings have been built in Shanghai recently. Few of them, however, were designed by Chinese architects. Many of them, including the famous Xintiandi compound and the world financial center building, are designed by foreign architecture firms. I have served as a senior advisor for an American business consulting firm for few years and personally watched as this firm and other famous American consulting firms or law firms followed their clients to China and provided various services in Shanghai. When working in China, few American companies switched to Shanghai's domestic consulting firms or law firms (and instead retained the services of American consulting or law firms), despite the fact that Shanghai consulting firms would have charged far less money to provide similar services.

Furthermore, Shanghai has been selected by the Chinese government to develop as China's financial center. For now, however, Shanghai is not truly functioning as all of China's financial center (let alone the financial center of the whole world). At this time, there is more than one financial center in China. Hong Kong has already developed as one of the biggest financial centers in the world. Beijing seems to have a more favorable position than Shanghai in terms of becoming the country's financial center because China's macroeconomic policies, overall financial policies, and major currency policies are all made in Beijing. Besides, Shanghai also lacks the expertise to become China's financial center. For example, less than 200,000 people, or no more than 1% of Shanghai's population, were working in a financial field in 2007. In comparison, there were more than 770,000 people, or more than 3% of Beijing's population, worked in financial field in Beijing, and 350,000 people worked in a financial field in Hong Kong in the same year (*Jiefang ribao* (Liberation Daily)).

If Shanghai put all its eggs in one basket and only promotes its tertiary industry and ignores its manufacturing industry, the worst scenario for Shanghai's economy might occur in the near future. First, Shanghai's tertiary industry might not become big enough to support Shanghai's economic growth. And second, if Shanghai's manufacturing industry was weakened or ignored, other neighboring countries and Shanghai's neighboring provinces would quickly catch up and replace Shanghai as a manufacturing center. In the end, Shanghai would lose its positions as both China's manufacturing center as well as its financial center. Fortunately, Shanghai's policy makers have always been aware of the significance of the "real" (secondary) economy, even while promoting the rapid growth of the tertiary industry. Once left far behind the developed countries, the leaders of Shanghai firmly believe that the manufacturing industry, transportation, infrastructure, and other real economy entities ultimately determine the strength and weakness of a city or a country, and they see no reason to abandon Shanghai's efforts to maintain its real economic entities for this reason. It is their conviction that Shanghai must continue to strengthen (and not ignore) its advanced manufacture-based economic structure in order to compete effectively in the global economy. Particularly after the 1997 Asian financial storm, the Shanghai government further confirmed its economic development strategy and decided to promote "double priorities" and clearly announced it would give priority to promoting both modern services *and* advanced manufacturing industry. "The Contents of Shanghai's Highly Supported Priority Industry (2008)," issued by the Shanghai government on October 17, 2008 further demonstrated this "double priorities" development strategy.<sup>14</sup>

To compete with others, of course, Shanghai has to keep upgrading its industry by downsizing or even eliminating labor-intensive, capital-intensive, and pollution-producing industries and introduce new and advanced industries. The process of this transition was understandably not easy. The most painful case occurred in Shanghai's textile industry. After the

early 1980s, with rising prices of Shanghai's land, labor, transportation, and other costs, the textile industry lost competency in Shanghai, and the Shanghai government decided in the early 1990s to withdraw from the textile industry. However, at the time, the textile industry was one of Shanghai's main industries, providing most jobs for Shanghai's blue collar workers. The transition meant that most of them would lose their jobs. To upgrade Shanghai's economic structure, almost all textile factories inside downtown Shanghai were, nonetheless, closed. A few of them were moved to suburbs of Shanghai. The worker force in Shanghai textile industry shrank from 550,000 in 1993 to 280,000 from 1998. Overall, more than 600,000 workers lost their jobs in Shanghai in the same period, and Shanghai's unemployment rate remained in double digits for many years during the transition period, between 1992 and 1999 (Zhu, 2008, p2).

In the meantime, Shanghai focused on developing capital-intensive and knowledge-intensive industries with great potential in the future. As early as the early 1990s, Shanghai government designated six "pillar industries" for Shanghai's industrial focus, including automobiles, electronic, and communication equipment, petrochemicals, steel products, equipment assembly, and biomedicine. From 2002 to 2007, Shanghai's investment in industry reached RMB 450 billion, 80% of which went to these six pillar industries, including RMB150 billion in electronic & information industry and RMB 90 billion in petrochemical and fine chemical industry (Cheng). Today, these six industries realize about two thirds of Shanghai's total industrial output. Shanghai also spared no efforts in luring foreign direct capital investment in its advanced manufacturing industry by offering special policies such as generous tax holidays to investors. Those new production-oriented enterprises with foreign investment would get income tax exemption for two years following the first year the company began to make profit and then a 50% of tax reduction in the years three through five. The benefits for those export-oriented companies (for whom the output value of all export products amounted to 70% or more of the output value of the enterprise) were even better. They were permitted to enjoy their tax reduction at a reduced rate of 10% after their income tax exemption or reductions period had expired in accordance with the state stipulations. These tax holidays were even more attractive for those newly-built enterprises engaged in energy resource and transport construction projects such as airports, ports, railways, highways and power stations. These companies did not need to pay income tax for the five years after their first profit-making year and from years six to ten, their income tax was reduced by 50% (Shanghai Metropolitan government).<sup>15</sup>

Fortunately for Shanghai, technological innovation initiated a great industrial transition in the world since the late 1980s. To adjust to ever growing costs of labor, land, and other necessities in manufacturing and the stricter regulations on manufacturing industries, the developed countries underwent a major industrial shift after the 1980s. Large numbers of heavy industry companies transferred their manufacturing facilities to developing countries. Over the past 20 years, Shanghai's manufacturing has attracted more foreign investment capital than any other industry in most years. Though the tertiary industry grew 78.3% from 2002 to 2007 with an average growth rate of 12.2%, Shanghai's manufacturing industry expanded even a faster (growing 86.2% with average growth rate of 13.3% in the same period).<sup>16</sup> Comparing to other major cities in the world, Shanghai's manufacturing industry made up a much large portion of its economy. As late as 2007, the manufacturing industry still makes up 47.3% of Shanghai's economy.

Currently, Shanghai's government still maintains its "double priority" strategy as Shanghai's long-term development strategy. As the financial crisis is running deeper in the world, China has had to switch its export-oriented development strategy to focus more on promoting

China's domestic consumption of goods. Shanghai is planning to lead the country in further promoting Shanghai as a "consumer paradise." Recently, in addition, the Disney Corporation has started building a new Disney Park in Shanghai. The Shanghai government is actively fighting to win a second license to build a horse racing course in Shanghai. Some scholars have proposed the development of a "Chongming-Shanghai's last oasis"—as China's Geneva—which would make Chongming an environmentally friendly city and attract major international institutions, just as Geneva did (J. Yang & C. Jiahai, personal communication, July 5, 2010). With these major projects, Shanghai's service industry will certainly continue to expand.

In addition to these efforts toward the increasing of consumerism, Shanghai's government paid equal if not more attention to promoting the city's manufacturing industry. To that end, more capital was spent on upgrading the six pillar industries of manufacturing: automotive, electronic, and communication equipment, petrochemical, steel, equipment assembly, and biomedicine. Simultaneous to these upgrades, Shanghai was designated by the Chinese government as the headquarter location for the building of China's large commercial aircrafts. Specifically, this implies that the Chinese central government has confirmed and supports Shanghai's own double priority strategy. When China's State Council recently announced China would build Shanghai into an international financial center and an international transportation center by 2020, it specially emphasized that the target should be accomplished by further pushing Shanghai's "modern service industry and advanced manufacturing industry."<sup>17</sup> Undoubtedly, the manufacturing industry will continue occupy an important position in Shanghai's economy in the future.

### **Free market, state enterprises, and a mixed economy**

Another characteristic of the Shanghai model is its strong emphasis on upholding a mixed economic structure, with a hybrid of state-owned and non-state owned companies. Since China's economic reform started in 1978, non-state owned companies maintained rapid rates of expansion and became the most important engines in promoting China's economic growth. By the end of 2006, two-thirds of China's GDP were created by non-state owned company. Non-state owned companies employed more than 80% of workers, and 70-80% of added value in China's economic growth came from non-state owned companies (Zhou, 2008).

However, the situation is a little different in Shanghai. Unlike Shanghai's neighboring provinces (such as Jiangsu and Zhejiang), the government's strong hands have been always visible in Shanghai's economic changes, and state-owned enterprises in Shanghai have always played an important role in promoting Shanghai's local economic growth. The Shanghai government has also never hesitated in supporting state-owned companies (though it had not publicly said so). Though non-state owned companies have grown steadily in Shanghai since early 1980s, state-owned companies grew even faster and still made up the majority of Shanghai's economy. In 2007, the state-owned companies accomplished GDP of RMB 659 billion and accounted for 54.9% of Shanghai's GDP, while non-state owned companies accounted for 45.1%.<sup>18</sup> (It is important to note that most non-state owned companies in Shanghai belong to foreigners or overseas Chinese. Few large Chinese private companies ever existed in Shanghai, and those that do exist in Shanghai migrated from other provinces).

For a long time, particularly after the Asian financial crisis in the late 1990s, most scholars and international financial institutions blamed the crisis on Asian governments' involvement in their nations' economies and held up the free market system as a model for all

countries to follow. It was a common conclusion among western economists that the government intervention of economy and state-owned enterprises were hopelessly non-efficient and that the market system was a more natural, risk-free system. However, numerous studies on the remarkable economic growth of Asian countries showed that market liberalization alone could not have brought about Asia's remarkable economic growth. Though many Asian countries underwent a transition from a dirigisme (an economy in which the government exerts strong directive influence) to liberalized economic regime, the transition "was made possible by the combination of appropriate economic policy pursued by the respective national governments and the competitiveness of Asian entrepreneurs, business models, and disciplined workforces that had been nurtured in the context of Asia's cultural, commercial, and business traditions" (Taniguchi, 2009). Shanghai's experiences over the past thirty years further underlined the truth of this comment. Indeed, the financial crisis that started in America in 2008 shows just how risky a totally liberalized economic model can be, especially without proper supervision. In the meantime, Shanghai's experiences over the past thirty years further underlined the truth of this comment.

The dominance of state-owned companies in Shanghai had its historical origins. As a crucial contributor to China's state revenue, Shanghai's economy was always tightly controlled by the Chinese central government after 1949. Even after China started its economic reform in 1978, Shanghai still assumed a heavy fiscal burden. Worried about the uncertainty of its bold economic reform, the Chinese central government made Shanghai a sort of safety valve for China's fiscal income and took about 80% of Shanghai's newly increased product value every year from 1949 to 1990. During that period, Shanghai's accumulative fiscal income was 391 billion RMB. From that 391 billion, 328 billion or 83.94% was submitted to the central government.<sup>19</sup> Therefore, Shanghai's strictly command economy survived with little change until the late 1980s. As a result, there was little room left in Shanghai for private enterprises, just as it had been before China's economic reform started.

Another, more important reason for Shanghai's high percentage of state-owned business, however, results from a simple pragmatic concern. Four decades of "de-globalization" dragged Shanghai's economic growth down and left Shanghai far behind the rest of the world. To catch up, Shanghai has had to jump start its economic transition. As I mentioned above, when Shanghai began to re-globalize its economy, Shanghai's infrastructure had already deteriorated severely due to long time neglect during the period of Shanghai's de-globalization. In the 30 years from 1950 to 1980, Shanghai's investment in infrastructure accounted for only 7.38% of the revenue that Shanghai submitted to the central government (Shen, 1980). As a result, Shanghai had no money to expand roads, build apartments, or improve electricity, water, telephone and other public services. A person who once visited Shanghai in the 1930s would be no stranger to the Shanghai of the 1980s due to the city's narrow roads and crowded residence areas. To catch up to foreign countries as well as to other Chinese provinces, Shanghai had to improve and upgrade its public infrastructure as fast as possible. However, doing so costs significant sums of money, and it may be quite a long time before seeing a positive return on such investment. If the work of upgrading Shanghai's infrastructure was left to a free market system and private enterprises, then little or no headway would be quickly made. Much time would be wasted in "wait and see" games. Both foreign and domestic investors would be unwilling to put their money on either consumer industry or producer's industry without the development of social overhead investments in transportation facilities, power supply, and public utilities, whereas the latter investments would not be increased unless there is a definite demand.

Consumers' industries cannot easily expand without an adequate supply of capital goods at reasonable prices, but a capital goods industry would not make its move without seeing a clear outlook of consumers' markets. In addition, private companies in China must worry about any possible change in government policy. Given all of this, it would have been difficult (if not impossible) for private entrepreneurs take the lead in investing in public facilities in Shanghai. Since each sector of the economy was waiting for the other to roll the ball first, other countries and other provinces continued to develop further while leaving Shanghai much fewer opportunities to develop. The situation was not unusual to many developing countries. Therefore, the Shanghai government had no choice but to assume the responsibility of taking the lead in the strategic development projects with state-owned companies. The development of Shanghai's Pudong area is a good example.

As I mentioned before, the Pudong area was basically an agricultural zone until the late 1980s. To attract investment, the first thing to do was to build more advanced infrastructure in the Pudong area. However, where would the money come from? It was estimated in 1990 that the total cost for Pudong's enhancement would reach RMB 800 billion (more than US\$100 billion),<sup>20</sup> an enormous figure for Shanghai at the time. The Chinese central government had made it clear to Shanghai that though the central government supported the expansion of Pudong, it would only give Shanghai the economic autonomy to raise construction capital; the government would not provide money for the project. The mission to get seed money to trigger Pudong's infrastructure build-up could only be taken up by the Shanghai government.

Immediately after the project of developing Pudong was approved, the Shanghai government designated 570 square kilometers of land in Pudong to set up the "Pudong New District." Several state-owned companies, created by the government of Shanghai, initiated a special land leasing program, or the so-called "Kong madai beimi" (translated as "Grasp rice with empty bag," meaning to get money with zero capital investment), as Professor Yang Jianwen vividly described (J. Yang, personal communication, March 2009).<sup>21</sup> Several pieces of land within this area were auctioned to foreign investors, particularly to Chinese individuals living overseas (known as "overseas Chinese") and to those from Hong Kong, Taiwan, among other places. The foreigners who won the bet were granted the rights to use of the land for seventy years. This move ignited a thundering rage in China. Many people compared this program with the foreign concessions existing in Shanghai before 1943. They claimed that the proposed land lease program betrayed China's national interest (since Shanghai's foreign concessions were long seen as a symbol of China's suffering under imperialist oppression). The project would never have survived such a public attack without the support of the government of Shanghai.

With the money on hand, the Shanghai government started to build the necessary infrastructure in Pudong. Though it was not large amount of money in the beginning, it did trigger a cycle. Once the infrastructure project started, the value of land in Pudong New District began to rise. The government then put more land for lease at a higher price. The enhanced land value attracted more investors around the world because they saw potential for further increase of land value there. More capital came in and thus increased land value even further, which lead more capital to flood in. The value of immovable property in Pudong New District skyrocketed in the next decades. This cycle went on and on and provided funding for most infrastructure projects in the Pudong area.<sup>22</sup> The Pudong International Airport, the Meglev train, and other substantial projects were built one after another with astonishing speed. Four bridges, six underground tunnels, and subways connecting Pudong to Puxi were accomplished, making

Shanghai's economy more intergrated with other nearby regions. From 1990 to 2004, the total investment in Pudong's infrastructure reached more than RMB 90 billion (US\$12 billion).<sup>23</sup>

Ever improving infrastructure and other favorable policies attracted huge capital inflow. From 1990 to 2004, the total investment in Pudong's fixed assets exceeded RMB530 billion (about US 70 billion). Many of these assets came from direct foreign investment. By the end of August 2005, overseas investors had invested in more than 12,000 projects in Pudong New District with a total contractual investment of 28 billion US dollars. From the beginning, Pudong aimed to introduce advanced industry, represented by multinational companies and make itself on the high end of product value chain and the magnet to high quality talents and entrepreneurs. By the end of August 2005, 57 regional headquarters of multinational corporations had located here. More than 80 foreign-invested enterprises have built R & D Centers in Pudong. About 194 corporations of the world's top 500 companies listed in Fortune magazine have invested in over 400 projects in Pudong.<sup>24</sup>

After more than 15 years of development, the Pudong New Area underwent great change and emerged as a complete new Shanghai. The GDP of the Pudong New Area has maintained an annual growth rate of over 20% for more than 18 years. The industrial output value in Pudong reached RMB352 billion in 2004, taking 25% of the total in Shanghai. Supported by the Chinese central government, the Pudong New District quickly emerged as a foreign-oriented, multi-functional, modern urban area.

In pushing for the development of Pudong, re-globalization also significantly changed the old Shanghai in the Puxi area (west of the Huangpu River). Since almost everything in Pudong was started from scratch, and it would take time before Pudong would begin to play a productive role in Shanghai's economic development, Shanghai actually paid even more attention to the reforming and upgrading of existing infrastructure in Puxi. As some scholars joked, Shanghai adopted a policy of "shen dong ji xi" (making a feint attack to the east and an actual attack in the west) in the first several years of the 1990s (J. Yang, personal communication, March 2009).

Taking full advantage of the special policies the central government granted Shanghai to develop the Pudong New District, the Shanghai government also applied the same land lease program in the Puxi area, just as they had done in Pudong. Again, no private company would have been qualified for this mission. Since no systematic industrial distribution plan was ever carried out in Shanghai before the 1990s, thousands of small and middle sized textile, machinery, chemical, iron, and steel factories were scattered around Shanghai's downtown area, mixed in among commercial and residential areas. Not only did such industries bring a huge burden onto the deteriorating infrastructure, but they also caused pollution and severely downgraded real estate value in downtown Shanghai. To recreate Shanghai as an ideal place for international investors, thousands of small and middle sized factories were closed or moved to suburban areas. The spared lands were then leased to real estate developers and other investors by auction. The government took the money from leasing those lands to improve infrastructure. Shanghai's reputation and improved infrastructure in its downtown area triggered of high expectation on the land and property value in Puxi area. The same income-generating cycle occurred in Puxi as it had in Pudong and attracted more investors. By 2000, Shanghai had already collected more than US\$13 billion through land lease program for Shanghai's infrastructure construction. Without this funding, according to a former mayor of Shanghai, Shanghai's completion of its infrastructure projects between 1990 and 2000 would not have been finished in 100 years (Chen and Zhou, 2009, pp. 262-3). Significant investment in infrastructure brought Shanghai a very sound city infrastructure. In turn, Shanghai once again became an attracting city for living and investment.

The log-jams of Chinese socio-economic problems, however, could not have been broken nor the level of economy lifted without an efficient, honest, and competent government. Bolstering domestic capital formation and inducing foreign investment would not have been possible if the government itself had been corrupt. Official corruption is one of the most serious troubles China faces. Well aware of the significance of this problem, the Shanghai government devoted itself to creating a service oriented, responsible government that is committed to the rule of law and that will conscientiously regulate the economy, monitor the markets, manage social programs, serve the public, and protect the environment. Many special policies were carried out to prevent official corruption and unnecessary bureaucracy. In Shanghai, all large government projects must be transparent and go for public auction. In addition to supervising the behavior of officials in various levels according to Chinese laws, the Shanghai government also designed stricter rules and regulations to discipline Shanghai's officials when necessary. It is commonly accepted that, relatively speaking, Shanghai's officials behave more appropriately than those in most of other Chinese cities.<sup>25</sup>

While Shanghai's government attended to providing oversight of state officials after Shanghai reopened to the world, Shanghai's state-owned companies made great efforts to transform themselves into modern corporations in order to survive in the market. As happened everywhere in the world, state-owned companies often encounter many troubles such as low productivity, inefficiency, and slow adjustment to the market changes. To enhance their compatibility in the world market, Shanghai's state-owned companies had to insert themselves directly in the world market through fierce competition with non-state owned companies, both foreign and domestic. Learning from the world's best multinational companies, Shanghai's state-owned companies also introduced various advanced management systems. Many companies arranged to build strategic partnerships with foreign companies or reorganized themselves to be public, stockholding companies, not only to gather the necessary capital but also to use outside investors in order to make strategic changes in the company. In recent years, most Shanghai's state-owned companies have enhanced their productivity and profitability, even though there is still a long way to go for many.

The Shanghai government also knew that state-owned companies alone, however, would not be enough to fully fuel Shanghai's economic rejuvenation. A better model for Shanghai's special situation, they thought, would be a mixed economy, with a hybrid of both state-owned and non-state owned companies competing with and compensating each other. Therefore, the government also spared no effort in promoting non-state owned companies, particularly foreign owned companies. As many people know, China has attracted most of its foreign direct capital in recent years. During these recent years, Shanghai has profited more from foreign investment than China has as a whole. During the past 16 years, Shanghai's foreign direct investments (FDI) rapidly increased, with annual growth rate up to 36%, 10% higher than that of China as a whole. In 2006 alone, Shanghai attracted US\$14.6 billion FDI, 23% of China's total FDI. In 2007, 4,206 foreign investment projects were approved in Shanghai. The contractual volume increased by 2% to 14.87 billion USD. The paid-in capital increased by 11.4% to 7.92 billion USD, of which about 5.32 billion USD or 67.1% was attracted to the tertiary industry.<sup>26</sup> By the end of 2007, 48,753 foreign investment projects had been approved in total, with an investment volume of US\$129.41 billion. By the end of November 2008, the Shanghai government had approved 671 multinational corporate headquarters projects, including 223 multinational corporate regional headquarters, 178 holding companies, and 270 R&D centers.<sup>27</sup> By end of 2007, there were more than 33,000 companies invested in Shanghai by foreign companies. Among Fortune 500



companies, 227 companies invested in 1,221 projects in Shanghai, with total capital of 18.397 billion dollars.<sup>28</sup>

In addition to foreign owned companies, the Shanghai government also adopted policies to encourage the development of Chinese private companies. Shanghai's previous reputation as China's economic center and its newly established financial and information facilities attracted many private entrepreneurs to invest in Shanghai. Since it is convenient in Shanghai to get financial, legal, consultant, and various other services and collect information on markets, products, fashion trends, etc., many of China's major private companies moved their headquarters to Shanghai or set up branch offices and R&D centers in Shanghai in order to take advantage of Shanghai's convenience and Shanghai's markets. The Shanghai government also deliberately invited private companies to participate in public projects, including those typically monopolized by state industry, such as the project to build China's commercial aircraft. Since the Shanghai government set in motion the building of social infrastructure, transportation, and financial institutions, it not only started the economic ball rolling but also set the tempo of Shanghai's industrial development. Shanghai's entire consumption expenditures, savings, and investments were also guided to ensure speedy economic development. Non-state owned companies, both foreign and domestic, saw the potential of Shanghai's development and flooded into Shanghai market. In 2010, non-state owned companies contributed RMB 833 billion (about US\$ 132 billion) or 49.4% of Shanghai's GDP.<sup>29</sup>

Both visible and invisible hands played unique roles in accelerating Shanghai's economic expansion over the past 20 years. As a result, a relatively balanced, mixed economic structure emerged and has worked quite well in Shanghai so far. With this kind of mixed economic system, Shanghai's government has managed to rationally allocate Shanghai's economic resources by implementing various economic policies, including controlling contract placement of public projects, release of capital goods, and other means. The non-state backed economy was also geared to making progress by adjusting rapidly to changing market conditions and making itself complementary to the government economy. Shanghai's experience shows that a mixed economy with hybrid of private and state-owned enterprises might be better for the economic development of a developing country during an era of globalization.

In summary, Shanghai built its own model for developing its economy based on its positive and negative experiences and lessons over the past 170 years. In adapting to and embracing the seemingly inevitable economic globalization, Shanghai created its own unique model of economic development—widely embracing economic globalization; placing Shanghai's economy on a solid foundation of both advanced modern manufacturing and a strong tertiary industry; and depending on a mixed economic structure with a hybrid of private and state owned enterprises. The Shanghai model proves that globalization has been an inevitable trend, as science and technology make the distances between nations of world smaller and smaller. Actively engaging into economic globalization is the only way for Shanghai, as well as many developing countries, to accelerate economic growth.

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<sup>1</sup> For examples, see (in Chinese) See Lu Xianggan, New trend in studying the economic globalization, *People's Daily*, May 15, 2000, p. 15. Also see (in English) Giovanni Arrighi, Beverly J. Silver, Benjamin D. Brewer, Industrial convergence, globalization, and the persistence of the North-South divide, *Studies in Comparative International Development (SCID)*, vol. 38, No. 1 (2003). Marc T. Jones, Peter Fleming, Unpacking Complexity Through Critical Stakeholder Analysis The Case of Globalization, *Business and Society*, vol. 42, No. 4, Dec. 2003.

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<sup>2</sup> Some scholars argued that a form of globalization has been in existence since the rise of trade links between Sumer and the Indus Valley Civilization in the third millennium B.C. See *History of globalization* (Wikipedia, [http://en.wikipedia.org/wiki/History\\_of\\_globalization](http://en.wikipedia.org/wiki/History_of_globalization)).

<sup>3</sup> Also known as the Anglo-Chinese war (1839 to 1842). Before the war, the Western merchants could only do business with China in one Chinese port, Canton. The war broke out when Chinese government tried to ban British merchants from smuggling opium into China. After China was defeated, a treaty was signed between Britain and China, which stipulated that China has to open Shanghai and other four ports to foreign trades.

<sup>4</sup> For example, Shanghai's industrial profit rate was four times of national average and its industrial labor productivity was 1.5 times higher than national average. Shanghai's economy kept its growth at 11.3% annually from 1950 to 1980. Shanghai was the largest contributor of fiscal revenue of the Chinese central government among Chinese provinces. See Shen Junpo, *Shige diyi he wuge daoshu diyi shuoming le shenme* (What does the ten number ones and five tailenders mean?) On *Jiefang ribao*, Oct. 3, 1980.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> See Shanghai Foreign Economic Relation & Trade Commission website: *Investment Shanghai—Infrastructure* (<http://www.investment.gov.cn/investment/html/cn/A-xzsh-jcss/201031723334822955305499743206.html?infoId=1152500440076>). I deliberately used the Chinese version in this paper since it is upgraded more frequently and reflected more recent information.

<sup>8</sup> Shanghai has ranked as the best city for business for 5 successive years, on *Fortune* (Chinese version), Jan. 1, 2009.

<sup>9</sup> Shanghai government, *News release* on Jan. 22, 2009, see Shanghai investment development board website (<http://www.investment.gov.cn/2009-01-22/1232343775371.html>).

<sup>10</sup> Shanghai government website, *Shanghai Overview-economic power*. See <http://www.shanghai.gov.cn/shanghai/node2314/node3766/node3796/node18137/index.html>.

<sup>11</sup> Shanghai Foreign Economic Relation & Trade Commission, Feb. 16, 2008, *Investment Shanghai-Shanghai's position in China*. See the commission's website, (<http://www.investment.gov.cn/2005-10-21/1129906656057.html>).

<sup>12</sup> Shanghai government website, *Shanghai Overview-population* (<http://www.shtong.gov.cn/node2/node82288/node82367/userobject1ai111771.html>).

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<sup>13</sup> Shanghai government website, *Economy-ownership structure* (<http://www.shanghai.gov.cn/shanghai/node2314/node3766/node3796/node23304/index.html>).

<sup>14</sup> The contents can be found at Shanghai Foreign Economic Relation & Trade Commission website, *Investment Shanghai—Investment Directory* (<http://www.investment.gov.cn/investment/html/cn/A-tzzn-cydx/20103172129307864078382307043.html?infoId=1223859157164>).

<sup>15</sup> Also see the similar regulations issued by China's Ministry of Finance on 9/11/1990, (<http://www.86exp.com/tax/tax-knowledge/wzqy/2006-07/200607305218.htm>).

<sup>16</sup> Shanghai Foreign Economic Relation & Trade Commission website: *Investment Shanghai—Industrial structures*, (<http://www.investment.gov.cn/investment/html/cn/A-xzsh-jjjg/20103172124293569087838009817.html?infoId=1129906656061>).

<sup>17</sup> China's State Council, *Guowuyuan fabu shanghai liangge zhongxin jianshe yijian* (State Council issued its opinion on build up Shanghai's two center), on April 30, 2009, *Zhengquan shibao*, cited from the *Hexun* qihuo website, <http://futures.hexun.com/2009-04-30/117259499.html>.

<sup>18</sup> Shanghai investment development board, *Shanghai Economy-ownership structure*, on the board's website. (<http://www.investment.gov.cn/2005-10-21/1129906656083.html>).

<sup>19</sup> Shanghai Chrography office, *1949-1990 nian shanghaishi caizheng defang fencheng shouru tongjibiao* (Table of Shanghai's fiscal revenue distribution, 1949~1990, cited from the office' website (<http://www.shtong.gov.cn/node2/node2245/node4445/node57355/node57357/node57359/userobject1ai44257.html>)).

<sup>20</sup> On the Beijing News, No. 75, *Pudong kaifa* (Pudong Exploration), on its website, <http://www.thebeijingnews.com/news/reform30/2008/05-03/021@073843.htm>.

<sup>21</sup> Interview with Professor Yang Jianwen (March 2009), the director of Institute of Economy at Shanghai Academy of Social Sciences. Prof. Yang is one of the twelve policy experts Shanghai Municipal government appointed. He actively engaged in designing the strategy of Pudong exploitation at the time.

<sup>22</sup> Ibid.

<sup>23</sup> Qin Yong, Li Jiastian, *Shanghai pudong: xinguannian chuangzhao qiji* (Shanghai Pudong: new perspective created magic), on *Chongqing ribao* (*Chongqing Daily*), April 22, 2008.

<sup>24</sup> Ibid.

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<sup>25</sup> I have interviewed many American and Chinese business people who have involved in Chinese business for long time. Almost all of them confirmed this recognition. The downfall of Chen Liangyu, Shanghai's party secretary, was more a result of political struggle among Chinese Communist Party rather than seriousness of Chen's corruption.

<sup>26</sup> See Shanghai Foreign Economic Relation & Trade Commission website: *Investment Shanghai--foreign investment* (<http://www.investment.gov.cn/A-xzsh-wstz/index.html>).

<sup>27</sup> See the above website: "Investment Shanghai-multinational corporate investment." (<http://www.investment.gov.cn/investment/html/cn/A-xzsh-wstz/20103172350269047295133865462.html?infoId=1152500440050>)

<sup>28</sup> See the above website, <http://www.investment.gov.cn/investment/html/cn/A-xzsh-wstz/201031721475607025501070689755.html?infoId=1262222623319>.

<sup>29</sup> Shanghai government website, *Economy-ownership structure* (<http://www.shanghai.gov.cn/shanghai/node2314/node3766/node3796/node23304/index.html>).

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