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Urban development in an era of global-local interaction Yawei Chen



## Shanghai Pudong

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Yawei Chen

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## **Shanghai Pudong**

Urban development in an era of global-local interaction

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## **Abbreviations**

Abbreviation	Name
ADB	Asian Development Bank
APEC	Asian-Pacific Economic Cooperation
BLT	Build Lease Transfer
ВОО	Build Own Operate
ВОТ	Build Operate Transfer
BOOT	Building Own Operate Transfer
ВТ	Building Transfer
ВТО	Building Transfer Operate
CASS	Chinese Academy of Social Sciences
CBD	Central Business District
CCP	Chinese Communist Party
CEECs	Central and Eastern European countries
CG	Central Government
CSFTC	China Shanghai Foreign Trade Centre
ECADI	East China Architecture and Design Institute
CEO	Chief Executive Officer
E-CBD	Electronic-Central Business District
ETDZ	Economic and technological Development Zones
EU	European Union
FDI	Foreign direct investment
GIC	Global Intelligence Corps
GDP	Gross Domestic Product
IAURIF	Institut d'Amcnagement et d'Urbanisme de la Région Ile de France English name: Institute for Management and Urban Planning
IT	Information Technology
JICA	Japan International Cooperation Agency
Jinqiao EPZ	Jinqiao Export Processing Zone
KOWA	Kowa Real Estate Co., Ltd.
KMT	Kuomingtang
LCCDCL	Lujiazui City Construction Development Company Ltd.
Lujiazui FTZ	Lujiazui Finance and Trade Zone

LUCDC	Lujiazui Urban Construction Development Company Limited
MIN	Ministries
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NGO	Non-Government Organisation
OZP	Outline Zoning Plans
OECD	Organisation for Economic Co-operation and Development
PFI	Private Finance Initiative
PNAPG	Pudong New Area People's Government
PRC	People's Republic of China
PPP	Public-private Partnership
SASS	Shanghai Academy of Social Sciences
SEZs	Special Economic Zones
SMHLRAB	Shanghai Municipal Housing, Land and Resources Administration Bureau
SMSB	Shanghai Municipal Statistical Bureau
SPNASB	Shanghai Pudong New Area Statistical Bureau
SLDC	Shanghai Lujiazui Development (Group) Company Limited
SJC	Shanghai Jiushi Corporation
SMG	Shanghai Municipal Government
SOM	Skidmore, Owings & Merrill LLP
SUPDI	Shanghai Urban Planning and Design Institute
TOT	Transfer, operate and Transfer
UNDP	United Nations Development Programme
Waigaoqiao FTZ	Waigaoqiao Free Trade Zone
WTO	World Trade Organization
Zhangjiang HTP	Zhangjiang High-tech Park

# **Glossary of Chinese terms**

Chinese in Pinyin	Chinese	English
Changjiang sanjiaozhou	长江三角洲 或长三角	Yangtze delta
Changjiang yanjiang liuyu	长江沿江 (经济) 流域	Yangtze valley, Yangtze basin
Danwei	单位	State-owned work units
Longtou	龙头	The principle economic powerhouse (literally 'dragon head')
Fazhsn caishi ying daoli	发展才是硬道理	'Development is the only hard truth. Without development there can be no stability'
Wunian jihua	五年计划	Five-year plan
Gumin	股民	Stock-crazy speculators
Guanxi	关系	System of relationships or personal connections based on mutual benefit
Lan diao le	烂掉了	Let everything go to pot
Haipai	海派	Local culture unique to Shanghai resulting from Shanghai's history as an immigrant city subject to strong foreign influences and identified as pluralist, pragmatic, commercial and cosmopolitan
Jinyang Xincun	金杨新村	Jinyang New Village, Pudong
Mouhe	磨合	A combination of cooperation and competition
Pudong	浦东	The east side of the Huangpu
Puxi	浦西	The west side of the Huangpu
Renminbi	人民币	Chinese currency (yuan)
Renqi	人气	The liveliness of an urban area

365 Gongcheng	365 旧城改造工程	Project 365, a relocation program set up by Shanghai Municipal Government in 1992, aimed at redeveloping 3.65 million m² of the most dilapidated housing in Shanghai by 2000. The total government investment was estimated to reach 1 billion yuan (US\$ 12 million)
Shanghai Chengtou	上海城投	Shanghai Urban Construction Company
Shanghai Chengshi Jianshe Jijinhui	上海城市建设基金会	Shanghai Urban Construction Foundation
Shanghai Gangwuju	上海港务局 后更名为上 海国际港务(集团)股 份有限公司	Shanghai Port Authority, renamed Shanghai International Port (Group) Co. Ltd. in 2003
Shanghai Jiushi Gongsi	上海久事公司	Shanghai Jiushi Corporation
Shanghai Jiwei	上海计委	Shanghai Planning Committee
Shengbu lou	省部楼	Buildings developed by companies or organisations run by provinces or ministries
Songbang	松绑	Exempt from some restriction (literally 'untie')
Tongpei zhuzhai	<b>统配住宅</b>	Houses that are not bought on the housing market but allocated by the government under the central planning system
Zhengdi	征地	Compulsory land acquisition
Zhixiashi	直辖市	Chinese cities directly governed by the State Council
Zhongxin Taifu	中信泰富	CITIC Pacific

Ningyao puxi yizhang chuang, buyao pudong yizhuang fang

宁要浦西一张床,不要 Prefer a bed in Puxi to a 浦东一幢房

house in Pudong

Zijin Kongzhuan, tudi shizhuan

资金空转, 土地实转

A transfer of land to a development company involving no actual transfer of funds. The price paid to the municipality is provided by the municipality as an investment.

## **Preface**

In the present age of globalisation most cities are under heavy pressure to undertake drastic urban transformation to enhance their competitiveness. The emergence of large urban development and redevelopment projects, so-called urban mega projects, is presented as a strategic choice. These projects have a significant impact, social, economic and political, on the area and the city involved. They do however face urban mangers with a complex situation. In most cases, not only are both the public sector and the private sector involved in the development process, but global players also play a significant role. The flow of finance and the transfer of know-how across city and national borders has a major influence on the way such projects are managed and the degree of success eventually achieved. A combination of complexity and uncertainty can make any such development a lengthy business.

Shanghai's Pudong New Area development is one such urban mega project, but one that is being developed at a speed that few comparable projects have ever achieved. The annual construction area of Pudong was equal to total annual construction area for the whole of Spain. It was not only the physical transformation of Pudong in little more than a decade that has fascinated outsiders, its economic growth and social change are equally impressive. How could the project be carried out at such a speed? What policies and management strategies did local government adopt to deal with such complexity and uncertainty? While some credit the strong hand of an authoritarian state, there is little academic support for such a view. For example, it is difficult to explain why market participants, particularly multinationals, flocked to Pudong and poured in billions of dollars in spite of all the risks associated with such activities. It is also hard to believe that state compulsion could have been sufficient by itself to achieve the resettlement of hundreds of thousands of households. The present research was prompted by a practical question, namely how could the Shanghai Pudong New Area development be implemented so rapidly? As the research proceeded, a further more theoretical question arose, concerning the extent to which the way the Pudong New Area development was carried out reflected the characteristics of a developmental

The study aimed to provide a better understanding of how this urban mega project was carried out in Shanghai within a context of globalization, how global and local influences affected a local urban development process, and how it was possible for public-private partnerships to become involved. The research examined the initiatives and decision-making processes involved in the Pudong development and carried out a detailed analysis of the factors that contributed to its speed. Those factors included the different strategies adopted by local government and the ways in which investment and finance were mobilised, the development process was facilitated and different participants became involved. The study suggested that in this development the guidance provided by local government and the collaboration between the

public sector and the private sector reflected some of the main features of the developmental state.

It is hoped that the experience gained and lessons learned from this project will serve as an inspiration for similar large-scale urban development projects in other countries, developed and developing.

This research was qualitative, based on a single case study. The study is multi-disciplinary, crossing the boundaries of various fields of research, ranging from political science and economics to urban studies. It covers a wide range of topics related to area development, including globalisation, architecture, urban planning, urban management, urban economics, land policy, finance, real estate management and public–private partnership.

Yawei Chen Delft, January 2007

### 1 Introduction

In the present age of globalisation cities are under heavy pressure to undertake drastic urban transformation. Urban (re)development (also called urban renewal, urban revitalisation and urban regeneration), is strategically important to enhancing the competitiveness of a city, transforming its image and strengthening its position in the global urban system. Cities have adopted a variety of strategies: some cities have been successful, others have continued to move down the global urban hierarchy. The present research attempts to give a better insight into the logic underlying this dynamic phenomenon by exploring an explosive urban development project in Shanghai that has fascinated the world for the last 20 years. The most interesting question is how to explain the speed achieved by Shanghai's urban transformation of Pudong, a large-scale area development project that took place within a context of global-local interaction. The discussion of globalisation touches upon two aspects related to area development: one is the rise of the network society, that transformed the relationship between traditional organisations operating within cities and provided the foundation for new styles of urban governance and public private collaboration; the other is the formation of a global urban network resulting from economic globalisation and global financial flow. At the same time it must be appreciated that area development is rooted in the local political and economic situation. The formulation of an area development strategy is directly influenced by the way the particular locality views itself and the outside world and the way political and economic institutions function within the area development process. In this research, the context provided by the developmental state was the key factor in gaining an understanding of the situation in Pudong.

# 1.1 Changing cities - local response in a global age

Urban developments are characterised by 'complexity, dynamics and diversity' (Dekker and van Kempen, 2004; Roberts & Sykes, 2000; Borja and Castells, 1997). The complex internal and external forces at work in cities play a role not only in defining a complex, dynamic and diverse socio-political world but also, increasingly, in cities' political, economic, social and cultural internationalisation, presenting major challenges to the existing urban system. Globalisation generates and accelerates enormous fluctuations in cross-border economic processes, in the flow of capital, labour, goods, raw materials and travellers, and the resulting concentration and global dispersal of manufacturing, services and international business. When global market forces start up new ventures well outside their traditional territories, they have the effect of promoting free trade, the free flow of technology, know-how and finance and, more generally, capitalism and the key role played by the market in glo-

Figure 1.1 London Docklands in 2006



bal and national economies. In Local and Global Management of Cities in the Informational Age (Borja and Castells 1997), Daniels (1993) explained the relative failure of the Canary Wharf project in London's Docklands (see Figure 1.1) in terms of the speculative strategy adopted by the Canadian company Olympia & York (now bankrupt), which proved unable to absorb the shock of lower employment levels in financial services in London and New York in the first half of the 1990s. Daniels concluded:

'the expansion of services in the international market has brought to the global urban system a higher degree of flexibility and, in the last analysis, of competition than existed previously. As the experience of Canary Wharf shows, the results of large-scale city planning and development projects in the cities have become hostage to external international factors over which there is little control.'

The series of challenges, political, economic and social, that cities face today, show how complex, dynamic and diverse urban systems have become. An urban manager has to try to maintain the well-being of all his city's residents, weak and strong. He also has to strengthen the city's status, if possible con-

Figure 1.2 Large urban development projects in the Netherlands. Kop van Zuid, Rotterdam

necting it to the worldwide network of cities and enabling it to benefit from participating in the global urban system. In an age when capital, talented people and knowledge can so easily move from one corner of the globe to another, cities need to be competitive and attractive. For many cities, the benefits flowing from global connection are vital to their survival. To meet these challenges and to take advantage of changing fortunes throughout the world, the new urban agenda needs to shift the focus of its policies away from regulation and distribution to the promotion of economic growth and competitiveness. This need has placed urban revitalisation and competitiveness at the centre of urban intervention (Swyngedouw, 2005).

During the last several decades the efforts cities have been making to remake or reinvent themselves have become more apparent. Cities continuously redefine their 'survival' strategies to adapt to the new economic reality. Kooiman (1993, p. 46) implies that the process of adapting capacity to needs in urban government, a process that he terms 'governability', is required to govern such a dynamic, complex and diverse socio-political world. What strategies can be tried to keep up with change, globally and locally, and to maintain the advantages and competitiveness that a city needs for survival? A number of researchers have attempted to answer this question. Borja and Castells (1997, p. 14 and p. 98) for example, suggested that connectivity, innovation and institutional flexibility are prime







requirements for enhancing a city's competitiveness and global significance. They also argued that a general awareness of global challenges led to the undertaking of large-scale projects of urban transformation, a phenomenon that has emerged in cities all round the world. Such projects involve a cooperative alliance between the public, private and civic interests and a shared desire for the city to progress, politically, economically, socially and culturally.

All this has led to the emergence of large-scale urban transformation projects, so-called 'Urban Mega Projects' (UMPs), projects which are consid-

ered to be particularly significant to the remaking of a city because of their size or impact on part of the city, or on the city and its surrounding region as a whole (Carmona, 2003, p. 15). Although a UMP is commonly defined as 'a single and unitary project, planned, designed and implemented according to determined phases, with different stakeholders, clear goals and objectives, a responsible authority and a predetermined cost and benefit structure' (Carmona, 2003, p. 15), in reality the development of such large-scale urban projects tends to be more complex. Even if the goals and phases are clearly defined, changes and alterations are almost unavoidable because of the scale of the project and the length of time it takes. Some projects are conceived to revive decayed city centres, others aim to bring new life to abandoned industrial areas or old harbours, others again are designed to revitalise a decaying waterfront area.

In recent years the UMP has attracted a good deal of international attention in urban studies, well-known examples being London's Docklands, La Défense in Paris, Amsterdam's Zuidas and Rotterdam's Kop van Zuid (see Figure 1.2). Projects of this kind are good sources of material for discovering how 'the local emerges in [a] globalising world' (Appadurai, 1996, p. 18). Shanghai's Pudong New Area development provides an example that is extreme in terms of the area covered by the project, the speed of construction and economic growth achieved and, last but not least, the complexity faced during China's dramatic transition (see Table 1.1). This fascinating UMP is famous for the speed with which the area reinvented itself and pushed the metropolis of which it formed a part into a new phase of urban development. Pudong's 19% economic growth from a very low base has been a source of amazement for outsiders. Also surprising has been the volume of investment, from inside and outside China, that poured into a society that many believed to be traditionally enclosed and bureaucratic, where deep-rooted distrust and conflict between government and market was the norm, where the state forged ahead with its reform agenda but was unclear about the precise direction in which it was heading, and where tremendous urban challenges and potential instability lay ahead (Common, 2000).

Outsiders want to know how the development in Pudong could be implemented so quickly. The most cynical question asked by outsiders is what encouraged people to gamble in such a risky environment? What made investors flock to Pudong? Is this case unique? If not, what lessons does it teach? The speed of the Pudong development not only raises questions about a particular development but also raises a series of issues of concern to current UMP research. Has the speed achieved by this UMP been matched by other Chinese UMPs? Is the speed of development achieved by Chinese UMPs directly linked to China's institutional and socio-economic environment? Can Chinese UMPs be said to be affected by global-local interaction? How do local urban managers in China handle the balance between external stimuli and local response?

	Kop van Zuid,	Barcelona: Port		
Project Name	Rotterdam, the Netherlands	, , , ,	London Docklands, UK	Pudong New Area, Shanghai, China
Main Program	Office and apartments	Leisure/congress	Office and apartment	Office, apartments, leisure, retail, exhibition/congress, industrial buildings, port, docks and warehouse, airport, etc.
Land Area	90 ha	525 ha	1,725 ha	52,200 ha, among which: Lujiazui Functional Zone 4,277 ha; Waigaoqiao Functional Zone 9,713 ha; Jinqiao Functional Zone 7,486 ha; Zhangjiang Functional Zone 11,531 ha
Dev. Corp.	dS+V	Port of Barcelona, 1992 Olympics org, 2004 Forum org	London Docklands Development Corporation	Lujiazui Finance and Trade Zone development (Group) Co., Ltd (1,450 ha*); Waigaoqiao Free Trade Zone Administrative Committee (850 ha*); Jinqiao (Group) Co., Ltd. (2,372 ha*); Zhangjiang High-tech Park Development Co., Ltd. (1,700 ha*)
Time Line	1984-2010	1985-2004	1980-1998-2010	1990-

<sup>\*</sup> The figure only means the total volume of land that has been developed by each organisation by the end of 2004, not the amount that is taken charge of by each organisation. The total volume of land is not available, since the transfer of land from the local government of Shanghai to the four organisations in Pudong continues through a gradual process.

Source: Zandbelt & vandenBerg, 2005; Sun, 1999; SPNASB, 2005

### 1.2 Shanghai - global meets local

'In a globalising world, cities at or near the top of the international urban hierarchy are among the favoured few – New York, London and Tokyo – that have acquired large economic, cultural and symbolic roles. Among a handful of regional aspirants, such as Hong Kong, Miami and Sao Paulo, Shanghai has reasonable long-term prospects' (Yusuf and Wu, 2002, p. 1213).

Shanghai's development and transformation has led to its being put forward as an example of a city that has accepted the challenge of embracing globalisation as a quick way of bringing itself into prominence as a world city (Yusuf and Wu, 2002; Wei and Leung, 2005; Olds, 2001; Wu, 2000 and 2003; Han, 2000). In the last ten years, Shanghai (see for its location Figure 1.3) has been among the fastest developing cities in the world, possibly the fastest (Bergère, 2004). Sassen's recent research (2005) has named Shanghai as a leading candidate for global city status .

'As much as in Western market societies, China's urban development depends upon (and its development options are limited by) the country's global connections' (Logan, 2002, p. 9). Its history of close connection with outsiders has meant that Shanghai, like many of China's major cities, has had both 'a Chinese side and a global one' (Logan, 2002, p. 9). The economic importance of



Shanghai was established during its century-long history of development as a centre for transport and trade in the Yangtze delta. Its economic prosperity attracted not only migrants from the surrounding regions but also businessmen from around the world. Shanghai rose to prominence in the middle of the 19th century, when British and other Western powers divided up the city into extraterritorial concessions and set up their own industries and financial institutions. Shanghai was China's first industrial centre and gateway for foreigners wishing to enter inland China. British, French and other colonial powers built exclusive 'settlements' along the west bank of the Huangpu; within these settlements they exercised complete control. They also brought in large amounts of foreign investment, helping the city's booming economy and urban development. The flow of capital, ideas and technologies linked East and West in a context of imperialism, transforming Shanghai's urban structure and architectural style (Chen, 2003) (see Figure 1.4 and 1.5).

The adoption of a Maoist strategy after 1949 meant that until the end of the 1970s Shanghai and other Chinese cities remained largely cut off from the global urban network. The Maoists pursued a policy of isolation focused on industrialisation. Mao was determined to achieve maximum industrial growth, if necessary at the expense of urban consumption and agriculture (Kirby, 1985; Chan, 1992; Lin, 2002). After 1949, the culturally and architecturally diverse urban fabric was restructured to conform with the Maoist version of communist ideology, characterised by anti-urbanism, heavy industrialisation, firm state control, and the elimination of all traces of bourgeois iden-

Figure 1.4 The transformation of the Bund, Shanghai. Top: The Bund in the nineteenth century; centre: The Bund in the 1930s; bottom: The Bund today







Sources: top: Li, 2006; centre: Wang and Xia, 2001; bottom: CNAP

Figure 1.5 Former concessions in Shanghai before 1949. Left: buildings in the foreign concession were greatly influenced by European styles of architecture. Such buildings are still to be seen in downtown Shanghai, though they are vanishing rapidly, 2006. Right: European style buildings have become part of Shanghai's urban landscape, 2004





Source left: CNAP

tity. The importance of a satisfactory residential environment was disregarded and little investment was made in housing or infrastructure. Shanghai's commercial activities were neglected. Planners converted commercial sites for light industrial use, making as few changes as possible. More than 4,000 factories were set up, occupying a quarter of the area of the city centre (Wu, 1999, p. 209). As the population continued to grow, the extremely high population density caused living conditions to deteriorate even further. 'The extreme conditions of high density, dilapidated infrastructure, and mixed land use pattern' made the task faced by Shanghai in its efforts to become a world city extremely challenging (Wu, 1999).

The transition from Maoism to a post- Maoist market system, which began in 1978, ushered in a new strategy which valued efficiency over equity, individual creativity over collectivism and regional competitive advantage over the defence of ideology (Castells, 2000b; Nolan, 2005). The new order placed greater emphasis upon rapid economic growth and efficiency and '[increased] roles for markets in the circulation of goods, services, capital and wage labour' through the implementation of new reforms and the introduction of the opendoor policy (Olds, 2001, p. 110). Economic reform and the introduction of the opendoor policy had enormous consequences for China's traditional values, culture, way of life and, in due course, its urban landscape. With the increase in prosperity, more investment flowed into infrastructure, housing and office building. The scale of activity and rate of growth depended on whether the city was located in China's thriving, booming east or less developed west. But there were signs of development everywhere.

Since then Shanghai, with other leading Chinese cities such as Shenzhen, has entered a phase of explosive urbanisation. Taking advantage of its historical status as an international financial centre, cosmopolitan centre and city of global architectural styles, and with the support of central government, Shanghai determined to regain its position as the 'Paris of the East' and to establish itself as a significant international economic, financial and trading





Source: CNAP

centre on the western rim of the Pacific Ocean. The introduction of reforms and the open-door policy accelerated economic growth and brought into being a new mechanism for urban development. The economic boom of the 1990s put Shanghai under pressure to do something about the increasing demand for office space and the housing shortage. Many foreign businesses and banks were moving to Shanghai, which in 1994 had much less high quality office space than other Asian cities: Bangkok, for example, had five times as much, Singapore 15 times as much and Hong Kong 23 times as much (Olds, 2001, p. 185). Many foreign companies were forced to operate out of four- or five-star hotels while waiting for new offices to be built. Moreover, as the income of Shanghai residents increased - the per capita annual disposable income of urban households increased sevenfold between 1990 and 2003 - a growing number of people became interested in investing in real estate and buying their own houses on the housing market (established in the 1980s). Demand was further stimulated by the privatisation of housing. Not surprisingly, the phase of construction and reconstruction that took place in the 1990s became known as 'the Great Build' (see Figure 1.6).

The phase of construction and reconstruction that took place in the 1990s turned out to be one of the biggest the world had ever seen. In her book *New Shanghai*: the Rocky Rebirth of China's Legendary City (Pamela Yatsko (2001, p. 26) quoted a comparison made by Alan Edward, a British World Bank consultant based in Shanghai, between the pace of building in Shanghai and the pace he had experienced elsewhere:

'What's happening here [in Shanghai] reminds me of Britain in the 1960s, when we got the economy moving after the war and knocked down everything in sight – only here the scale is far wider. The Shanghai govern-



Figure 1.7 Xintiandi - an example of the transformation of downtown Shanghai in 2004

ment has decided that by 2010 Shanghai will be equal to any international metropolis in the world in term of infrastructure services. Lots of cities around China are developing, but Shanghai can outpace all of them'.

The development of large-scale urban projects is 'deeply implicated in globalisation processes' (Olds, 2001, p. 34). This is especially true in Chinese cities whose economic activities and urban transformations have been defined and shaped since China adopted its open door policy to enable it to integrate into the global market in an era of globalisation. Shanghai's development had all the characteristics of an extremely large development project (Wu, 2000a, p. 351) The development of Pudong was seen as the key to the transformation of Shanghai in the 1990s (see Figure 1.8). Below are a number of comments made by Western researchers who witnessed the drastic changes which took place in Pudong in a mere 10 years. Fishman (2005) called the astonishing changes in Pudong 'the propaganda of hope'. He wrote:

'Nowhere is this contrast more dramatic than with Pudong, Shanghai, and indeed, China's, iconic glass skyline. Across Huangpu from The Bund, and rising from land that was once fields, Pudong is a parallel twenty-first century downtown growing in fulfilment of an implausible fifteen-year-old pronouncement that a great urban centre ought to occupy the swampy, low-lying turf. Officials call it the "microcosm of China's Economic Miracle", and it is in fact a kind of miracle.'

Tim Clissold (2005, p. 243), author of Mr. China, was amazed by the change achieved by Pudong in ten years; it seemed to him that Shanghai was swept up in a kind of 'mad dash for growth':

'I remember seeing the occasional water buffalo squelching around in



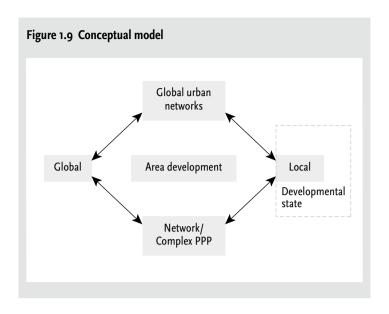
Figure 1.8 Pudong New Area, the face of Shanghai's future in 2006

Source: CNAP

the mud and an ancient courtyard where women with perfect white hair and faded blue cotton jackets hobbled across the flagstones to push joss sticks into huge piles of ash in the three-legged bronze incense burners. Ten years later, the field had disappeared forever but the courtyard had been preserved and made into a museum. It stood just opposite the Shanghai Stock Exchange. The crush of skyscrapers towered eighty stories above the courtyard roofs, the towers of steel and glass overwhelming the stooping curves of the old eaves and cracked glaze on the tiles; no one burns incense there anymore.

Furthermore, the roads through the industrial parks behind the city stretch for miles towards the horizon, past huge car-assembly plants, software institutes, and microchip foundries. Shanghai has been swept up in the same mad dash for growth that had gripped Shenzhen and Zhuhai in the days after Deng's Southern Tour.'

Indeed Pudong presents not only a microcosm of Shanghai's unstoppable urban development but also a rocketing microcosm of Shanghai's economic miracle. In less than a decade Shanghai erected a glittering new skyline with thousands of skyscrapers, miles of elevated highways and bridges over the Huangpu and a tributary of the Yangtze, and completed the urbanisation of Pudong, formerly a dilapidated settlement on the east bank of the Huangpu. Many foreign observers have been captivated by glossy pictures of Shanghai's gleaming office towers, sumptuous hotels, luxury malls and countless newly-built apartments and villas. Today, when tourists stroll along the famous Bund, where nineteenth-century European-style buildings created a skyline unlike any other in China, it is to get a better view of the futuristic skyscrap-



ers of Pudong's new waterfront, across the river. Outsiders are fascinated by the tremendous and dazzling changes taking place in Shanghai and wonder where the city got so much power and such a passion to reposition itself. What strategies were developed to create such an accumulation of capital and such an inflow of local and foreign businessmen and global investors? While some people credit the undoubted role played by the state and the unelected Communist party, the strong hand of an authoritarian state alone is insufficient to explain why so many investors and multinational corporations flocked to Shanghai to set up shop in Pudong. There must have been some essential factors that persuaded those mature market players to take the risk of investing in such an immature market.

The present research was designed to bring to light and explain these factors. Shanghai provides an excellent source of material on which to base an examination of the developmental strategies adopted for Chinese urban development, and for use as reference by other cities for comparison and instruction. To support the case study, a theoretical framework was established to explain how globalisation and the interplay between global and local influences are creating a new global urban system and new relationships between state and market. Figure 1.9 shows where the theoretical development of this research positions large-scale area development in the context of global-local interaction. Two themes are discussed from a global aspect: network society and network management to show how a new style of urban governance influences area development, and the growth of global and globalising cities to demonstrate the key role played by international capital flow in the creation of urban space. From a local aspect, the paradigm of the developmental state is used as a working hypothesis to explain the driving forces and the logic behind local government's strategic development in the context of a developmental state, and to provide a theoretical framework for the dynamic relationship between global and local, between central government, local government, business and local residents, all of which influence the nature of power-sharing in the management of urban development in China.

# 1.3 Globalisation - networking and a new style of urban governance

One of the most notable features of the 1980s was the increasing internationalisation of political and social developments which took place in parallel with the internationalisation of the economy brought about by globalisation and the increasing role played by information technology. The 1980s and early 1990s saw an explosive rise in the number of analyses of globalisation from various theoretical perspectives (e.g. Castells, 1989, 2000a and 2000b; Harvey, 1989a, 1989b and 1996a; Sassen, 1996a, 2000 and 2001a; Amin, 1997; Hall, 2003; Robertson, 1988; Beck, 1997; Knox, 1996a and 1996b; King, 1990a and 1990b; Appadurai, 1996). The general conclusion was that globalisation is a multi-dimensional phenomenon, involving highly intricate interaction between a whole variety of social, political and economic institutions across a spectrum of geographical scales (Dicken et al., 1997, p. 3; Jessop, 1999; Olds, 2001, p. 19).

#### **Network society**

Although the concept of globalisation is subject to ongoing theoretical discussion and is in many ways vague and even confusing, the implications of current globalisation processes for city development call for careful study. The network society is a common feature of the way globalisation theory is developed by the authors mentioned above. Manuel Castells, an influential sociologist and author of the seminal trilogy The information age: Economy, society and culture (1996, 2000a), identified the emergence of the network society as determining the morphology of our society in the information age. The network society, Castells argued, operates in accordance with its own network logic (2000a). He proposed the term 'network society' to explain how network logic has transformed the world economy and the perception of space and place in the era of cyberspace. The network society is the social structure of the information age, the product of a combination of informationalism, capitalism and globalism, in which concentrations of wealth, power and socioeconomic cultural symbols are connected in a way that can be explained by the logic of its basic network structure. The network society is made up of networks of production, power and experience which construct a culture of virtuality in global flows that transcend time and space. According to Castells, in a network society time is organised by space. He therefore explained the current social structure in terms of the space of flows and the space of places (Castells, 1996, p. 376). Instead of the traditional place, that derives its form, function and meaning from a physical entity, the space of places is the spatial organisation of our common sense, characterised by exclusive, high-end urbanism, longevity and identity. The space of places is transitory, baseless, borderless, open and unknown. It conforms to the market and is uncontrollable (Kooijman and Wigmans, 2003). Selection is an important feature of network logic. Organisations that are connected to the network benefit from the availability of capital and information; organisations that are not connected are excluded from such benefits. Inclusion and exclusion result from a process of selection.

As cities begin to experience the flow of technological, social, economic and global transformation (Savitch and Kantor, 2002, p. 3), the internationalisation of cities increasingly forces them to prepare for more and more intensive competition for resources, business, and people (Borja and Castells, 1997, p. 204). Port cities were the first to experience such changes. The modernisation, containerisation and computerisation which took place in the 1980s and 1990s not only provided better access to global port cities but also led to a series of transformations as those cities attempted to deal with intensified competition from other port cities, near and far (Bird, 1971; Hoyle, 1989; Chen, 2003). The three European port cities, Rotterdam, Antwerp and Hamburg, compete actively with one another for market share. Shanghai, as a fast growing Chinese city on the west Pacific rim, not only uses the facilities provided by its deep-water port to compete with the neighbouring Ningbo, but also attempts to seize market share from more distant neighbours, such as Hong Kong and Singapore. Competition has put pressure on cities to reinvent themselves in a way that will sustain their image as effective and attract businesses and people (businessmen, residents, tourists etc.). Most port cities needed to expand their old harbours and set up new harbours to handle the enormous increase in maritime transportation and the size of ships. Rapid modernisation of harbours, involving mechanisation and introduction of specialised docking facilities led to a need for more space and capital, but less labour. The infrastructure connecting the port to the city has had to be improved to provide a more effective and efficient distribution service. Ports have increasingly grown into a complex mixture of port, shipping industry, heavy industry, high-tech industry, tax-free zone and logistics centre, a mixture of functions very different from those of a traditional port. Consequently, industries originally located in the port area or within the city boundary have tended to move out of the city to look for new space in which to expand, or have been persuaded to make way for urban redevelopment. This trend towards comprehensive transformation has given the traditional port a completely new form and image, combining elements of high technology, improved quality and environmental friendliness. The changes imposed on port cities, locally and globally, are typical of responses to the challenges that cities face today.

#### Network management and a new style of urban governance

In a network society, borders between different parties are blurred, and the traditional clear-cut demarcation between the public sector and the private sector is replaced by a relationship of interdependence. Klijn (2005) illustrated the complexity of government decision making in a network situation, involv-

ing a clash of different strategies. He proposed two strategies for dealing with networks in urban development projects that have a network-like character: one to manage processes within the network (process management), and one to change the characteristics of the network (institutional design). However, although institutional design may facilitate networking by changing the formal or informal rules governing access, it is generally 'difficult to implement and usually takes a lot of time' because of the amount of criticism and resistance generated (Klijn, 2005, p. 334). Klijn and Teisman (2000) pointed out the relationship between network management and the development of public private partnership (PPP). Public-private partnership finds its application in a network society in a situation 'where policy problems have to be tackled in networks of interdependent organisation, both public and private' (Klijn, 2005, p. 328). They argued that in a network society the development of public private partnerships is actually a process of developing trust between different participants. Trust needs to be developed on three levels: public private interaction in the search for an interesting project (process management), public private partnership to realise the project (project management) and network development. The effect of such changes is a more actively participating and collaborative institutional system that shares different concerns and listens to different voices from the business community or society at large. In many countries local government has had to face strong financial and managerial pressure, especially in cases in which the budget was insufficient to provide the social facilities required by a rapidly growing population. This pressure has forced the public sector to change its bureaucratic way of thinking and become an entrepreneur, adopting a competitive stance. The search for innovative ways to respond and adapt quickly and effectively to economic and social changes, for ways of reducing the deficiencies in public service delivery systems and for mechanisms which will work in a situation of limited or dwindling resources, has become the most important motive for the introduction of public private partnership and private financial initiatives into largescale urban development projects.

# 1.4 Globalisation - global urban networks, global and globalising cities

#### The paradigm of the world city

Globalisation and new information technologies have played a key role in the transformation of cities, since the new global economy is articulated territorially around networks of cities. Cities, for their part, not only become involved in the transformation, but are affected by network logic and economic and political globalisation. In the words of Friedmann (1995, p. 22), cities are centres 'through which flow money, workers, information [and] commodities'

with the result that they 'articulate the economic relations of their surrounding field of their region into the global. Key structures of the world economy are necessarily situated in cities' and cities are 'both shaped by their position in the new international division of labour and integral to the contemporary globalisation process' (Sassen, 1991, p. 4). The realisation that the city is a key stakeholder in the process of globalisation has led contemporary studies of globalisation to advance the debate on the paradigms of the world city and the global city (Gregory, 1995, p. 303; Brenner, 1998, p. 5; Yeoh, 1999, p. 607) led by Friedmann and Sassen (see Friedmann, 1986 and 1995; Friedmann and Wolff, 1982; Sassen, 1991, 1995, 1996a, 1996b, 2001a, 2002 and 2005; Gregory, 1995, p. 303; Brenner, 1998, p. 5; Yeoh, 1999; Knox, 1996a and 1996b; Thrift, 1986; Borja and Castells, 1997; Castells, 2000a and 200b and Taylor, 1997, 2001 and 2004). According to Friedmann, global capital uses world cities as 'basing points' and 'organising nodes' in the spatial organisation of international production and markets. As such, in the world economy these major cities 'concentrate the infrastructure and the servicing that produce a capability for global control' (1986, p. 319). He defined the world city hierarchy as 'a class of cities that play a leading role in the spatial articulation of the global economic system' (Friedmann, 1986, p. 73 and 1998, p. 26). Saskia Sassen, author of the influential book The Global City: New York, London, Tokyo (1991, 2001), also argued that such global control capability is 'essential if geographic dispersal of economic activity is to take place under continued concentration of ownership and profit appropriation' (1995, p. 63). Sassen sees global cities as 'key command and control points in the global economy ... key locations for transnational corporate head offices, the location of specialised producer services and also the primary markets for these specialised services and financial products' (Sassen, 2001, pp. 3-11). Global capital flow, financial organisations and agencies, headquarters of multinational corporations, international transport, communications, fashions and mass culture tend to concentrate in the three global cities, London, New York and Tokyo.

One of the merits of Sassen's book is that it put an Asian city on the agenda of Western urban studies, reflecting, of course, the rise of the Japanese economy. It denied the dichotomy between Western and Asian cities, cities which had previously been considered to be fundamentally different. Following Sassen's ideas (1991) about the global city, Smith and Timberlake (1995) argued that global cities might be better conceived as a network of global urban centres rather than just London, New York and Tokyo. An examination of more than a hundred cities led Taylor (Taylor, 2001; Taylor et al., 2002a and 2002b) to define the world city network as 'an interlocking network with three levels – network, nodes (cities) and sub-nodes (global service firms)' (Taylor, 2002b, p. 2377). As the term 'global city' gained popularity, alternative terminology was introduced to refer to the interrelated global spatial structure. Well-known examples include 'global network of cities' (King, 1990, p. 12),

'world system' (Smith and Timberlake, 1995, p. 94) and 'global urban network' (Lo and Yeung, 1998, p. 10). The efforts of various researchers to develop, refine and extend arguments in the literature on the global city, coupled with Sassen's response in the second edition of The Global City (2001), led to the idea of the global city, originally based on the function of London, New York and Tokyo, becoming the 'global city model', a more wide-ranging theory on the nature of all cities, to varying degrees, in the contemporary, increasingly globalised, world economy (Jones, 2002, p. 339).

Global cities and transnational urban networks have recognised that cities and city-regions have become the forces driving economic globalisation (Lo and Yeung, 1998). Cities, for their part, are increasingly dependent on their articulation with the global economy for their standards and modes of living, and only survive by orienting themselves towards the space of flow (Castells, 2001); the unpredictable and erratic nature of today's network society means that their success is uncertain (Harvey, 1989) which is why the new frontier for urban management involves getting each city ready to face global competition, since 'the welfare of a city's citizens depends on that' (Borja and Castells, 1997). Furthermore, the paradigm of the world city provides 'an analytical construction that seeks to capture what is partial reality in these cities' (Sassen, 2001b, p. 2358). Studies of the global city have used such things as corporate headquarters, international financial services, advanced producer services, advanced telecommunication facilities and other supporting social and physical infrastructure as variables to reveal the pattern shared by global cities.

Although research into the paradigm of the global city and the world city opens up a new perspective on the role of the city in an integrated world economy, criticisms have been made about those paradigms. Three such criticisms are worthy of mention here.

First, a number of critics believe that discussions of the global city have failed to consider the large number of cities, especially cities in emerging nations, that either have experience with setting up links with the world economy or occupy niches at the bottom of the hierarchy (Gregory, 1995, p. 304; Yeoh, 1999, p. 608). Since Sassen focused on cities that she saw as occupying the top of the current hierarchy, later debates on the global city have discussed how to include other cities in other places to illustrate the impasses and paradoxes of globalisation (Oncu and Weyland, 1997, p. 6). The real question is whether the concept of the global city is applicable to more than the few centres first suggested by Sassen. Some studies have argued that the global city might better be conceived as a network of globalised urban centres (Smith and Timberlake, 1995; Savitch, 1996; Jones, 2002). Others have suggested that the global cities at the core of the global urban network may be neither permanent nor permanently out of reach (Short 2004). The term 'globalising city' seems better suited to this dynamic phenomenon, because it links

the 'non-global cities', cities that are attempting to become global cities, to the core set of cities that typically satisfy most criteria for being classified as 'global cities'.

The second criticism claims that the role of the state and the relationship between the nation state and the global city has never been adequately addressed. Some researchers believe that the importance of national boundaries is diminishing and see the possibility of conflicts between the nation state and the global city. Castells (1989, 2000a) argued that the 'space of flows' was superseding the 'space of places'. Friedmann (1995) wrote that cities and interurban networks appeared to be replacing the state as the basic territorial infrastructure of capitalist development. Ohmae (1995) suggested an apparent 'uprooting' of the economy and a 'disconnection' of social relationships between global cities and national states as national borders became redundant. Short and Kim (1999, p. 128) suggested that a city's efforts to 'delink and decouple' itself from the national economy would lead to the economic autonomy of that city as part of the globalisation process. Others actually believed that the nation state can benefit from the development of the global city and that the state can play a crucial role in forging a world city strategy to promote cities as places for the accumulation of global capital. The strength of a nation's economy is, after all, significantly affected by the performance of its world cities. (Saito, 2003; Swyndegow, 1996; White, 1998; Hill and Kim, 2000; Kamo, 2000; Saito and Thornley, 2003; Wang, 2004). Although cities all over the world 'clamour to subscribe to this globalising logic as they jostle for places in the new urban Utopia' (Yeoh, 1999), the development of global city functions is 'partly filtered through layers of local institutions and the local legal and administrative framework' (Sassen, 2001b, p. 2538). They therefore reject the idea of conflict between the global city and the nation state. For example, Hill and Kim (2000) criticised the globalist view that the imposition of a single global system on nation states reduces the importance of those states. Their comparison of New York and two East Asian cities, Tokyo and Seoul, not only showed the importance of the state in helping Tokyo to become a world city but also suggested that there are actually two distinct kinds of global city, market-centred bourgeois global cities like New York, and state-centred political bureaucratic global cities like Tokyo.

The third criticism is that most of the existing literature on the global city is heavily ethnocentric (Anglo-American) and New York and London are overrepresented (Saito, 2003). Since analysis of the global city takes as its norm traditional Anglo-American neo-classical economics, setting a high value on a free market economy, private property rights and minimum state intervention, its limited capacity for explanation and tendency to exaggerate the convergence effect of the global economy has given rise to some scepticism (Amin and Graham, 1997; Thrift, 1997; Hill and Kim 2000). After all, 'Economic globalisation, including world city hierarchies, rest upon political accommo-

dations within and among nation-states' (Pauly, 1997; Hill and Kim, 2000).

#### The global-local nexus and the creation of urban space

The global city analysis of a specific locality is at its most vulnerable 'when it moves beyond describing the characteristics of global cities and begins to explain the processes and governance mechanism that created and sustained them' (Douglass, 2000). This weakness has led to the emergence of literature which takes into account the local situation and the interaction between global and local in the creation of urban space. This interaction is reflected in the studies done by Robertson (1988), Beck (1997) and Castells (1999), in which they examined the dynamics and dialectics of the relationship between global and local. Their view of globalisation theory saw the network society as an open-ended process and, in particular, a process of change in which societies balance their perception of their traditional (national, regional and local) identities and socio-cultural characteristics against global constraints. This more dialectical approach suggests that while globalisation has an impact on cities, the cities themselves play a key economic, socio-cultural and political role affecting the nature of the globalisation process (Harvey, 1989a; Amin and Thrift, 1994; Sassen, 1996a; Borja and Castells, 1997). This global-local dualism is also referred to by Oncu and Weyland (1997, p. 1) as 'the optics of the local', describing the way that 'globalisation articulates with distinctive ensembles of class, culture, power constellations and patterns of state/society relations specific to each locality'.

Globalisation has also given rise to a proliferation of local and regional articulations of cultural forms, representing the reality of local response and resistance to the forces of globalisation (Cartier, 2001, p. 260). The positive influence of globalisation on various economic aspects of urban life may sometimes be counterbalanced by the negative effects suffered by certain groups. These negative effects can include a fear of the loss of local identity and culture, deterioration in social or environmental conditions and social confrontation caused by the increasing polarisation of winners and losers. Yeoh (1999, pp. 609-610) summarised:

The emerging literature elaborates the interplay between local and global forces in the characterisation of these cities as bearing the spatial impress of ebbs and flows of foreign direct investment, imports and exports, and migrant labour (Godfrey, 1996; Harvey, 1996; Hicks and Nivin, 1996; Kaplan and Schwartz, 1996; Nijman, 1996; Walker, 1996), as a marketplace for global information (Boyle et al., 1996), as nodes and networks of advanced telematics and new communication technologies (Thrift, 1996; Graham, 1994 and 1997) and as a site for corporate control function (Ho, 1998; Perry et al., 1998; Yeung, 1998) and industrial agglomerations (Fujita and Hill, 1993 and 1995; Perry and Tan, 1998). Another vein that can be traced in the literature focuses on skilled international

migration as a process contributing to the production of the global city (Beaverstock, 1996a and 1996b; Beaverstock and Smith, 1996; Findlay et al., 1996).'

When global and local forces interact, urban space as a product is neither place-bounded and local, nor solely the result of flows of hypermobile capital, people, images, icons, signs and symbols. Instead 'the reality is that globalisation is variously embraced, resisted, subverted, and exploited as it makes contact with specific cultures and settings' (Knox, 1996a, p. 126). The transformation of urban space is achieved by large-scale projects of urban development and redevelopment (Borja and Castells, 1997, p. 158). Olds (2001) pointed out five aspects of the effects of globalisation on the creation of urban space, based on his research on Vancouver and Shanghai:

- the development and restructuring of the international financial system increases the availability of finance and credit through foreign direct investment (FDI);
- the globalisation of property markets is linked to the globalisation of finance and the restructuring of FDI;
- transnational corporations take advantage of the global financial system and the globalisation of the property market to cooperate with the state in large scale urban projects round the world;
- the flexibility of social relationships, world social networks and epistemic communities increases, especially those that have the resources and power to affect the decision-making process for place-bounded projects;
- travelling and networking promote the kind of knowledge transfer and exchange of information capable of influencing large-scale urban development and redevelopment.

These five aspects show the ability of globalisation to mobilise global financial systems and knowledge transfer to influence large-scale place-bounded urban development and redevelopment projects. However, Olds also showed that a state with a tradition of proactive legal development, political impetus, and access to major resources of capital, can play a crucial role in the decision-making process and the formulation of development strategies. This finding applies with special significance to the East Asian developmental states. Hill and Kim (2000), Fujita (2003), Saito and Thornley (2003) spoke of the decisive role played by the state as promoter in helping Tokyo develop as a global city and its active participation in one of the flagship urban development projects. A similar example of the active role played by the state can be found in Singapore's development into a global (or globalising) city (Sim et al., 2003) and Taipei (Wang 2004). Nor is the influence of the state absent in cities that advocate market-led entrepreneurship. Swyngedouw (2005, p. 68) pointed out that despite the rhetoric of market-led and privately sourced investment,

large-scale European urban development projects are 'decidedly and almost without exception state-led, and largely state-financed'. In fact the state took a leading role in the development process in ten of the thirteen cases he examined. It is important to realise that the geo-economic powers of contemporary world cities are embedded in the transnational flow of capital, commodities and labour that are articulated and disarticulated within local territories, and that central and local government play important roles in creating them. Whether or not a country or city is able to take advantage of a particular geopolitical situation depends on the ability of national politics to respond to the external environment (Wang, 2004, p. 385 and p. 397). To understand the motives underlying Shanghai Pudong's ambitious plan and choice of development strategy, it is important to understand the institutional framework within which the state found itself.

# 1.5 The rise of the developmental state

#### The paradigm of the developmental state

Network logic defines a new relationship between government and business in urban development, enabling both sides to adapt to an open system. Differences in local institutions and local culture mean that different states may respond differently to the challenges they face. Castells (2000a and 2000b) examined the way that developmental states in East Asia differ from network states in Europe and described the different strategies used by different states to respond to global constraints in the local situation. In newly industrialised Asian countries<sup>1</sup>, different forms of developmental state, specific to each society, appear to have been instrumental in the process of building or rebuilding a nation or city. These states are typically managed by political figures who are largely autonomous (Castells, 1998, p. 289). There have been many discussions on the concept of the developmental state, by for example Chalmers Johnson (the researcher who introduced the concept), Manuel Castells, Peter Evans, Alice Amsdem, Steve Chan, Cal Clak and Danny Lam and other scholars in the field of development theory.

The paradigm of the developmental state comprises a collection of theories, descriptions, and assertions which relate economic performance to institutional arrangements centred on the state. According to Johnson (1995, p. 28), a capitalist developmental state can be defined as a state which promotes a long-term entrepreneurial approach by an industrial elite made up of key business groups, and resists any possibility of compromising growth which might result from demands by special interest groups. According to this defi-

<sup>1</sup> Japan, Singapore, South Korea, Hong Kong and Taiwan.

nition, a capitalist developmental state must operate a state-guided capitalist development system or, in other words, must combine a plan-rational economy with market-rational political institutions. Castells (1998) defines the developmental states as 'a state [which] establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural changes in the productive system, both domestically and in its relationship to the international economy'. Low (2004, p. 5) argued that the characteristics of a developmental state include an authoritarian, paternalistic government, usually hegemonic, acting from a commanding height to mobilise economic and political resources. Xia (2000) lists four of the more important features of the developmental state:

- the state plays an active role in and has a collaborative relationship with the economy;
- industrial policy is laid down by the government;
- development is controlled by a dictatorship;
- the executive has full control of legislative institutions or their administrative machinery.

For the developmental state, 'development is not an end in itself but a means to become competitive in the world economy, to survive both as a state and as a society'. According to Castells (2000b), becoming competitive in the world economy, '...was first their way of surviving, both as a state and as a society. Second, it was their only way to assert their national interests in the world... by affirming the only legitimacy principle...: economic development'. It follows that the developmental state needs a high degree of trust and a close relationship between government and the private sector (Rueschemeyer and Putterman, 1992). 'A network approach enables a new explanation to be constructed to accommodate those practices in China that differ in important respects from those of Japan and the "four little dragons2". According to Xia, all East Asian countries have one institutional feature in common, a combination of networks and networking. (Xia, 2000, pp. 4-5 and p. 38). Xia (2000) actually argued that 'developmental states can be treated as a mechanism of governance of the political economy that is characterised by a series of networks', since 'the East Asian developmental states have all pursued a strategy of networking and have been moving towards becoming network societies'.

#### China's rise as a developmental state

'China doubled its standard of living in just over nine years, as against 50 years for the US, 17 years for Japan and a little over a decade for South

<sup>2</sup> Also known in the West as Asian Tigers.

Korea' (Verdú, 1999, p. 6).

Economic reform and the open-door policy were part of the survival strategy to 'ensure China's entry into the capitalist global economy and into the informational paradigm, using lessons learned from Asian "tigers". Maoism did not bring prosperity to the Chinese people. When Deng Xiaoping initiated economic and government reforms in the late 1970s, he faced the dilemma that the state was both the solution and part of the problem' (Castells, 2000b). In 1978, recognising the limitations of Mao's economic strategy, Deng Xiaoping proposed the creation of a hybrid system, a 'socialist market system'. This paradoxical undertaking was inspired by the success with which the four Asian Tigers achieved their economic miracles in the 1970s. Deng took the road of economic reform, following the prevailing capitalist models of production while continuing to build socialism. Deng believed that reform and openness were essential to China's modernisation. According to Deng, 'The only hard truth is development. Without development, there will be no stability' (Xia, 2000, p. 75).

China's integration into the global market began on a false note in the early 1980s with the special economic zone policy. Four export processing zones were created to attract investment from Hong Kong, Macau and Taiwan and elsewhere. Each aimed to offer foreign investors cheap labour and land, tax breaks and social discipline. Particular attention was paid to multinationals that could be used as export platforms. The zones were designed to be physically and legally separate from the rest of China, to prevent the contamination of socialism. Castells (2000b, p. 313) pointed out that the most important weakness in this approach was that Chinese leaders failed to understand that what multinationals wanted was to penetrate the Chinese market, planting seeds of investment for future expansion outside the limited area occupied by the special economic zones. The approach did however succeed in stimulating the growth of Chinese business networks operating inside China. These ethnic business networks were essential to contemporary Chinese development, but they came to life in China by taking advantage of the opportunity provided by the open-door policy. Investment in China was risky, but could yield investors very high profits in a largely untapped market, with negligible labour costs, provided they could work out how to operate in what was a highly complex environment. By the late 1980s, after the establishment of investment networks based in Hong Kong and Taiwan, capital flowed in, much of it from overseas Chinese, from Singapore, Bangkok, Penang, Kuala Lumpur, Jakarta, California, New York, Canada, Australia and indeed all over the globe. The statistical pre-eminence of Hong Kong was, in fact, a reflection of the management of plural sources of investment, administrated and to a large extent controlled by Chinese business networks, more than ever interlinked and based on family relationships, in spite of fierce rivalry in specific markets and projects. Indeed, overseas Chinese business networks have been the

main intermediaries between global capital, including overseas Chinese capital, and China's markets and its producing and exporting sites. China's multiple links with the global economy are local, i.e. achieved through connections between overseas Chinese business and local and provincial governments in China, the *sui generis* capitalist class that Hsing called the 'bureaucratic entrepreneurs' (Hsing, 1999).

The earliest trials took place in a number of special economic zones (SEZs). Subsequently the reform was extended to hundreds of enclaves, later spreading to individual coastal cities and regions. China opened its once rigidly controlled economy in a way that allowed both domestic Chinese and foreign nationals to flourish, deftly handling the conflict between communism and capitalism by brushing aside economic ideology.

The reconfiguration of the relationship between state and market accelerated the speed of development in Chinese cities, particularly in those cities that were important to China's strategic development. Shanghai, as China's most important economic centre, served the national strategic need to become involved in economic globalisation. The city's aim was to reposition itself on the map of globally competitive metropolises as a leading international economic, financial and trading centre on the western Pacific rim. Shanghai's urban development strategy inevitably reflected the dictatorship of development common to all developmental states. The promotion of economic growth and the enhancement of competitiveness was given pride of place in Shanghai's new urban agenda, with the aim of attracting investment, especially from abroad. The plan was to establish special economic zones for sector building and to carry out large-scale urban projects to comprehensively improve the appearance of the city's physical environment. For Shanghai the establishment of Pudong New Area was a project that would combine both parts of the plan. An even more outstanding feature of Shanghai's development compared with that of other cities was the major role played by the state, involving a synergic collaboration between local and central government.

China's transitional economy should not be thought of as a combination of an efficient market-oriented private sector and a costly and inefficient public sector. Rather, a distinction has developed between state-owned enterprises (SOEs) run by central government, enterprises run by the Peoples' Liberation Army (PLA) and enterprises run as local government initiatives. In other words the non-state sector is still dominated by public ownership and management. The new capitalist class is made up of individuals (more often than not members of the Communist party) whose access to resources stems from their control of government institutions and finance. Using these resources, they invest in business on behalf of the government institutions they represent, by themselves, in association with other institutions, or, increasingly, in conjunction with foreign investors. These mixed enterprises form the core of

China's new capitalism, a capitalism which is highly decentralised, following the contours of provincial and local alliances and the business networks to which they connect. It is oligopolistic in local markets and competitive nationally and internationally and knows that it must generate enough surplus to pay a share to higher levels of government, not directly involved in business, and to indispensable participants in local and provincial enterprises. Guthrie (2006, p.130) argued that 'strict classifications of business organizations do not capture the variety of organizations that behave like capitalist firms in China. An analysis of economic development in China must focus on what it means to operate like a capitalist firm rather than on official categories'.

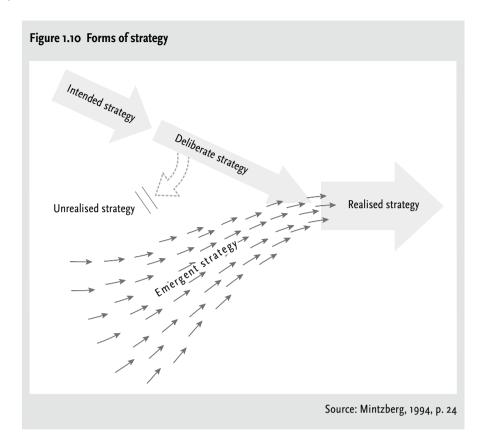
By the mid-1990s this development of 'bureaucratic capitalism' was completely under state supervision. But as the market economy spread, the increasing influence of foreign markets and financial resources and the rapid increase in the number of *gumin* (stock-crazy speculators) made it increasingly difficult for the state to maintain political control. More market orientation will be unavoidable. This does not mean any lessening of the scope for mixed enterprises or 'mixed ownership'. In fact, the development of mixed ownership was a one of the main topics raised by private Chinese entrepreneurs at the 2003 China Private Enterprises Consortium.

# Area development strategy - an emergent process in the context of a developmental state

Contemporary area development is not local in the same sense as it was decades ago. In the words of Castells, area development involves both the 'space of places' and the 'space of flows'. Certainly, area development is place-related, in that it has to deal with place-related urban problems. Important matters which need to be addressed include land, infrastructure, and property. The totality of the local context provided by local institutions and urban governance – 'the space of places' – determines the way that area development is carried out. Increasing integration into the global economy, international financial systems and international systems of information transfer, exposes area development activities to influences exerted by global forces, international corporations and global financial movements. Uncertainty and the risk of external influence ('the space of flows') affecting local area developments and development strategies are increasing. These two aspects of current area development influence both area development strategies and the way different participants became involved in the development.

The evolution of area development has also necessitated development strategies to deal with complex and dynamic uncertainty, and these strategies too need to evolve. Mintzberg (1994, p. 24; Mintzberg et al., 1998, pp. 11-12) listed three different types of strategies for strategic planning:

deliberate - strategies that are realised as planned;



- unrealised strategies that are never realised;
- emergent strategies that were realised though never expressly intended.

As Mintzberg suggested, formulating a strategy is a learning process. In his view, real-world strategies need to mix deliberate strategies with strategies that are purely emergent, so that control is exerted without impeding the learning process (see Figure 1.10). Although in most cases those responsible for managing urban development tend to take the traditional approach of formulating strategies before development starts, they still have to address emerging situations and adjust existing measures to suit changing requirements.

In the context of a developmental state, both deliberate and emergent strategies are needed to deal with existing and emerging challenges in area development. Developmental states have a strong tendency to participate in urban development both in policy-making and actual practice. In this global era, the feeling of a need to guide cities' development is becoming even stronger. Since the fate of a developmental state's cities has a profound effect on its fortunes, the state is fully entitled, in its own long-term interest, to help its cities position themselves to their best advantage in the developing global urban network. Thus a deliberate strategy can be useful. On the other hand, a city's transformation is largely a response to pressure and challenges imposed by globalisation and competition from other developing cities. The developmental state, born in response to globalisation and so extremely alert

to changes brought about by globalisation, needs to be sensitive to changes in the urban development process and to be willing to formulate emergent strategies to respond quickly to changes. We may therefore expect to see strategies put into practice for testing, changing and re-testing before they are finally adopted. The formulation of development strategies will be an evolutionary process.

# 1.6 Research design

#### Case study

The research took the form of a case study. Typically a case study examines a phenomenon in its 'real-life' context and therefore is not restricted to a 'snapshot' taken at a single point in time. The various changes that are deemed relevant, which often occurred over time, are described and analysed. The choice of case study as research method is inevitable because of the empirical void surrounding the subject. It would seem that research that monitors and evaluates is particularly important in the explosive and dynamic phase in which Shanghai currently finds itself. Although a case study cannot satisfy the requirement for systematic verification, it is essential for any attempt to provide insight into a particular object of research (Yin, 1984 and 1989; Stake, 2000). The research involved in the case study, mostly qualitative, could be described, following Yin, as 'an empirical inquiry that investigates a contemporary phenomenon in its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used' (Yin, 1989, p. 23)<sup>3</sup>.

A characteristic of the research strategy followed by a case study is that using the unit of analysis – the defined scope of the case – makes it possible to gain an insight into the complexity of the coherence between factors which define certain processes and phenomena. The character of the unit was not at the forefront of this case study. The result of the study should therefore not be viewed as a monograph based on a single discipline. The case study concentrated on a selection of factors and developments relating to the process of globalisation and the open-door policy implemented by the Chinese government in the 1990s. Nor does the study profess to view the study object 'city' as an isolated unit, since this would be incompatible with the approach selected and the idea that a space can be detached from its geography, its lo-

<sup>3</sup> Yin (1989, p. 29) defines five components of a research design for case studies: the question addressed by the study; its propositions (which direct attention to things that should be examined as part of the study), if any, the units into which it is analysed (defining the case), the logic linking the data to the propositions and the criteria for interpreting the findings. For further details, see Yin (1989).

cation and its nationality (Castells, 2000a; Harvey, 1996; Sassen, 1996b, 2001a and 2002).

The dissertation does not attempt to describe every aspect of a city like Shanghai. It would be impossible to set unequivocal spatial boundaries to the current urban dynamic. Indeed the object of study is not the city of Shanghai in its empirical spatial form, but the current dynamic of the network society and the repositioning of cities and the way in which this is, or could be, managed. It follows that any research into the explosive development of Shanghai in general and the area development in Pudong in particular must make constant reference to the literature on urban theory in the context of globalisation (Harvey, 1989b and 1996; Amin, 1997; Hall, 2003; Robertson, 1988; Beck, 1997; Knox, 1996a and 1996b; King, 1990a and 1990b; Appadurai, 1996; Olds, 2001), the network society (Castells, 2000a and 2000b; Sassen, 1996a; Graham, 1994), global and globalising cities (Sassen, 2001; Friedmann, 1986 and 1998; Short, 2004; Yeoh, 1999; Hall, 1991; Knox and Taylor, 1995; Hill and Kim, 2000; Clark, 1996; Taylor, 1996; Taylor et al., 2002a and 2002b) and global-local articulation (Borja and Castells, 1997; Oncu and Weyland, 1997; Brenner, 1998; Hall, 1991; Knox, 1996a; Gregory, 1995; Hall and Hubbard, 1996), the associated rise of network management (Klijn, 2005; Klijn and Teisman, 2000; De Bruijn et al., 2002; Marin and Mayntz, 1991; Kickert et al., 1997; Koppenjan and Klijn, 2004; Goodin, 1996; Graeber, 1993; Thompson et al., 1991; Mintzberg, 1994; Mintzberg et al., 1998; Osborn 2000), China study and especially China-related urban study (Wu, 2000a, 2000b, 2003a, 2003b; Yusuf and Wu, 2002; Guthire, 2006) and, most important, the theory of the developmental state (Johnson, 1995; Castells, 2000a and 2000b; Xia, 2000; Chan et al., 1998; Woo-Cuming, 1999; Huff, 1995; Huff et al., 2001; Low, 2004; Amsden, 1989; Evans, 1995; Wade, 1990; Rueschemeyer and Putterman, 1992; Leftwich, 1998). Important points of departure are found in urban theory, political economic theory, social theory and urban planning and management theory (particularly urban management theory).

The speed and explicit nature of the changes, on so many levels, make Shanghai exceptionally suited to a thorough case study, suggesting new points of interest and subjects for discussion relating to the urban policy of other Chinese cities which also see repositioning as a challenge but have not yet taken up the gauntlet as energetically as Shanghai. The newly emerging Shanghai is no longer simply a unique location, chosen at random, but a place where history is being written, history in which the characteristics of the network society are becoming an integral part of Chinese culture. The research strategy assumed certain relationships in which urban development characteristics, patterns, trends in the network society, developmental state etc. could be expressed in extenso. Shanghai seemed to be an ideal place for this intention. After all, Shanghai amazes everyone who has the chance to look around and experience the place for himself, so surely it is logical to in-

quire about the nature of the dynamic that led to such rapid development.

#### **Problem statement**

The aim of the research was to provide a better understanding of how a huge urban redevelopment project managed to achieve such a speed. The research considered the role of the public sector and the private sector and their interrelationship in urban development activities, to discover how the public sector and the private sector collaborate in an era of globalisation, and how partnerships develop and how they function (especially in the area of real estate) in a particular environment. The idea for this PhD research was based on one main empirical question: What were the main factors responsible for the speed achieved by the Pudong development? Meanwhile, the theoretical research question is: To what extent did the development of the Pudong New Area reflect the characteristics of the developmental state?

#### Scientific and practical relevance

The research had three main goals:

- 1. To add to the literature on emerging cities in an era of globalisation. For a long time, urban studies have concentrated on Western industrialised cities and their role in the global urban hierarchy. Little attention has been paid to cities in other continents. A similar criticism has been addressed to the study of global urban systems by critics such as Gregory (1995, p. 304), Oncu and Weyland (1997, p. 2 and 6) and Knox (1996a, p. 126) who pointed out that the conspicuous absence in globalisation literature of cities in emerging nations even led to the creation of a new term, 'globalising cities', to refer to 'other' cities in 'other' places. The research examined the impasses and paradoxes of globalisation in the realisation that there are different levels of world city beyond those considered by traditional urban studies. An opportunity was provided in this research to explore the transformation of Shanghai, one of the most spectacular transformations of any city in the world. The experience and lessons learned during Shanghai's active pursuit of 'the rhetoric of opening up to the global' in a system that had long be closed and had only just allowed itself to reap the benefits of globalisation, could well be useful to other cities taking the path to globalisation.
- 2. To make a useful contribution to the literature by linking two different domains, political economics and urban study, to reach a better understanding of urban management and area development. To some extent the research pioneered the use of the theory of the developmental state to explain how participants in an area development project make decisions and the motives which lay behind decisions on area development strategies. It also used a network approach to explain the connection between context and behaviour. It overcame the disadvantages of the actor-centred ap-

- proach, which tends to pay special attention to the actors but neglects the structural framework within which their actions take place. On the other hand, 'a network approach enables research into the developmental state to transcend the existing form of the developmental state and move to a higher level of abstraction and generalisation to assess it more structurally' (Xia, 2000).
- 3. To make a useful contribution to the study of urban China by combining a multidisciplinary approach with first-hand in-depth experience. - The study of China has gained ground recently as a result of China's explosive development and economic success. However, there are few well documented accounts of rapidly growing 'globalising cities' in China. Recently a number of researchers have acknowledged China's fascinating urban developments from a variety of research perspectives, e.g. Borja and Castells (1997), Castells (2000b), Friedmann (2005), Wu (2000a, 2000b, 2003a and 2003b), Olds (1997 and 2001), Yusuf and Wu (2002), Zhang (2003), Wei et al. (2006) and Zhang (2002). As the rapid development of Chinese cities is directly related to China's decision to open up its economy and its intention to integrate into the global economy within 25 years, Chinese society faces even more intense challenges on its way to internationalisation arising from conflicts between global and local, traditional and modern. Chinese urban development and urbanisation involves intense contradictions. It is hoped that this study will help to satisfy people's curiosity about China's area development practice. Shanghai has always served as a model for other Chinese cities, whether in the 1930s or in the Maoist era. The Pudong development was not just a flagship project intended to transform Shanghai's urban process. The strategies used in the project and their implications for area development and urban governance may be valuable assets for Chinese policy-makers involved in the development of thousands of cities in urban China, large, medium or small, in the next several decades.

#### Method

The research was carried out on different levels and used many different sources of data, following a procedure known as 'triangulation' (Yin, 1984, pp. 89-92). This means that multiple sources of data (and research levels) were used when establishing events and their interconnections. Wherever possible, data from one source was checked against data from another source. Data was obtained from a combination of existing sources and in-depth interviews. The on-site field work was conducted in October and November 2002, June and July 2004, and July 2006. Interviews were conducted with people that had participated in different stages of the Pudong development. Interviewees included planners, government officials in related government departments, project managers in development companies, real estate developers, banks, multinational organisations and academic researchers in institutes and uni-

versities, increasing the likelihood that the data that was acquired was valid and reliable. Existing sources provided an abundance of documents, including urban plans, master plans, policy memos, reports and so on. In-depth interviews were held to gather information that could not be obtained from existing sources and were used to assist in interpreting the data. The interviews also served to complement and interpret other material, helping to clarify obscurities which arose during the analysis, correct possible errors, and to check whether the interpretation as set out in the draft report was acceptable. (for further details see Appendix A). A wide variety of methods was used to triangulate the research findings and so check the relationships observed, establish clear cross-references and refine the analysis.

The research concentrated on changes which had been under way since the 1990s, a period which saw a radical turnround in national politics and a relatively significant widening of the opportunities offered by the network society. In connection with the large-scale urban development project Pudong development, the government became strongly involved in the city's objectives, so that both central and local government became totally committed. The moments at which significant changes took place during the period under research would have been difficult to identify without empirical research. The 'measuring points' of changes which can be differentiated within municipal policy seem after all (on the basis of a reasoning, or arising during the course of the research) to vary (too much) in terms of time. Thus different stages could be identified within the period covered. The following highlights could sometimes be clearly defined, sometimes not so clearly, depending on the nature of the subject.

#### Type of research

In view of the exploratory and discursive character of the research, any argumentation had to be based on the plausibility of its interpretations. Because the development project took place during a period of change, it was inevitable that the character of the research would to some extent be exploratory. However, the aim remained to provide fruitful insights, theoretical and empirical, based on the findings of the case study. The research could not be said to have followed the principle 'theory first then empiricism'. Rather it was characterised by a cyclical process of reclassification and reinterpretation of the material. The course followed by the research did not match the sequence in which the results are presented in the following chapters.

## 1.7 Outline of the dissertation

Chapter 1 has introduced the research and presented the theoretical framework of the investigation. It started with a discussion of the phenomenon of

drastic urban transformation in an era of globalisation and went on to consider the explosive urban development in Shanghai that the world has found so fascinating. A theoretical discussion was presented of the impact of globalisation on cities and urban governance and a new relationship between state and business based on the interplay between global and local. The question was raised whether the speed that was achieved by Shanghai's urban transformation can be explained in terms of the framework provided by global-local interaction. A conceptual framework was introduced, taking Castell's analysis of the network society and the paradigm of the developmental state as important working hypotheses to explain the nature of global-local articulation and the relationship between state and business in a specifically Chinese urban context and how the interrelationship between global and local was reflected in Shanghai's strategy for area development.

Chapter 2 gives a detailed description of the initiatives and decision-making processes involved in the development of Shanghai's Pudong New Area. The chapter also considers why Shanghai, seeking to rediscover its lost glory in a global context, selected Pudong to fulfil its ambitious plan for the city's nirvana. An analysis is presented of the roles played in the decision-making process by central government, local government and the market, the coordination between the parties involved and the way that global-local interaction affected the development strategies as they evolved during the process.

Chapter 3 considers in depth the factors that contributed to the speed of the Pudong development, including the different strategies adopted by local government to speed up the development process, the way in which investment and finance was mobilised, how the development process was facilitated and the way in which different participants became involved. Issues highlighted in this chapter include finance, land, infrastructural development and the closely related local real estate market.

Chapter 4 considers how it was possible to achieve such speed. The paradigm of the developmental state is used as a working hypothesis to explain the changing roles played by the public sector, market forces and society at large and the motivation underlying various area development strategies. The emphasis is on economic development, collaboration or partnership with the private sector, global and local, and the pragmatic strategic approach.

Chapter 5 summarises the main findings on the factors which affected the speed of development. The chapter also speculates on the implications of networking for Chinese culture, the limitations of the developmental state, and the relevance of Pudong's experience to other large-scale urban development projects.

# 2 Pudong - from local initiative to national strategy

'The government of the city faces a paradox. On the one hand, globalisation enhances the role of local governments (the principle of proximity), and large, complex action programmes that are also highly localised require precisely institutions and political bodies that keep very closely to their territories. On the other hand, local governments have little or no international presence; they are subject to legislation, and depend for their resources on national governments (and sometimes regional governments too); they have a relatively weak position with respect to public or private economic groups; large-scale strategic action plans are not in their field of responsibility (or are only partially so); and furthermore they correspond to a metropolitan city that is fragmented in institutional terms' (Borja and Castells, 1997, p. 174).

#### 2.1 Introduction

The old saying that a Shanghainese 'prefers a bed in Puxi to a house in Pudong' vividly describes the unpopularity of Pudong before 1990, at which time the district contained a mixture of harbour industry, low-quality housing, inadequate infrastructure and vast stretches of farmland. Located along the east bank of the Huangpu, 'Pudong' in its widest sense refers to that part of Shanghai which is located on the east bank of the Huangpu, an area of approximately 2,000 km², 30% of Shanghai's territory. The official name for the Pudong which formed the subject of the research is Pudong New Area, an area defined by administrative boundaries. In 1990 it was defined as a 350 square kilometre triangular area, east of the Huangpu, southwest of the Yangtze and north of Chuanyang, similar in size to the central area of the city of Shanghai, with a population of 1.1 million. The size of the area was officially increased to 522 km² in 1992 (see Figure 2.1).

Pudong's harbour activities, warehouses and harbours were developed before 1949. Further heavy industry was added after 1949, manufacturing products including textiles, steel, chemicals and building materials. The harbour activities were also expanded. Businesses built housing estates near their premises to accommodate their employees. By the beginning of 1980s the Pudong urban area had grown to 60 km². The greater part of this urban area was located along Pudong's waterfront (see Figure 2.2). In the 1960s Shanghai tried to expend along the east bank into Pudong, mainly to ease its serious overcrowding problem.

At the beginning of the 1980s a proposal was put forward to turn Zhangyang Road (one of Pudong's few main streets) into a new Nanjing Road for Pudong. (Nanjing Road is Shanghai's most famous shopping street.) The proposal was rejected. An important factor was the lack of any connection between the two banks of the Huangpu apart from an old twin-lane tunnel, built before

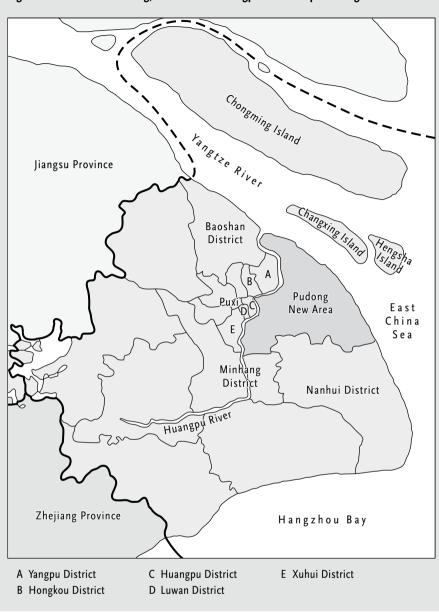


Figure 2.1 Location of Pudong, Puxi and the Huangpu on the map of Shanghai

1990. The same factor also contributed to Pudong's lagging economy, lack of industry and lack of employment opportunities. In 1990 the GDP of Pudong's 1,272 businesses was Yuan 1 billion (US\$ 12 million), about 8% of Shanghai's total GDP. Most of the businesses were involved in low-tech heavily polluting industries, such as petrochemicals, harbours, steel and iron and building materials. The service sector was not well developed in Pudong, including a growing retail sector, but hardly any development in banking or insurance. The stagnant economy in Pudong led many of Pudong's residents to search for work on the other side of the Huangpu. On the foggy morning of 10 De-

Figure 2.2 Pudong before the development. Top: Pudong in the early twentieth century, seen from Puxi; bottom: Pudong shortly before the development in 1990, seen from Puxi





Source: Wang and Xia, 2001

cember 1987, a tragic accident occurred when hundreds of thousands of people from Pudong tried to board the ferry to Puxi to get to work. The crowds boarding were so great that passengers began to tread on one another. Eleven people were trodden to death and about eighty were seriously injured (Feng and Wang, 2000; p. 553). A later report blamed the accident on the poor infrastructure linking Pudong to downtown Shanghai. The report urged the Shanghai Municipal Government (SMG) to push ahead with its proposals for the total transformation of Pudong.

### 2.2 Local initiative, open debate

The introduction of the central planning system in the 1950s led to China's land, housing and real estate markets being dismantled and replaced by an allocation system to balance supply and demand. By the end of the 1970s the command economy, under the control of the Communist Party, had severe-

ly distorted all of China's markets, not just the commodity market (Lal, 1995, p.1480). Before economic reform, the private sector was simply prohibited. After the reform and the introduction of China's open door policy, academics at national and local level were among the first to discuss new ideas for restoring the market mechanism. In Shanghai, local planners like Huang Fuxiang and his team from the Shanghai Urban Planning and Design Institute (SUPDI), later jointed by researchers in economics, law and sociology, began to explore new ideas and techniques for dealing with China's emerging market system. These researchers4 were particularly interested in the concept of globalisation and its possible impact on China and its development, economic and otherwise. They concluded that two possible trends might exert a powerful influence on the fate of Shanghai. The first was a shift in the centre of economic activity from the West (the Atlantic area) to the East (the Pacific area), with the western rim of the Pacific Ocean<sup>5</sup> as the possible centre of the boom. The second trend, associated with the further opening up of China and its integration into the world economy, involved a shift in economic development from south China, with its pioneering cities like Shenzhen, Zhuhai and Xiamen, to the north and east, and subsequently from the east to central and western China. Shanghai enjoyed a strategic location between these two movements. The researchers believed that without proper preparation, Shanghai would be unable to handle the approaching economic boom. Their primary concern was with urban planning, later extended to include issues such as land reform and real estate investment.

One aim of this preparation was to replace the old urban planning system with a new system that would take into account the market mechanism and the value of land and buildings. The nationwide debate at the end of the 1970s on whether housing should be treated as a commodity, reinforced the belief that more ideas could be borrowed from countries with a market economy (see Chapter 3, Section 3.3 for a more detailed explanation). Local planners became interested in American-style zoning, and Hong Kong's outline zoning plan (OZP), both of which took account of the value of land. In contrast to other more area-based zoning systems, the OZP operated at the more detailed level of small blocks and included regulations governing the function, price, height and shape of the buildings making up each block. Local researchers favoured the OZP approach and later adopted it in the land policy for the Pudong development.

A second aim was to find new 'engines' to power the city's growth. Lo-

<sup>4</sup> Based on interviews held in October and November 2002 with Huang Fuxiang, senior planner at the Shanghai Urban Planning and Design Institute and Li Zhanjun, a Shanghai Social Science Academy researcher.

<sup>5</sup> Local researchers saw this zone as extending from Seoul and Tokyo via Bohai Bay, the Yangtze delta, the Pearl delta, Kuala Lumpur and Manila to Sydney and Campbell.

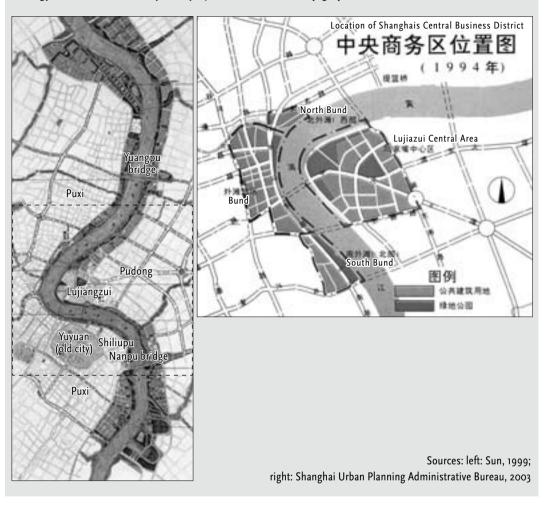
cal researchers examined the concept of the central business district (CBD) and the role such districts play in the American economy. They saw the CBD concept as relevant to the redevelopment of Shanghai's downtown area, at one time the financial and trading centre for the entire Far East. In 1986, after years of study, they proposed fifteen plans for redeveloping the waterfront areas along the Huangpu - the Bund, Shiliupu and Lujiazui (in Pudong) - all based to some extent on the ideas referred to above (see Figure 2.3). The plans were presented at two international conferences on waterfront development. Since this was the first international presentation of the work of Shanghai's planners, their plans attracted a good deal of attention from their foreign counterparts, and even attracted interest from overseas investors. Encouraged by this positive response, the planners decided to take their proposals a stage further by treating the combination of the Bund and Pudong's Lujiazui as a the new centre of Shanghai, rather than the traditionally accepted combination of the Bund and the People's Plaza. Meanwhile, urban planners at the SUPDI, under the leadership of Huang Fuxiang, began to make plans for the redevelopment of the Bund and Shiliupu (two waterfront areas along the Huangpu in Puxi) and Lujiazui (the Pudong waterfront directly opposite the Bund). This was the first appearance in these plans of two Western planning concepts, the central business district and waterfront redevelopment. This attempt to accommodate western concepts in the redevelopment plan was in fact the planners' response to the growing business opportunities for Shanghai after China opened its doors to the outside world. As Huang Fuxiang recalls (2002):

'.... I started to collect information about CBDs in 1978, a time when many visitors were coming to Shanghai. Many of them came not just for tourism but also to look for business opportunities and possible new markets. The businessmen were the most sensitive. I had the opportunity to talk to them. Many of them asked questions about investment in hotels, and this drew my attention to new planning concepts like the CBD. After my visit to the US World Trade Centre – the twin towers destroyed on 11 September 2001 – I began to understand the role played by the CBD in the American urban economy. This was the start of our further research into CBDs.'

The significant role played by the CBD in American cities persuaded Huang Fuxiang and his colleagues to include this new concept in their design plans for Pudong, to enable Pudong to perform its new role.

In May 1987 SMG set up the Pudong Development Research Consultation Group to carry out preparatory studies for the development of Pudong. This group, led by deputy mayor Ni Tianzeng, included Chinese and foreign experts in urban architecture, planning, finance, real estate and related areas. Lin Tongyan from the US, an expert in bridge construction, was one of the most active foreign advocates of the Pudong development and attracted consider-

Figure 2.3 CBD plan in 1994 that interlink both Puxi and Pudong (left) and Location of the Central Business District (CBD) in Shanghai. Draft proposals for the first waterfront redevelopment plan were included in the Huangpu River Bank redevelopment project, initiated in 2002 (right)



able international attention to the project. On 1 May 1988 the results of the study were discussed at an international conference organised by the Pudong Development Research Consultation Group; 140 international experts on urban development discussed with local leadership, including Jiang Zemin, Zhu Rongji and Wang Daohan, the feasibility of the Pudong development and the future of Pudong. The final version of the master plan for Pudong was completed in October 1989. In this version the area of Pudong was planned to increase to 150 km² and the population from 0.9 million to 1.5 million.

While the private sector was already responding positively, local government was being urged to give the planning permission required before any new development project could begin. In February 1988 the Central District Plan for Lujiazui (a 1.7 km² waterfront area in Pudong directly opposite the Bund in the Puxi district) defined for the first time the function of Lujiazui as central business district. Between 1.8 and 2.4 million m² of floor space were

proposed, much more than originally planned. The change was partly due to the influence of officials from the Institute d'Aménagement et d'Urbanisme de la Région Ile de France<sup>6</sup> (IAURIF) in Paris, who provided SMG with technical assistance in planning the restructuring of the city and developing a metropolitan planning strategy (Olds, 1997, pp. 115–116).

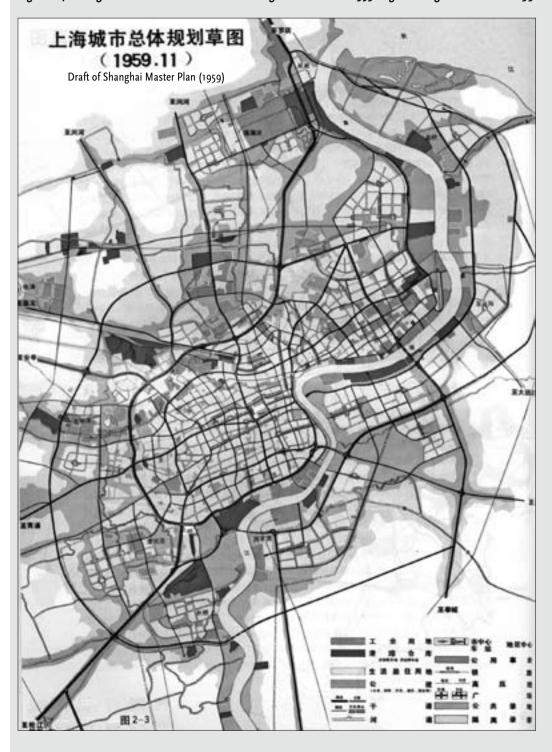
In 1992 central government seized the opportunity provided by the development and opening up of the Pudong area, China's largest development project, to revive its strategy of developing Shanghai into an international economic, financial and trading centre – the 'dragon's head' that would power the growth of the Yangtze basin (Shun, 1999, p. 121). A steadily increasing number of foreign institutions and firms were invited to assist SMG in its efforts to prepare a strategic plan for restructuring the city. The World Bank and the Asian Development Bank (ADB) both funded tangible projects (e.g. bridges and road systems) and strategic planning for Shanghai's geographical and sectoral restructuring.

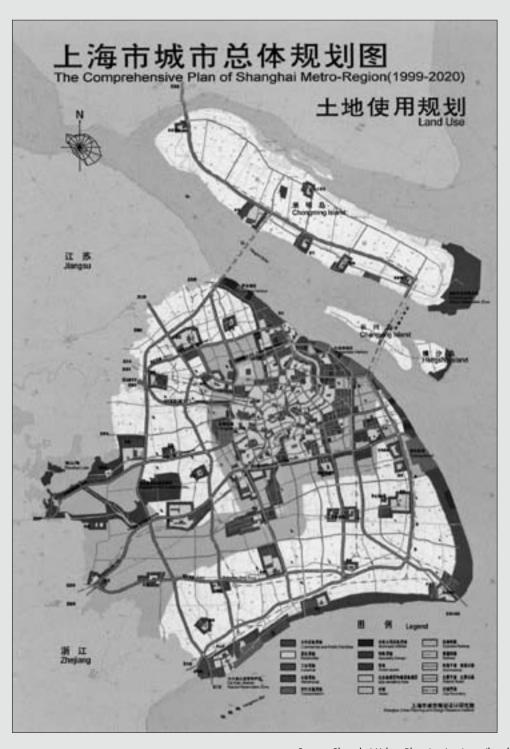
The international debate on planning concepts played a significant role in pushing through economic reform at central and local level. The involvement of academics from different fields nationwide contributed to the construction of a new theoretical political and economic framework justifying the introduction of various reforms. The debate provided a platform for the transfer of knowledge, particularly about the application of a more market-oriented approach to planning at local and international level.

It is interesting to note that the first ideas for developing Pudong can be traced back to the 1920s and 1930s, when Sun Yat-sen, the first Chinese president, was pressing for the modernisation of China in general and Shanghai in particular. A similar plan was proposed by local planners in the early 1980s as a way of dispersing the population of Shanghai's downtown Puxi area into the west bank of the Huangpu. Puxi no longer had sufficient space to accommodate its ever-increasing population and new developments in the traditional business centre. Moreover Shanghai's outdated infrastructure was only sufficient for its former structure and was no longer able to increase capacity to meet the increasing demands imposed by a growing city. These pressures constantly challenged urban planners and managers to come up with solutions, and later contributed to the idea of developing something new and attractive. The first formal discussions on developing a modern central business district in Shanghai took place in 1979-1984. The master plans for Shanghai prepared by SUPDI in 1982 and 1984 both proposed a multinational urban system to disperse the population and provide more space for urban development: Pudong was one option (Wu, 2000). The 1984 master plan proposed building a new airport in Pudong to supplement the old Hongqiao airport. The

<sup>6</sup> Institute for Urban Planning and Development of the Paris Ile de France Region.

Figure 2.4 Shanghai Master Plan. Left: Draft of Shanghai Master Plan 1959. Right: Shanghai Master Plan 1996





Source: Shanghai Urban Planning Institute (brochure)

1996 Shanghai master plan was even more significant for Pudong's future because, unlike previous master plans such as the 1959 version, this new version took a more wide-ranging view of the city, including both Puxi and Pudong. In this new version more urban districts were designated for Pudong, supplemented by new infrastructure and public facilities. Pudong, once completely ignored, suddenly began to enjoy the same amount of attention from the planners that it had enjoyed 60 years earlier (see figure 2.4).

The Pudong proposal was strongly supported by the local leadership. The mayor of Shanghai, Wang Daohan, even proposed that Pudong should be set up as a special economic zone, attracting investment by means of tax and policy concessions similar to those already being experimented with in southern China. The economic aspects of his ideas were taken further in Shanghai's June 1984 strategic development plan, which proposed designating Pudong as a new economic development zone with tax and policy concessions to attract investment. The proposal to develop Pudong was submitted to central government. The State Council reacted positively to the basic idea and instructed SMG to 'create conditions for the development of Pudong and prepare for the construction of the new area...' (Wan and Yuan, 2001, p. 27; Sun, 1999). The latest version of the Shanghai master plan also identified the Lujiazui area as the site for the future extension of the historic downtown district across the Huangpu.

# 2.3 Decision-making - local versus national

Even though there was never any lack of local initiatives to develop Pudong, it actually took decades before anything was done. There could be several reasons for the prolonged delay.

First was the matter of political sensitivity. Political consideration of the possibility of war or military attack (for example, civil war between Taiwan and mainland China or an attack by one of the two superpowers) prevented Shanghai from exploiting its vast coastal territory, which during the cold war was seen as part of the 'front line'. Huang Fuxiang (personal interview, 2002) explained the reasoning as follows:

'China had previously followed a closed-door policy. In the light of the hostile environment in which China found itself during the cold war and the psychological pressure China faced from the United States and the former USSR, [it is easy to understand] that Pudong was not considered suitable for development because of its front-line location so close to the coast. The pressure only lessened in 1986, with the improvement in relations with the US and the disintegration of the Soviet Union. With the approval of central government, we then began to look to see how foreign cities dealt with investors and investment. We discovered that

they worked with a series of market concepts that were absent in China. We were more familiar with Russian concepts of urban planning, and so had no knowledge of detailed quantity and quality measurement. Rather, approval of a master plan largely depended on the most senior of the higher ranking officials.'

Second, Shanghai's strategic location and the significant role it played in the national economy as the most important tax generator (one sixth of all national revenue) made it impossible for central government to risk any lack of care in guiding its development. Li Zhanjun (personal interview, 2002), of Shanghai's Academy of Social Sciences (SASS), spoke of Shanghai's important position as 'gate keeper of China's economy', and said that any suggestion to develop Pudong or Shanghai could have a significant impact on the country as a whole. This was a case where the national interest took priority over local interests.

Third, the Chinese system of public administration had long kept Shanghai under tight control and thwarted any efforts to change. As one of the four cities directly governed by the State Council (*Zhixiashi*), Shanghai had little autonomy and was required to send almost all its proposals (including proposals for large urban redevelopment projects) to central government for approval before taking any further action. This resulted in many proposals being blocked by central government because they were seen as conflicting with the national interest.

Fourth, the strict financial control exercised by the state left Shanghai with little scope for reallocating its resources to urban development. The payment of 80% of its annual revenue to central government left Shanghai with hardly enough to maintain its day-to-day expenditure on urban infrastructure, let alone to invest in vast backward areas like Pudong.

Little by little, as economic reform began to progress and China opened up to the outside world, barriers to local initiatives to develop Pudong appeared to be falling away. Internationally, the end of the cold war saw a lessening in the hostility of China's political environment; locally, both central and local government began to appreciate that Shanghai was rapidly losing its advantages to the cities in South China. If no reforms were carried out in Shanghai, the economic advantages that Shanghai had enjoyed for so long could become problems for China's economy. In June 1988 therefore SMG established the Pudong Development (Administrative) Office. Between April and August 1989, local politicians like Zhu Rongji, Huang Ju and Ni Tianzeng were heavily involved in the preparation of plans to develop Pudong, but the tight control exerted by central government would never allow Shanghai to carry out a project as large as the Pudong development.

Although much preparatory work had been done at local level and Shanghai continued to lobby for a position comparable to that given to the cities of South China to allow it to speed up its urban development, central gov-

ernment was hesitant about what decision to make. The lack of progress in Shanghai also reflected the range of opinions on the open door policy at central level. Central government was concerned about Shanghai but hoped that delaying Shanghai's development would enable it to use experience gained in South China to reduce the risk. Li Zhanjun (personal interview, 2002) described Shanghai's situation at the time as follows:

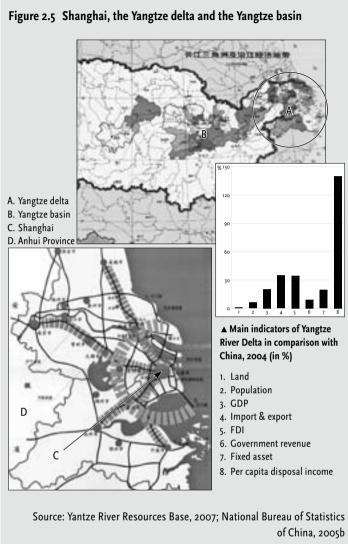
'.... As in the case of the Shenzhen development, there were difference of opinion between leading figures in central government. For example Chen Yun, one of the leading decision-makers, had never been to Shenzhen. These differences made it impossible to promote and implement nationwide reform. So central government deliberately made Shanghai start slowly and kept a careful eye on what was going on elsewhere (in Shenzhen and other leading centres of reform). But central government did consider improving the status of Shanghai, for example by setting up a central stock exchange, since Shanghai once had China's only central stock exchange. Meanwhile, central government was also giving consideration to allowing Shanghai to experiment with land lease, setting up an urban development fund and sharing revenue with central government.'

Academics have different opinions about why the delay lasted so long. Western researchers like Yatsko (2000, p. 20) blamed the delay on the city's political situation. In the early 1980s few politicians with a background in Shanghai held positions in national decision-making bodies in Beijing or enjoyed close relationships with leading figures in central government. This meant that Shanghai was poorly positioned politically, a fact that Chinese researchers consider highly significant. Shanghai's star showed the first signs of ascendance in the mid-1980s, when Beijing decided to transfer Jiang Zemin (in 1985) and Zhu Rongii (in 1987) to take up leading positions in central government. The promotion of these two senior officials from Shanghai, both of whom were technocrats and well-educated, established connections between local and central government, so restoring Shanghai's voice in the capital. Academics have different opinions about why the delay lasted so long. Western researchers like Shanghai's ascendance coincided with Deng's nomination of Shanghai party secretary Jiang Zemin as his heir-apparent at the end of June 1989. Jiang was the first in a long line of Shanghai officials to be appointed to top central government posts in the 1990s. He in turn was followed by Zhu Rongji, first as vice premier then, till 1998, as premier. Shanghai's new leaders used their influence to lobby for the Pudong development and persuade Beijing to let Shanghai retain a larger share of its revenues and foreign earnings. Chinese researchers consider this to be less significant. Even though the politicians with a Shanghai background were more numerous and better able to understand Shanghai's situation, they were actually less able to give the city their open support. Chinese political culture requires newly promoted leaders to deal impartially with every city and province, so Jiang's new position as party secretary and later president actually made it more difficult for him to support Shanghai.

The events in Tian'anmen Square were thought to affect the timing of central government's discussion on whether Shanghai should be opened up to external economic influence. The embargo imposed by the United States and the European Union placed restrictions on China's political and economic exchange with many western countries including the US and the countries of the EU. Foreign direct investment (FDI) almost came to a halt. Investors were frustrated by the change and wondered what would come next. Would China remain stable and continue its promised economic reform? The new political and economic environment made it easier to persuade people at the highest level in government who refused to accept the open door policy, and to reach a consensus on Shanghai's development between reformists and conservatives in the interests of China's future. To open up Shanghai, the economic heart of China, to foreign investors, central government needed to convince the world that the open door policy was permanent and so avoid China having to carry the entire investment on its own. Discussion continued, with particular attention being paid to the choice of location. The compromise decision was to develop a relatively isolated area that would have a relatively minor impact on Shanghai's economy if things went wrong. Pudong was seen as the best choice. At the mayor of Shanghai's annual international consultation conference in October 1989, Mayor Zhu Rongji officially introduced the Pudong development strategy and invited foreign investors to invest in Pudong.

The lobbying for development approval for Pudong became more intense as local leadership sensed that there was now a good chance of the Pudong development becoming reality. Since Jiang Zemin had gone to Beijing immediately after the events in Tian'anmen Square, he preferred to keep silent about the Shanghai issue. Instead he advised local politicians to lobby a number of key decision-makers in central government. First to be lobbied was Deng Xiaoping, the architect of China's open door policy, during his annual summer vacation in Shanghai. Deng agreed that he should have included Shanghai with South China earlier on, and supported the Pudong development. During his visits to Shanghai in 1990, 1991 and 1992, he also pointed out the importance of developing Pudong to the revival of Shanghai and to stimulating the economic development of the Yangtze region (see Figure 2.5) and the nation as a whole:

'.....Shanghai currently has everything it needs to speed up [its development]. Shanghai has obvious advantages in terms of human resources, technology and management, and its influence could be enormous. Looking back, [I realise that] one of my main mistakes was not including Shanghai when I designated the four Special Economic Zones. If I had



done so, the Yangtze delta and the whole Yangtze valley, and indeed the prospects for implementing economic reform and an open door policy

nationwide, would have been very different.' (Deng, 1993, p. 376)

This new analysis, emphasising the regional significance of the Pudong development, strengthened central government's original arguments in favour of the development, not only as a temporary political issue but, more important, as coinciding with the national strategy, after ten years of economic reform, to extend the process of reform northwards from South China to benefit wider areas of the country.

When Deng ceased to be an official leader of China his hope was that the Shanghai issue would pass to one of the other top leaders, for example the president, Yang Shangkun. Instead, with Yang's support, the request of Shanghai was passed to the premier, Li Peng, and Chen Yun, both hard-liners and suspicious of the opening up of Shanghai. On 26 February 1990, after suc-

#### Box 2.1 State Council guidelines for the Pudong development

Aim: To develop Pudong as a modern district with a rational development structure, an efficient public transportation system, comprehensive urban infrastructure, a rapid telecommunication system and a sustainable natural environment

#### Strategy guidelines:

- Open door policies to stimulate development: adopt special preferential policies to attract foreign investment, technology and management from Hong Kong and elsewhere; open up certain services including finance, insurance, and retailing.
- Economic reform to stimulate opening up and development: set up experiments to establish Shanghai stock exchange and securities centre, a free-trade zone and the commercialisation of land use rights.
- The development of Pudong should not only play its part in reviving Shanghai and linking the city to the global economy but should also serve as the economic driving force for the Yangtze river delta and the Yangtze river valley, with effects extending to the country at large, so complying with economic reform and the national interest.

Source: Wan and Yuan, 2001, pp. 27-28

cessfully lobbying the majority of hard-line leaders, local politicians submitted the Application to develop Pudong to the State Council. During the waiting period, further extensive lobbying was carried out to secure a final compromise between reformists and conservatives in central government. In March 1990, vice premier Yao Yilin and selected colleagues on the State Council carried out fieldwork in Pudong, reporting their findings to the State Council as a whole (see Box 2.1) (Sun, 1999, p. 117). Their report further clarified the relationship between Pudong and Shanghai and suggested that Shanghai should learn from the Shenzhen development how to set itself up as an international metropolis, with special emphasis on developing the service sector in Pudong.

The report was finally approved on 12 April 1990. On the same day the State Council submitted the Pudong development proposal to the Standing Committee of the People's Congress, where it was approved in principle. On 18 April 1990 no less a person than hard-line premier Li Peng went to Shanghai and officially announced the approval of the Pudong development. This gesture on the part of central government demonstrated the consensus reached by central government decision-makers. Pudong New Area was granted the status of a sub-municipality, a status higher than that enjoyed by an ordinary urban district, giving it more autonomy in medium-sized investments and projects. It should however be borne in mind that central government's decision was made in the national interest, not in the interests of Pudong or Shanghai.

After the Pudong development had received central government approval, the idea of linking that development to the future of Shanghai's hinterland, the prosperous Yangtze delta and the vast Yangtze valley (for details see Box 2.2) received further attention at both central and local level. In 1992 the link was formally established as national strategy for the Pudong development

(Huang 1993). As the first to propose such an idea, Deng Xiaoping, architect of China's reform and open door policy, reiterated the point in his visits to Shanghai in 1991 and 1992:

"......Developing Pudong will not only have a significant impact on Pudong but will also be decisive to Shanghai's development as a base for the development of the Yangtze delta and the Yangtze valley." (Deng, 1993, p. 366)

Interestingly, Deng's proposal was much in line with the thinking of the famous supporter of reform and world-famous Chinese sociologist and anthropologist Fei Xiaotong, who also favoured the integration of Pudong with its hinterland, though for very different reasons. Fei had been writing proposals for the development of the Yellow river delta and for the economic revitalisation of Shanghai ever since 1978. Although a strong supporter of Shanghai's reform, he foresaw the problems that would be caused by developing isolated special economic zones (SEZs) in South China and was deeply concerned about the increasing conflict between regional and national interests. If Pudong was to be developed like other SEZs, not only Shanghai but also the hinterland which came under its influence would become more and more independent of central government control. As he saw it, Pudong, and indeed Shanghai, should, rather like Hong Kong, be developed as a centre of trade, finance, information, transportation, science and technology, forming part of a vast market in the surrounding region and sufficiently attractive to generate international interest. Equally important, the development of Shanghai and Pudong should be undertaken under central government leadership (Kagami, 2002, pp. 47-48). Although for different reasons, both Deng and Fei emphasised the regional importance of the Pudong development and its importance to the national interest.

This proposal was later approved and accepted by central government. At several national conferences and party congresses (1992, 1994, 1995) China's president Jiang Zemin emphasised the strategic role played by Shanghai in China's economic development:

- as China's major trading centre, providing access to what was expected would by the end of the decade be the world's tenth largest trading nation;
- As the 'dragon's head' (the principal economic powerhouse) for the country's largest integrated economic area then developing in the Yangtze basin, in which one-third of China's population produced more than 50% of the country's industrial and agricultural output;
- as the major economic anchor in the Yangtze delta region, in which 160 million people (13% of China's population) account for more than 27% of the country's industrial output.

There were several reasons for the favourable reception of this proposal by central government.

#### Box 2.2 The Yangtze river delta and the Yangtze river valley

The Yangtze river (in Chinese Changilang), whose length of 6,300 km makes it the third longest river in the world, connects the Qinghai-Tibet Plateau with the East China Sea, and has immeasurable ecological importance. Its drainage area covers 1.8 million km2. The Yangtze river delta (in Chinese Changjiang sanjiaozhou), an area of 100,100 km² round the mouth of the Yangtze River, includes Shanghai, the southern part of Jiangsu (including Suzhou, Wuxi, Changzhou, Nanjing, Zhenjiang, Yangzhou, Taizhou and Natong) and the northern part of Zhejiang (including Hangzhou, Jiaxing, Huzhou, Ningbo, Shaoxing and Zhoushan) and has a population of 135 million. The triangle formed by Shanghai, Nanjing and Hangzhou is the most prosperous area of the Yangtze river delta and indeed of China as a whole. By 2001 the Yangtze river delta area had become Asia's most populous urban region, containing 10.4% of China's population in 2.2% of China's land area and producing 22.1% of China's GDP, 24.5% of the its revenue and 28.5% of its total import-export volume. GDP per capita in the Yangtze river delta is 35,040 yuan (US\$ 4,232), 3.7 times the average national GDP per capita, 10,561 yuan (US\$ 1,275).

The Yangtze river delta offers a number of advantages, including regulatory and administrative structures better able to accommodate economic growth than those in many other parts of China. The region's infrastructure is expanding rapidly, with new express highways along key corridors, express rail services, new housing and services and the supplier and service industry base required by foreign joint ventures. As a result, the region is receiving significant amounts of direct investment from multi-nationals.

The region covered by the Yangtze river valley (or the Yangtze river basin) (in Chinese *Changjiang liuyu*) includes Shanghai, Zhejiang, Jiangsu, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Guizhou, Sichuan and Yunnan. It extends 2,000 km from Shanghai on the East China Sea, to beyond Sichuan, the country's second most populous province, has a watershed covering 1.8 million km² and a population of more than 400 million, just over one third of China's total population, The region is one of China's most economically important, generating about half of China's gross industrial and agricultural output.

Source: National Bureau of Statistics, 2005b; China Statistical Information Web; Canada China Business Forum

First, it coincided with the reformists' long-term national strategy to gradually extend economic reform from the south of China to the north, and from the coast to the hinterland, allowing more Chinese citizens – the 200 million Chinese responsible for 30% of China's GDP – to benefit from reform. The growth of Shanghai, the largest port city and one of the country's traditional economic centres, should stimulate the development of the Yangtze delta and the Yangtze valley, both of which relied heavily on the Yangtze for the transport of their products to Shanghai and the transport of the goods they required from Shanghai. In the early 1980s, China designated four cities on

Table 2.1 Comparison of main economic indicators in the 15 cities in the Yangtze River Delta with China

	Total				Average annual rate of increase (%)		
	Yangtze		Percentage of national average		Yangtze		Percentage higher than
Indicators	delta	National	2004	2003	delta	National	national average
GDP (billion yuan)	2760.46	13651.50	20.20	19.50	15.40	9.50	5.90
Comprising: Manufacturing and construction (billion yuan)	1538.74	7238.70	21.30	-	17.60	11.10	6.50
Services (billion yuan)	1098.63	4338.40	25.30	-	14.10	8.30	5.80
Fixed assets (billion yuan)	1317.71	7007.30	18.80	19.20	24.40	15.80	-1.40
Retail sales of consumer goods (billion yuan)	795.63	5395	14.70	15.10	14.90	13.30	1.60
Total value of foreign trade export	204.52	593.40	34.50	31.60	47.50	35.40	12.10

Source: National Bureau of Statistics, 2005b, p. 15

the south-east coast to serve as test beds for economic reform and the open door policy. Although not in the vanguard of China's economic reform, the development of the Yangtze delta region since 1978 had led to the provision of the kind of good infrastructural facilities and skilled labour required for further economic improvement. At the end of 1980s and the 1990s, China began to shift the focus of economic development northwards to the Yangtze delta, where Shanghai provided a centre for economic and cultural development. The development of the Yangtze River Delta, as shown in Table 2.1, proved the significance of the strategic move.

Second, it should strengthen the regional leadership of Shanghai and stimulate the creation of a win-win situation that would intensify more structured regional interaction between Shanghai and its hinterland, reduce unnecessary competition and so enhance the overall competitiveness of the Yangtze delta and the provinces and cities along the Yangtze. Its strategic location in the Yangtze basin, its strong economic foundation and its abundance of skilled manpower made Shanghai more potentially attractive to foreign investment in higher-grade industries than any city in South China. The Pudong development should be able to help Shanghai, and indeed China, to realise these ambitions.

Third, by considering the interests of other provinces and cities, central government hoped to reduce any worries or jealousy that might be aroused by fears that the approval of the Pudong development might mean the loss of attention by central government and the absorption of all available domestic and foreign investment by Pudong. Prime Minister Li Peng (1990) raised two issues involving the Pudong project at a national conference held on 2 August 1990. He said that the whole nation should support the decision to go ahead with the Pudong development as part of the nation's economic development:

'..... One thing that should be borne in mind is that now the econom-

ic situation is improving, and we have just announced the approval of the Pudong Development Zone in Shanghai and are making the eighth five-year plan (1990-1995), certain regional governments are becoming impatient and afraid of falling behind. Each province has sent people to Beijing [to lobby] and to convey [their wishes] to the State Council and the State Planning Committee.... Another thing is that since the announcement of Pudong Development Zone, some provinces and cities have been feeling very uneasy. All of them wanted to get more investment from Hong Kong, Taiwan and other sources of foreign investment. Some want to establish new development zones because existing zones are not big enough, others want to set up new development zones on the pretext of coordination with the Pudong Development Zone. In my view everyone should be perfectly clear about this issue. The decision to develop and open up Pudong is a very important strategic measure, which concerns not only the development of Shanghai but also the economic development of the Yangtze valley and indeed the country as a whole. We need to concentrate on this project and make a good job of it. If one place sets up a development zone and then other places do the same, the end result could be that none of them is done well. Many of the world's economists agree with the idea of opening up and developing Pudong. They have made many suggestions, but have also warned us not to invest too much in development zones. These opinions deserve careful consideration. The principle is simple: whichever projects you want to realise will require money, foreign capital and domestic capital.... During the next ten years we should concentrate our efforts on improving existing development zones ....'

Central government not only repeatedly emphasised its support at numerous national events and on frequent visits to Shanghai and Pudong, but also introduced a range of preferential policies to support the implementation of the Pudong development. Words of support were followed by deeds, including 10 preferential policies adopted in March 1990, 9 regulations issued on 10 September 1990 and 10 other preferential policies adopted in March 1992 (see summary in Box 2.3). The first 10 policies included not only policies already introduced for other SEZs and Economic Technological Development Zones but also a number of policies introduced specially for Pudong, such as tax deductions and exemptions and preferential conditions for infrastructural investment. These policies were given practical form in regulations issued in September 1990. The second 10 policies issued in 1992 not only delegated more authority to Shanghai but also gave the city the privilege of attracting investment by issuing stock and bonds. Shortly before the Party's fifth Central Committee Plenum in September 1995, central government adopted 18 more 'extraordinary' policies to speed up the development, including permission for foreign banks locating in Pudong to conduct business in local currency, grant-

# Box 2.3 Preferential policies adopted by central government to aid the development of Shanghai and Pudong

- 1. Ten preferential policies adopted in March 1990, included:
  - Allowing foreign investors to invest in the service industry (including finance, retail and trading) in Pudong (forbidden in other parts of China)
  - Allowing foreign investors to use foreign finance to set up banks in Shanghai and Pudong
  - Allowing foreign trade organisations to trade from warehouses in Pudong's tax-free zone
  - Accepting the principle of leasing land for value; encouraging foreign investors to enter into land development contracts
  - Allowing Pudong to retain a certain amount of revenue for its further development.
- 2. Ten preferential policies adopted in March, 1992, included:
  - Allowing Chinese and foreign trading companies to set up warehouses in the Waigaoqiao area
  - Allowing large state-owned enterprises located in Pudong New Area to carry on import-export activities
  - Allowing the setting up of non-industrial projects
  - Allowing stocks and bonds to be issued to support the Pudong development and allowing bonds issued by other regions to be traded in Shanghai
  - Allowing Shanghai to issue commercial bonds in the amount of 500 million yuan (US\$ 1 million);
  - Allowing Shanghai to issue bonds in the amount of 100 million yuan
     (US\$ 12 million) over and above the permitted quota
  - Provision by central government of a US\$ 200 million low-interest annual loan to Shanghai, over and above the existing US\$ 100 million annual loan
  - Allowing Shanghai to issue US\$ 100 million extra 'B 'shares
  - Allowing Shanghai to have US\$ 100 million extra over and above the original US\$ 200 million.

Source: Huang, 1997, p. 76

ing projects in Pudong the status of 'national priority projects' and allocating Pudong annual government loans of 700 million yuan (US\$ 90 million). These policies later proved to be decisive in helping Pudong to establish its privileged position as a financial and trading centre. It is interesting to note how global influences began to affect not only the Pudong development decision-making process but also the way in which the final goal would be achieved. Attention has already been drawn to the way the open debate initiated at local level called on international knowledge and expertise to assist Shanghai in shaping its goals for Pudong, and the way that central government used opinions from and suggestions by international experts to support its decision to go ahead. Research showed that these opinions were not simply used

### Box 2.4 Chronology of the Pudong development decision-making process

1979-1984: Local debate and feasibility study

1984: (June) Shanghai strategic development plan

1986: Shanghai master plan

1987: Pudong Development Research Consultation Group starts its research into the Pudong development

1987: Pudong master plan

1988: Pudong Development Research Consultation Group organises an international conference on the Pudong development

1988: SMG sets up the Pudong Development (Administrative) Office

1990: Deng Xiaoping visits Shanghai and proposes to link the Pudong development with the development of the Yangtze delta and the Yangtze basin

1990: Vice premier Yao Yilin and colleagues from the State Council carry out fieldwork in Pudong

1990: Pudong development proposal submitted by the State Council and approved in principle by the Standing Committee of the People's Congress

1990: Officially announcement of the Pudong development.

by the state as a pretext but were given serious consideration at both local and central level.

# 2.4 Articulating global and local - planning, architecture and management

'Globalisation should be conceived of as a contingent and multicentric mesh of interactive processes that operates on a variety of scales' (Wigmans, 2001; Kooijman and Wigmans, 2001). Globalisation is not just a matter of capital flows, but also involves the dissemination of knowledge, including ideas and images relating to architecture and planning. Western planning experience has had its effect on the wider systematic changes taking place in China, as shown by the involvement of foreign expertise during the planning debate and the adoption of foreign planning concepts and ideas in Shanghai.

Analysts are becoming increasingly interested in the role played by world-wide networks of knowledge-based experts with sufficient power and resources to affect decisions in arenas like foreign policy, economic policy or, as in the present case, property development and urban planning. Internationally famous architects invited to design master plans for huge urban projects in global cities round the world form part of a network of professionals with recognised expertise and competence in particular fields, e.g. the preparation of urban master plans, and have an authoritative claim to policy-relevant knowledge within that field. This is the new 'professional-managerial class' associated with information processing activities related to the restructuring

of the world economy (Castells, 1989, p. 348).

In the early 1990s a number of urban development concepts, e.g. zoning, the CBD, enterprise zones and tax-free zones, and their associated images, such as super-high-rise buildings as symbolic landmarks, eco-architecture and intelligent architecture, mainly formulated by French, American and Japanese planning and architectural experts, were introduced into Shanghai in the early stages of planning for what was to be one of the world's largest international financial centres, the Lujiazui central finance district. This transfer of ideas was initiated and guided by representatives of SMG, in association with Paris-based representatives of the French government. In 1992 SMG supervised the marketing of the development of Lujiazui, a process that would need to rely on speculative property investment from Hong Kong, Taiwan and various branches of central government.

A steadily increasing number of foreign institutions and firms also assisted SMG in its efforts to devise a strategic plan for restructuring the city. In the 1980s and 1990s the World Bank and the Asian Development Bank (ADB) helped to guide Shanghai's territorial and sectoral restructuring by assisting in environmental planning and the preparation of strategic plans for a metropolitan transport system. In 1990 ADB sponsored research into the development of infrastructure (water and electricity) for Pudong's 522 km<sup>2</sup>. In 1991-1992, ADB commissioned Chreod Ltd., of Ottawa, Canada (in association with PPK Consultants and Kinhill Engineers of Australia) to prepare a strategic plan for Pudong (for a summary see McLemore, 1995). The United Nations (in this case UNDP) was one of the first bodies to become involved in research into the Pudong development, though it actually would have preferred new satellite towns to be built along the Hujia Highway (leading from Shanghai to Jiading) and the Hujin Highway (leading from Shanghai to Ningbo). In its view, the lack of a bridge across the Huangpu would make it impossible for the Pudong development to make full use of Shanghai's existing infrastructure. Chinese experts presented arguments showing the advantages of Pudong. Even though Pudong's infrastructure was poor, it already housed the main infrastructure for the Shanghai area (sewage, electricity and harbour facilities) and could accommodate a second airport for Shanghai. But what Shanghai really wanted was to recover its lost business and service sector. New areas along the Hujia and Hujin highways could only become new satellite towns, not central business districts, and so could not support the function formerly performed by the Bund, Shanghai's historical CBD. Pudong, only 500 metres from the Bund, offered much better opportunities. The discussion finally ended in Pudong's favour.

One of the most powerful global influences affecting the Pudong initiative came from France, not only because of the good political relationships between China and France in general, and between Shanghai and Paris in particular, but also because of Shanghai's special colonial ties with France

and the cultural and architectural influence exerted by the French style. In February 1988 the central district plan for the 1.7 km<sup>2</sup> of Lujiazui prepared by SUPDI finally clarified Lujiazui's function as CBD. The amount of floor space proposed was between 1.8 and 2.4 million square metres. According to Huang, the senior planner, the Lujiazui proposal was so bold that the Shanghai Urban Planning Bureau did not even dare to include it in the approval procedure at local level. The later change in the way in which the proposal was perceived was partially due to the influence of officials from the Paris-based Institute for Management and Urban Planning for the Isle de France region (IAURIF). In September 1985, IAURIF signed cooperative agreements with SMG and the Beijing municipal government to provide technical assistance on metropolitan planning issues. The formation at this time of professional and social relationships between individual Parisian and Shanghainese politicians and officials laid the foundation for the eventual involvement of Global Intelligence Corps (GIC) in Shanghai (Olds, 1997, 2001). The key French official guiding the creation of this relationship was Gilles Antie, a geographer and town planner and IAURIF's director of international affairs. The collaboration was promoted by the French government, which foresaw a vast untapped market for French businessmen as Shanghai opened up. Since the state still plays a enormously significant part in business activities in China and quanxi (system of relations or personal connections based on mutual benefits) is a vital element in doing business with the Chinese, these efforts could be seen as a further step towards building up the good, stable and trusting relationships necessary for French businessmen to operate smoothly in Shanghai.

A further example of the collaboration between Shanghai and the French was the international tendering process for consultancy for the 1.7 km<sup>2</sup> Pudong-Lujiazui financial centre in 1992 (see Figure 2.6 and 2.7). The cost of sponsoring this process was shared by SMG and a number of French firms. A number of famous architects active on the world stage, such as Richard Rogers (USA), Dominique Perrault (France) and Toyo Ito (Japan), were invited to develop master plans for key areas such as Lujiazui. Other internationally known architects that played an advisory role during the development of the plan included Jean Nouvel, Ove Arup Partnership, Norman Foster and Associates, Renzo Piano and James Stirling. None of these elite foreign designers had worked in China before, but SMG wanted to employ global architectural celebrities with a clear understanding of what a futuristic 21st-century international centre should look like (Olds, 1997, p. 117). Olds concluded that the fact that this foreign input had little impact on the eventual master plan hardly mattered, because their role was largely promotional: 'Lujiazui was simply branded by the world's design elites, and SMG made full use of their "signatures" to achieve broader goals than the practical development of the 170 ha area' (Olds, 2001, p. 234). The inclusion of the resulting images in brochures and on websites attracted greater amounts of global capital into Pudong.

Figure 2.6 On-site investigations by Chinese and foreign architects between July and November 1992



Source: Wang and Xia, 2001

Figure 2.7 Bidding for design consultation of the Lujiazui Financial Center project between Chinese and foreign architects, November 1992



Source: Wang, 2003

The lack of Chinese experience meant that the location was treated as a tabula rasa. The creative references used by the 'global architects' were not derived from Chinese cities, hardly bore any relationship to the existing situation and took no account of implementation problems such as the relocation of existing inhabitants. The local context was largely ignored. Seemingly eve-

Source: Wang and Xia, 2001

Figure 2.8 Plans submitted with bids for consultation on the design of Lujiazui financial centre

ry city was treated the same way. The proposed plans drew on their authors' considerable experience with global cities. For example, the Ito proposal drew heavily on a 1992 master plan for the redevelopment of a large site in Antwerp, and Perrault's plan was heavily influenced by references to situations in New York, Venice and Paris (Olds, 2001, p. 215). All of this shows that Castells' space of flows' is also reflected in the tendency to create architectural uniformity between new directional centres in different societies (Castells, 1996, p. 417). As Rogers put it, 'Shanghai is a modern city, and they are shaped by the same kind of pressures all over the world' (quoted in Olds, 2001, p. 208). It seems that the global forces involved in the local development of Shanghai tended to underestimate the *genius* loci and the complex network of relationships between global and local.

Nevertheless, the information and knowledge provided was not without value to the actual planning. Many of the proposals were in fact adopted by local Shanghainese planners, but in a more pragmatic and practical way, adapted to the local situation. This was a case where global information was adapted to suit the local environment, illustrating that the articulation of global and local characteristics is dualistic, dynamic and under constant tension. The relationship between global and local is contextual (Kooijman and Wigmans, 2001, p. 324). Globalisation is an open-ended process which involves balancing global and local opportunities and threats (Robertson, 1988, pp. 27-28).

Pudong's Jinmao Tower provides a good example: a modern skyscraper, inspired by modern architecture, but an object of pride to the Chinese because

Figure 2.9 Lujiazui Financial Centre, an emerging platform for global capital flow and knowledge transfer



Source: CNAP

of its respect for traditional values. As shown in Box 2.5, its design and engineering was an interesting, constructive 'local-global collaboration'. The design has become one of the most appreciated architectural designs of all of Pudong's high-rise. 'In fact, through Pudong's Lujiazui district the Chinese authorities have followed a policy of bringing in international design firms to work with local design institutes, with the objective of creating of a truly "international city". They are not only looking for skyscraper design expertise, but also for an injection of formal innovation into a somewhat tired local architecture scene.' (Ruano, 1999, p. 33)

The Jinmao Tower was developed by the state-owned China Shanghai Foreign Trade Centre (CSFTC). In 1993 CSFTC organised an international design competition and invited seven famous international firms of architects to present designs for the tower. The jury was split between those who supported the design prepared by the American company SOM and those who supported a Japanese design. The design by SOM was described as a giant Chinese pagoda or bamboo shoot, and had considerable appeal in the particular context. According to Wigmans and Chen (2006, pp. 58-64), SOM adopted the form of a Chinese ancient pagoda (some also connected the form with the form bamboo shoot or pencil) - a traditional tower-like landmark in Chinese cities - and transformed it into a modern skyscraper with a metal and glass façade that is completely digitally controlled. The physical shape of the Jinmao Tower gently steps back to create a rhythmic pattern as it rise upwards. The lowest segment of the building is sixteen stories high and each succeeding segment is 1/8th smaller than its predecessor. By doing so, it imitates the traditional Chinese number series of the reduced rates that is also used in

Box 2.5	Details of the Jinmao Tower	
	Site area:	23,611 m²
	Total construction area:	200,079 m²
	Total height:	420.5 m
	Construction began:	10 May 1994
	Construction finished:	28 August 1997
	Operation started:	End of 1998
	Consortium of General Management:	Shanghai Construction Co. Ltd (China) OBAYASHI (Japan)
		SGE (France) CHAVENE (Hong Kong)
	Sub-contractor for external wall:	Gartner (Germany)
	Sub-contract for elevator:	Mitsubishi (Japan)
	Sub-contractor for air conditioning:	ROM (Germany)
	Sub-contractor for electricity:	CEGELEC (France)
	Sub-contract for IT:	SET& E (Singapore)
	Internal Design:	BLD and DRDC (US); B+H (Canada)
	Hotel Management:	HYATT (US)
	Property Management:	Shanghai Jinmao Property
		Management Ltd.; IMTECH (Netherlands).
		Source: Zhang, 2000

the architectural concept of the Chinese pagodas. The result of those principles gives especially the top of the Jinmao Tower a similar visual expression as the top of the pagodas. In addition, the detailed design of Jinmao Tower also shows an attempt to creatively embrace Chinese traditional elements of architecture and landscape design in this modern skyscraper, like the use of round gates in Chinese garden, the folk windows from north China, or the traditional golden-water bridges. See further explanation Xing and Zhang (1999), Ma (2000), Zhang and Yu (2001). Like the general director of SOM states: the Jinmao Tower "in some way evoked the culture and memory of China, that was unmistakably Chinese". SOM's bid was declared the winner.

Interestingly, the design and construction schedule for the tower contained an element of Chinese superstition in the recurrence of the number eight, a Chinese symbol for fortune: Each segment's height is reduced by one-eighth of the original base height and continues until the segment height is eight

<sup>7</sup> In the end the SOM design was awarded the commission, thanks to its successful balance between local traditions and modernity and the attention it paid to the local context. As the jury observed, plan no. 65 (the one designed by SOM) was 'a product that combines Chinese traditional culture and modern technology, an extension and development of Chinese pagoda-style architecture, and a continuity of the Shanghai *haipai* style architecture in Pudong - a pluralist, pragmatic, commercial and cosmopolitan culture, open to participation by the masses and a mixture of eastern and western culture (Zhang, 2000, pp. 8-10).

levels. At this point the Hotel begins and each segment reduces one-eighth of the 8-level segment until it reaches the 88<sup>th</sup> level. Eights also appears in Jinmao's advanced structural engineering system, which ferities the building against the typhoon's winds and earthquakes typical of the region'. The tower is built around an Octagon-shaped concrete shear wall core surrounded by 8 exterior composite supercolumns and 8 exterior steel columns (Xing and Zhang, 1999, p. 35; Qiao, 2003; Hu, 2004). Besides, the number of floors and the street number were both 88; the building was completed on 28 August, 1997 and opened in 1998.

Besides presenting a powerful combination of Chinese and Western architectural design concepts, the large number of local and international concerns involved in the tower's construction, emphasised Jinmao Tower's character as a work of global-local collaboration. PriceWaterhouseCoopers and a Chinese company were invited to investigate the market and conduct a feasibility study. The shareholders favoured general contracting as better suited to the Chinese context. Two Chinese and two foreign companies set up a consortium to undertake general project management. A tendering process was used to select the best general contractor and sub-contractors. More than seventy companies, Chinese and foreign, were invited to act as consultants or became involved in the construction process. The involvement of international knowhow was an important factor in controlling the project's budget, duration and quality, all matters which normally caused headaches in Chinese constructional projects. Foreign experience in the design of high-rise buildings was particularly important, because the Jinmao Tower, which was to be the highest building in China, actually conflicted with a number of local regulations. These conflicts were solved by negotiation with local government, a process which also allowed the local authorities to learn from international experience and improve existing regulations on skyscraper design. The Jinmao Tower (see Figure 2.10), now a Chinese standard, can be considered an interesting high-rise building, based on American standards but mediated by traditional values to produce a westernised image of a modern building along more domestic lines. The building's architectural vocabulary expresses local identity and historical roots while providing an anchorage point and concrete physical space for the globalising economy (Sassen, 1998). It represents a fusion of global and local. In general terms, using Castells' terminology, it reflects the physical articulation of the relationship between the space of flows and the space of places.

Design and urban planning are not the only areas that reflect global influence on local transformations. In fact after the official start of the Pudong development in 1990 international collaboration became more intense in many areas. The World Bank and ADB funded both tangible infrastructure and environmental projects such as bridges and sewage treatment plants. Nanpu Bridge and Yangpu Bridge were the first two projects realised by Shanghai

Figure 2.10 Jinmao Tower, a landmark in Pudong, Shanghai that combines Chinese traditional culture and modern technology





with the help of international loans from ADB. To get these two projects under way, ADB introduced a tendering system, offered technical assistance and training for the project team and introduced modern project management concepts (ADB, 1997a and 1997b). The experience helped Shanghai to adapt more quickly to new techniques of bridge design and maintenance. The collaboration also resulted in the introduction of efficient management strategies for finance, project management, organisation management and transparency on the Shanghai side, assisting the growing adoption of international standards. A small number of other organisations from different countries also participated in Pudong development projects, e.g. the Japan International Cooperation Agency (JICA), a research group that assisted the Japanese Government in preparing its China loan (Zhou, 2004). In 1990, JICA cooperated with Shanghai in research into the feasibility of the development of the Waigaoqiao tax-free zone. In the same year, delegates from the Japanese Bank and Japanese insurance experts went to Pudong to evaluate the potential of Pudong as a financial centre. Shortly afterwards, a group of Japanese architects, planners and legal experts went to Pudong for a consultative conference to discuss the Pudong development with their Chinese counterparts.

The relationship between Shanghai and the rest of the world is based on mutual interest and benefit. After decades of seclusion the Shanghainese began to demonstrate a willingness to understand and learn from the world outside. Local politicians shared an awareness of their lack of advanced technology and management skills and experience in large-scale urban redevelopment (Li, 2002). This awareness and eagerness to learn was encouraged by an increasingly pragmatic attitude at central and local level towards strategies for reform. This pragmatism involved a willingness to borrow experience from the outside world regardless of ideological considerations, and a keenness to experiment. Deng Xiaoping once pointed out the importance of experiment in the context of the Pudong development: 'Someone has to make the first attempt and guide things a new way. Whoever is first must be prepared to fail, but failing is not important. My hope is that the Shanghainese will become more open-minded and bolder and will develop faster' (Deng, 1993, p. 367). This attitude was repeatedly encouraged by other central government leaders. On a visit to Shanghai in 1993, Zhu Rongji, a former mayor of Shanghai who later became prime minister, said: "Shanghai should create a new administrative system for the new Pudong development, and implement a new efficient form of government adapted to the process of modernisation." Jiang Zemin (1997), former Secretary to Shanghai's Communist Party and later president of China, encouraged Pudong to take a leading role in 'creating a new style of administration, upgrading the service sector and opening up to the outside world'. Meanwhile the outside world was displaying a strong interest in China in general and Shanghai in particular, partly for historical reasons such as Shanghai's former ties with the West and its old reputation as the 'Paris of the Far East', and partly because of its strategic location, its readiness to adopt new ideas and its willingness and ability to connect with the outside world.

# 2.5 From draft to reality

After long preparation, much public debate between government officials, professional researchers and planners from China and abroad and increasing amounts of assistance from international experts, central and local government were able to get a clear picture of Pudong's future. But more needed to be done if this ambitious project was ever to be realised. Even though the feasibility of the Pudong development had been subjected to intense examination, it took till 1990 before any concrete plan was prepared. Pudong researcher Li Zhanjun (personal interview 2002) commented on the lack of planning and implementation strategy faced by local government before the Pudong development was announced:

'When the Pudong development started, its planning was done in a hurry. [In fact] there was no initial plan, master plan or strategy. Even though there had been some preliminary research and suggestions for the Pudong development, they were more in the nature of proposals, explain why Pudong should be developed and what the advantages were of the Pudong development. But after the announcement was made, the new focus had to be on how it should be implemented and operated. My impression is that the decision was made before any planning was done.'

Huang (personal interview 2002) also recalled his experience of making hurried plans for Pudong, confirming the embarrassing situation in which the local government found itself immediately prior to Li Peng's announcement of the Pudong development:

'Knowing that Li Peng would come to announce the approval of the Pudong development, [local politicians wanted to give the impression of having a concrete plan for Pudong]. My colleague Xu and I were asked by the director of SUPDI to prepare a detailed plan by the beginning of April. Because of the lack of time, we used several thousand photos we had previously collected, in an attempt to demonstrate our previous ideas about Pudong's development. Luckily, our work was quite successful....'

Nevertheless, once the Pudong development project was officially announced, local politicians made it very clear that urban planning should be given top priority. This lesson was probably learnt from the results of extensive research into experience with the special economic zones in South China, where chaotic development without urban planning resulted in a deterioration in the environment of the cities affected and discouraged participation by outside investors<sup>8</sup>. SMG not only required a good plan, but also emphasised the need to plan individual sectors to achieve the goal of economic sustainability. If sector development was not handled differently from the way it was done in the south, there would be insufficient incentive for investment. Accordingly a sector plan was made in parallel with the preparation of the Pudong master plan (see Figure 2.11), pointing out the detailed designation of the economic functions in this area. The sector plan included a financial zone, a trading zone, a tax-free zone, an export processing zone and a high-tech park. The

<sup>8</sup> Urban planning in Western countries faces problems of rigidity: urban planning in China has to cope with both rigidity and chaos. The rigidity in Chinese urban planning results from the inflexibility of the planning tools and a long approval process that takes little account of dramatic urban changes. The chaos results from the weakness with which the local authority ensures that approved plans are followed. Developers, from within and outside China, with their strong financial backing, can easily change the details. Even Pudong, a district with a better reputation for ensuring its plans are followed, still occasionally had to bow to the requirements of important stakeholders or investors, as in the case of Jinmao Tower, which was originally allowed a height of 360 metres but eventually reached a height of 420 metres, and the World Trade Centre, which was allowed a height of 380 metres but in the end reached a height of 460 metres.

Figure 2.11 Pudong master plan 1992



- A. Lujiazui-Huamu Function Zone
- B. Beicai-Zhangjiang Function Zone
- C. Qingning Temple-Jinqiao Function Zone
- D. Waigaoqiao-Gaoqiao Function Zone
- E. Zhoujiadu-Liuli Function Zone
- F. Wangqiao Industrial Zone
- G. Huaxia Commercial Tourism Zone
- H. Pudong International Airport

Source: Wang and Xia, 2001

financial, trading and tax-free zones would be the first of their kind in China; the high-tech park would concentrate on IT and biological and medical development. Many of the ideas come from what they have learned from the experiences in western countries or the Asian tigers in East Asia. Although local managers and planners lacked experience in these sectors, they had to take the risk, in the belief that an advanced economic structure would lay the foundation for the city's future prosperity.

October 1989 saw the completion of the draft master plan. The Master Plan for Pudong New Area (1992), as is shown in Figure 2.11, designated Pudong as a new multi-functional district that would fulfil all the requirements of a modern metropolis, with a reasonable development framework, a modern transportation network, a complete infrastructure, modern information systems and a good ecological environment. Its development would be integrated into the revival and renewal of Puxi, so helping to develop Shanghai into an economic and financial centre for international trade (Sun, 1999). The urban structure of Pudong includes three developing axes and five main sub-

### Box 2.6 Pudong New Area master plan - implementation timetable (1992)

- Initial phase (1991-1995) the emphasis in this stage was to be on the construction of urban infrastructure; urban development and redevelopment was to be focused on priority areas (areas designated by the master plan as priority areas for the development of infrastructure and other facilities).
- 2. Main development phase (1996-2000) in this stage priority was to be given to providing a highway system and other infrastructure for the Pudong area as a whole. Development was to be continued in priority areas within each sub-district. The basic image was to be established of Pudong as a modern multi-functional district.
- 3. Continuous development phase (after 2000): a further 20-30 or more years of continuous urban development leading to the achievement of the goals set by the master plan.

Source: Sun, 1999

districts. The five sub-districts are divided according to their main function. Each sub-district has its own work area, residential area, business centre and other facilities. Sub-districts are separated by green space. Account is taken of the ecological environment. The five sub-districts were designated as follows:

- Lujiazui-Huamu designated as a 30 km² financial and trading zone and administrative centre, with a population of 500,000; Lujiazui would become part of Shanghai's CBD;
- Waigaoqiao-Gaoqiao designated as a 62 km² tax-free zone, with a population of 300,000;
- 3. Qingning Temple-Jinqiao designated as a 33 km² export processing zone, specially targeting potential FDI; population 450,000;
- Zhoujiadu-Liuli designated as a 35 km² industrial zone, with a population of 550,000;
- 5. Beicai-Zhangjiang designated as a 17 km<sup>2</sup> high-tech zone, with a population of 220,000.

The master plan, which was in fact more in the nature of a strategic plan, defined the goal of the development, the urban structure and how the project should be implemented, rather than specifying the fixed figures as parameters for urban planning, as is shown in Box 2.6. It also took account of market forces. This was one of the earliest master plans in which all possible aspects of implementation were properly designed. The draft Pudong master plan was later discussed at local and central level. SUPDI finalised the Pudong master plan on 31 March 1992, after extensive consultation. In its final form the master plan covered an area of 400 km<sup>2</sup> with a 1992 population of 1.1 million. The plan emphasised the wider context of the Pudong development, in particular the effect it would have on its vast hinterland, the Yangtze River delta and the Yangtze River Valley, the provinces and cities along the Yangtze River, and indeed the outside world. Not only would new techniques be learned and new experience be gained but the economic development of Pudong would establish a link with the global economy. The plan further clarified the specification of the five zones by setting boundaries and providing clear functional descriptions.

The master plan highlighted the importance of infrastructure development and those environmental factors which would affect the spatial quality of Pudong New Area. The section of the plan dealing with infrastructure emphasised the importance of developing Pudong as a transport hub, with harbour, airport and railway facilities, and information technology to handle the need for high-speed economic growth, estimated at 15-20% per annum by 2020. To make the long-term goal more feasible, the new plan not only redesigned a number of the city's main roads (the inner ring road, the outer ring road and Century Avenue) to enable them to cope with the enlargement of Pudong, but also identified a series of priority infrastructural projects, including:

- 1. building Nanpu Bridge, Yangpu Bridge and Pudong's inner-ring road to connect Pudong and Puxi;
- 2. rebuilding and widening Yanggao Road to connect all sub-districts;
- 3. building four piers in Waigaoqiao and rebuilding internal waterways, to facilitate water transportation;
- 4. increasing telephone capacity to 100,000 lines;
- 5. carrying out a feasibility study into extending metro line 2 to Pudong;
- 6. building Waigaoqiao electricity plant (500,000 volt power network);
- 7. building an extra water plant (Lingqiao); investigating new sources of water in Pudong;
- 8. extending the capacity of the Pudong gasworks; looking into the possibility of a district heating system using natural gas from the East China Sea;
- 9. Related projects, such as building a 10 million square meter residential area and associated public buildings (a five-year project). (see Figure 2.12).

The section of the plan dealing with environmental factors included designs for parks and gardens that would be integrated into local facilities for tourism and entertainment. For example, a 1.4 km2 area at the intersection of Century Avenue, the Inner Ring Road, the no. 2 metro line and Yanggao Road, was designated to become Century Park, the biggest urban park in Shanghai. Large-scale urban green space within and between urban blocks and residential neighbourhoods and green corridors outside urban districts were also designed to guarantee that Pudong would not be totally built-up but would contain a generous amount of green space. For example, the Lujiazui Green Area, a triangular area bordered by Yincheng Zhong Road, Lujiazui Road and Yincheng Dong Road, was designated as the major green space in the centre of Lujiazui Financial District (see Figure 2.13). The area would be surrounded by a number of top class office buildings for organisations such as Bank of China, the HSBC Tower, Jinmao Tower, Shanghai Stock Exchange Centre, Shanghai World Trade Centre etc. One billion yuan (US\$ 0.12 billion) was invested to make this green area a reality, nine-tenths of which was used for the relocation of a large polluting factory and thousands of households (Gong personal interview in 2002). As a result, by the end of 2004 Pudong had the



Figure 2.12 Infrastructure plan of Pudong

- A. Lujiazui Finance and Trade Zone
- B. Zhangjiang High-tech Park
- C. Jinqiao Export processing Zone
- D. Waigaoqiao Tax Free Zone

Source: Shanghai Urban Planning Institute (brochure)

highest public green area per capita of all of Shanghai's 18 districts. Public green area per capita in Pudong was 25.44 m², twice as much as the average for Shanghai as a whole and almost 20 times as much as in the Huangpu and Luwan Districts, the districts containing the Bund (SMSB, 2005; SPNASB, 2005).

In accordance with the master plan, a series of follow-up plans were prepared containing master plans for each development zone, specifying in detail such matters as function, zoning, and urban design principles. For example, in accordance with the master plan for Pudong, Lujiazui FTZ, a 30 km² development zone, was functionally divided into four parts, a business area, a financial area, a residential area and an administrative area. A zoning plan was prepared defining the site area, site use and plot ratio (see Figure 2.14) and the land areas available for leasing. A special style of urban design was introduced in Pudong to define the urban character of Lujiazui FTZ and the main skyline of Pudong (see Figure 2.18). A transportation plan was developed to optimise the transport system in Lujiazui FTZ.

Waigaoqiao Free-Trade Zone, Jinqiao Export-Processing Zone and Zhangjiang-High-tech Park all followed the same kind of planning process as Lujia-

Figure 2.13 Top: Lujiazui Green Area; centre: green area in neighbourhoods; bottom: Century Park



Sources: top and bottom: Wang, 2003; centre: CNAP

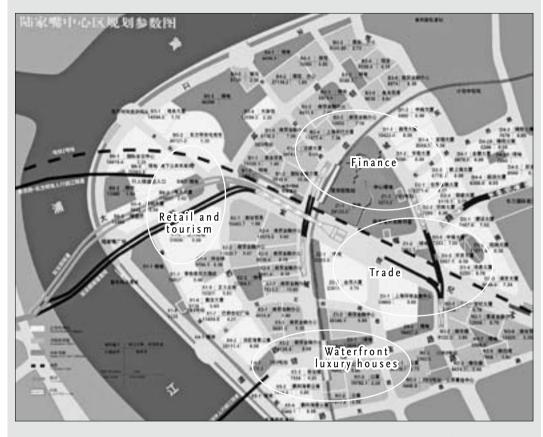


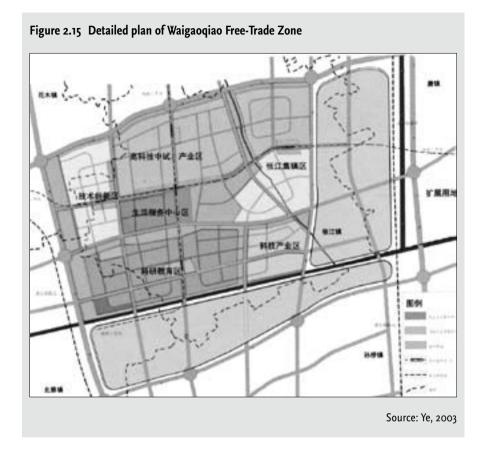
Figure 2.14 Zoning Plan of Lujiazui Financial and Trade Zone

Source: Wang, 2003

zui Financial and Trade Zone to work out details of the master plans for those zones. Figures 2.15, 2.16 and 2.17 show the results of these planning efforts for each development zone. Four priority areas were designated, including 1.5 km² in Lujiazui (overlapping the 1.7 km² Pudong-Lujiazui financial centre), 4 km² in the Waigaoqiao tax-free zone and harbour area and a 4 km² industrial park in Jinqiao Export-Processing Zone. These priority areas were to be given priority in matters affecting design, investment and government-financed infrastructure development.

Detailed plans were also prepared and put into effect for key areas such as Lujiazui Financial Centre (see further in Section 2.3) and Century Avenue, the road forming the main axis of Pudong. For all the necessary design work a number of international design firms were invited to provide ideas and concepts to turn these projects into reality, either by public competitive tender or direct appointment.

Clearly correct decisions on how to manage this mega-project would be crucial to its success. Shanghai decided to negotiate for central government support while at the same time establishing its own strategy for managing the project. Central government support was important. If central government



continued to follow the policy of taking everything from Shanghai and leaving no taxation at local level, there would be no hope of Shanghai ever getting the project going, particularly in the light of the need for mass relocation. Box 2.7 details the changes in the treatment of local taxation following China's reform. In 1988 Shanghai finally succeeded in negotiating a fiscal contracting system similar to that operated by Guangdong and Fujian in south China, allowing it to keep all revenue above a predetermined amount. SMG intensified its taxation negotiations with central government in the hope of achieving a healthier budget by being allowed to pay a fixed amount of tax to central government instead of having to hand over almost all its tax revenue. Most other large cities had already been given permission to do this shortly after 1978. SMG hoped that a more relaxed taxation policy would provide sufficient startup funds to begin to develop Pudong's infrastructure and start work on relocation. SMG knew that central government would not provide direct financial support and therefore asked permission for Pudong to tap other channels of investment, such as bank loans (particularly international low-interest loans) and debt bonds. Permission was later given for it to accept a certain volume of low-interest loans and to borrow against public debt bonds, both of which practices were generally forbidden in China without central government approval. Central government also called on ministries and provinces to participate by investing in Pudong.

Having negotiated a better deal from central government, Shanghai started

### Box 2.7 Reform of Shanghai's taxation policy in the 1980s

- Between 1950 and 1983, Shanghai had to pay 86.8% of its tax revenue to central government, retaining just 13.2%
- In 1984, taxation reform led to Shanghai being allowed to retain 23.54% and pay the remaining 76.46% to central government
- In 1987, a second reform allowed Shanghai to pay 10.5 billion yuan (US\$ 1,27 billion) annually to central government and use the remainder for developing local economies and urban renewal
- In 1988, Shanghai negotiated the same kind of tax treatment enjoyed by cities in South China.

Source: Gamble, 2003, p. 9; Wan and Yuan, 2001, p. 19

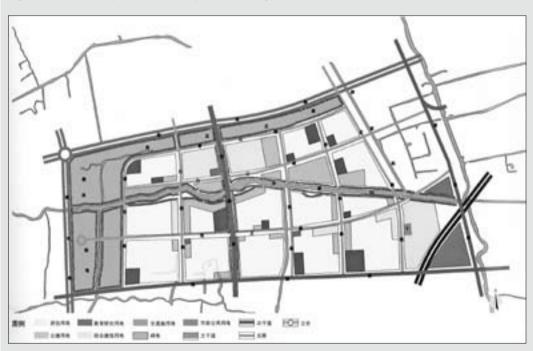


Figure 2.16 Detailed plan of Jinqiao Export Processing Zone

Source: Ye, 2003

to consider how it should manage this huge project. Who should handle the implementation? How should the project be implemented? Where would the money come from? Funds derived from central government and local taxation would never be sufficient. Details given below of some of the ensuing discussions give a general idea of how strategies were developed at local level. A more detailed account of the implementation of the Pudong project is given in Chapter 3.

Who was to handle the implementation? Traditionally all aspects of ur-

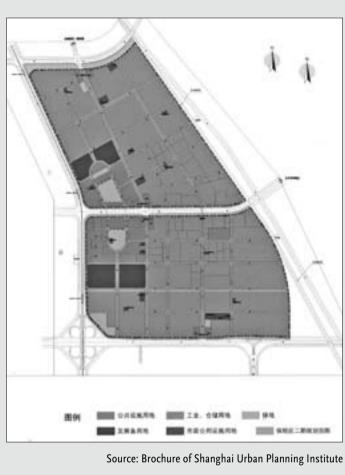


Figure 2.17 Detailed plan of Zhangjiang High-tech Park

ban development, including organisation, management and finance, were left in the hands of government, but the government seemed unable to make a good job of handling urban redevelopment projects of this kind. It seemed to SMG that the government should concentrate on providing better administration and efficient service to the market and leave the development to the market. The same thinking applied to the tendency in the political reforms in progress at the time to separate the government from business activities. On the other hand, SMG wanted to ensure that the project would run smoothly and in accordance with the wishes of central government. It therefore decided to establish a development company in each of the four zones to take charge of land development and subsequent real estate development. Because these companies were publicly funded, SMG could make sure that they represented government's interests. On the other hand, following the trend set by Chinese political reform, SMG would not need to involve itself in business activities. The hidden agenda might have been that the government would take no responsibility and run no risk if one of the companies ran into problems, e.g. debt or a financial dispute. Thus each of the four development



Figure 2.18 Urban design of Lujiazui Financial and Trade Zone

- Multi-story builing area
- High-rise builing area
- 3. Super high-rise builing area
- 4. Green space

Source: Ye, 2001

companies, in Lujiazui, Jinqiao, Waigaoqiao and Zhangjiang, became a sort of hybrid company, representing the government and the public interest but operating commercially. In August 1990 Lujiazui Finance and Trade Zone, Jinqiao Export Processing Zone, and Waigaoqiao Tax-free Zone each established its own development company. Zhangjiang followed suit soon after. A land holding company was also set up to expropriate village land in preparation for future development.

How should the project be implemented in practice? The Pudong master plan suggested a number of possible development strategies. One strategy was to give priority to urban planning, infrastructure and the creation of a favourable economic environment, to ensure that Pudong would eventually become a high-quality, green and forward-looking urban district. A second strategy was to adopt a system of 'rolling development', to ensure that all available funds were used efficiently. This strategy would mean that initial development would be small-scale, concentrating on developing priority areas. Each development zone would focus on developing its sector in its priority areas. Special financial support would be given to the development of priority areas. The infrastructure that would be provided by each development company would follow the same rule. Any private investor considering investment

would certainly be aware of these priority areas. A third strategy was to start by implementing priority projects, usually infrastructural projects that would form the backbone of Pudong's infrastructure. SMG prepared a list showing what municipal infrastructure SMG would provide each year, so that investors visiting Pudong could be confident about priorities, even if at the time of their visit all they could see was a building site. The emphasis on infrastructural development was a prevalent feature of China's economic reform, since the Chinese strongly believe that upgrading the infrastructure is essential for economic development.

Where was the money to come from? Local taxation and various kinds of loans had provided a start-up fund to get the project going, but the size of the fund was far from sufficient. SMG wanted to use all possible channels to raise funds. One possible method was to lease land use rights. SMG decided that all land would have to be purchased (by leasing the land use rights) and land allocation would no longer be permitted. This approach is common in countries with different market systems but it was no easy decision to adopt such an approach in 1990s China. A second method was to involve private finance. Central government guidelines opened the way to foreign investment. In his announcement of the Pudong development, Li Peng welcomed the participation of 'foreign enterprises, investors from Hong Kong, Macau and Taiwan and overseas Chinese'. He promised that the central government would establish preferential conditions and an improved investment environment to encourage such participation (Li, 1990). This was followed by extensive research into possible ways of encouraging private finance and foreign direct investment. Even the sector plans aimed to attract foreign investment by establishing taxfree zones or export-processing zones. To make investment even more attractive, SMG adopted several local policies specifically designed to attract FDI. SMG also looked into ways of attracting investment in Pudong from ministries and neighbouring provinces. Shanghai had strong traditional ties with other provinces because of the many decades for which it had acted as China's production and trading centre. While central government was calming down the disturbed relationships between Shanghai and other provinces caused by the Pudong development, both central government and SMG felt it necessary and desirable to involve domestic capital from the hinterland. Last but not least, SMG thought of using the stock market, debt bonds and other similar means as possible sources of finance.

How could private finance be attracted to Pudong? Initially central government adopted a series of preferential policies to stimulate development; these were immediately followed by further preferential policies adopted by SMG. Shanghai hoped that the combination of these policies and the huge potential market would interest the private sector in investing in Shanghai rather than South China. However, the message still needed to be sent out to the business world. While international conferences and invitations to tender for

consultancy work helped to build up awareness of the Pudong development, they were nowhere near sufficient to reach business communities abroad. Local politicians therefore decided to adopt city marketing strategies to advertise the project. For example, in October 1990 a group of Shanghai delegates, including the mayor of Shanghai, visited Japan to promote the development to Japanese businessmen. Similar visits were subsequently made to other countries.

How should a traditionally bureaucratic public sector operate within a market-oriented system? SMG also appreciated the importance of an efficient government to create investor confidence. In 1990, shortly after the public announcement of the Pudong project, SMG established the Pudong Development Office. At that time Pudong was little more than the name of a piece of land on the east bank of the Huangpu. In fact the land belonged to three districts, Huangpu, Nanpu and Nanhui, and two counties, Shanghai and Chuansha. Since Pudong Development Office had no land of its own, its role was limited to research and planning for the Pudong development and coordinating the development of Pudong with the three districts and two counties. Obviously the realisation of a plan as ambitious as the Pudong development would have been completely impossible without an efficient administrative organisation, knowledgeable about the way the market works and totally focused on the development. SMG feared that if the administration of Pudong continued along the same lines as before, with five separate authorities, the Pudong development would rapidly become a power struggle, with each authority trying to protect its own local interests. This fear prompted SMG's decision to set up a new administrative organisation for Pudong, so in 1993 it set up the Pudong New Area Administration Committee to take charge of administration and replace the original Pudong Development Office. All the land previously belonging to the three districts and two counties was transferred to the Pudong New Area.

Once the administration had been sorted out, the next task was to set up a workable organisation to provide a proper level of service to the market and society. As the government's main task in the Pudong project was to attract investors by ensuring a market environment with increased transparency, fair competition and clear regulation, local government decided to try to provide an efficient and effective service through a combination of 'small government', employing as few personnel and offices as possible, 'big service', putting the emphasis on bureaucratic efficiency, and 'big society', transferring functions other than supervision and regulation to associations and NGOs. A 'one-stop' system was introduced to ensure that investors found the process of getting approval for investment projects fast and relatively painless, because all the red-tape could be sorted out at the Pudong Investment Centre. Further steps were taken to minimise the control and presence of the administrative organisation and to delegate government control to self-regulating professional associations or development corporations.

# 2.6 Local, national and global forces

The development of Pudong coincided with a series of changes, global, national and local. The world was moving into an era of globalisation, in which ideas, information and capital began to flow wherever they would be well received. China's implementation of economic reform and its open door policy radically altered the political and economic scene. China's approach to economic reform was gradual but pragmatic, involving learning from the outside world, experimenting with new strategies and trying to find the best solution as much for urban development as for economic reform. As China's most important economic centre, Shanghai occupied a significant position in China's national strategy. Even though the Shanghainese had been working for years on reviving their city and transforming the backward area of Pudong, it took years more work at local level to prepare for the proper opportunity to achieve a consensus between central decision-makers. The events in Tian'anmen Square created such an opportunity, with both reformists and conservatives agreeing to support the Pudong development as part of the national strategy to save China's still incomplete economic reform.

Several factors contributed to the acceleration of the final decision on the Pudong development: the creation of a strong consensus at local level achieved by public debate and discussion, coupled with the combined efforts of professionals and experts, government officials, local leadership, the business world and the international community. Public debate, which had never before been part of China's closed planning procedure, helped to encourage people with different points of view to state their requirements and interests and so allow agreement to be reached on the goals to be achieved. Second, the Pudong development decision took into account both political consequences and national economic concerns, making it easy for central government and the local government to find common ground in supporting the decision. It is interesting to consider the efforts made by the central government to balance the conflicting interests of Shanghai and various other provinces. By creating the win-win strategy of linking Pudong's development with the development of its vast hinterland, the central government created new alliances which would support the Pudong project not only politically but also financially. In this way, central government helped to create an enabling environment that the local government could never have created alone. Third, the project was characterised by the intrusion of various kinds of international forces into a variety of fields, not limited to architecture and urban planning. This intrusion was encouraged partly by local willingness to embrace new ideas, new information and even the principles and legal frameworks applied within the international community, partly by recognition that this kind of interaction was the only way to rebuild Shanghai as a world city, and partly by international interest in China's vast untapped market. These factors all helped to

speed up the interaction between global and local plainly visible in almost every aspect of the Pudong development.

Globalisation is a contingent, non-uniform, temporal mesh of processes that do not lead to simple homogenisation; globalisation also initiates a myriad of local interpretations and transformations. Despite the tendency of architecture '[to escape] from the history and culture of each society' (Castells, 1996, p. 417), the example of Shanghai shows that questions about the urban impact of globalisation should really address the dynamics of the global–local nexus. And, as has been shown, globalisation processes have a myriad of ideological dimensions derived from history and local culture, and these dimensions play a significant role in the processes underlying the building of a globalising city.

# 3 Managing a large-scale urban development - Pudong New Area

'The metropolitan city in our time is an economic, social and functional reality in the making'. 'Large-scale urban projects are today what defines the building of the metropolitan city'. 'The idea of creating a sense of city nowadays poses a critical question that large-scale urban projects must answer: the dialect between centrality and mobility......' (Borja & Castells, 1997, pp. 152-162).

## Introduction

In our information age, large-scale works in metropolitan cities perform the function of linking individual localities to the global economy. Shanghai, seeking to rediscover its lost glory in a global context, selected Pudong to fulfil its ambitious plan for the city's nirvana. Shanghai not only hoped to recover the position in the global economy that it had enjoyed in the 1930s but also foresaw the influence such a large-scale project could have on the city's economic, social and cultural objectives and the way that influence could spread to the hinterland. This chapter attempts to explain how the enormous Pudong development project was organised and managed in what was, after all, a transitional period. It also aims to explore the circumstances that contributed to the choice of the measures selected and what economic and social consequences this enormous project might have within its boundaries and beyond. A discussion of land policy and infrastructural development and the way they affected the development of Pudong and the growth of the real estate market, appears in Sections 3.1, 3.2, 3.3 and 3.4.

# 3.1 Land policy reform and development

'Land is the essential raw material of all property development projects...', as Syms (2002, p. 55) once put it. Much research into urban studies, planning and land policy issues has found that land policy and land development plays a crucial part in economic development and urban restructuring (Wigmans, 1998; Needham, 2003). While land tenure and land policy is established within a specific institutional setting, land development depends on a host of factors outside the boundaries of the particular locality. These factors may be economic, financial or social; they may involve the management of land-use or the operation of the property market. Land issues concern not only land resources and capital but also the various parties directly or indirectly involved with land resources by virtue of ownership or use rights. Clearly, efficient land usage and the proper balancing of the interests of the different parties involved in land transfer, including the economically disadvantaged, influences the speed and results of urban development or redevelopment. Thus a



Figure 3.1 Pudong under construction, 2006

Source: CNAP

knowledge of the treatment of land is important to a proper understanding the Pudong development.

In 1990, at the start of the Pudong development, the transformation of Shanghai's land market, part of China's gradualist programme of urban land reform which started at the beginning of the 1980s, was still in progress. The two parallel markets in land and real estate in operation at the time kept overseas and Chinese investors separate from one another, providing little scope for penetration or manoeuvring by global capital. The Shanghainese, who hoped to use foreign investment as one of the main sources of finance for the Pudong development, sought to break down existing restrictions on the admission of foreign capital to the Chinese property market by establishing a new land market that would give Chinese and foreign investors an equal chance of participating in land transfers and land development. The success of this breakthrough would depend on the extent to which the newly established market could ensure the growth of a market in property, the involvement of foreign investors and the balancing of the interests of the various interest groups.

# 3.1.1 Land policy reform

### Land policy reform in China

'Gradualist urban land reform forms an intrinsic part of the incremental economic reforms in transitional China' (Zhu, 1999). The emphasis on social equality in a planned economy in China's original land system was shifted to support the move to establish a land market that would take account of

the value of land. The main feature of land policy between 1949 and 1978 was the confiscation of land from the rich (landlords) and its redistribution to the poor. Urban land became state-owned, farmland became collectively owned. The state allocated urban land to danweis (state-owned businesses) free of charge, for an indefinite period, and the constitution prohibited transactions in land. Land was not considered to be a commodity and was allocated no value. In the planned economy, central and local government decided what and how much the danweis should produce and how much profit they would be allowed to keep. Meanwhile, collectively owned land in rural areas was converted to state-owned land through land acquisition. When the state acquired land from a farmer, the farmer received a compensation package that included employment opportunities, housing compensation, compensation for loss of crops and an urban residence licence making him eligible for welfare benefits including medical insurance, pension and retirement plans, access to higher-quality schools and subsidised goods not available to peasant farmers (Cheng, 2003, pp. 110-111). The land tenure system devised between 1949 and 1978 greatly influenced the structure of land-use and gave rise to a number of land-use problems that had to be dealt with in later reforms, such as the mixture of industrial and residential premises created by the earlier allocation system. This mixture could be found in many cities in which danweis and housing for their employees were located side by side, and was the prime cause of the damage to the residential environment caused by industrial pollution. By the end of the 1970s more than 20,000 factories had been set up in the centre of Shanghai's Puxi district, causing enormous pollution problems. The land allocation system, and the consequent competing interests of local government, developers, factories and individual households, acted as a powerful barrier to the later establishment of a land market.

After the introduction of the open door policy, China adopted a land-use rights system of tenure similar to the leasehold tenure system common in the West, treating land separately from buildings and improvements. More precisely, China borrowed the experience of Hong Kong and Singapore, both of which share a Chinese cultural background, are characterised as 'developmental states' (see Chapter 1) and have years of successful experience in the transfer of land for value (Chan, 1999, p. 54; Li et al., 2000, p. 349). Box 3.1 gives a detailed account of the features of the land tenure system in operation in Hong Kong and Singapore. In both cases government owns most, if not all, of the available land, and thus exerts an almost monopolistic control over land supply, planning and development. Both governments use land to generate revenue. In Hong Kong, the leasing of land by public tender maximises the value of land and makes a considerable contribution to Hong Kong's economic development and government revenue. These advantages have been taken into account in the various laws and regulations introduced in China affecting land ownership and land tenure. The interesting thing is the flex-

### Box 3.1 Land policy in Hong Kong and Singapore

Hong Kong and Singapore have different approaches to state intervention in the economy. Hong Kong prefers to avoid government intervention in the market, Singapore has a significant level of state intervention. Yet both operate essentially the same land policy, in that both apply the principle of land transfer for value by leasing land.

Hong Kong has adopted a leasehold land tenure system, with all land owned by government. A purchaser does not buy ownership but a lease to use the land for a specified period. 'Land for non-institutional use is generally leased to the highest bidder at public auction for a period of not less than 75 years. The buyer pays a large lump-sum and a small annual rent. Because the only purpose of the rent is to serve as a legal symbol of the lessor/lessee relationship, the lump-sum payment for a given land lease approximates to the value of the land. Most leases are transferable and the market in land is in fact a market in land leases' (Peng and Wheaton, 1994, p.267; Hui 2001, p. 600).

Singapore has both leasehold tenure and freehold tenure. Since 80% of the land is state-owned and private land is scarce, 'developers tend to depend on the state to release land for development through land sales with leases varying from 30 years to 99 years. Leases for residential development are mostly for 99 years'.

Source: Sim et al., 2002, p. 458

ibility and opportunities for land development created by China's land policy, a policy which like the related legal framework did not evolve over time, as it did in most European countries, but was based on experiences borrowed from other countries operating a leasehold tenure system. Thus though the system of land tenure was mature even when it was introduced, it still allowed the adoption of the kind of innovative land development strategies tried in other countries. According to the People's Republic of China Land Administration Act 1986, as amended in 1998, the state owns all urban land and farming collectives own all rural land. 'The nature of the Chinese land tenure system means that there is no private ownership of land in China' (Chan, 2003, p. 138). 'Land-use rights' are being commercialised in accordance with the People's Republic of China, Assignment and Transfer of Use Rights on State-owned Land in Urban Areas, Temporary Regulation, 1990. China had no intention of creating a capitalist style market in land, with full ownership rights, but aimed to separate use and management from ownership; state ownership remained the key. These basic principles had direct consequences for later compulsory land acquisition (zhengdi), land development and relocation.

Since 1978 Chinese land policy has undergone a long process of transformation, starting by allowing the land allocation system to coexist with a land market and then gradually integrating the two into a single market. In 1980 the State Council drafted the first regulations on the use of building land by a Chinese joint venture involving a foreign partner. This was the first regulation to refer to payment for land-use. The 1986 Land Administration Act made it legal for private organisations to use state-owned land, but not until

April 1988 was China's constitution amended to permit the transfer of landuse rights from the state to a third-party for a predetermined period (Cheng, 2003, p. 113). Once the legal framework had been established introducing the concept of urban land-use rights, the State council went on to issue the 1991 Provisional Regulation on Granting and Transferring Land-use Rights on State-owned Land in Cities and Towns, which gave practical guidance to anyone wishing to let, transfer, rent or mortgage land-use rights (Valletta, 2001; Cheng, 2003). The same regulation distinguished two kinds of transactions in land, transfer of land-use rights by sale and purchase and leasing of land-use rights. Two other Acts, the 1989 Provisional Land-use Taxation of State-owned Urban Land Act and the 1993 Provisional Land Value Increment Tax on Stateowned Land Act, required all danweis and individuals using state-owned land to pay a land-use tax. Further, a land value increment tax was levied on any profit made on a transfer of land-use rights exceeding 20% of the total cost. The primary rationale behind this and subsequent reforms was to attract foreign investment in property and restructure the land supply and land allocation system to increase economic efficiency (Olds, 2001, p. 173). Although resistance from local interest groups meant that at first the laws were not actively enforced, the change in land-use regime combined with increasing economic competition between cities for cross-border investment had a positive impact on land development, government finance and urban growth, with local government as the major player in urban development.

## Land policy reform in Shanghai and the establishment of a local land market

Central government laid down certain basic principles governing land reform at local level, but local officials still had to work out the operational details. Shanghai started to charge foreign investors for land-use rights in 1986. To develop a land lease system of its own which would be better suited to the market system and more efficient operationally, Shanghai examined the legal framework for land tenure in Hong Kong and the operational procedures followed in Hong Kong's land lease operations. The city hoped that if it took the Hong Kong system as its model, it too would earn a substantial income from land leasing which would help to reduce the budget deficit it faced for infrastructural development.

From the 1980s onwards a series of local regulations were introduced in Shanghai to operationalise the national land reform program. For example, the Transfer of Land-use Rights in Shanghai Regulations, approved on 29 November 1987, marked Shanghai's first formal move towards land reform (Lu, 1999, p. 66). These regulations laid down the rights and obligation of investors, the procedures to be followed to obtain land-use rights and the responsibilities attached to such rights. It also set ten standard fee levels for land-use based on the use to which the land would be put. Fees ranged from 60-100 yuan (US\$ 7.1-12)/m² in the central commercial area to 0.5 yuan (US\$ 0.06)/

Figure 3.2 Land prices in Shanghai's Puxi and Pudong, 1994. Top: Standard land prices in Shanghai's Puxi, 1994; bottom: two-standard land prices in Pudong, 1994





Area 1 has the highest price level.

Source: SPNASB, 1994

m<sup>2</sup> in rural areas. In 1991 the municipality adjusted the standard fee range to 130-0.5 yuan (US\$ 15.6-0.06)/m<sup>2</sup> and later still, as the market in real estate developed, 170-0.5 yuan (US\$ 20.4-0.06)/m<sup>2</sup>. Figures 3.2 and 3.3 show the land value in the publication of the first standard land-use fees. It also shows that in the early stages Pudong had much less valuable high-priced land than Puxi, which improved greatly since Pudong development started. The regulations came into effect on 1 January 1988, the year in which the first land lease auction was held in Shanghai's Hongqiao district, using procedures developed in Hong Kong. Six foreign real estate developers took part. The price achieved depended on the total construction area, and reflected the true market value, rather than simply the area of undeveloped land, as had previously been the case. The price also included a provision for infrastructure to be provided by government. In the end the 1.29 hectare site was leased to a Japanese developer for US\$ 485 per square metre (Zhao, personal interview, 2002). The success of the Hongqiao auction encouraged the Shanghai authorities to introduce land leasing more widely. However, fear of strong opposition from existing interest groups and the possibility that failures might discourage future investment led to the decision to conduct a pilot project in a limited area before applying the reform to the city as a whole. Pudong, newly established as a development zone and in the frontline of the testing of Shanghai's market system, was the perfect place for such a project. The Draft Pudong New Area Planning and Construction Administration Regulation and the Pudong New Area Land Administration Regulation (1990) required organisations and real estate developers to lease land-use rights in Pudong by tender, auction or direct negotiation. Land could be leased for periods of between 40 and 70 years. Pudong was in fact the first of Shanghai's districts to introduce land lease procedures.

Both the transfer of land-use rights by sale (tudi suoyouquan churang) and the leasing of land-use rights (tudi zulin) were based on the principle of separating land-use rights from land ownership. The state or its representatives were able to transfer land-use rights to a future user, whether an individual, a developer or an organisation, for a defined period of time and at a price based on the value of the land. Transfers by sale and by leasing differed in two respects. When land-use rights were transferred by sale, the purchaser enjoyed full rights of occupation, use, and benefit during the period specified and, subject to certain limitations, was entitled to trade those rights. When the rights were leased, the lessee only enjoyed the right to occupy the land; the right to trade the land-use rights remained with the owner of the land. The other difference concerned the size and method of payment. If the rights were transferred by sale, the land-user had to pay a one-time land-use transfer fee; if the rights were leased, the lessee paid an annual rent (Zhou, 2003, p. 254). The leasing of land-use rights for an indefinite period was introduced in the middle of the Asian economic crisis. The aim was to provide flexibility for inves-



Figure 3.3 Government-fixed land price levels in Shanghai in 1994 (left) and 2000 (right)

Area 1 has the highest price level.

tors who were finding difficulty in obtaining a large bank loan because of the prevailing economic climate. This change in approach to land leasing demonstrates the flexibility with which Shanghai reacted to a changing market.

Pudong required all land development in its administrative area to be conducted along commercial lines, with all land-use rights transferred by sale or leasing. The same principle was also applied to land allocated to businesses before 1990. The state had allocated land in the Pudong urban area for various businesses and residential areas dozens of years ago, and a number of real estate developments had been started on land allocated in the 1980s, before the issue of the master plan for Pudong in 1990-1991. The businesses and residential areas concerned were therefore granted land-use rights which included a redevelopment option. The effect of this depended on the provisions of the official Pudong master plan. If the original function of the land was incompatible with the new plan, the business could relocate to a larger site. Residential are-



Source: SPNASB, 2001

as could be relocated either to the new site for the business or to a neighbourhood specially designed and constructed for relocation. Otherwise the business could redevelop the land to a higher floor-to-area ratio and higher quality to create more space for commercial use. In the first case the state would provide a certain amount in compensation for the interruption to the company's production and the effort of relocation. The compensation paid to relocated businesses could be used to purchase land-use rights on a new piece of land at a preferential price negotiated with the state. In the second case the organisation would be allowed to carry out redevelopment after paying a preferential price for the transfer of land-use rights (Wan and Yuan, 2001, p. 98). Even if an organisation was allowed to go ahead with its redevelopment plans, 'the value of this option would be quite different from what it would be to the owner of a property in a market economy, where the redevelopment option can be sold and has no expiry date' (Fu et al., 1999, pp. 49-78). If land was traded or occu-

#### Box 3.2 Why the leasing of land-use rights was more suitable for Pudong

At first Pudong generally aimed to sell land-use rights, but the Asian economic crisis made this approach difficult. The transfer of land-use rights by sale required a one-off payment for the use of the land, but many foreign investors based in Asia were affected by the economic downturn and were unable to risk such a large high-risk investment in land development. In many countries even commercial banks were in trouble, sometimes even facing bankruptcy, making it difficult for investors to obtain the necessary loans. In 1997 the number of land deals began to decrease dramatically. In the same year, in reaction to the unexpected economic situation and to maintain steady development and involvement by investors, the Pudong New Area Planning and Land Bureau issued the first regulation on the leasing of land-use rights - Provisional Methods for Leasing State-owned Land in Pudong New Area (Pudong xingu guyou tudi shiyongguan zhuanrang zhanxing banfa). In 1999, after completion of the pilot project in Pudong, the Shanghai Municipal Government issued an official document on leasing land-use rights in Shanghai, Provisional Methods for Leasing State-owned Land in the Shanghai Municipality (Shanghaishi tudi shiyongguan zhuanrang zhanxing banfa)

Source: Zhou, 2003, p. 254

pied illegally, the occupiers were not only fined but also had to pay back the full fee for the transfer of land-use rights. The effect of these measures was to include every kind of organisation in the process of land commercialisation, creating equal opportunities for existing users and newcomers.

Besides regulating the commercialisation of existing urban land, Pudong also regulated the process of expropriating collectively owned agricultural land, using a 'land bank' system to ensure that enough land was held in reserve for further expansion. Pudong New Area covered 520 km<sup>2</sup>, of which 300 km² was still farmland. When government wanted to expropriate farmland it paid the first 30% of the going rate of compensation as a deposit. The remaining 70% would be paid when it needed to use the land. The expropriation of farmland was the main way of maintaining the land bank system. Unlike urban land, land in China's rural areas was owned by farmers collectively and was considered their living capital. Expropriation of farmland involved not only land value but also the social compensation due to people who lost their property and living capital. Consideration also needed to be given to employment and pensions. The commercialisation of land not only prevented the loss of state resources but also helped to generate substantial amounts of capital for later investment in the development of land and infrastructure. In 1996 for example, payments received from organisations wishing to redevelop a total of 3.85 km<sup>2</sup> of land allocated to them for commercial use amounted to no less than 1.5 billion yuan (US\$ 18.16 million). By 1995 the total revenue generated from the leasing of land-use rights had reached 1.1 billion yuan (US\$ 13.29 million) plus US\$ 52 million, a total of US\$ 185 million. By 2000, more than 100 billion yuan (US\$ 12.08 billion) had been raised for infrastructural development from land transfer fees (Shi et

al., 2003, p. 13).

Investors could purchase or lease land-use rights by negotiation, by tender or at auction, at a price based on standards established by the local municipality, but in the following ten years only a few dozen pieces of land were transferred by tender. The majority of deals were arranged by negotiation, a flexible yet opaque process which many critics argued lacked fairness. What more concerned the government was that it had less say than the developers in the negotiation process. On 1 July 2001 the People's Government of Shanghai issued its Decision on Amendment of Methods for Granting Land-use Rights in Shanghai laying down that land-use rights for land to be used for commercial purposes were always to be acquired by public tender. In the second half of 2001, land-use rights on 137 pieces of land in Shanghai were transferred by tender, either public or invited (China Daily, August 21, 2003). Even though the process of making the market in land more open and transparent had only just begun, it had already provided more information to developers lacking the benefit of local connections and created more awareness amongst members of the public interested in participating in the decision-making relating to a development plan.

A series of laws, policies and regulations established at national, local and district level provided the legal framework for land issues (Box 3.3). Many local government departments were involved in providing interpretations and making the laws enacted by central government more workable at local level. Consequently various amendments and reforms were made at various times in response to the changing situation. Since 1988 Shanghai has made much use of land leasing to attract FDI, restructure the city, generate capital for infrastructural projects and fund new housing for existing residents, mainly in suburban locations (Olds, 2001, p. 184). In about ten years Pudong earned more than 100 billion yuan (US\$ 12.08 billion) from land leasing, most of which was invested in infrastructure. The practical aspects of this regulation are further examined and analysed below.

# 3.1.2 Land development organisations

### Land situation in Pudong before 1990

A number of serious issues had to be addressed before the Pudong development could begin. Pudong was still an underdeveloped area, lacking basic infrastructure and with a very varied population density. The 8% of the area that was urbanised occupied 43.5 km² along the Huangpu waterfront. It contained a concentration of the most polluting industries (including harbour industries and chemical, steel and textile plants) and accommodated half the population of Pudong. Although Pudong as a whole had a relatively low average population density (2,727 per km²), the population density in the urbanised section was extremely high (18,230 per km²), a level even higher then the average

#### Box 3.3 Laws, policies and regulations concerning land

### The most important state laws and regulations on land include:

- People's Republic of China Land Administration Act 1986, as amended and reissued, Chairman of the PRC, decree no. 8, implemented 1-1-1999
- Provisional Land-use Taxation of State-owned Urban Land Act, issued in 1989
- People's Republic of China Tentative Provisional Regulation on Granting and Transferring Land Rights on State-owned Land In Cities and Towns, Chairman of the PRC, decree no. 55, implemented 19-5-1990
- Provisional Regulation on Granting and Transferring Land-use Rights on State-owned Land in Cities and Towns 1991
- Provisional Land Value Increment Tax on State-owned Land Act 1993
- People's Republic of China Real Estate Administration Act 1994, Chairman of the PRC, decree no. 29, implemented 15-7-1994
- People's Republic of China Provisional Land Administration Act, State
   Council of the PRC, decree no. 256, implemented 1-1-1999

### The most important local laws and regulations on land in Shanghai include:

- Transfer of Land-use Rights in Shanghai Regulations 1987
- Methods for Transferring Land-use Rights in Shanghai, implemented 1-1-1997, as amended and reissued by the People's Government of Shanghai, decree no. 101, 14-5-2001
- Provisional Methods for Leasing State-owned Land in the Municipality of Shanghai, (Shanghaishi tudi shiyongquan zhuanrang zhanxing banfa) implemented 31-5-1999, as amended and reissued by the People's Government of Shanghai, decree no. 119, implemented 1-4-2002
- Notes on the Implementation of Land-use Fee Management Methods by Shanghai Housing And Land Management Bureau, HFDZJ (2002) no. 5, implemented 8-1-2002
- Notes on the publishing of the Proposal on Reform of City Real Estate Construction Projects (Land Acquired through Tender and Auction) Approval Procedures, Office of the People's Government of Shanghai, HFBF (2002) no. 7, implemented 10-2-2002
- Notice on the publishing of Methods of City Land-use Fee Collection Management, by Shanghai Municipal Finance Bureau and Shanghai Municipal Building and Land Resources Management Bureau, HFDZJ (2002) no. 242, implemented 1-7-2002

### The most important laws and regulations on land in Pudong include:

- Draft Pudong New Area Planning and Construction Administration Regulation 1990
- Pudong New Area Land Administration Regulation 1990
- Provisional Methods for Leasing State-owned Land in Pudong New Area (Pudong xinqu guyou tudi shiyongquan zhuanrang zhanxing banfa) 1997

Source: SMHLRAB and SMSB, 2001, 2002, 2003

population density of Puxi (11,300 per km²) (Wan and yuan 2001, p. 90)9. If the land development and real estate development were to be implemented in accordance with the master plan, the waterfront area would become a financial and trading centre, with proper infrastructure and a high quality environment, implying that most of the factories (sources of pollution) and their associated housing would have to be relocated to make way for new construction. Projects of this kind need vast amounts of investment, not only for land development and infrastructure but also for the relocation of factories, households and other businesses and the improvement of environmental quality. Thus capital has to be raised, for example by land leasing, relocation has to be arranged, and organisation and management techniques have to be developed for land development. The next section looks in more detail at the way in which Pudong handled land development.

## Development companies - organisations for land development in Pudong

Traditionally land development was handled by public bodies or state-owned enterprises. In the case of Pudong however, the local municipality could hardly obtain a sufficient budget from central government nor could it spare enough from its own budget. Moreover, traditional government-controlled urban renewal had proved to be neither cost-effective nor efficiently implemented. If Pudong was to be developed, the local municipality would have to find some way to handle land development more effectively and efficiently. Serious consideration was given to setting up a development company. Shanghai local government looked into what was done in the United Kingdom, where development companies play a crucial role in land development. Local government gives the development company a piece of land and a sum of money for investment. The company is then responsible for developing, operating, marketing, and selling the land, operating like any other company, generating its income from the proceeds of leasing or selling the land. After 20-30 years, local government reclaims the land and assumes any debts left behind by the development company. In the end Shanghai decided to adopt a modified model that appeared to be better adapted to the situation in Shanghai. The development company would be a kind of state-owned enterprise or public company acting as mediator and implementer in land development. The municipality would pay for its share in the company by providing land and would not be required to invest a large amount of capital which it did not actually possess. The development companies would be public companies but

**<sup>9</sup>** The population density of Shanghai is much higher than in European and American cities. For example, The Hague, the most densely populated city in the Netherlands, has a population density of only 5,674 per km<sup>2</sup>. For comparison, the average population density in Rotterdam is 2,901 per km<sup>2</sup> and in London 4,679 per km<sup>2</sup>, though some districts reach 11,027 per km<sup>2</sup>.

operate as commercial enterprises. They would need to be economically efficient and raise investment capital themselves, but at the same time would be required to represent the public interest, or the interests of the local authority. They would in fact be tightly controlled by that authority and its various departments, which in some cases would be acting as shareholders.

In August 1990 development companies were established in three development zones, the Lujiazui Financial and Trade Zone, the Jinqiao Export Process Zone and the Waigaoqiao Tax-Free Zone. Funding was provided by the local authority and its various departments, including the finance department and the land administration department, the Shanghai Urban Construction, Investment & Development General Corporation (also known as Shanghai Chengtou, responsible for infrastructural projects in Shanghai) and financial organisations such as Shanghai International Trust & Investment Co. Ltd. The same approach was taken in developing Zhangjiang High-tech Park in 1992, followed by some municipal-level development zones, including Liuli, Huaxia, Wangqiao, Sunqiao, Huamu and Xinghuo. Pudong Land (Holding) Ltd. was set up to act as land bank, specialising in expropriating village land to support the land development companies in case the existing stock of land proved insufficient.

At first the four development companies had little money. The main value provided by government was land. Shortly after their establishment each company received a cheque from the SMG enabling it to buy 5.51 km<sup>2</sup> of land from the municipal land bureau at a relatively low price, in effect subsidising the transfer of land to developers. Later on more land was transferred to the four main development companies in Lujiazui, Jinqiao, Waigaoqiao and Zhangjiang. By 1995 61.589 km<sup>2</sup> of land area had been transferred to these companies, equivalent to a government investment of 6.13 billion yuan (US\$ 14 million). Thus, 'land transfer' (and land commercialisation) was achieved by a process which did not actually involve the transfer of funds (zijin kongzhuan, tudi shizhuan) since ultimately the development company received the land and the cheque went back to the municipality. SMG's investment in the initiative fund made it a major shareholder in each of the development companies, giving the government a voice in the development of each zone. The development companies, partly representing the government, had the job of developing the land and selling the land leasing rights. They were directly involved in land development, providing infrastructure and arranging relocation.

The development of a block of land involved the development company in a large number of tasks, including making a plan, finding a real estate developer, relocating existing residents, industries and businesses, developing the land and transferring it to a developer. This would have taken a long time if all the tasks had to be performed by the same company. How could the process be speeded up? Interestingly, the solution was found in the close collaboration between subsidiaries or joint ventures set up by the development com-

pany acting alone or with partners. Each subsidiary specialised in a different aspect of land or real estate development, as for example in the case of the Shanghai Lujiazui Development (Group) Company Limited (SLDC) described in Box 3.4. The involvement of subsidiaries allowed a development company to manage the whole land development process very efficiently. SLDC, for example, had 54 subsidiaries, each of which specialised in one part of the development task, for example relocation, land development, construction of housing stock for relocation, real estate development or interior decoration. Each subsidiary was responsible for its own operations and co-operating with other subsidiaries. If SLDC decided to work on the redevelopment of a block in the Lujiazui Financial and Trade Zone (FTZ) a number of subsidiaries would collaborate in carrying out the complete land development process.

Any land development project in Lujiazui FTZ generally involved demolishing old houses, relocating households to a new neighbourhood, finding alternative employment for labour displaced from land expropriated from a rural area, and land redevelopment to provide what is known in China as 'seven connections and one level'10. The final stage involved leasing the land, i.e. transferring the land-use rights to a private developer. In the relocation phase, SLDC set up a project, prepared plans to gain permission for land-use, to establishes a timescale (for land-use), to obtain permission to lease state-owned land, and to expropriate collective farm land where necessary. Next a relocation company, e.g. Lujiazui City Construction Company, stepped in as subcontractor for the relocation project. Shanghai's relocation regulations prescribed that relocation projects could be only carried out by certified relocation companies. An independent auditor would be hired to assess the value of the area to be demolished and to advise SLDC how much it should pay its subsidiary Lujiazui City Construction Company for the entire relocation project. The cost was based on the number of households and businesses relocated. The real estate developer who would build in this block would later pay the cost of relocation. If a relocation district was available but households preferred monetary compensation, Lujiazui City Construction Company would negotiate the amount of compensation to be paid per square metre. If no homes were available for occupation by relocated households whose former homes had been demolished, the company was responsible for working out what arrangements could be made and how much compensation should be paid for the inconvenience (over and above the relocation compensation) until the affected households had been rehoused. When farmland was expropriated, the company had to work out how to compensate farmers for the loss of land and find them fresh employment. Zhanghong Ltd. (Zhanghong Shiye Gongsi), anoth-

<sup>10 &#</sup>x27;Seven connections and one level' is the description applied to land that has been levelled and provided with roads, power, telecommunications, water supply, a sewage system, mains gas and district heating.

## Box 3.4 Shanghai Lujiazui Development (Group) Company Ltd. (SLDC)

SLDC was one of five companies established by SMG in August 1990 to take charge of land development in the Lujiazui financial and trade zone. SMG's original investment consisted of a bank loan of 2 million yuan (US\$ 0.24) million) and a cheque for 170 million yuan (US\$ 20.6 million) which SLDC immediately returned to SMG to pay for the transfer of land-use rights on 25.13 km<sup>2</sup> of land. SLDC had a registered capital of 2.7 billion yuan (US\$ 0.2) billion) and held shares in 54 companies. SLDC's development planning division, one of the group's more important divisions, was responsible for urban planning and negotiating the leasing of land with interested investors. The marketing division carried out market research and developed marketing strategies. The City Infrastructure Construction Management Company provided a whole range of the services (including after-sale services) necessitated by the fact that the land was leased, solving all the kinds of problems investors might face during the construction process. Together these divisions were responsible for the entire land development process, including planning, marketing, research and coordination. On 28 August 1992, SLDC and Shanghai International Trust set up the Shanghai Lujiazui Finance & Trade Zone Development Co. Ltd. On 31 December 1994, this company obtained a stock exchange listing as a way of mobilising public finance. The government remained the major shareholder in the new company (60%), a further 27% being held by foreign investors, a new force in the Chinese financial world. The raising of funds from foreign investors achieved a significant degree of success, though less success was achieved in raising funds from the general public. It is safe to assume that the main aim of the foreign investors was to enter the Chinese market (and of course to make a profit). When SLDC became a limited company in 1997 the original name Lujiazui Finance and Trade Zone Development Company was changed to Shanghai Lujiazui Development (Group) Company Ltd.

Sources: website of Lujiazui Financial & Trade Zone Development Co. Ltd.; Gong, personal interview 2002; Zhao, personal interview, 2002).

er SLDC subsidiary, whose speciality was arranging retraining and providing new employment, would become involved at this stage.

Meanwhile the preparation of the relocation neighbourhood would be under way. If SLDC's stock of relocation housing was insufficient, the relocation project would be deadlocked. SLDC had already leased a large piece of land in Jinyang, a new neighbourhood that is capable of accommodating 100,000 people. It also had Huamu, another large relocation area used for relocated farmers that used to live and work in Huamu Town and were generally unwilling to relocate outside the administrative area of Huamu Town and wanted to live as close as possible to their old neighbours. SLDC regularly subcontracted the task of building relocation housing to one or more of its subsidiaries.

When the relocation phase was complete, SLDC, which would already have prepared its plans for land development and the development of related infrastructure, would start work immediately. SLDC sub-contract the provision of infrastructure to its civil engineering subsidiary and ask its subsidi-

ary specialising in construction materials to provide the necessary materials. The property management subsidiary would take charge of existing real estate. The design and planning subsidiary would provide advice on architectural design and planning and various construction companies (Jinhaiou or Zhangyang Road commercial building construction companies) specialising in commercial building would act as subcontractors in the construction of the commercial and other facilities needed by the new neighbourhood or block.

This collaboration between different subsidiaries under the leadership of one parent company made the whole process of land development more efficient and effective in the way it allocated tasks and minimised time and cost. The allocation of land development tasks enabled SLDC to provide a detailed plan for each step of the redevelopment process. Each subsidiary was clear about its own tasks. SLDC, by sub-contracting specific tasks to partners it could rely on (its subsidiaries), could concentrate on planning, land development, land leasing, marketing, and to a certain extent, real estate development. Thus it was not only able to obtain an overview of the process as a whole but also had the energy to attend to clients and inward investment. This form of organisation, with the development company directing the collaboration between different subsidiaries, all experienced with working with one another and with a confidence in one other based on practical experience, ensured that everyone worked towards the common goal: the completion of the land development in the least possible time and at the least possible cost.

The management strategies employed by development companies such as SLDC actually provide a vivid example of a combination of process management and project management, a matrix organisation structure embracing both hierarchy and horizontal features, as described in project management and process management theory (Harrison, 1992). The parent companies (the development companies) took the lead in administering the various tasked involved in land development and coordinating the division of tasks between their subsidiaries, arranging time schedules and promoting strategies to present the projects and products to the market. The subsidiaries, on the other hand, concentrated on the phases or tasks for which they had been made responsible, the whole being coordinated by the parent company. Each subsidiary was a business entity in its own right and so had a certain measure of autonomy, could make its own decisions and was responsible and accountable for its own business results. It negotiated with other subsidiaries on a fully commercial basis. The relative ease with which the parent company could organise its subsidiaries to participate in a specific phase of the project reduced the amount of uncertainty in the design of the project and could also reduce the costs involved in the cooperation between subsidiaries (even though the subsidiaries were independent of one other). Parent companies did not exclude the possibility of subcontracting business to outside companies. The involvement of the private sector actually encouraged development companies

to cooperate with outside developers or even to form joint ventures (again as subsidiaries) to carry on part of their business. The combination of centralisation and decentralisation helped the development companies to create a more efficient land development organisation.

# 3.1.3 Land development-mechanism

#### Land development strategies

Attracting investment in land development or real estate development of smaller blocks was no easy business. Interviews with private investors in 2002 and 2004 showed that investors who came to look at Pudong were concerned with a variety of issues ranging from the likely profitability of their investment, the risks involved, the market situation, the presence of an adequate infrastructure, the local legal environment and the attitude of the government in general. Some were prepared to take greater risks than others: some were more familiar with the local investment climate and local culture and some had more market experience. It would hardly have been possible to define a standard strategy to fit all needs and appeal to vastly different groups of investors. A standard approach would find it difficult to reflect and adapt to changes in the economic and political situation. It seems that development companies were well aware of this problem and therefore adopted a flexible approach to target different kinds of domestic and foreign investors, who might be ministries, provinces, neighbouring cities (or companies supported by them) or even banks. Investment could also come from the global marketplace.

When a development company had acquired the land it needed, it had four ways of obtaining the investment required for further development<sup>11</sup>.

One way was for the development company to set up a joint venture with an organisation in the private sector, a foreign or Hong Kong-based company. A number of Hong Kong companies were actually set up by Chinese investors, but because money from Hong Kong was considered a foreign investment, the joint venture company could obtain tax exemptions or deductions. The development company contributed the land it held, the foreign investors provided the capital. The terms on which profits and risks were shared was determined contractually. All four development companies took this approach, setting up joint ventures to develop smaller pieces of land. For example, Lujiazui Financial and Trade Zone United Development Ltd. was a joint venture set up

<sup>11</sup> Based on interviews with Zhao Dehe, a researcher at Shanghai Municipal Construction & Management Commission, Li Zhanjun, a researcher at Shanghai Social Science Academy, Li Jianeng, former director of Pudong Urban Planning Bureau, and Chen Min, Deputy director of Lujiazui Development (Group) Company Ltd, held in October and November 2002.

by SLDC and a developer in Hong Kong, and Fortune World Development Ltd was a joint venture set up by SLDC and a developer in Thailand (Chen, 2003, p. 109).

The second way was for the development company to use the newly expropriated land as security for a land development loan from a Chinese bank. The loan could then be used to upgrade the undeveloped land with 'seven connections and one level', the usual Chinese standard for land made available for leasing, which also implies that the land is totally clear and that all previous occupiers have been relocated. Land in this condition could be leased to other developers at a much higher price, and the proceeds used to repay the loan. In some cases, a development company even persuaded a bank (more usually a bank with an overseas background or a Chinese bank with branches in Hong Kong or Macau<sup>12</sup>) to enter into a joint venture in real estate development by providing land below the current market price. This kind of joint venture between banks and development companies was banned by central government in the mid-1990s. In the early 1990s the banks received strong political encouragement to support the Pudong development, but the financial sector became increasingly concerned about the profit they might earn by land deals and the risks that might be created by the ongoing reform of the Chinese banking sector.

The third way was for the development company to set up a public company and have it listed it on the stock exchange. All four development companies had their companies listed on the stock exchange, so introducing private shareholders into state-owned organisations (Chen, 2003, p. 109). One consequence was that it became possible for market fluctuations to influence the financing, and so the functioning, of what were still essentially state-owned organisations.

The fourth and last way was for the development company to sell developers land-leasing rights on smaller pieces of land. Investors could choose between raw land and developed land: both were available. The price was regulated by SMG, but could to some extent be varied by negotiation. Learning from Hong Kong's experience, SMG set the price of land-leasing rights according to the use to which the land was to be put and the total permitted floor area, rather than the area of raw land. In 1993 the Fujita Group, a Japanese company, bought the land-use rights on one square kilometre of raw land in Jinqiao Export Processing Zone for further land development and infrastructure construction.

<sup>12</sup> Local companies generally preferred partners with an overseas background, since this allowed the collaboration or joint venture to take advantage of preferential policies such as tax deductions and exemptions.

#### Private sector involvement

How did investors react to this flexible strategy? Interestingly enough, the flexible land development strategy resulted in a dynamic pattern of private sector involvement. Even if the main goal was always to make a profit, different groups of private sector participants were involved at different stages of the Pudong development. Strategies for determining when and where to invest varied according to the interests, capacity and limitations of the private sector.

The timescale presented in Table 3.1 shows which public and private sector groups participated in the Pudong development by taking advantage of preferential policies, establishing land strategies, becoming involved in land development or simply leasing small blocks of land for future land or real estate development.

#### First period (1990-1992)

Most of the companies involved in Pudong were supported by ministries, provinces or neighbouring cities or districts, often attracted by preferential treatment. These companies were extremely active in the early stages of the development and still remain active but more as market participants rather than merely as providers of political support. The buildings they developed at the time are known as shengbu lou<sup>13</sup>, buildings developed by companies and organisations supported by provinces and ministries. A total of 67 properties in Lujiazui FTZ fell into this category. Although some investors were relatively well-informed about the market mechanism, many were inadequately prepared to operate in a competitive market more concerned with cost-benefit analyses and balance sheets, and so suffered enormous problems during the Asian economic crisis, from which they took years to recover (Lu, 2002). Another significant group of investors was made up of Chinese commercial and investment banks, which until the mid-1990s were allowed to invest in real estate. These banks were persuaded by a combination of political will<sup>14</sup> and economic interest to participate in land development by granting loans, engaging in property development or setting up direct joint ventures in land development. They too received various kinds of preferential treatment, comparable to that received by shengbu lou. Finally, a handful of foreign investors, mainly large companies which already had some experience in China or

<sup>13</sup> Shengbu lou refers to the buildings financed by Chinese companies that are directly or indirectly linked with ministries or provincial or local governments. The so-called shengbu lou policy granted preferential treatment on land price and taxation to those Chinese companies that had direct or indirect links with ministries or provincial or local governments at the beginning of the Pudong development. The same policy was reinstated in 1998 during the Asian economic crisis after Pudong's real estate market had suffered major losses. As a result, 37 shengbu lou were built in Lujiazui Financial and Trade Zone, mostly concentrated in the Zhuyuan area.

<sup>14</sup> Most banks in China are state-owned.

Public sector	Year	Private sector
SMG, CG	until 1990	Multinationals, foreign governments
SMG, PNAG, CG, MIN	1990-1993	Companies suported by ministries, provinces, local districts; commercial banks; (a start) domestic and foreign real estate developers
SMG, PNAG, zonal development companies and their branches	1994-1997	Companies suported by ministries, provinces, local districts; commercial banks, other real estate developers
SMG, PNAG, zonal development companies and their branches	1998-2000	Companies supported by ministries, provinces, local districts; commercial banks, a smaller numbe of real estate developers
SMG, PNAG, zonal development companies and their branches	since 2000	A greater number of real estate developers, companies supported by ministries, provinces, and local districts

formed part of the global Chinese business network, made a limited number of experimental investments in land development or real estate development in Pudong.

#### Second period (1993-1996)

Foreign investors (real estate developers) started to become significant participants in the Pudong development. In the early stages many foreign investors were still concerned about the Chinese political system and the effect it might have on real estate investment. Daring overseas Chinese businessmen from Hong Kong, Taiwan, Thailand, Malaysia and Singapore were among the first to experiment with small-scale projects in the new real estate market. Their understanding of China and their special guanxi enabled them to adapt more easily to the local Chinese environment. Other Asian investors (e.g. from Japan and Korea) that shared or were influenced by a similar culture, for example Confucianism, also benefited from a better understanding of local customs and conventions and so felt more confident about entering the market. As the infrastructure improved and the real estate market increased in size, investors who had previously been concerned about the risk of investing in China became more confident, and a number of Western investors began to take an interest in property development in Pudong.

### Third period (1997-1999)

Private investment slowed down dramatically. The Asian economic crisis had an enormous impact on all participants in the bank and real estate sectors. Small investors who were caught in the middle of the construction process or lost financial support from the banks or simply were unable to find tenants, went bankrupt. Even larger domestic and foreign investors, with strong financial support, suffered huge losses. Many construction projects, for exam-

ple The World Financial Centre, an investment by the Japanese Mori Group, had to be suspended. The Super Brand Mall, an investment by the Thai Chiatai Group, had to be suspended when the failure of a number of Thai banks which were providing loans for the project made it impossible for the group to pay its French construction company. Only with the assistance of local government was the group finally able to reach agreement with a number of Chinese banks to support the continuation of the project.

## Fourth period (2000 onwards)

The real estate market reached a low point and began to improve. More investment began to arrive, from China and abroad. Two groups of investors deserve special mention. The first, a group of domestic private companies, notably absent at the beginning of the Pudong development, provided new blood for the real estate sector. These companies, mostly small, lacked capital and knowledge of the real estate market but caught up quickly in the years following the Asian economic crisis. Some, such as Greenland Group, Dahua Group and Forte Group, increased enormously in size, experience in the property market and management skills. The second group was made up of foreign investment companies, all quite new to the market. These companies were not particularly interested in becoming involved in real estate projects as such but more in becoming involved in the Shanghai property market through share ownership. So far foreign investors, domestic private companies and state-owned real estate companies have almost all been able to find a place in the Pudong real estate market.

While Pudong was trying to attract private sector companies such as local developers and financial organisations, they by no means ignored local businesses<sup>15</sup>, universities, public organisations and state-owned businesses in other provinces or supported by other ministries. It was hoped that the involvement of as many investors as possible would enable Pudong not only to develop a property market relatively rapidly but, more important, to develop its economic function, so giving further impetus to the property market. The same approach was emphasised in the strategy used to facilitate land development, related functional developments and real estate development. In fact such strategies were fully in line with Shanghai's approach of setting up a 'project-based, implicitly pro-growth coalition between China and international capital' to be involved in urban restructuring (Fu, 2002, p. 107). This approach was more open to outside influence than the approach adopted in the

<sup>15</sup> These enterprises were not concerned with the real estate sector as such, but might invest in real estate by for example building their own offices, factories or warehouse. Most of them were active in businesses of particular interest to Shanghai, such as banking, insurance, technology and logistics.

## Box 3.5 Land development joint ventures established in Lujiazui FTZ (1990-1995)

- 1. In October 1991, SLDC and China People's Insurance Company, China People's Insurance Company (Shanghai), Hong Kong Hongs Development Ltd. and Hong Kong Shanghai Ltd. set up the Shanghai Lujiazui Financial and Trade United Ltd. joint venture, with a capital of US\$ 98 million, to develop 69.56 ha in Lujiazui FTZ. SLDC held 55% of the shares.
- 2. In 1991, SLDC and Shanghai Investment & Development Trust, Shanghai Investment Trust (a Chinese Construction Bank subsidiary) and China Real Estate Development Group (Shanghai) set up Shanghai Zhongcheng Ltd., with a capital of 61.8 million yuan raised on the stock exchange, for land development.
- 3. In July 1992, SLDC and Chiatai Group set up Shanghai Fortune World Ltd. to develop a first tranche of 15 ha along the Lujiazui waterfront.
- 4. In August 1992, SLDC and Shanghai Investment & Development Trust set up Shanghai Lujiazui Financial and Trade Zone Development Shareholder Ltd., with a capital of 15 million yuan raised on the stock exchange, to develop 1.51 km².

Source: Pudong Almanac Committee, 1994

1980s by most other Chinese cities.

We examined a number of collaborative arrangements set up by SLDC between 1990 and 1995. During this period four joint ventures were set up in Lujiazui FTZ, each aiming to develop land and channel money from the stock market into land development (see Box 3.5). Most private investors appeared to be frightened of participating in land development because of the high risk. Uncertainty about the future of Pudong, the sizeable gap between plan and reality, the lack of adequate infrastructure and experience with collaboration between local public companies and development companies all contributed to the risks considered in the feasibility studies conducted by private sector organisations. Despite a generally conservative attitude towards large-scale land development projects, at the beginning of the 1990s local and foreign investors tended to prefer to become involved in the development of smaller blocks of land or in smaller real estate development projects, even though the risk was still very great. Private sector organisations, particularly foreign investors, were prepared to lease small blocks of land for further development provided that 'seven connections and one level' had already been provided. Exceptions included the joint ventures between the four development companies and state-owned banks including Bank of China, China Commercial and Industrial Bank, China Construction Bank, a number of local banks such as Pudong Development Bank and some state-owned insurance companies. While the decision to become involved may have been be based on expected profit and calculated risk, undoubtedly political pressure from central government also played a part. Central government's declared intention to support the Pudong development could well have had the same effect on state-owned banks as it had on a number of ministries and provinces. Similar examples can be found in other development zones. For example, Jingiao Export Processing Zone set up two joint ventures. The first was set up in cooperation

with the Pudong branches of China Commercial and Industrial Bank, China Construction Bank, China Agricultural Bank and the Shanghai Investment & Development Trust. The total investment was 340 million yuan; 51% of the shares were held by Jinqiao. The second was set up in cooperation with Hong Kong Construction and Investment Ltd., a subsidiary of Bank of China (Hong Kong), and China Merchants Group (Hong Kong). The total investment was 200 million yuan; 51% of the shares were held by Jinqiao. Waigaoqiao Tax-free Zone also set up a joint venture, the Waigaoqiao United Development Company for Land Development, involving Shanghai Trust Ltd., Bank of China, Hong Kong Construction and Investment Ltd. and China Merchants Group (Hong Kong). The total investment was 200 million yuan; 55% of the shares were held by Waigaoqiao (SMHLRA, 1992, p. 40).

One interesting public-private land development collaborations was Fortune World Ltd., a joint venture between SLDC and the Thailand-based Chiatai Group<sup>16</sup>. This joint venture was set up at a time when Pudong was still not a particularly appealing investment prospect. Even though the Nanpu bridge had been constructed to connect the two sides of the Huangpu, Pudong had nothing to offer investors except an ambitious plan, a number of preferential government policies and the reality of a dilapidated area. Few private sector organisations were brave enough to invest, but Xie Guomin, president of Chiatai Group and a man with enormous experience of working in China, foresaw the potential of the ambitious Pudong development plan. His interest was warmly welcomed by the local authority, which encouraged Chiatai Group to enter into discussions with Lujiazui Finance & Trade Zone Development Co. Ltd. (SLDC) (later renamed Lujiazui Development (Group) Company Ltd.) on ways of cooperating and sharing cost and risk. SLDC had land but needed capital for infrastructure. Chiatai Group had capital. On 16 April 1992 a contract was signed between SLDC, Chiatai Group (Thailand) and Hong Kong Fortune Limited (a Chiatai Group subsidiary). The purpose of the contract was to establish the Fortune World Development Ltd joint venture to develop 40 ha of raw land in Lujiazui Financial & Trade Zone, immediately opposite the Bund. Chiatai provided the capital and SLDC provided the land. The duration of the contract was 88 years, starting on 18 July 1992, but the company reserved the right to extend the life of the contract at the end of the initial 88 year period. The registered capital was US\$ 30 million. It was agreed that SLDC would hold 50% of the shares, Chiatai Group (Thailand) 15%

<sup>16</sup> The Thailand-based Chiatai Group was one of the earliest foreign companies to invest in China after the introduction of the open door policy. In the first 10 years the Chiatai Group concentrated mainly on food and agricultural production. Years of experience working in the Chinese market helped the Chiatai Group to develop strong links with the Chinese government and the Chinese business community. The Chiatai brand is well known throughout China thanks to the company's sponsorship of a popular television program which was broadcast in China for many years.

Figure 3.4 Planning model for Fortune World



Source: Wang and Xia, 2001

and its Hong Kong Fortune Ltd. subsidiary the remaining 35%, representing a total investment of 115,061,000 yuan. The block to be developed was situated between Chengzhong Road, Lujiazui West Road, Century Avenue, and Bingjiang Road, and was to be used for luxury office buildings and hotels. Fortune World's main potential customers were international companies, corporations and business groups.

Land development requires a huge amount of capital, a long development period (usually 3-5 years) and acceptance of the uncertainty created by a number of years' market risk. It was important for Fortune World to make a profit and maintain a healthy balance sheet. The company's large initial investment (230 million yuan) made it impossible for it to wait for the land development to be completed, so it decided to put the land on the market in parallel with its development work. To ensure steady demand, whether from ordinary clients or the stakeholders, the company adopted the principle of accepting the best price offered or the earliest available contract. To attract high-class investors, it paid special attention to upgrading the infrastructure in its block. Although the provision of infrastructure at district level was supposed to be the responsibility of the public sector, Fortune World knew that if it was left to the public sector it would have a long wait before the infrastructure was complete. It therefore decided to do what it could itself. A total of 300 million yuan was invested in infrastructural projects including Fortune World's section of Riverside Avenue (completed on 1 July 1997), a 35 KV underground power station, Dongning Road and a drainage system serving the Fortune World area. This strategy, essentially a marketing strategy, had positive results. Nine pieces of land were leased in the seven years between 1992 and 1999, including five in the first term (88.9% of the total land available in that term) and three in the second term (39.3% of the total land available in that term). Between 10 November 1993 and 31 December 1993, four of the six

Figure 3.5a Landmark buildings in the Fortune World area. Top: Jinmao Tower (left), Tomson Luxury Appartment and Super Grand Mall; bottom: the main buildings in the Fortune World area give Pudong its skyline



available pieces of land were leased, representing 75.5% of the total amount available. The highest leasing price obtained in the period was US\$ 598/m² for the X1-3 block, which was to be used to build the Shangri-la hotel. Between 1994 and 1995, Fortune World leased 4 pieces of land for a total of US\$ 200 million, all received in the same year. Thus the joint venture was able to re-



Figure 3.5b Bird's-eye view of the Fortune World area

Source: CNAP

cover its entire initial investment from the profit earned in the first year. The annual profit after taxation was 133,000 yuan (US\$ 16,062.80).

After Fortune World's success with its first term of land development and land leasing, it purchased a further 13.9 ha of raw land from SLDC in preparation for a second term. The total investment in land for both terms together was 1.5 billion yuan. 30 ha of land has since been developed. Dozens of factories, including the Lixin shipyard and a tobacco machinery factory, and more than 1,000 households were relocated. In all, more than 200,000 m² were demolished. Over seven years the joint venture made a profit of 690 million yuan, enabling the two shareholders to share a profit of 590 million yuan, a yield of more than 250% on a total investment of 2 billion yuan (US\$ 24.15 million). Shangri-la Hotel, a Kerry Properties Ltd. investment, was the first building to be open for business. In 2006 several landmark projects were completed or in construction, including the Shenmao tower, now renamed Citic Bank tower (an investment by the Japanese Mori Group), Tomson Luxury Appartment (Tomson Group (Taiwan)), Shangri-la Hotel, phases I and II (Hong Kong Shangri-la Hotel Group) and Super Grand Mall (Chiatai Group).

# Evolution of the public-private partnership (PPP) mechanism

Chapter 1 described the networking and dependencies between the public and private sectors in a network society, which provide the framework for the application of the PPP mechanism. However, during the evolution of China as a developmental state, traditional Chinese public administration practice kept the public and private sectors poles apart; each minded its own business.

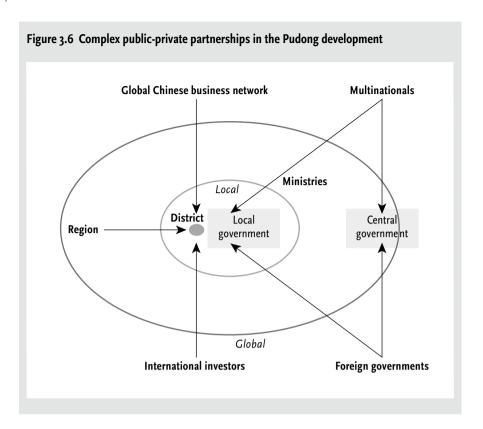
Generally the public sector dominated everyday life, leaving the private sector struggling for survival. This traditional relationship would inevitably change with the introduction of economic reform and the open door policy. A direct consequence, as described later in Section 3.4, was the importance of private finance to total investment in Pudong (some finance came from public organisations or enterprises participating in the Pudong development as private investors). Earlier sections have referred to the penetration of global capital into Pudong through FDI and the significant role played by the Chinese global business network in facilitating development in Chinese cities generally and Pudong New Area in particular. Private investors were determined to play an increasing role in the integration with the new and unknown (capitalist) world and global economic structures. The public sector wanted to involve the private sector in the Pudong development to allow it to benefit from its advanced knowledge, available capital and understanding of the free market. These motives make it easier to understand why the involvement of private finance, especially foreign investment, was always a key part of the strategy for facilitating land development (Wang, 2000). Pudong appears to have followed the same idea of involving private finance by forming partnerships with organisations in the private sector, particularly overseas developers like Fortune World. However, as Klijn and Teisman (2000) pointed out (see Chapter 1 for a more detailed analysis), in a network society the development of a PPP requires the creation of 'trust' between the various participants. For Pudong to be able to involve private investors, it had to create an atmosphere of mutual trust and understanding between the public sector and the private sector, allowing or even encouraging collaboration between the two. How could Pudong's public sector create the necessary atmosphere of trust?

In fact Pudong's public sector seems not to have abandoned its determination to dominate the project and to control the progress of the Pudong development as a whole. Clearly its role in initiating the project, developing the implementation strategy and later actively participating in various aspects of the redevelopment, entitled it to a good deal of say. Nevertheless, it did take certain steps to attract the private sector, for example by improving the legal framework to allow the private sector more flexibility, give it more say, and subject it to less control and frustration. Local government began to openly consult the private sector for advice and later developed a series of preferential policies to break down barriers and reduce the level of taxation for investors. As discussions on the Pudong development became more lively, the private sector began to show interest in the commercial possibilities. Interaction between the two sides led to local planners experimenting with drawing up a master plan that would be more flexible and better adapted to the needs of the private sector. They also began to experiment in new land-use arrangements taking account of land value, a highly innovative measure at a time when there was still no market in land in Shanghai. This preparatory work

helped Pudong to create a Chinese version of a land market and to explore the still infant local real estate market. This move proved to be well suited to Pudong's needs. To make the process more adaptable and oriented to the long-term, the government invited various individuals, from China and abroad, to suggest improvements to the master plan and the feasibility studies for individual key projects.

To make the private sector more confident about investing in underdeveloped areas, central and local government established a series of preferential policies including tax deductions, cheaper land prices and a 'one-stop' service for approving investment. These policies encouraged a number of investors to become more interested in participating in the Pudong development. As has already been said, the public sector hoped that more private finance would be attracted to Pudong and so boost the real estate market as more private sector organisations became involved. The public sector therefore adopted a more relaxed attitude towards PPP and its implementation, to advance the cause of 'attracting alternative finance and private investment'. In the early 1990s Pudong was the only place where foreign banks were allowed to carry on business in Chinese currency (renminbi), a practice which was still prohibited in other parts of China. Chinese companies had been allowed to establish their own foreign trade companies in Pudong since 1990, while elsewhere in the country Chinese companies were forbidden to carry on import-export business directly but were required to go through state-appointed trading companies which had exclusive rights of representation for foreign trade. All these measures led to private sector involvement from an unprecedentedly complex mix of local, regional, national and international organisations, ranging from public organisations, publicly funded agencies and organisations and NGOs to banks and, most important of all, private sector organisations, as shown in Figure 3.6.

Compared with the level of public-private partnership in urban redevelopment projects in Western Europe (e.g. London's Docklands development or the Kop van Zuid project in Rotterdam), the nature of public-private partnerships in the Pudong development was different in a number of ways. First, the transparency of the process was limited. Local government still dominated the decision-making process on all matters concerning development, deciding whether or not to involve external shareholders, which organisations were invited to participate and to what extent. The private sector had the capital, the expertise and the freedom to decide whether or not to become involved. The system of urban planning and administration limited the transparency of the decision-making process by limiting the number of decision-makers. The position was quite different in Europe, where there is much more concern with transparency. Second, the emphasis in the Pudong development was always on the speed with which the development could be got under way. All efforts, including the involvement of the private sector, were therefore geared



to stimulating investment and speeding up development. The same approach could be found in other developing Chinese cities. The third difference was the increasing role played by FDI. Interestingly, investments from Hong Kong and Taiwan accounted for almost half the total FDI in Pudong. In fact many of the international investors who invested in Pudong in the early stages had some kind of Chinese background or connections, and the injection of capital they provided greatly stimulated the development of the infant Pudong. The global Chinese business network actually became a go-between, linking the Chinese economy to the global capital market, providing a good channel for bringing funding, modern techniques and information into what was still a relatively closed Chinese society.

For the Pudong development, local government preferred to attract private investment rather than encouraging PPP; a number of European cities prefer to make use of PPP before examining the feasibility of local involvement in urban development. Consequently Chinese PPP are more flexible and much more result-oriented. The general hope was that the introduction of PPP would achieve four goals, the provision of finance, the speeding up of urban development and redevelopment, the improvement of efficiency in public services and the creation of social benefits far beyond the interests of the private sector. In Pudong public-private partnerships became involved in several kinds of project, including land development, urban renewal and the provision of infrastructure. The earliest attempt to involve the private sector was in the construction of the Nanpu and Yangpu bridges. A loan from the Asian Development Bank enabled the two bridges to be constructed right at

the start of the Pudong development, providing vital access from Shanghai's downtown area to the still underdeveloped Pudong area. Later collaborations between the public and private sectors mainly involved land development. As already mentioned, the Fortune World joint venture gave the public sector the funding needed to complete one particular piece of land development. At the end of the 1990's, the public sector used its co-financing strategy to boost low cost - low return urban renewal projects involving private developers. Chrysanthemum Park is a typical example. The Pudong New Area Administration Centre's real estate bureau provided 400 million yuan (US\$ 48.31 million) to co-finance this redevelopment project under the terms of a contract entered into with the developers. After 2000, the public sector began to use Build-Operate-Transfer (BOT) and Build-Own-Operate (BOO) to attract private investment in public projects such as water management and the development of green space.

Changes in the approach to PPP reflected the changing environment encountered by Pudong during its development. At first local government had little money and experience and so needed help from private developers. Once the development was properly under way and the key infrastructure projects had been completed, more investors became interested, but few were interested in urban renewal projects offering high risk and low return. The cofinancing approach helped to attract more investors to such projects. After a dozen years of development, Pudong had built itself a new image and had become known for high quality standards. The hope was that the use of BOT or BOO would encourage the private sector, especially international investors, to provide advanced technology and management skills.

It has been noted that these projects forced the public sector to reinvent itself, to become more business-oriented, more efficient and more goal and service oriented, by introducing 'local state corporatism' or 'mixed entrepreneurship'. Although in China local governments and their officials form part of the administrative apparatus, part of the 'state', they are also distinct entities, separate from central government and the rest of society, with their own agendas, and increasingly with their own resources. This was especially true of the newly established development companies, pre-eminent representatives of the front line of entrepreneurial Chinese local government, which operated with relative autonomy and were far removed from the central doctrine of top-down planning. These companies worked bottom-up, citywide and at district level, simultaneously involved in many different building projects involving private developers and investors from all round the world.

Instances of public-private collaboration and public-private partnership in Pudong demonstrate a complex global-local connection and interaction. On the one hand, the role of the public sector was still central in deciding what mechanism was applied and which partners were accepted. On the other hand, there were signs of increasing influence from market forces and the

market mechanism, encouraging both parties in the coalition to adopt market principles for land development.

First, the public sector continued to play a central and dominant role in the Pudong development generally and in the projects in which PPP was applied. The traditional bureaucratic structure had not yet been superseded by the new kind of open structure favoured by the growing network society. The public sector, especially the SMG, hung on to its position as 'owner', directing the design and implementation of the Pudong development while still consulting the private sector and involving outsiders in decision-making. It was able to maintain this position because of its resources, namely state-owned land and the right to expropriate. All design and construction work needed its approval. It had the power to mobilise people, households and society. Though the power of the public sector is incomparably weaker than the power wielded by a government-dominated society, strong political leadership can play an important role in initiating ideas, putting forward opinions and stimulating development by supporting the private sector. The redevelopment of New York's Manhattan provides a good example. However, as the global-local axis becomes more articulated, the traditional top-down structure will weaken, as seen in practice in the Fortune World and other PPP projects. Local authorities can even manage to bypass a bureaucratic structure and enable horizontal collaboration with pioneering mediatory and development companies.

Second, the flexibility demonstrated by allowing public-private interaction and public-private partnerships reflects the Chinese belief that the end is more important than the means. This pragmatic approach on the part of Chinese reformers and city managers increases the speed with which they can assimilate useful experiences from others and adapt them to their own situation and enables them to react more quickly to changing situations and new problems. In its pursuit of market-oriented reforms, Shanghai showed itself to be creative in borrowing and applying free market concepts that were relatively ideology-free and so could easily be adapted to suit the prevailing ideological constraints. Much useful experience with the operation of the free market and new financial mechanisms was 'borrowed' and actively used in the Pudong development. Several kinds of capital market were established in Pudong, including a stock market, a futures market, a gold market and a 'property rights exchange'. A number of 'free market principles' were also used to guide the reform of the market in urban land. One new feature of Shanghai's land policy was the designation of special experimental zones coupled with the identification of priorities and the provision of facilities to stimulate private initiatives and test the reaction of the free market. These kinds of measure encouraged competition between different parts of the same city, and indeed between different Chinese cities, particularly the 'open' coastal cities.

Third, the involvement of FDI and the significance of the Chinese global

business network reflect the complex global-local involvement in the Pudong development. The increasing amount of FDI had a direct and increasing impact on the growth of Pudong and Shanghai's GDP, reflecting the developing integration of the local economy and the global economy during the reform era. The form of urban design and the dominant activities in a city increasingly reflect the nature of the link with global capital markets. The urban development in Pudong-Shanghai enabled local government to attract FDI but at the same time reduced the level of central government control on management and the complex financial constructions and international transfers of capital generated by that development. The financial mechanisms underlying Shanghai's urban development show how integration into the global system of capital flows made it increasingly difficult for government to control such flows and to oversee the different joint ventures, each with its own way of generating funds. The explosive growth of Shanghai over such a short period mainly resulted from ad hoc decisions by many participants, and from interests, compromises, conflicts and alliances triggered by economic reform. The way that the developmental state, assisted by local state corporatism, generated local connections with the global network, for example through the development companies, proves that it is impossible to protect government from exposure to the demands of powerful global forces, to the logic of globalisation. The process of globalisation and the outcome of the process of urban and financial development represents a challenge to the autonomy of the state. Full integration into the market economy makes it increasingly difficult for the government to stand aside. A developmental state cannot remain isolated from and unaffected by the impact of globalisation (Chen, 2004; Chen and Wigmans, 2005).

# 3.1.4 Relocation

Relocation is one of the most contentious issues in most urban redevelopment projects, not only in the West but also in the developing world (Wu, 2002). In China the aim of land development is to provide a piece of raw land with 'seven connections and one level', ready for further real estate development. In many cases making such a piece of land available means either that a significant number of households and businesses have to be relocated from an existing urban area or a piece of rural land has to be acquired. The relocation process therefore has a direct impact on everyone involved and, consequently, changes all aspects of local life, business and even society. The development of Pudong, especially the four development zones and the development of large-scale infrastructure, required more land, which immediately increased the speed which land was acquired and extended the relocation process into rural Pudong. The total gross floor area demolished and resettled increased from 1.2 million m² in 2000 to 2.2 million m² in 2001, then to

2.7 million m² in 2002. It is claimed that 22,214 households and 136 blocks of flats were involved in the relocation process (SMHLRAB and SMSB, 2001, 2002, 2003). In Lujiazui Financial and Trade Zone (Lujiazui FTZ) alone, two areas of one square kilometre each had been developed by the end of 1993, followed by 3.08 km² by the end of 1995 and 6.80 km² by the end of 2000. This meant that a total of 7,517 households and 178 businesses had been relocated by 1993, 13,300 households and 340 businesses by 1995 and 27,000 houses and 738 businesses by the end of 2001 (Pudong Almanac Board, 1993, 1995, 2000 and 2002).

While China's central planning system may be undergoing a transition to a market economy, it still takes a very different view of the relocation of city dwellers, because most of them live in public housing provided by the municipal housing department or the state as employer. Instead of residential mobility being determined by free choice, in China urban households wanting to move to a different location have to depend on the availability of accommodation provided by the employer or the municipality. Unlike tenancy in a mature market economy, the rights conferred by socialist tenancy 'equalled or exceeded in many ways those conventionally associated with "ownership", and certainly were far stronger than those associated with conventional tenancy in the United States' (Marcuse, 1996, p. 135; Wu, 2004, p. 457). The strength of these rights means that relocated households are able to negotiate the level of compensation. Employers play a significant role in the provision of housing, a role generally played by the supply side in a mature housing market. As housing underwent a gradual reform from rental to ownership<sup>17</sup>, employers continued for some considerable time to play the role of provider of housing, either providing their employees with subsidised housing or becoming involved in the commoditisation of what was formerly public housing, again at a subsidised price. Employers continued to play a significant role even during relocation, representing the interests of their employees, the tenants of their housing stock, in negotiations between the employees, the municipality and the developer. A lack of power and capital means that interest groups representing relocated households generally found themselves in a weak position when facing government or market forces. However, unlike the position in many other countries where lobbies and activists make a business of expressing the opinions of particular groups, in Chinese society the protection of the interests of affected groups does not simply depend on the

<sup>17</sup> Housing reform started in China in 1979. The main aim of the reform was to use commoditisation to change the welfare allocation of housing by the central planning regime into a market system. The gradual reform proceeded along two parallel lines: a housing market was gradually established to provide homes to be sold at market price and public housing was sold at a subsidised price to encourage home ownership. At the same time the provision of housing by allocation was gradually reduced. In fact the welfare allocation system was only abolished in 2000, 20 years after the start of housing reform.



Figure 3.7 Demolition in Pudong

Source: CNAP

strength of those groups; the public sector has the responsibility and moral duty to protect the weak. Wu (2004, p. 454) comments that 'the speed of relocation cannot be explained by the authoritarian character of the state as the state itself is undergoing transformation and has seen significant decentralisation'. Nor can it simply be explained as entirely market-oriented. ADB's Bruce Murray (personal interview, 2002) has given the following account of the basic thinking underlying the regulations on relocation:

"...the central planning system (requires) government to take responsibility for jobs, health and housing. It is accepted that if the government deprives you of your home or work, it has to provide replacements. This is how a central planning system works..."

Whatever the reasons for relocation, it is important that relocated households are fairly compensated for the inconvenience and uncertainty suffered during and after relocation. Life after relocation should be at least as good and preferably better than before. The following account of the legal framework that guided the practical implementation of relocation in Pudong, and the disputes caused by relocation, is intended to provide a clearer picture of the problems encountered during relocation.

# **Evolution of relocation policy**

As market reform continued in China, the need for new legislation and regulations became increasingly obvious, and a number of laws devised to meet the requirements of the central planning system needed to be amended to suit

the market mechanism. The legal framework for relocation faced the same challenge. Box 3.6 lists a number of important national and local laws, regulations and policies relating to relocation. The regulations covered two main issues, compulsory land acquisition and resettlement of displaced residents (urban and rural households). The laws and regulations on the acquisition of farmland and the resettlement of rural households were different from those on the acquisition of urban land and resettlement of urban households. The differences are discussed in more detail below.

## Regulations on the compulsory acquisition of land

The regulations on the compulsory acquisition of land form an important part of the legal framework for relocation. In countries that allow private ownership, land acquisition or expropriation is achieved by the government exercising its right to take privately owned property for public use (Needham, 2003; Chan, 2003). In China land belongs to the state. People or organisations which occupy or use land are not owners of that land, which means that zhengdi (compulsory land acquisition) is actually the compulsory withdrawal of landuse rights and restoration of those rights to the state, the owner of the land. Zhenqdi was legalised by the constitution of the People's Republic of China in 1978, as amended in 1993. Under the constitution, other relevant laws include Articles 2, 37 and 58 of the People's Republic of China Land Administration Act, Articles 19, 21 and 25 of the People's Republic of China Real Estate Administration Act and Articles 17, 26, 42 and 47 of the People's Republic of China Tentative Provisional Regulation on the Grant and Transfer of Land-use Rights on State-owned Land in Cities and Towns. According to this legislation, compensation was to be based on 6-10 times the average production value of arable land in the three years prior to acquisition. An organisation acquiring vegetable fields in a suburban area was required to make payment to the state-regulated New Vegetable Field Development Construction Fund. Compensation standards were further regulated by local government to suit the local situation. The acquisition of farmland required prior approval for the conversion of that land into land for building. Further the acquisition of more than 35 ha of basic farmland or arable land other than basic farmland, or of more than 70 ha of any other land, required the approval of the State Council. The acquisition of urban land, on the other hand, only required to form part of the relevant city plan, and permission for demolition to be granted by the appropriate administrative department. Because of the importance of land acquisition in providing land for the expansion of Chinese cities, local governments were required to set up a land acquisition system and a land reserve. Even Pudong has been experimenting in using a land bank to reserve land. Only in August 2004 did Shanghai issue its first land reservation regulation 'Methods for Reserving Land in Shanghai'.

The resettlement of households needs to start as soon as the process of

#### Box 3.6 Laws and regulations on resettlement compensation and land acquisition

- 1. People's Republic of China Land Administration Act 1986, as amended and reissued by Chairman of the PRC, Decree no. 8, implemented 1-1-1999
- 2. People's Republic of China Provisional Land Administration Act 1998, State Council of the PRC, Decree no. 256, implemented 1-1-1999
- 3. Urban Building Demolition Administration Act, State Council Decree no. 78, Implemented 1991-3-22, as amended and reissued by Chairman of the PRC, Decree no. 8, implemented 1-1-1999
- 4. Administrative Decision Procedure on Urban Building Demolition, Ministry of Construction, implemented 1-1-2004
- 5. Provisional Opinion on Urban Building Demolition Evaluation, Ministry of Construction, implemented 1-1-2004
- 6. Provisional Administrative Regulations for Housing Demolition Appraisal in Shanghai , Shanghai Municipal Housing and Land Resources
  Administration Bureau, HFDZS (2002), no. 0067, implemented 16-10-2001
- Shanghai Urban Building Demolition Administration and Implementation Regulations, People's Government of Shanghai Decree no. 111, implemented 1-11-2001
- 8. Resettlement Compensation Standard for Demolition of Urban Buildings (circular), Shanghai Municipal Housing and Land Resources Administration Bureau, Shanghai Municipal Construction and Administration Committee and Shanghai Municipal Price Bureau HJS (2001) no. 51, implemented 1-11-2001
- 9. Definition of Land Lot Grading Demolition Compensation and Resettlement, Shanghai Housing and Land Resources Administration Bureau, HFDZC (2002) no. 40, implemented 14-1-2002
- Declaration of Resettlement Compensation Standard for Urban Residential Building, Shanghai Municipal Building and Land Resources Management Bureau and Shanghai Pricing Bureau, HFDZ (2002), no. 10, implemented 19-2-2002
- 11. Payment and Usage of Shanghai Urban Buildings Demolition and Resettlement Compensation, Shanghai Municipal Building and Land Resources Management Bureau and People's Bank of China (Shanghai Branch), HFDZC (2002), no. 289, implemented 17-6-2002
- 12. Shanghai Urban Relocation Administration Regulation, implemented 1-11-
- 13. Problems in Adjusting the Lowest Compensation Standard for Building Resettlement for Different Districts and Counties, Shanghai Municipal Building and Land Resources Management Bureau, Shanghai Municipal Construction and Management Committee and Shanghai Municipal Pricing Bureau, HFDZ (2003), no. 162, implemented 8-5-2003
- 14. Acquisition of Collectively-owned Land, Resettlement and Compensation for the Demolition of Housing on that Land Regulations, People's Government of Shanghai, HIFF (2002) no. 13, implemented 4-1-2002
- 15. Resumption and Resettlement Compensation for Collectively-owned Land in Shanghai Regulation, People's Government of Shanghai, HFF (2002) no. 13, implemented 1-4-2002

Sources: SMHLRAB and SMSB, 2001, 2002, 2003

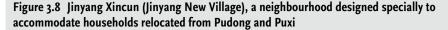
compulsory land acquisition has begun. Two kinds of resettlement can be distinguished. Relocation of urban households involves changes in the location of housing, travel time and cost and possibly the character of the neighbourhood, where households are no longer located close to the breadwinner's place of work. Unlike their urban counterparts, farm workers will have built their own homes on their own (collectively owned) land, so when a farm worker is relocated he loses not only his land but also his home and his social environment. For this reason, different relocation procedures were applied to the two different situations.

Even though national regulations 'lay down the broad principles of compensation, they do not specify the amount of compensation to be paid except that land-use rights holders should be suitably compensated. The law does not define what is meant by 'suitable compensation', nor is there any guidance as to how suitable compensation should be assessed. Local governments are authorised to determine the detailed implementation according to local circumstance, especially as regards the amount of compensation to be paid' (Chan, 2003).

# Relocation of urban households

The earliest regulations on urban relocation in China during the reform era were drawn up to regulate the relocation of urban households necessitated by projects designed to relieve congestion. The housing shortage and low quality of housing stock in Chinese cities brought about by lack of investment meant that the top priority task for central and local government at the beginning of the reform was to alleviate the housing conditions of households living in dangerous or highly congested conditions. These congestion relief projects were originally carried out by public organisations and supported by public funds. Because the original aim was to improve public welfare, the earliest relocation regulations failed to take account of market value and so inevitably experienced growing pains as relocation became involved in full-scale urban redevelopment. Consequently regulations on relocation had to be amended, modified or even abolished to suit an increasingly commercialised relocation process. For example, households were later required to share the cost of relocation because of the benefits they received. The privatisation process allowed households that were originally tenants to purchase their new homes at a subsidised price.

Shanghai took a similar approach to arranging its own relocation of urban households. Since housing conditions in Shanghai were amongst the worst to be found in any Chinese city, it can easily be understood that the relief of congestion came high on the local government agenda, and the earliest relocation regulations were introduced to regulate the relocation necessitated by a congestion relief project designed and implemented, with the aid of government finance, at the end of the 1980s. The 365 Gongcheng (Project 365) was





a relocation program set up by Shanghai Municipal Government, with the help of a government investment of one billion yuan, aimed at redeveloping 3.65 million m<sup>2</sup> of the most dilapidated housing in Shanghai by 2000. The living space allocated to each relocated household was calculated according to the number of people in the household. In February 2001, while the project was still in progress, Shanghai Municipal Government published Document No 68 which laid down that government would no longer finance urban renewal projects, but would introduce preferential policies, such as reduction of or (in extremely congested areas) exemption from land leasing fees and infrastructure costs, to attract private developers to become involved in urban redevelopment. In practice the document turned out to have a number of drawbacks. It laid down that compensation for relocation would depend on the size of the family making up the household. This encouraged households to try to increase the amount of compensation by registering the names of as many family members as possible as forming part of the household, so allowing their relatives to share any benefits resulting from relocation. Cai Yutian, director of the Shanghai Housing and Land Resources Administrative Bureau, described the dilemma to a journalist from the Phoenix Hong Kong TV channel in the following terms (Caijing Dianduidian, July 31, 2003):

"...Because before (under the terms of the old document) we used the number of people in the household as the basis for calculating compensation, the more people in the household, the higher the compensation would be. Many people were desperate to improve their quality of life and would take any opportunity they could to do so. They wanted to get as much improvement and as much housing space as possible,

so they tried to move as many people as possible into their households. In one of the worst cases I met, as many as 30 people were found to have moved into a household which before relocation occupied no more than a single room. The relocation project was generally well received and supported at local level. However, when people played these sorts of trick, others who used to have bigger and better housing conditions but fewer people in their households (and who did not cheat) felt themselves unfairly treated."

This problem led the public sector to a change of approach: on 1 November 2002 a new regulation, the Shanghai Urban Relocation Administration Regulation, was issued to prevent this kind of cheating. According to this regulation, the compensation received by a household would be calculated on the basis of the living space it formerly occupied. Compensation for relocation was also revised in line with changes in the real estate market. The real estate market in Shanghai had grown rapidly and with it the price of housing. Increasing house prices directly influenced the level of compensation laid down by local government for relocated households. Table 3.2 shows the compensation standards used for relocation after 1 July 2003. The highest compensation standard, 4,700 yuan per square metre of building land in the Lujiazui Central Financial District, was almost as high as the price of city centre land in Puxi. The rapid increase in the cost of relocation made the relocation of households from a congested urban area almost impossible for a private company to afford, which explains why the Pudong New Area Government proposed to assist private developers willing to take on an urban renewal project by subsidising the cost of compensation.

#### Relocation of rural households

Compensation for the relocation of rural households took into account not only loss of property, as in the case of their urban counterparts, but also loss of production, loss of employment and the greater social benefits enjoyed by urban households. For rural households the compensation standard set for urban households was increased by an additional resettlement subsidy based on the number of persons dispossessed. The size of the payment was calculated by dividing the amount of land acquired by the average arable land per person in the expropriated land unit. The standard payment to each person requiring resettlement was based on 4-6 times the average production value of the acquired land in the three years prior to acquisition, except that the maximum payment per hectare of acquired land could not exceed 15 times the average production value in the three years prior to acquisition. If the land compensation and resettlement subsidy payments were insufficient to maintain the dispossessed farmers' original quality of life, local government could approve an increase in the size of the resettlement subsidy, subject to the restriction that the total payment could not exceed 30 times the average

Level of area	Area	Lowest compensation/m² construction area (yuan)	
3A	Tangqiao Xin Lu, Pudian Road, Yanggao Nanlu, Yuanshen Road, East bank of Huangpu River	4,170	
3B	Within the inner-ring road, Level three area out of A Area in Level three, and Huamu Town	3,900	
3C	Level three area except those included in A and B	3,500	
4A	Jiyang Road, Huannanyi Evenue, Yanggao Nan Road, Chuanyang River, Luoshan Road, Yanggao Bei Road, Zhaojiagou and the border of level three	3,150	
4B	Level four area except those included in A	2,700	
5		1,891	
6		1,668	
Note: 1 yuan = US\$ 0.12  Source: SMHLRAB and SMSB, 2004			

production value in the three years prior to acquisition. The compensation package not only included the resettlement subsidy but also compensation for improvements and loss of crops. The standard, set by local government, was generally 3-4 times the average production value in the three years prior to acquisition.

Beside compensation, arrangements for resettling rural households also included provisions for pensions, medical insurance and loss of employment. Since dispossessed farmers were deprived of their production capital (their land) and so become unemployed, local government was responsible for finding fresh employment or for providing job training until they were able to find new jobs. Dispossessed farmers were also entitled to reside in urban areas and enjoy social benefits, again something that local government was required to provide as part of the relocation package. However, the way that these various arrangements were made varied substantially from one municipality to another, depending on local will and capacity.

#### Relocation of businesses

The relocation of businesses formed another important part of the relocation process. Compared with the relocation of households, relocation of businesses was relatively simpler. Even though the land belonged to the state, government accepted the reality of the business's years of presence and was prepared to compensate for the loss caused by relocation. Of course the compensation would in due course be recovered from the investor buying the land-use rights. Once urban planning has been approved, there is little point in discussing whether or not a business should move: the question is how compensation should be negotiated to benefit the business and its employees.



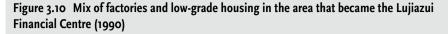
Figure 3.9 A neighbourhood in Huamu, Lujiazui Financial and Trade Zone, built to accommodate relocated rural households

Thus it is more important for the relocated business to concentrate on negotiating compensation for relocation and loss of working hours and finding itself a satisfactory new location. The amount of compensation always had to be based on the standard for the location as issued each year by SMG.

### Managing relocation projects in Lujizaui Financial Centre

Relocation is a complicated process. How was relocation managed? What rules were followed? To what extent did the relocation regulations protect the interests of the various interest groups? The example of the relocation required for the construction of Lujiazui Financial Centre provides an insight into the way in which the relocation process was handled in Pudong. The area used to be highly urbanised, densely occupied by factories and housing for their employees. The relocation of households and businesses was the first task to be dealt with before Lujiazui could be redeveloped. In Pudong, several issues needed to be considered in any relocation project. In an interview, Tang Yicun, director of the Division of Real Estate Management, Construction Bureau and Real Estate and Land Management Bureau at the Pudong New Area Administration Centre (now Pudong People's Government), described the various requirements that need to be met before relocation could start:

"First, only relocation companies that hold a relocation certification are allowed to work on relocation. Thanks to this certification system, the government can at least ensure that these companies understand the procedures and regulations relating to relocation and have the expertise required to do the work. Pudong has 18 companies that hold such a certificate. Second, a relocation project needs to fulfil the full range of requirements for a relocation certificate before it can be permitted





Source: Wang and Xia, 2001

to proceed. These requirements include the setting up of a project, approval of a land-use plan, time scale and size, approval for leasing of state-owned land, time scale and size and expropriation if the land is collectively owned. Third, any dispute which arises in connection with relocation will first go to the Construction Bureau. In the event of failure to reach agreement the dispute will be passed to the local court as an ordinary civil case."

Lujiazui City Construction Development Company Ltd (LCCDCL), a subsidiary of SLDC, founded in 1991, was one of the 18 relocation companies in Pudong that held the required relocation certificate. SLDC published its zoning plan and its available land notice. When a real estate developer decided to lease a block and the contract between SLDC and the real estate developer had been signed, SLDC would immediately contract LCCDCL to handle the relocation of households and businesses. SLDC would call in a consultant to assist in calculating its total costs and LCCDCL would hire another consultant to calculate the cost of compensation and the operational fee. For this project. As soon as the two sides had completed their calculations, price negotiation would begin. SLDC would have to pay a deposit to the developer before the project began. The developer would in due course be called on to pay the cost of relocation. Relocation of businesses and households could begin as soon as the project had been officially approved. Official approval implied official acceptance of the project by the urban planning bureau as being in conformity with the master plan for the area, the granting of planning permission and permission

to lease state land, both subject to a prescribed time scale and size, and any necessary expropriation of collectively owned rural land.

A large part of the relocation involved the relocation of business, industrial or otherwise. Two issues need to be considered by LCCDCL: first, the standard compensation for the relocation of that business and, second, the loss that business could be expected to incur during the relocation period. LCCDCL's first task was to work out its own figures for the value of the property of the affected business, the value of stock on hand, the salaries of employees, the size of the area to be demolished and, most important, the future of existing employees. These figures would then be compared with corresponding figures prepared by the business affected. The future location of the business (usually on a larger site) would be made known, and negotiations would begin. Sometimes agreement would have to be imposed from above, by the parent company or a higher level of administration. The cost of leasing new land for the relocated business was deducted from the amount of compensation.

By comparison, the relocation of urban households and rural households (farmers) was more complicated. In Pudong most urban households lived as tenants in public housing built by their employers, though some had homes of their own. The initial procedure was the same in both cases. When a block was to be relocated, LCCDCL would visit the neighbourhood and put up notices or hand out leaflets explaining the relocation procedure and the expected level of compensation. Each household was free to choose compensation in the form of a new home or cash. Consultative meetings were arranged to deal with any questions. If housing was not yet available for a relocated household, a negotiated amount of compensation would be paid until housing became available. The size of the compensation payment would increase if housing was not made available within the legally prescribed period (normally three months, and generally not more than one year). Once the project design had been approved as conforming with the local master plan and zoning plan, households facing relocation could no longer object to the project itself but could continue to object to the way that relocation was handled or the level of compensation. If a residential neighbourhood was demolished and replaced by a new residential neighbourhood (a rare situation in Lujiazui), the original residents were in principle entitled to return to that neighbourhood. If a household was unwilling to accept the deal offered, it could appeal to Pudong New Area Government's Real Estate Management Bureau. If the Real Estate Management Bureau was unable to get the parties to agree, the appeal would be passed to a court for final decision.

The initial procedure for resettling rural households was much the same as for urban households, but differed in the employment and welfare arrangements made for farmers who had lost their land and their jobs. A large number of the rural inhabitants of Pudong were affected by the relocation required by the rapid expansion of Pudong's urban area. Statistics show that

since 1990, 178,663 farmers have been resettled, of which 128,706 were classified as active workers and 49,957 as retired. In an interview given in October 2002, Gong Qiuxia, a planner with SLDC who used to work for Pudong Land (Holding) Company (recently merged with SLDC), described the problems continuously faced by her former company in relocating rural households:

"Unlike the relocation situation in Puxi, in Pudong we had to deal with both expropriation and relocation. This meant that we had to accept the special responsibility of finding new jobs for members of relocated rural households, because we took away not only their land but also their production capital and production capacity. We not only had to provide them with a new identity as city dwellers but also needed to find employment for them. To deal with this problem Pudong Land (Holding) Company set up a job centre which provided a variety of training programmes all year round. Each year the company received a government grant from a special employment fund which enabled it to set up new enterprises to employ the relocated farmers. Regrettably most of these enterprises failed completely. The few exceptions were property management companies and companies concerned in some way with green space. The jobs they provided, for example as security guards or in property management, cleaning or the maintenance of green space, were very popular among relocated farmers, since they required little in the way of technical knowledge or a disciplined approach, neither of which tended to be present in farmers aged between 35 and 45..."

The change faced by relocated rural households was enormous. Most of them had mixed feelings about relocation. On the one hand they become city dwellers, a status that most of them saw as highly desirable because it allowed them to enjoy welfare benefits only provided to city dwellers; on the other hand the new life meant they lost their land and their jobs, and the new urban condominiums were very different from their traditional two-storey houses in the country. Responsible relocation procedures generally took the following into account: first, the wish to be relocated into or near the area where the relocated households used to live, together with their neighbours from the same village; second, specific housing requirements, as for example two rooms facing south instead of one facing north and one facing south, allowing guests to be met in the grandparents' bedroom rather than in the living room. Most important, the relocation of rural households meant an increase in the amount of compensation to be paid to cover loss of employment. People younger than 45 who found jobs for themselves received a one-time compensation payment of about 150,000 yuan (US\$ 18,115.94). For the remainder SLDC was required to provide free training programmes in new working skills and then find new employment. People older than 45 were treated by SLDC as retired and granted pensions. For the young the chance of a better life was much greater; for the more elderly the situation was more doubtful.

The grant of a pension meant that they enjoyed a stable income that they had never previously enjoyed, but their psychological attachment to the old way of life was much greater. SLDC also had to cover the cost of 15 years pension, medical insurance and other economic compensation for the new labour force resulting from compulsory land acquisition. The most difficult cases were people who were not old enough to be granted a pension but lacked the education and experience required to gain employment. People aged between 35 and 45 took longest to adjust to the change, and therefore fared worst. They were unable to absorb much training and were unsuited to a competitive job market. In some cases unemployment, sickness or some kind of conflict eventually made the reaction of members of this group to relocation and the companies they saw as responsible, more extreme and violent.

## Conflicts in relocation projects: what went wrong?

Relocation played an important part in the Pudong urban redevelopment process. Without the smooth handling of land acquisition and the relocation of existing occupants it would have been impossible to carry out the subsequent development of land and real estate. Any resistance at local level to a decision to relocate could easily delay the development process indefinitely. In fact the relocation required for the Pudong project was typical of the largescale relocation required by urban redevelopment in Shanghai and indeed in China as a whole. Between 1991 and 2000 Shanghai demolished 26 million m<sup>2</sup> and relocated 0.66 million households. Since the beginning of the reform period about one tenth of the entire population of Shanghai had to be relocated. Table 3.3 shows the enormous amount of relocation in Shanghai between 1995-2004, a period which saw a dramatic increase in the rate of Shanghai's urbanisation. The area of urban land increased fivefold in the ten years between 1990 and 2000, as compared with only tenfold in the 40 years between 1950 and 1990. As the table shows, the greater part of the relocation process affected households.

With so many people and so much building involved in relocation, it is quite surprising to learn that residents were generally pleased to be relocated, as shown by a relocation survey carried out in Shanghai (Wu, 2004). The majority of respondents benefited from improvements in housing quality. The move from old public housing, with no proper hygiene facilities, no mains water, no mains drainage and no private kitchen or lavatory, to a new apartment with better equipment and facilities and more space, certainly represented an improvement. On the other hand, both government (represented by Lujiazui and the other development companies) and those relocated still suffered from relocation. The cost in money and human resources and, more important, the psychological damage caused by the loss of a familiar life style and the uncertainty created by a new environment, were enormous. Considering only the projects in which LCCDCL was involved, records show that since 1991

Table 3.3	Table 3.3 Building resettlement in Shanghai 1991-2004										
Year	Number of resettlements (units)	Floor space Of which resettled residential (%) (10,000 m²)		Of which residential (%)							
1995	75,777	97.25	322.77	78.66							
1996	89,132	97.03	342.95	75.48							
1997	79,857	96.91	479.67	75.71							
1998	78,205	96.10	452.22	76.06							
1999	75,185	98.04	342.50	72.46							
2000	70,606	96.72	365.77	78.83							
2001	73,728	97.53	515.65	74.98							
2002	101,097	97.64	644.53	75.25							
2003	80,858	97.80	584.93	81.29							
2004	42,415	97.97	308.40	232.52							
Note: Figures apply to ten central urban districts											

Note: Figures apply to ten central urban districts.

Source: SMSB, 2005, p.379

about 26,839 households and 653 business and industries were relocated to allow the creation of the Lujiazui Financial Centre, the Zhuyuan Trade District, the Tangdong, Longyang and Yangdong districts, the central green area and Century Avenue. Two million m² of buildings were demolished. The effort involved in the relocation would have been sufficient to move a medium-sized town. LCCDCL had to come up with standard compensation averaging 30-50 million yuan (US\$ 3.62 - 6.04 million) for each business relocated and about 200,000 yuan (US\$ 24,154.59) for each household relocated, not to mention money spent on new land and housing. Even though there were regulations in place to protect the interests of various interest groups, in practice relocation procedures could still go wrong. The most tragic conflicts in the Pudong development resulted from the imbalance between supply (by government) and demand from relocated households.

The fieldwork carried out in 2002 and 2004 included a series of interviews on relocation issues with members of relocated households, local government officials, local researchers and real estate developers. The following list, also based on a study of disputes which arose in Shanghai in the last few years, presents some of the findings and comments made by various groups of interviewees on the possible causes of conflicts and disputes.

Problems involving government included:

1. Neither of the relocation regulations (no. 68 and no. 111) granted equal legal status to relocated households wishing to defend their rights. For example, the purpose of relocation as part of an urban renewal project was to enable real estate developers to carry on their work, not to allow the creation of infrastructure to benefit the public at large. Households threatened with relocation should have had equal rights to negotiate the relocation plan and to decide whether or not they were prepared to be relocated. In practice it was almost impossible to stop a project once it had been officially approved.

- 2. There was no independent supervision of the implementation of relocation policy at local level. Even though there were some good relocation projects, such as those required by the building of the Nanpu and Yangpu bridges, many other projects were sources of tension. Households often suspected that the compensation procedure was unfair or corrupt.
- 3. Relocation companies, most of which were owned by a public body or public company, were contracted to carry out relocation projects. As commercial undertakings, their main objective was to make a profit. It was therefore always possible that a relocation company would attempt to reduce the level of compensation paid for relocation and retain the balance as income. (This possibility led to changes in the wording of contracts between government and relocation companies. Whereas previously government paid a relocation company an agreed sum to cover the entire relocation, today the amount is based on the number of households relocated.)
- 4. Sometimes the quality of the relocation company did not come up to the required standard. Even though the companies generally provided as much information as possible, visiting the affected neighbourhoods to discuss what was going to happen, there were still cases when households were angered by the lack of proper information, and felt cheated or threatened.
- 5. The compensation policy might have been advantageous at one time, but then failed to satisfy affected households when the situation in the housing market changed. In the early 1990s households were dissatisfied with the housing provided by government as compensation because it was too far away or the quality was poor. When relatively affordable housing became available, people preferred monetary compensation. But at the end of the 1990s, when the market price of housing rocketed, the level of monetary compensation provided by government was insufficient to pay for new housing. Problems tended to arise and did in fact occur in the absence of alternative housing solutions, such as public rental housing.
- 6. Relocation regulations were often at odds with other types of regulation, so increasing the likelihood of conflict. For example, job creation regulations allowed the unemployed, most of whom were older, uneducated and difficult to place in a normal job, to support themselves by using their homes as handicraft workshops or to sell breakfasts. If those people were relocated to an apartment, usually in a purely residential neighbourhood instead of their former mixed-function district, it was hardly possible for them to go on making a living. This immediately gave rise to conflicts.
- 7. Relocation also involved the feelings households had for their homes. This problem could not easily be solved by financial compensation. When government failed to appreciate that the difficulties households might face were not purely financial, clashes were likely to arise during the negotiation process.

The interviews also drew attention to sociological problems:

- 1. Unlike the situation created by relocation projects in other countries, in China most conflicts were about the level of compensation rather than the propriety of the project. Compensation standards were not fixed but could vary within specified limits. Not unnaturally, households subject to relocation tended to demand the highest permitted amount (or more) whereas the relocation company tended to try to negotiate a lower amount. When compromise proved impossible, quite severe conflicts could arise. In some cases these conflicts led to tragedy, like suicide or the murder of a relocation company staff member, when a household lost its case and faced forced relocation.
- 2. Financial considerations played a major role in persuading households to agree to relocate but fight over terms. For most households relocation meant a quick improvement in living standards at less cost to themselves. This encouraged households to cheat, to get as much financial compensation as possible. Successful cheating could earn a small fortune for a some households but could also reduce the level of trust in and the quality of the relationship with government and force government to tighten its regulations, which meant that cheating was against the interests of the majority of households.
- 3. In a centrally planned system, housing is seen as welfare, as is any improvement in the housing situation. Relocation projects started in the 1980s were actually seen as welfare projects and demanded a substantial proportion of the local government budget. Since people were not required to pay for their housing, they tended to rely on the government to provide rather than looking for housing on the open market. This attitude was difficult to change, particularly since the dual-market system continued to operate in China's housing market throughout the 1990s.
- 4. Households were reluctant to get into debt, especially when household income was low. In general Chinese preferred to have savings, and this did not only apply to households subject to relocation. If a relocated household found its future home on the housing market, it expected to pay the whole cost at once. If it then discovered that government compensation was not enough to pay for the home it wanted, it was much more likely to intensify its efforts to obtain higher compensation than to approach a bank for a loan.
- 5. Relocation of farmers was even more complicated. The most serious problem concerned the future of farmers who lost their land. This applied particularly to those aged between 35 and 45, who had little education or ability to acquire new skills and were unable to tolerate the kind of labour-intensive jobs that local government was able to provide.

## 3.1.5 Factors speeding up the development process

Land institution is the key factor in determining the pace of urban development. It defines the right to use the land, investment choice and income. At the same time it brings together the various parties involved in the different phases of the process, including those who will benefit most and those who may well suffer from changes in occupancy and land-use rights. A number of things help to speed up the development process.

First, the legal framework for land policy reform and land development in China was not the end result of a process of historical development but was developed and modified to suit the market mechanism. Since this framework was based on experiences borrowed by China from countries which work with a system of leasehold tenure, in particular from developmental states like Singapore and Hong Kong, it provided sufficient flexibility for local practitioners to explore the new concepts and practices those countries use for land development. Further, the choices provided by the new land policy (sale or lease of land-use rights on developed land or raw land) made it easier to respond to different investor preferences. The Pudong development zones, with their autonomous administrations, provided a perfect laboratory for Shanghai's experiments with innovations such as involving the private sector, financial organisations and international and foreign investors. Successful experiments could quickly be put into large-scale operation, failures could be analysed to avoid any chance of recurrence.

Second, the organisation structures and management strategies used by the development companies combined the features of process management and project management. The traditional rigid hierarchical structure of the Chinese company was replaced by or modified into a matrix structure. Parent companies (development companies) led the field in controlling the various tasked involved in land development, coordinating the division of tasks between their various subsidiaries, arranging time schedules and devising marketing strategies for their projects and products. Meanwhile their subsidiaries were able to concentrate on the particular phases or tasks for which they had been made responsible, coordinating their activities with one another directly or through the parent company. Each subsidiary, a business entity in its own right, had a measure of autonomy: it could make its own decisions, was responsible and accountable for its own financial results and could negotiate with other subsidiaries on a fully commercial basis. Because the parent company was better able to organise the way its subsidiaries handled specific phases of the project, it could reduce the cost and time involved in transactions between subsidiaries, even though the subsidiaries were fully independent of one other. Nor would the parent company exclude external companies from its business. The strategy of involving the private sector actually encouraged development companies to cooperate with external developers and even to set up joint ventures

(again as subsidiaries) to carry on parts of their business. This combination of centralisation and decentralisation helped the development companies to create a more efficient structure for land development.

Third, the involvement of private organisations and the flow of capital from domestic and foreign sources brought about further changes in the business environment. New global-local financial links added a new dimension to traditional financial mechanisms. The combination of the public sector's aim to achieve economic growth and the private sector's aim to achieve business growth and expansion encouraged the two sides, traditionally separate, to work together with a new enthusiasm for creating partnerships. The experimental involvement of the private sector in the decision-making process in Pudong and the provision of increased investment opportunities in what was traditionally the public domain stimulated a continuing dialogue with the private sector. Collaboration between the public sector and the private sector in land development, urban renewal and the development of infrastructure led to the development of a level of trust traditionally lacking between the two sides. The combination of increasing numbers of public-private ventures and the introduction of shareholders encouraged the adoption by the public sector of 'pro-business local state corporatism'. Such partnerships had the effect of blurring the separation between government and the market.

Fourth, although relocation is an important part of urban redevelopment it has often been controversial. The appalling housing conditions in Shanghai and Pudong before the start of the Pudong development meant that relocation, originally intended to improve living standards, gained a good deal of support from those affected, allowing earlier relocations to be implemented smoothly and rapidly. Land acquisition and resettlement regulations continued to cause trouble and face opposition because of the primitive nature of attempts to adapt to the market mechanism. As urban development becomes increasingly rapid, its negative consequences become increasingly significant, especially to members of the poorly educated lower classes, both urban and rural, who find it difficult to deal with violent economic change and try either to develop survival strategies or to take advantage of the system (Wu, 2004), or take the kind of violent revenge which can result in delaying or slowing down the redevelopment process.

# 3.2 Infrastructure

The city which can achieve speed will achieve success. (Le Corbusier, 1925)

The next logical phase was the completion of a draft urban development strategy, transport plan and plans for other related infrastructural improvements. Inadequate infrastructure was the biggest barrier to the development of Pudong, the most serious challenge being the lack of any proper link between Pudong and Puxi. Traditionally, water transport had been the main method, though most piers along the east bank of the Huangpu were used mainly for the transport of industrial goods. The passenger transport system between Pudong and Puxi consisted of 16 ferries, 4 car ferries and an old twolane tunnel, which together had to handle more than 1.1 million people and 17,000 cars a day, so that overcrowded public transport and traffic jams were a common experience (Wan and Yuan, 2001). Not only was the connection between Pudong and Puxi problematic but the urban road system within Pudong also turned out to totally inadequate. For example, until 1990 there were only 285 km of roads (including 65 km of urban roads) to serve an area of more than 500 km<sup>2</sup>, and the standard of most of those roads was far below that of normal urban roads. Nor was there any airport or railway to link Pudong with other regions. Equally problematic were Pudong's inadequate public utilities for providing water, electricity and gas. Pudong even lacked a mains drainage system to handle rainwater. Clearly Pudong's infrastructure was unable to cope with the existing situation, let alone serve a modern urban district intended as a flagship 21st-century Chinese city.

Updating the existing infrastructure was seen as the top priority task to make possible the development of Pudong. In fact the priority the implementation strategy gave to planning, infrastructure and environmental considerations clearly indicated the importance of infrastructure to Pudong's development. Local planners saw three issues as high on their agenda: first, improvement to Pudong's infrastructure, not only to serve the different development zones but also to support the development of a modern district. This would involve the construction of efficient links not only between individual development zones but also between those zones and newly developed transport hubs in the Pudong area. These links were seen by local officials as a necessary precondition for Pudong's economic development and the attraction of investment. Second, the need to combine improvements to Pudong's infrastructure with improvements in Shanghai as a whole. An attempt was made to obtain a complete overview of Shanghai's infrastructure and to link improvements in Pudong with similar improvements in Puxi, possibly including connections to a new national road network. The most urgent task was to lower the barriers between Pudong and Puxi. Third, because of the importance of the Pudong development to the restructuring of Shanghai's urban and economic structure, infrastructural improvements could not be limited to simply satisfying the objectives of individual industries, but had to be in line with Shanghai's general policy, which was to relocate industry and population from Puxi to Pudong, restructure Shanghai's economic system to focus on the city's service industry and financial function, open up its financial market to attract foreign investment and make use of foreign technology, management

techniques and development skills. For the Shanghai government, infrastructural improvement involved not only ambitious plans for the city's future but also a number of reforms leading to an implementation strategy radically different from that traditionally used for infrastructural development.

## 3.2.1 Infrastructure system

The sophisticated infrastructure system designed for Pudong included a core of 'three ports' (a deep water port, an airport and an 'information port'), 'three networks' (a rail network and metro system, an urban highway network and a cross-river transport network) and 'three systems' (to supply power, natural gas and district heating), as illustrated in Figure 2.12 (Chapter 2) and Figure 3.11. The 'three ports' were important to allow Pudong to establish links with the outside world and help Shanghai to become an international transport hub. The idea of the 'three networks' was to embed Pudong's infrastructure in the infrastructural framework of the Shanghai metropolitan area<sup>18</sup> as a whole. The key aim of the metropolitan transport system was to provide a rapid transport system allowing journeys in Shanghai's central area, inner suburbs and outer suburbs to take no longer than 15 minutes, half an hour or one hour, respectively. This meant Pudong would need close links not only with the west bank of the Huangpu but also between different parts of the district. The plan included a combination of two ring roads, designed to link Pudong and Puxi, and various bridges, tunnels, metro lines (see Figure 3.12), light railways and ferries<sup>19</sup>, providing the main transport framework for Shanghai. To speed up the transport system in Pudong, a proper road network was designed to connect the various development zones and small towns with the newly designed transport hubs, Shanghai Pudong international airport, Waigaoqiao deep water port and the Pudong railway system. The three systems referred to above would need to satisfy the requirements of residents, industry and commerce. Water plant and new water resources, a district drainage system and a sewage treatment plant were included to serve the Pudong area as a whole. Apart from traditional infrastructural services, Pudong would need a proper telecommunication system if Shanghai was to succeed in becoming a global city. Telecommunication development has in fact become the key to the development of a global urban system, lowering the barriers to international interaction imposed by space and time (Rimmer, 1996; Gu and Tang, 2002, pp. 283-284). The city's telecommunication system as eventually devel-

**<sup>18</sup>** The short-term package of infrastructure was designed to cover 15 years (1990-2005) and the long term package 30 years (1990-2020).

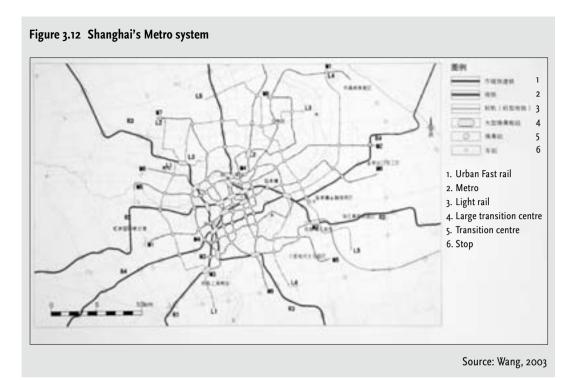
<sup>19</sup> The plan for cross-river infrastructure linking Pudong and Puxi included 12 bridges, 12 tunnels, various metro lines and light railways, one tunnel for cyclists and several for pedestrians, 16 passenger ferries and 5 car ferries.



Figure 3.11 Infrastructural plan for Shanghai Metropolitan

oped was connected to a new national fibre-optic network. China's first citywide digital cellular network is currently in operation in Shanghai. (Olds, 2001, p. 181) In fact Pudong was designed as a telecommunications hub.

Despite their ambitious plans for developing Pudong's infrastructure and



ensuring quality, Shanghai authorities were still being repeatedly told by foreign and international institutions that their urban planning system was outmoded and not suited to dealing with private-sector investors. They were advised to maintain only the bare essentials of development control and let the market determine how different districts would develop (McLemore, 1995). Even though the Shanghai authorities still believed in the value of the contribution made by traditional planning to directing a long-term vision and ensuring the final quality of the development product (here an area development), they also realised that the traditional 'master plan' approach was unlikely to do the job. In consequence old ways underwent massive change, becoming receptive to new ideas with the assistance of many new strategiclevel advisory and decision-making bodies. Thus, although the old mechanisms (e.g. top-down planning) were still in active use, there was more willingness to listen to the state, experts and investors from China and abroad. There was also more willingness to discuss and adjust, allowing existing plans to be altered to suit changes in the economic or social situation.

One example was the five-year plan, one of the most important mechanisms used by national, provincial and major city governments, and still in active use in Shanghai. This was not a control document, functioning in the traditional way, but rather a prescription for action to be taken in the coming five-year period. The plan set out all the major initiatives the government intended to take during the period, taking into account both government and private interests. The five-year plan for Shanghai and Pudong also included key infrastructure projects, providing an assured level of financial support from the public purse. The projects included were almost certain to be implemented. However, if the Shanghai authorities found it necessary to amend

such projects, they were allowed to put their amendments into practice, rather than being forced to follow the plan. They could also include changes or new ideas in the list of projects in the action plan for the coming year, as published at the end of each year. Key projects would receive special funds from the municipal budget to ensure the implementation went ahead smoothly and without delay. The local district government employed a similar strategy, listing key projects to be implemented each year at district level. In this way, not only were government projects open to scrutiny by the market and society at large, but also the list key projects and the timetable for implementing those projects gave investors sufficient confidence to supply capital even before the site had been prepared.

Box 3.7 provides a general overview of the 15-year (short-term) infrastructure improvement scheme prepared by local planners. However, close examination of the detailed description of each step to be followed by Pudong shows that the scheme actually listed the detailed projects included in each five-year plan. The same projects were also listed in each year's action plan, but divided into different phases of construction within the five-year period. In this way, traditional urban planning schemes, mainly dealing with long-term visions (30-50 years), and short-term plans dovetailed with five-year plans defining initiatives, projects to be implemented and the related public budget strategy and annual action plans. The various plans were in fact complementary to and refined one another.

A number of new strategic-level advisory and decision-making bodies in Shanghai often played a key role in helping local authorities to adjust their plans: these bodies succeeded in making several adjustment to the transport system, such as the construction of metro line 2 and the provision of an improved bus service. In particular, the construction of the extremely expensive metro line was largely a response to the demand by domestic investors, the principal investors in Pudong between 1990-1995. Domestic investors often made the existence of an efficient public transportation system a precondition for investment. In this case they set an underground metro system and improved bus capacity within Pudong and between Pudong and Puxi as a first priority for the Shanghai authorities. In response to the demand of domestic investors and Shanghai's aim to stimulate the development of Zhangjiang high-tech park, the Shanghai authorities decided to change the plan for the old metro line 2 so that instead of running to the Wujiaochang area in the northeast of Shanghai, it would run to Zhangjiang high-tech park and the country park in Pudong. At the same time more public transport lines were laid out to satisfy the need for transport and allow a certain number of people to both live and work in Pudong. Between 1990 and 2001 as many as 1,000 km of roads were a built to improve the road system in Pudong. These measures helped to a considerable extent to improve the investment environment and were welcomed by both investors and local residents.

## Box 3.7 Pudong infrastructure improvement plan

### Key steps in the short-term Shanghai Pudong infrastructure plan:

- First five years (1990-1995): building Pudong's basic strategic structure. Two bridges (Nampa Bridge and Yangpu Bridge) and one tunnel (Yan'an Dong road tunnel) were to be built to link Pudong and Puxi. Two main roads (the Yanggao Road extension project and the inner ring road) were to be constructed to provide the backbone for Pudong's road system and connect the three development zones Lujiazui, Jinqiao and Waigaoqiao. A series of public utilities, the Waigaoqiao power plant, the Lingqiao water works, the Pudong gas works, a sewage treatment project and a telecommunications project, were to be completed to provide Pudong with services that had previously been inadequate or totally lacking. It was decided to build the landmark Oriental Pearl TV tower during the same period, not only for its function but also for its symbolic value to Pudong.
- Second five years (1996-2000): improving the strategic structure and functional development aimed at building up Shanghai as an international transport hub. The most significant projects to be completed in this period were three hubs Pudong international airport, Pudong international deep water harbour (phase I Waigaoqiao deep water port) and Pudong Info-port, two lines Metro line 2 and the Pudong section of the outer ring road, the Pudong light railway transit system, a number of river-crossing projects and two avenues (Riverfront Avenue and Century Avenue). Other civil engineering projects, including water supply and drainage projects, the Waigaoqiao power station (phase II) and the East China Sea natural gas project were also to be completed. Investment in this period would be six times greater than that in the first five-year period.
- Third five years (2001-2005): infrastructural development aiming to bring Pudong's system of infrastructure to a new level of sophistication. A number of projects would be focused on creating fast connections within Pudong, between Pudong and Puxi and between Shanghai and the outside world. These projects were to include Pudong international airport (phase II), Waigaoqiao deep water harbour (phase IV), the Pudong section of the outer ring road, a light railway transit system (L4), the Pearl Line light railway (phase II) and several projects to improve the connection between Pudong and Puxi, including the Lupu Bridge, the Fuxing road tunnel, the Wusong road tunnel, the Dalian road tunnel and the Huangpu pedestrian tunnel. Other projects would herald a significant stage in Pudong's development. For example, the world's first commercial high-tech maglev trains would be constructed and tested in Pudong. Finally, a water supply and disposal project would also be implemented in the same period. No less than Yuan 100 billion (US\$ 12 billion) would be invested in major infrastructural projects.

# 3.2.2 Implementation strategies

Finance and organisational ability are probably the two main factors determining whether infrastructural projects on such an enormous scale can be

implemented efficiently and effectively. However, unsuccessful examples of traditional infrastructural development could have led one to wonder whether such failures might recur in the infrastructural development of Pudong. Traditionally Shanghai's infrastructure projects were handled under the central planning system by the relevant public departments. The results often turned out to be less than satisfactory, because of a continuous budget shortfall, lack of coordination between different departments and poor management before and after the development (maintenance was often weak). The question facing the local authority and many investors was how the implementation of infrastructural projects should be handled in Pudong, and whether it would be possible to avoid the kind of bad experiences which had occurred in the past.

## Organisation

Originally infrastructure projects in Shanghai were handled piecemeal by construction and investment offices in different departments of the local authority. These offices were generally burdened with budget deficits20 and lacked knowledge of modern management techniques. They were often blamed for the level of service being totally inadequate to satisfy the need. Apart from the national and local economic and institutional reform required to adapt to a market system, the infrastructure and public utility industry was being required to perform more efficiently and find alternative sources of finance to replace the public purse. In 1987 the Shanghai Planning Committee (Shanghai Jiwei) set up Shanghai Jiushi Ltd. (Shanghai Jiushi Gongsi) to be responsible for a special fund of US\$ 3.2 billion to be used exclusively for improving Shanghai's infrastructure, technological innovation, increasing export capacity and developing the service sector. In this, the first experiment ever in Shanghai to allow a commercial organisation to take charge of government funds, the Shanghai authorities attempted to take a more market-oriented approach to public investment and the attraction of finance from non-government sources. One year later, ten Shanghai Construction Committee investment offices were reorganised to create the Shanghai Urban Construction Foundation (Shanghai Chengshi Jianshe Jinjinhui), whose main function was to raise investment for the development of urban infrastructure in Shanghai. In 1992 the foundation was renamed Shanghai Urban Construction Company (also known as Shanghai Chengtou), to mark its increased ability to become involved in a wide range of commercial activities. This reorganisation marked the begin-

<sup>20</sup> In the old central planning regime, infrastructure was free of charge and public utilities charged fees far below cost. The difference between the fees collected and the original cost of construction and maintenance was paid from public funds, which at that time were hardly substantial, since Shanghai was required to pass on the greater part of its revenue to central government. Thus the old fee system made it difficult to make good a budget deficit. Further, the offices responsible for budgets and finance were not involved in the actual construction and maintenance, while those who were actually doing the work had no say in how the money was used.

ning of a series of reforms in the administrative organisation and financing of the urban infrastructure industry. Chengtou, Jiushi and later Tongsheng, a subsidiary of the Shanghai Port Authority (Shanghai Gangwuju) and their subsidiaries became the main participants in a variety of infrastructural developments (highways, bridges, tunnels and harbours) and public utility projects (water, energy and waste disposal) in Shanghai, including the key infrastructural projects in Pudong referred to above.

The achievement of these highly ambitious plans was no easy task. Research into the work of the public companies involved showed that the strategy adopted was generally project-oriented, more particularly for key projects included in the five-year or annual action plans. Once a project had been authorised, the company involved would appoint a number of staff members to form a project management team to take charge of the whole project. In some cases the team might even be set up as a new subsidiary, which would operate using a budget allocated by its parent company. Frequently the parent company would invite other public or private investment companies to participate by taking shares in the new undertaking. In other cases, the project management team would share its investment responsibilities with the daughter branches at district level.

One significant way in which these reorganised public companies differed was that they combined responsibility for finance and operations in a single commercial body. They therefore know how much they could expect from public funds and how much they would have to find from alternative channels. Between 1992 and 2002 Chengtou brought in 124 billion yuan (US\$ 14.98 billion) of public finance and non-government investment for urban infrastructure in Shanghai. The money was invested in more than 40 key infrastructure projects (Liu, personal interview, 2002; Wang and Liu, 2004). However, between 1992 and 1997, Chengtou only received 600 million yuan of public finance, much less than it needed (and in fact spent) during the period. Some of the shortfall could be made good from fees and local taxation<sup>21</sup>, but the remainder had to be made good from other sources, including loans from domestic banks and international banks in countries like Germany and France, low-interest-rate loans from multinational organisations like the ADB and the World Bank, private investment, money raised from bonds issued<sup>22</sup> by Shang-

<sup>21</sup> The Shanghai authorities allowed Chengtou to collect no fewer than 24 kinds of local taxes and fees e.g. sewage fees.

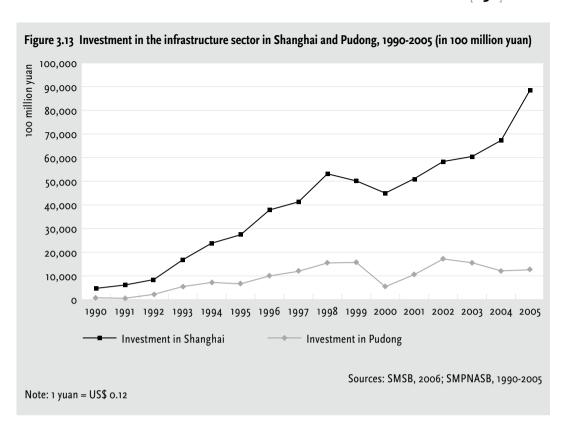
<sup>22</sup> The bond policy is also mentioned in the section on finance. In China the issue of bonds is highly constrained and tightly controlled by central government. Only bodies that have succeeded in obtaining approval from central government are allowed to issue bonds. In the light of the Pudong project, central government granted Shanghai the privilege of issuing bonds to raise money from the public for the development of Shanghai. In issuing bonds to raise funds for Shanghai's key infrastructural projects Chengtou was acting on behalf of local government.

hai and the stock market. Statistics for Chengtou show that out of the 124 billion yuan (US\$ 14.98 billion) raised by Chengtou, 50% came from bank loans, 25% from public funds, 10% from private sources for the sale or transfer of land-use rights to its own property, 8% from bonds and 3% from the capital market (Ji and Lu, 2004).

### Financial mechanism

Pudong's ambitious infrastructure plans required strong financial support. In the 15 years since 1990 (1990-2004), a total of 180 billion yuan was injected into Pudong's infrastructure. In fact between 1990 and 2001 more than 93 billion yuan (US\$ 11.23 billion) was invested, a dramatic average annual growth rate of 27.1%. Another statistic shows that between 1990 and 1999 a total of 77.4 billion yuan (US\$ 9.35 billion) was invested, 40% on civil engineering projects, 35% on transport and telecommunication, 13% on power and 12% on public utilities. These figures show the comprehensive nature of the upgrading of Pudong's infrastructure and public utilities, the speed at which the upgrading took place and the vast amount of money involved. These figures also reflect the dramatic 365 billion yuan (US\$ 44.08 billion) investment in infrastructure in Shanghai in 11 years (1990-2001), representing about 90% of the total investment in infrastructure in Shanghai in the 50-year period between 1950 and 2000 (SPNASB, 2005).

Public finance made a major contribution to the development of infrastructure in Pudong, especially in regard to a number of key projects. Since many of Pudong's key projects were also key projects for Shanghai (e.g. the 'three ports', 'three networks' and 'three systems'), Pudong received relatively more local government finance than other Shanghai districts. For example, 11% of the 200 billion yuan (US\$ 24.15 billion) invested in Shanghai's fixed assets in 1997 went to Pudong. In that year half the investment in key projects citywide went to Pudong. The Shanghai Municipal Government allocated Pudong 25 billion yuan (US\$ 3.02 billion) in the eighth five-year period (1990-1994) and 96.9 billion yuan (US\$ 11.7 billion) in the ninth five-year period (Chen, 2003, p. 108). Another point to be noted is the special effort made by central government, which considered the success of Pudong a matter of national importance. Central government agreed to allocate Pudong an annual 300 million yuan (US\$ 36.23 million) in the eighth and ninth five-year periods (1990-1999), either directly or through Shanghai Municipal Government. In the ninth fiveyear period, the amount of public finance actually reached 10 billion yuan (US\$ 1.21 billion), vastly more than the expected 1.5 billion yuan (US\$ 18.16 million). This increase was in line with the increase in the local budget to Pudong in the same period, which seems to have been an attempt to reduce the impact of the Asian economic crisis. Most of the money went to improving infrastructure in Pudong. Even though finance provided by central and local government advanced the development of infrastructure in Pudong, there was



still a big gap between total investment and the amount of public finance over the period, especially at the end of the 1980s and the beginning of the 1990s, when Shanghai's total annual budget for investment in infrastructure was no more than 1.9 billion yuan, much less than the amount actually required. The shortfall was generally made good from other sources.

The need to find alternative sources of finance for infrastructural projects was not only the main motive for pressing ahead with institutional reform within the infrastructure industry but also a major concern for the Shanghai authorities and the new public companies. The financial resources available for the development of infrastructure in Pudong could not be considered separately from the strategy for searching for sources of finance at city level. Three main phases can be distinguished, each characterised by a different emphasis on the source of finance for investment in infrastructure for Shanghai and Pudong as a whole.

The first phase was defined in the early stage of the Pudong development, when loans were one of the main sources of funds, second only to public finance. Each year from 1990 to 2000 Pudong borrowed US\$ 200 million in low-interest loans from the Bank of China. Other state-owned banks also entered into long-term contracts with Pudong to provide low-interest loans for a certain period. Other loans came from institutions such as the World Bank, the Asian Development Bank, foreign governments and foreign commercial banks. In total, US\$ 3.2 billion were raised through such channels (Wang and Liu, 2004). For example, Nanpu Bridge and Yangpu Bridge were both financed by low-interest loans granted by the Asian Development Bank. The inner ring

## Box 3.8 ADB and the Nanpu and Yangpu bridges

The development of the Nanpu and Yangpu bridges was one of the earliest initiatives to connect Pudong with Puxi. The proposal to construct these bridges was sent to central government in 1986, long before the authorisation of the Pudong development. The earliest funding amounted to 760 million yuan (US\$ 92 million). The actual cost was 820 million yuan which was partly financed by a US\$ 37.61 million loan from the Asian Development Bank. The process required the relocation of 113 businesses and 4,218 households and the building of 361,000 m² of accommodation to house relocated households. A further 43 ha of farmland were expropriated, requiring jobs to be found for the 1,200 farmers who lost their land

Source: Murray, Personal interview, 2002

road was financed by a loan from the World Bank. Metro line 2 was financed by loans from Germany (US\$ 488 million), France (US\$ 57 million) and the United States (not available). Pudong International airport was partly funded by a Japanese loan (US\$ 3.3 billion). A World Bank loan funded the Waigaoqiao thermal power project (US\$ 0.61 million) and the restructuring of Shanghai's port facility (US\$ 196 million) (Olds, 2001, p. 180; Liu, 2002; Ji and Lu Xinhuanet, July 4, 2004; World Bank; Shanghai WTO Research Centre; Window on China). The world's first commercial maglev elevated railway, which was completed and began its trial runs in December 2002, was supported by a German loan. One exceptional project that used private finance rather than international loans was the upgrading of existing terminals in Shanghai's Waigaoqiao port, for which Li Ka-shing's Hutchison International Terminals (HIT), an arm of Hutchison Whampoa, formed a fifty-fifty joint venture with the Shanghai Port Authority.

The second phase took place during the mid-1990s, by which time land had become a major source of government income and a major source of funds for infrastructural investment. The newly regulated land market in Pudong and in Shanghai generated more than 100 billion yuan (US\$ 12.08 billion) for Shanghai and for Pudong from the transfer of land-use rights.

The third phase took place in the late 1990s, during which various innovative methods were tested for obtaining non-government finance. The sharp decrease in the number of developers and land transfer deals during the Asian economic crisis meant that land market revenue decreased dramatically, forcing Shanghai and Pudong to be more open to any possible sources of financial support. FDI, domestic private finance, bonds, the stock market, investment funds, the new real estate investment trusts and other types of funds from the real estate or financial sector were all welcomed and quickly tried out in practice. For example, 10 billion yuan (US\$ 1.21 billion) was raised by listing existing infrastructure on the stock market. Another 10 billion yuan (US\$ 1.21 billion) in private finance was raised for the construction of highway projects. Bonds issued between 1995 and 2005 raised more than 12 billion yuan (US\$ 1.45 billion) for infrastructural development (Lingdao Juece Xinxi editorial board, 2002).

Foreign investment made a significant contribution to the development

Figure 3.14 Infrastructure projects funded by international loans. Top left: Nanpu Bridge; top right: Yangpu Bridge; centre: Pudong International Airport; bottom left: Maglev train; bottom right: metro line



of infrastructure and public utilities. In the 12 years from 1990 to 2002, US\$ 10 billion came from foreign investment, including US\$ 4.3 billion in FDI and US\$ 1.2 billion in loans from foreign countries (Shanghai WTO research centre, 2002). The resulting funds were used for all kinds of infrastructure, and not only made a major contribution to Shanghai's limited infrastructure budget but also indirectly influenced the decision-making process for Shanghai's urban redevelopment. A further input resulting from the acceptance of foreign finance was the transfer of advanced technology and management skills lacking in Shanghai, such as knowledge of tendering systems, capacity training programs and relocation policy, as evident in the Nanpu and Yangpu bridge

projects. The choice of projects which were considered suitable for alternative financing and those which fell mainly within the concern of public finance depended on their anticipated profitability of the project. Profitable projects were those involved with water, electricity, heating, gas, public transport, the metro, sewage treatment, and waste disposal. Unprofitable projects involved toll-free roads and bridges, flood protection systems, disaster prevention systems, sanitation, environmental protection, river purification treatments and the protection of water resources. The public purse continued to be used as the main source of funds for unprofitable projects. For profitable projects, the government was prepared to give up control and allow private sector investment from inside and outside China by public companies, joint ventures, investment funds etc. and public investment in bonds or shares. It was also prepared to allow arrangements such as build, BOT, BOO, build and transfer (BT) and transfer, operate and transfer (TOT).

Chengtou, like its predecessor Jiushi, was already playing an active role in involving private finance. In 1994, a joint venture company set up by Chengtou and Jiushi granted a short-term (15 year) lease on operating rights to the Nanpu and Yangpu bridges and the Dapu road tunnel to CITIC Pacific<sup>23</sup>, a Hong Kong company with strong connections with the political world in Beijing. The 2.475 billion yuan (US\$ 29.89 million) raised was used to build the Xupu bridge over the Huangpu. After this experiment, Chengtou decided to involve private finance directly in the construction of infrastructure by a BOT arrangement for the Lupu bridge. The construction of the bridge was organised and financed by six companies, led by China State Shipbuilding Corporation and Jiangnan Shipyard (Group) Co. Ltd.

With years of experience behind it, Chengtou decided to further reform its public utility activities. In 2000 and 2001 Chengtou reorganised its subsidiaries and set up three new companies, Shanghai Civil Work Property Management Ltd. (Shanghai Shizheng Zichan Jingying Gongsi), Shanghai Water Property Management Ltd. (Shanghai Shuiwu Zichan Jingying Gongsi) and Shanghai Transportation Investment Group, Ltd. (Shanghai Jiaotong Touzi Jituan Youxian Gongsi), specialising in investment, management and maintenance of public utilities. The link between Chengtou and each of these companies was determined by the size of its shareholding, which in turn depended on the size of its investment. This arrangement created a win-win situation for Chengtou and any of its possible future partners. For Chengtou it was a positive way of clarifying its own interest after heavy investment. Previously any profit had gone to

<sup>23</sup> CITIC Pacific (Zhongxin Taifu) is a Hong Kong company. Its major shareholder is CITIC Hong Kong (Holdings) Ltd, a wholly owned subsidiary of CITIC Beijing, Peoples' Republic of China. CITIC was set up by former vice premier Rong Yiren, China's most famous 'red capitalist'. In 2005 his son Rong Zhijian became president of CITIC.

### Box 3.9 Involvement of private finance in key infrastructure projects in Shanghai

The device of transferring operating rights as applied to the Nanpu and Yangpu bridges was later repeated to fund other key infrastructure projects in Shanghai. One example was the transfer of operating rights to part of the Puxi inner ring road, involving the sale of 35% of the operating rights for the bridges (*Neihuaxian Gaojia*) to the inner ring road to Shanghai Industrial Investment (Holdings) Co. Ltd. (*Shanghai Shiye Jituan*) for US\$ 600 million, which sum was used to finance the Yan'an Bridge (*Gaojia*).

In March 2002, Chengtou sold 99.35% of its shares in the Huhang highway to Fuxi, a Chinese private company, granting Fuxi 30 years operating rights to Huhang Highway for a total investment of 3.21 billion yuan (US\$ 39 million). The deal included tolls, service stations, service areas, advertisements and related sources of income along the highway and a further expansion project to widen the four-lane highway into six lanes. Chengtou planned to invest the substantial sum received in new highways, water treatment and waste disposal projects.

The experience gained from directly involving private finance in Lupu Bridge was later used for the construction of the Hulu highway, the main backbone linking Shanghai to the Yangshan deep water harbour, its newest key infrastructure project. In May 2002, Chengtou joined with several other private companies to set up a project company to take charge of the Hulu highway project. Chengtou held 30% of the shares in this company, the remaining 65% being divided between three private companies, Nongkai, Huaxin and Longcang. A marginal 5% was held by a state-owned construction company.

The transfer of operating rights or direct involvement of private finance in the construction of infrastructure allowed Chengtou to lay its hands on extra finance to speed up its investment in key infrastructure projects far beyond the scope of the available public finance. The private sector also benefited from being allowed for the first time to become involved in an industry that had previously been fully controlled by the public sector. Further, the experiment of mixed ownership in the construction of the Hulu highway and similar projects provided an alternative to simple privatisation. The public sector, which still partly controlled the process, could be more confident that the public interest would be served than if it handed over complete control to the private sector, which it still did not completely trust

Source: Liu, personal interview, 2002; Wang and Liu, 2004

the individual public utility company, even though the investment had been made by Chengtou. Other companies with an interest in this kind of business now had the chance to become involved by buying or selling shares in Chengtou. For the three public utility companies, the balance sheet and profit and loss account were matters of primary importance, encouraging them to improve their service and management skills by introducing extra investment and advanced technology.

Shanghai Water Property Management Ltd. was one of the first companies to start such an experiment. In 2002, it tendered for a variety of projects, one

of which involved setting up a joint venture company by selling 50% of its shares in Shanghai Water Property Management Ltd. (Pudong Branch) and transferring 50% of its operating rights for 50 years to its partner in Pudong Water Plant. In 2002 a deal was finally struck with the French Vivendi Water for US\$ 92 million, 2.66 times the original tender. On 30 August, Shanghai Vivendi Water Ltd. became the first joint-venture company in China to directly involve foreign investors in a total package of service and management in the water industry. Another project was a BOT arrangement to construct the Zhuyuan sewage treatment plant, a plant with sufficient capacity to treat 1.7 million tons per day. Shanghai Youlian United Ltd, a joint venture company involving the three private companies Shanghai Youlian Ltd., Shanghai Jiangong, and Bejing Huajin, won the bid for 20 years special operating rights. Shanghai Youlian Ltd. owned 85% of the total shares in the company. It is believed that this was the first Chinese private company to become involved in the water industry. Recent figures show that the management strategies and skills brought in by the private sector resulted in reducing its operating costs from 0.33 yuan/ton (US\$ 0.04/ton) to 0.22 yuan/ton (US\$ 0.03/ton). These measures enabled Shanghai Water Property Management Ltd. to raise 4.6 billion yuan (US\$ 55.56 million) on the stock exchange for further investment in new water and sewage plants for better service at lower cost (Liu, personal interview 2002; Ding, China Business News, Dec. 2, 2004; Wang and Liu, 2004).

The private organisations that became involved in infrastructure included both state-owned enterprises and private companies from Shanghai and other provinces. A number of foreign investors also became involved. In recent years these organisations have invested an enormous amount of money in Shanghai and Pudong's infrastructure and interest continues to increase. However, traditionally the level of trust between the private sector and public sector has been very low, partly for historical reasons and partly because of the existing legal system. What motives persuaded private organisations to enter into partnership with the public sector? After all, in most branches of industry the domestic private sector receives unfavourable treatment in matters such as finance, taxation and even permission to participate. It may not be possible to provide a complete answer to this question, but some idea was obtained from interviews and research.

One main reason was the generally assured economic return. In the case of Lupu Bridge, local government guaranteed a return of 9.7%, i.e. an annual return of 240 million yuan (US\$ 28.99 million) including cost and maintenance fee. Local government also granted 25 years operating rights, based on a calculation that 20 years would be required to recover the original cost, so allowing 5 years of profit. The investors were also granted the right to use the bridge for other commercial purposes (Liu, personal interview, 2004). In the case of Shanghai Vivendi Water Ltd., the French Vivendi Water could expect a profit in the medium-term of 12-18%.

Another reason was the potential market available to the infrastructure industry. Private investment, in China and abroad, is constantly looking for potential markets. The infrastructure industry offers the private sector a new field of activity. The earlier the investment, the better.

Early experience with market reform shows that the earliest entrants to the Chinese market could expect a high economic return, though they could also face high risk. However, once good relationships had been established with local public partners, private investors could reasonably expect to become involved in other profitable projects.

A third reason could have been the mutual benefit arising from collaboration between the public sector and private organisations. The amount of attention paid to each collaboration, locally and internationally, constrained both parties to keep to the terms of the original agreement. Long-term considerations were important for both sides. Shanghai and Pudong offered the Chinese private sector a more level playing field than most other Chinese cities, on which to participate and compete in the infrastructure industry by public tender, even though the private sector was still generally at a disadvantage by comparison with the public sector and foreign investors.

The experiment of involving the private sector helped Shanghai to gain more knowledge of the market mechanism and experience in collaborating with the private sector. However, the experiment has not been without problems or controversy. In particular, public sector knowledge of finance, contracts and corporate governance was still inadequate by comparison with that of its private counterparts. Consider the most famous example, the transfer of the Nanpu and Yangpu bridges. A five-year negotiation between CITIC Pacific and its public sector partner was completed in 2003, marking the premature termination of the first infrastructure project to involve private finance.

The direct cause of this premature termination was the abandonment of the toll system, the project's main source of profit, because of the traffic problems it created. The rapid increase in the amount of traffic using the bridges and tunnels meant that cars waiting to pay the toll caused enormous traffic jams on both sides of the Huangpu, damaging the investment environment in Puxi and Pudong. In 2000 therefore local government decided to abandon the toll system and use local taxation to pay back CITIC Pacific. However, the extra taxation was far from sufficient to satisfy the terms of the contract. The 200 million yuan shortfall (US\$ 24.15 million) had to be made good from the public purse, from Chengtou and from an increased car tax, a difficult thing to achieve. The enormous financial pressure forced Shanghai authorities to negotiate with CITIC Pacific to reduce the guaranteed economic return from 15% to 8-9%, a proposal which was hardly attractive to CITIC Pacific. Until 2002, 18-19% of CITIC Pacific's total profits had come from its Shanghai infrastructure projects. Each side therefore hoped to find a more acceptable solution which would secure its own interests while not jeopardising the partnership established over the years in this and many other cooperative projects. After five years of discussion and negotiation, a deal was finally sealed. CITIC Pacific sold back its rights to Shanghai's infrastructure projects for HK\$ 6.16 billion (US\$ 79 million), leaving it with a profit of HK\$ 320 million (US\$ 40.93 million) (Tong and Shen, 2003).

Perhaps the real reason underlying this problematic contract was the public sector's lack of business sense and financial experience and its awkwardness in dealing with contractual obligations. For example, government guaranteed a yield of 15% without considering possible changes in the economic situation or the financial market, so that the contract took no account of possible interest rate changes and the effect such changes could have on the financial outcome. Thus in 1994 the private partner was guaranteed a risk-free yield of 15%. By 2002 this was worth 5-6 times more because of the change in the renminbi interest rate (from 21.8% in 1994 to 15% in 2003, 10.98% in 1995 and 1.58% in 2003). Only when the contract became impossible to fulfil, did local government realise that it was faced with an impossible financial burden.

It appears that the collaboration between Shanghai and CITIC Pacific was not the only case when this kind of trouble was experienced. Local authorities in Fuzhou, Changcun and Chongqing also became involved in lawsuits with private partners because of similar situations arising from infrastructural projects. These cases raised substantial doubts about the public sector's ability to deal with the private sector in infrastructural projects. Thus it was not surprising when in September 2002 the state council issued document no. 43 - Circular of the General Office of the State Council on Issues Related to the Proper Disposal of Existing Projects with Guaranteed Fixed Returns for Foreign Investors (Guowuyuan bangongting guanyu tuoshan chuli xianyou baozhang waifang touzi guding huibao xiangmu youguan wenti de tongzhi) to prevent local government promising foreign investors a fixed economic return on infrastructural projects. Chinese researchers also warned of problems that could be created by inequitable BOT contracts in the Chinese infrastructure industry.

The realisation of such a large number of key projects in the short period since 1990 had much to do with external and internal forces operating at national, local and district level, such as economic factors, preferential policies and financial input from national and local government. However, it could not have been possible without the key role played by public companies after the institutional reorganisation. The way these public companies approached the market not only created more efficiency in their own organisations but also attracted large sums of investment though innovative financial devices. Collaboration with international institutions like the ADB and the World Bank provided SMG with valuable knowledge and expertise on working with nongovernmental organisations and the private sector generally. This experience was enlarged by further collaboration with the private sector in China and

abroad. The advanced technology, management skills, financial ability and cost-benefit analysis techniques learned from the private sector increased efficiency, reduced costs and ultimately gave individual citizens the benefit of better public services. The recognition of these advantages by the public sector led Shanghai to further collaboration with the private sector on public service projects. Indeed certain tasks were handed over to the private sector in their entirety.

Thus as trust increased between government and the private sector there was a shift in the financing of infrastructure development from public finance to private investment. The strict distinction between public and private became blurred. The experimental leasing of operating rights and subsequent public bond issues helped Shanghai to obtain an amount of money which would have been impossible to obtain from the public purse. Various organisations traditionally forbidden to participate in the infrastructure industry became actively involved in water management and transport. The substantial amount of investment required came from a combination of public funds and private investment, from domestic and foreign sources, moving the infrastructure industry into the fast track.

The methods adopted by Chengtou and Jiushi have had a major effect on the approaches taken by other Chinese cities to their infrastructural development. In fact the desire for extra finance for infrastructure is to be found throughout China. The very limited public budget available for infrastructure means that many cities are desperate for finance from non-governmental sources. Statistics show that 700 billion yuan (US\$ 84.54 billion) was invested in urban infrastructure in China in the ninth five-year period (1996-2000). Another 1,000 billion yuan (US\$ 120.77 billion) was required in the tenth five-year period (2001-2005), but the total budget from central and local government amounts to no more than 200-300 million yuan (US\$ 24-36 million), which meant that the remaining 700 million yuan (US\$ 84.54 billion) had to come from loans, FDI or private finance (Ding, China Business News, Dec. 2, 2004). The method of operation adopted by Chengtou and other public companies in Shanghai has attracted a good deal of attention from other Chinese cities. Cities like Beijing, Tianjin, Chongqing, Guangzhou, Wuhan, Nanjing, Chengdu, Kunmin, Yinchuan and Huhhot have followed what has become known as the Shanghai model by setting up their own Chengtous to encourage investment in infrastructure (Guo, China Economic Herald, Aug. 3, 2004).

# 3.2.3 Infrastructure and the Pudong development

The dramatic change in the system used to provide infrastructure for Pudong were brought about by a number of different factors.

The first factor was the active approach to financing adopted by the infrastructure industry which meant that capital could be attracted from various

Figure 3.15 Infrastructure development in Pudong: new highways link new neighbourhoods in Pudong with downtown Shanghai, 2006



Source: CNAP

sources. The sources used were a mixture of domestic and foreign, ranging through international and domestic loans, bonds, investment funds, and the stock market to private finance. It is interesting to note that a large number of key infrastructural projects were funded, directly or indirectly, by global capital, as in the case of the construction of the metro lines and the first two bridges between Pudong and Puxi. Preferential treatment was the main strategy employed by Shanghai to attract overseas investment and to create

a more attractive investment climate. And capital flows are always accompanied by the transfer of information, technology and the kind of mindset that led to the reform and reorganisation of the traditional institutional system and the appearance of public companies like Jiushi and Chengtou.

The second factor was the public companies and the operational strategies they applied to their infrastructural projects. These companies replaced the traditional government organisations to become leading participants in the infrastructure industry and the development of Pudong's infrastructure. By comparison with bureaucratic government departments, they tended to focus more on cost-benefit analysis and therefore were more businesslike, more efficient, more open to new ideas and more willing to collaborate with the private sector. Earlier collaboration with multi-national organisations brought them advanced technology and improved their management skills. Chengtou and other public companies generally established project companies to implement their projects and concentrated on finding finance or partners willing to form a joint venture or buy shares in the project company. This was one method used to raise private finance for infrastructure projects. Another method was to list project companies on the stock exchange and so give them access to the capital market. Finally, the ability to adapt to changing economic circumstances was clearly evident in the financial strategies applied.

The third factor was that the construction of infrastructure was based on a long-term vision and a number of short-term action plans, a strategy not unlike that used by the central planning system but more sensitive to change and market reaction. This complex planning system to some extent helped the public sector to set its budget to ensure the realisation of key infrastructural projects; it has also helped the private sector to decide where investments should be made. In this sense, infrastructure plans, long-term and short-term, undoubtedly played a role in directing public and private finance to the area to which the public sector hoped to give priority, adding to the speed of development.

# 3.3 Real estate market

Land and real estate are inseparable components of a real estate market (Syms, 2002; Carn et al., 1988). As an urban redevelopment project, real estate development played a significant role in determining and accelerating Pudong's development. The reintroduction of Shanghai's real estate market was designed to address two needs, the need for China's economy to involve the private sector in land, plant, warehouses and residential property in a way that would have been impossible under the old system, and the nationwide need for improved housing, particularly severe in Shanghai. The limited public budget made it impossible for the housing allocation system to satisfy the

Source: CNAP

Figure 3.16 A real estate market on the rise, 2006. The boom in real estate in Shanghai extended beyond downtown Puxi into an emergent Pudong

enormous demand for new housing.

Land and housing reform were introduced in Shanghai to encourage the transfer of land and property for value and so support the growth of a real estate market. Such transfers had been standard in Pudong since the early 1990s. As a late starter, Pudong, unlike downtown Shanghai, had the advantage of being able to introduce a series of reforms to the marketing of land and real estate development without coming up against entrenched interests. Thus Pudong became a laboratory for Shanghai's experiments in reform. The success of the Pudong operation would provide a basis for Shanghai local government to decide whether their reforms should be applied to the metropolitan area as a whole. Pudong's real estate market grew dramatically, taking an increasing share of Shanghai's office space, housing and industrial building. In due course the Pudong property market became a more and more essential part of the real estate market in Shanghai as a whole.

# 3.3.1 The Shanghai real estate market

#### Land and housing reform

China's reformists recognised the importance of reintroducing the markets in land and real estate that existed in the 1980s. The main aim of land reform was to move from administrative allocation of state-owned land (xingzhen huabo) to free transfer (wuchang) for an unlimited period (wuxianqi) and final-



Figure 3.17 Old Linong houses in Pudong before 1990

Source: Wang and Xia, 2001

ly to a new market system (shichang jingji shouduan) in which land-use rights would be transferred for an agreed period (youxianqi shiyong) against payment (youchang) (Lu, 1999, p. 238). The move involved legislation and administrative change but also affected various economic interests. The central aim of housing reform was to use the emerging real estate market to commoditise and commercialise housing. Housing reform was another key factor in encouraging the growth of China's real estate market. In fact, Zhang and Wang (2000, p. 223) went so far as to suggest that 'the re-establishment of a real estate market in China actually began with the breakthrough of housing reform'.

At the end of the 1970s housing reform began to tackle the problems of housing shortage and poor housing quality prevalent in Chinese cities (see Figure 3.17, Figure 3.18 and Box 3.10). The basic approach to the reform of urban housing reform was set out in a speech made by Deng Xiaoping in 1980. Deng's ideas can be summarised as follows:





- Urban housing should be treated as a commodity, capable of being sold to and owned by its occupiers, rather than welfare or a public benefit provided by government or society.
- 2. The low level of rent charged under the existing controlled rent system should be raised to market level to encourage people to buy rather than renting.
- Investment in urban housing should come through many different channels and the approach to construction should be flexible, so that the burden of providing accommodation for urban residents would be shared between individuals and government.

Shanghai was one of the few Chinese cities to conduct a series of pilot housing reforms to attempt to reduce its housing problems. Reforms introduced since 1980 involved the introduction of new housing construction systems, the establishment of housing corporations, the sale of houses to overseas Chinese, the sale of houses to local residents at subsidised prices, rent reform, the establishment of a housing provident fund and the privatisation of public housing. In 1991, after more than 10 years of experiment, citywide surveys, consultation and feedback, the Shanghai Housing Reform Implementation scheme (Shanghaishi zhufang zhidu gaige shishi fang'an) became law. The central aims of the scheme were to commercialise housing with the help of housing finance support (the housing provident fund), to discourage the allocation system by subsidising households while steadily increasing the rent for public housing, paying construction bonds for receiving allocated housing, privatising public housing and encouraging the commoditisation of housing by providing incentives such as tax relief for housing purchased on the mar-

### Box 3.10 Shanghai's housing problem before reform

In the 1970s and 1980s Shanghai was notorious for its housing shortage. A report published in 1979 gave figures for households experiencing the worst housing in Shanghai: 29,200 married couples had no home of their own, 16,600 households had less than 2 m<sup>2</sup> of net floor area per capita, 13,000 households were made up of several couples sharing the same space, 1,200 households which had migrated to Shanghai had nowhere to live and a further 45,000 households were demanding the return of homes illegally occupied during the Cultural Revolution. In total, 3.3 million m<sup>2</sup> of housing were needed. Another survey conducted in 1981 reported on the general nature of the housing shortage in Shanghai. 602,000 households, i.e. 37.6%, were suffering a serious housing shortage. 445,000 of these households had a net floor area per capita of less than 4 m² and a further 157,000 households were made up of two or three generations sharing the same space. 400,000 young couples were waiting to be housed. Estimates of the amount of housing needed to make good the shortage and satisfy the increase in housing requirements forecast for the period 1982-1990 ranged between 13 and 22 million m<sup>2</sup>.

Source: Lu, 1999

ket (Lu, 1999; Zhou, 2003). The establishment of a housing market became increasingly important to Shanghai's housing reforms. The first housing market in Shanghai was established in 1979 (Zhao, personal interview, 2002). Luxury houses were sold on a commercial basis to overseas Chinese and their relatives and later to Shanghainese with sufficient purchasing power. Other houses were also made available to Shanghainese on a commercial basis, though preference was given to those with a serious housing problem. These two sections formed the entire internal housing market, a market which was only open to Chinese clients, though there was also an external housing market providing houses for foreign buyers. The difference between the two markets was that land used by the external market was transferred against payment of a fee for land-use rights, whereas land used by the internal housing market was either allocated free of charge or for a fee below the commercial rate. The two housing markets were finally integrated in 2001, when the same land transfer fee was charged to both Chinese and foreign investors, regardless of origin, so encouraging the development of a more healthy and mature real estate market.

#### **Evolution**

The reintroduction of the market in land and housing satisfied the basic conditions for the emergence of a real estate market in Shanghai. The development of this market went through three critical phases (Zhang and Wang, 2000):

1. In the preparation phase (1978-1987), a breakthrough in housing reform was achieved by the recognition of the commodity market, with housing as one of the most significant commodities. The experimental sale of public housing as an alternative to renting began in 1982, the State Council is-

sued its Administrative Method for Individual Urban Citizens to Construct Housing (Chengzhen geren jianzao zhuzhai guanli banfa) in May 1983. Tentative Methods for Urban and County Construction Development Companies (Chengxiang jianshe zonghe kaifa gongsi zhanxing banfa) was issued in October 1984 to regulate the earliest form of publicly owned real estate companies involved in the provision of urban housing. The first national survey of the housing situation was conducted in 1985 to provide more information for the coming reforms. These four steps helped to provide a basis for the series of housing reforms to be implemented in China in general and Shanghai in particular. Land reform was also under scrutiny, particularly Shanghai's 1986 experiment of charging foreign enterprises a fee for landuse rights. These experiments provided experience and a legal foundation for the further development of Shanghai's real estate market.

2. In the growth phase (1988-1991) the land market experienced an increasing number of land transfer deals, followed by increasing investment in urban development and improvement of infrastructure. The beginning of this phase was marked by the constitutional definition of property boundaries in state-owned land, required to make possible the transfer of urban land-use rights. A series of land reform measures were initiated to accompany the People's Republic of China Land Administration Act. Hongqiao's land bid led to the rapid expansion of the land market in Shanghai. In three years, twelve plots of land were leased with a total area of 953.36 ha, though only 1.74% was leased specifically for real estate use, the remainder being leased to development companies for further land development. Table 3.4 shows that land transfer deals in Shanghai went through two peak periods in 1993 and 2002 and two downturns in 1995 and 1999. The changes were greatly influenced by the economic situation at the time and countermeasures taken by national government. In 1995, after the rapid growth at the beginning of the 1990s, national government tried to curb symptoms of overheating by severely restricting the bank loans which had powered the first wave of land transfers. The later relaxation of this policy contributed to a new wave of activity in real estate, but this was followed in 1997-1999 by the downturn brought about by the Asian economic crisis. The third wave started at the end of that crisis and continue to gain strength, though it was feared that more problems would arise in 2005, following warnings about real estate bubbles and the possibility of strict national financial policies to restrict bank loans. This fear led local government to reduce the total supply of land. Whether this will cause a new downturn is yet to be seen. It is interesting to note that as the land market became more tightly regulated, more land was granted to real estate developers rather than public companies operating in different development zones. In the last decade the amount of land transferred between local government and public companies dropped steadily. Table 3.4 shows the substantial

Table 3.4 Land transfer in Shanghai, 1988-2004											
		Land area	Developable	Types of housing (10,000 m²)							
Year	Land area (ha)	of land tracts (ha)	area (10,000 m²)	Residential	Composite	Commercial	Industrial	Other			
1988 -1994	9618.73	7590.07	2788.02	758.26	1178.15	_	780.11	71.50			
1995	998.47	757.18	1234.21	444.49	196.45	-	417.99	175.28			
1996	878.99	457.89	1365.41	858.29	169.43	-	273.07	64.62			
1997	1426.06	886.80	1962.11	1308.19	190.29	-	325.29	138.34			
1998	1058.17	771.70	1929.96	1193.88	271.58	-	385.38	79.13			
1999	954.53	79.00	1240.98	919.10	69.77	-	138.41	113.70			
2000	1729.54	-	1991.42	1352.82	38.19	-	430.50	169.91			
2001	2517.10	_	3152.53	1693.63	227.58	-	1127.15	104.17			
2002	3817.99	_	4724.88	2524.64	371.23	111.93	1717.08	-			
2003	6985.85	_	6991.36	3149.21	701.17	464.61	2561.66	114.71			
2004	7135.60	_	8052.05	2888.28	981.96	490.12	3578.06	113.62			
Total	37175.02	10542.64	35432.93	17090.79	4395.80	1066.66	11734.7	1144.98			

Note: This table excludes land areas and gross floor areas of lots granted for which the contract was terminated and acquired by paying land premium.

Source: SMHLRAB and SMSB, 2005, p. 54

amount of building land that has been or is to be realised by land transfer. The size of the figures suggests a direct connection between the amount of land available on the market and the explosive growth in the amount of real estate achieved.

3. In the overall development phase (1991 to date), both land reform and housing reform made further advances. Not only did the supply and demand sides of the local real estate market become more competitive, but related businesses sprang up to provide real estate finance, property management, intermediary market and other services. This rapid development was encouraged by the continuing housing reform, with the State Council issuing a document to encourage urban housing reform in all cities and those towns capable of implementing the necessary measures. Shanghai's real estate market was stimulated by an increasing demand for housing and of course the development of Pudong. Shanghai, afraid of opposition from existing interest groups and possible failure, still hesitated to introduce its reforms in other parts of the city. Accordingly Pudong, relatively isolated from Puxi's location in downtown Shanghai, was used for the experimental application of a number of bold measures such as a fully operational land market and the abolition of the old allocation system (See Chapter 2 and Section 3.2).

In the 25 years during which Shanghai was gradually preparing and setting up its real estate market, investment in fixed assets and real estate increased

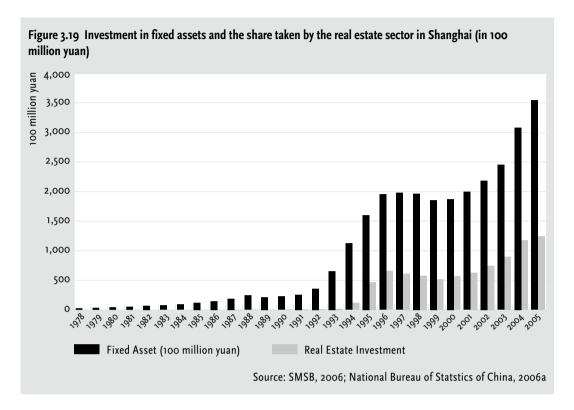
rapidly. Figure 3.19 shows the boom in the real estate sector in the 1990s and the further boom in the early 2000s. It also shows the downturn between 1996 and 1999, the approximate period covered by the Asian economic crisis. In general, the growth of the real estate sector was truly spectacular, whether in terms of investment volume or area constructed. For example, the annual investment in real estate in 2002 was 15 times greater than the total investment in the 7-year period 1986-1992. In the same year the area of real estate construction was equal to four-fifths of the total area of construction in the same 7-year period (SMHLRAB and SMSB, 2003; Shanghai Real Estate Market, p. 49).

Land and housing reform could only provide the conditions necessary for and favourable to the emergence of a real estate market. The growth of the real estate market and the real estate sector generally depended on a multitude of factors affecting supply and demand. More important, Pudong's infant real estate market not only depended on investor interest but also on the healthy growth of Shanghai's real estate market generally. What factors stimulated Shanghai's real estate boom? Were those factors capable of supporting sustained growth? The answers to these questions could help to provide an understanding of the status of real estate in Pudong and how it could benefit from growth in Shanghai's real estate market.

### Supply and demand

'All commodity markets, including real estate markets, are composed of two distinct groups of participants. First, there is a group of individuals who are able and willing to purchase the commodity – the demand side of the market – who represent the consumers. Second, there is a group that is able and willing to produce and make the product available for sale – the supply side of the market. There are distinct and often unique demand and supply characteristics for each specific real estate submarket' (Carn et al., 1988, p. 68).

The real estate sector is not isolated but is closely linked with the local economy and the resultant demand for space. The increase in employment and purchasing power generated by local economic growth increases the demand for goods and services, thus creating further employment and new non-basic employment. 'Simply stated, a one-unit change in basic employment causes more than a one-unit change in total employment. This phenomenon is called the internal multiplier effect' (Carn et al., 1988, p. 43). By the same token, local demand for housing, retail and office space is determined in part by the economic growth of the community, but growth in the real estate sector stimulates the local economy to further growth. To understand the growth of Shanghai's real estate market it is necessary to examine a range of factors capable of contributing to the creation of supply and demand. The following



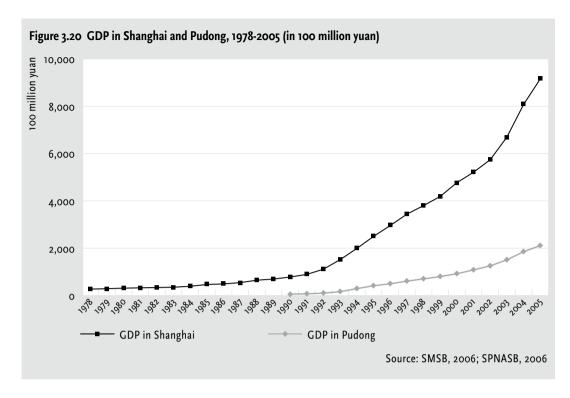
analysis highlights a number of issues including the potential of the local economy, the demand for urban development and the demand for real estate as a commodity.

1. Rapid growth in the local economy provided a powerful impetus to an emerging real estate market. - The development of Shanghai was directly related to national economic reform and the open door policy introduced in China at the end of the 1970s. Even though China has experienced its downturns, in general those reforms helped it to achieve greater economic efficiency and stimulated rapid economic growth. Official figures show that over the 20 year period 1980-2000 China's economy grew at an annual rate of 9.5%. The vast untapped market of a potential 1.3 billion customers acted as an enormous magnet attracting investors to seek business opportunities in China. The booming economy created extra opportunities for Chinese labour and the consumer market. In 2005 China overtook the United States to become the biggest consumer market in the world. The country's economic growth and generally successful economic strategy enabled the construction industry and the real estate market to attract extra investment, while increasing purchasing power stimulated the demand side. The economy of Shanghai, China's biggest city and most important business centre, increasingly became the symbol and measure of China's economic development. Although Shanghai too experienced a number of downturns, it quickly caught up with the boom cities in South China, which had been granted autonomy early in the period of economic reform. Shanghai's share in the national GDP before 1988 was almost twice that of Beijing, and its average annual growth of 10.2% was the highest for any

city in China (Yusuf and Wu, 2001; SMSB, 2006; SPNASB, 2006) (See Figure 3.20). Between 1990 and 2001 Pudong's GDP grew at the even more amazing rate of 26% annually. This enormous economic progress was not limited to Shanghai: since the start of economic reform the Yangtze valley and Shanghai's hinterland generally also became prosperous. Each city in the area devised its own strategy to create the most efficient links with Shanghai by improving transport facilities and telecommunications and opening branches in Shanghai. Shanghai was still considered the main link with the outside world, geographically and economically. This idea also contributed to a rush of investment in business, trade and real estate in Shanghai in the 1980s and in Pudong in the early 1990s.

2. Inner city redevelopment and expansion into new districts fuelled the growth of the real estate market. - As the economy continued to grow, Shanghai started to pay more attention to its physical environment, not only because the municipality had a bigger budget for improving living conditions in the city but also because it saw such improvement as essential to creating a business environment that would attract investors. At the same time steady economic growth brought substantial revenue to local government, making it possible to provide strong financial support to a number of ambitious urban projects. The 1986 Shanghai master plan proposed a number of measures to deal with problems created by the overcrowded city centre, poor housing quality, inadequate infrastructure and inappropriate land use. These measures included building new urban districts to rehouse excess population, readjusting the land use plan and moving factories responsible for pollution out of the city centre, redeveloping old residential districts, constructing new residential areas, providing adequate infrastructure to link different districts and cleaning up the environment in the city centre, in other words a complete face-lift for Shanghai's crowded and polluted city centre.

A number of urban development and renewal projects forced Shanghai to face a large-scale process of demolition and resettlement, as shown in Table 3.5. An enormous amount of residential space was needed for people who had lost their old homes. By 1995, 3.2 million m² of residential space had been demolished, and by 2002 the figure had doubled (SMHL-RAB and SMSB, 2003, p. 47). Relocated households provided the majority of buyers of new homes, especially in the suburbs. In the last twenty years a large number of people living in the city centre moved out to new residential areas in the suburbs, partly because of the cost of resettlement. Since local government was responsible for resettling residents and businesses displaced by redevelopment, it had to take into account the relationship between the cost of resettlement and its potential income from land leasing. The population density in Chinese cities, the key principle that resettled households must be given adequate accom-



modation, and government-imposed minimum standards for quality and size (generally much higher than ever before), meant that redevelopment could be extremely expensive. Shanghai district government has reported that between 60 and 70% of its land lease revenue was needed to pay for resettlement. Each hectare of land cleared required the relocation of 800-1,000 people (Fu et al., 1999). The size of the resettlement effort forced district governments to change from on-site resettlement to off-site resettlement, further accelerating the process of urbanisation and the expansion of new districts in suburbs like Pudong, Minhang and Jiading. Pudong became the perfect choice for new relocation projects because of its cheap land. Several neighbourhoods were constructed in Pudong for households displaced by projects in Puxi and Pudong. One such neighbourhood was Pudong's Jinyang New Village, a mega-project designed to accommodate 100,000 people.

3. Foreign investment internationalised the local real estate market. - Despite its late arrival on the scene, Shanghai saw an inflow of FDI increasing from US\$ 177 million in 1990 to US\$ 5.85 billion in 2003, an increase of 32 times (see Figure 3.21). Statistics show that by 2000, 153 Fortune 500 companies had invested in 513 projects in Shanghai, with contracted funds amounting to US\$ 8.6 billion (People's Daily, 2000). Shanghai showed every sign of becoming an international financial centre, 'the nexus between that country's wealth and the global market and between foreign investors and that country's investment opportunities' (Sassen, 2000, p. 104).

The importance of foreign investment as a source of capital, 'raises the need to enhance a city's competitiveness' (Wu, 2002, p. 160). The increase in the number of banks and other organisations involved in trade, finance

Table 3.5 Completed demolition and resettlement in Shanghai, 1995-2004

Completed projects approved

	Gross floor area of buildings completed for demolition and resettlement (10,000m²)	Resi	dents	Flats (business entities)		
Year		Gross floor areas No. of households (10,000 m²)		No. of flats	Gross floor areas (10,000 m²)	
1995	322.77	73,695	253.90	2,682	68.87	
1996	342.95	86,481	258.86	2,651	84.09	
1997	479.68	77,388	363.16	2,469	116.52	
1998	449.68	75,157	343.94	2,282	105.59	
1999	342.50	73,709	248.17	1,476	94.32	
2000	365.76	68,293	288.35	2,313	77.40	
2001	515.65	71,909	386.66	1,819	128.99	
2002	644.53	98,714	485.00	2,383	159.54	
2003	584.93	79,077	475.47	1,781	109.46	
2004	580.11	55,398	445.67	1,357	134.44	
Total	4,628.40	759,821	3,549.18	21,213	1,079.22	

Note 1.: Figures shown for 2004 include urban districts and rural counties.

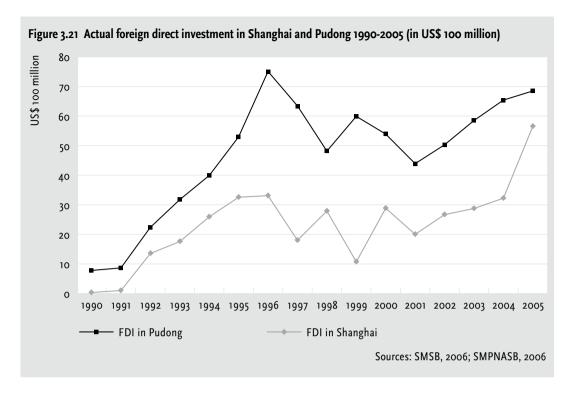
Note 2.: The figures shown in Table 3.5 differ from those in Table 3.3. The reason probably lies in the difference in copes between the two sets of figures.

Source: SMHLRAB and SMSB, 2005, p. 48

and insurance<sup>24</sup> forced Shanghai not only to provide increasing amounts of space for its manufacturing industry but also to give priority to satisfying the demand for office space, especially the high-quality office space required by foreign investors. Moreover its ambitious urban strategy created enormous opportunities for foreign investors wishing to profit from the local real estate market, and for businesses specialising in producing upmarket products for international investors and highly paid professionals.

4. Housing demand. - Housing demand became one of the main driving forces behind Shanghai's real estate market, particularly because the city was facing the results of decades of neglect and lack of investment. National statistics show that in 1998, after years of investment in housing and two decades of housing reform, the average net floor area per capita for urban residents was 8.8 m². 40% of homes had no toilet or kitchen. About 3 million urban households occupied a net floor area per capita of less than 4 m². Almost all housing stock required maintenance. Achieving the aim of increasing the net floor area per capita to 13.5 m² for 370 million permanent urban residents would require the construction of an extra 3.33 billion m² (on the assumption that construction area equals twice net floor area),

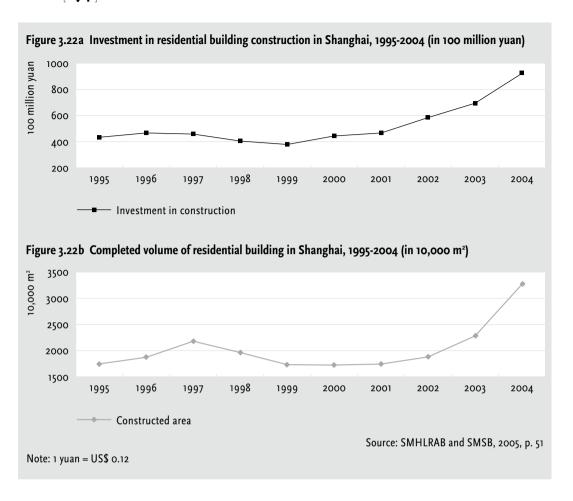
**<sup>24</sup>** For example, the number of insurers in Shanghai increased to 55, more than double the number in 2000. The number of insurance agents increased from one in 2000 to 92 in 2004.



an increase of 278 million m² every year until 2010. It was also estimated that 2.5% of the 4 billion m² of existing housing stock had deteriorated sufficiently to require demolition, necessitating replacement by 100 million m² of new housing stock, i.e. 12 million m² of construction area every year for 12 years. Moreover urbanisation was gathering speed: the expected growth of 30 to 45% would increase the size of the urban population by 260 million, requiring a further 7 billion m² of construction area in 12 years. In total, about 1 billion m² of construction area will be required each year for 12 years. If in addition 25% of the 4 billion m² of existing housing stock were to be improved by the provision of separate toilets and kitchens, the total housing demand would become even more enormous (Yan, 2005) Even in Pudong, whose 43.5 km² urban area in 1990 accounted for no more than 8% of the total area, the poor quality of most of the housing stock generated a high demand for better and more spacious housing.

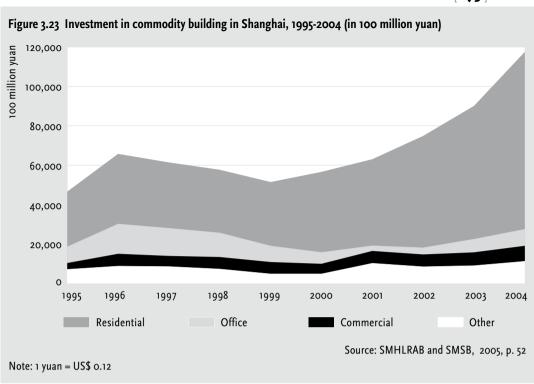
Over the last 15 years investment in residential property has shown strong growth (see Figure 3.22 and 3.23). Although the trend was disturbed between 1997 and 1999 by the Asian economic crisis, investment in residential building was generally not influenced by the global market situation, but rather reflected the strong local economy and growing local consumerism. One important thing to note is that investment in residential property accounted for 60% of total investment in real estate, increasing to 76% by 2003 as is shown in Figure 3.23. All these figures confirm the importance of the housing sector to Shanghai's real estate market.

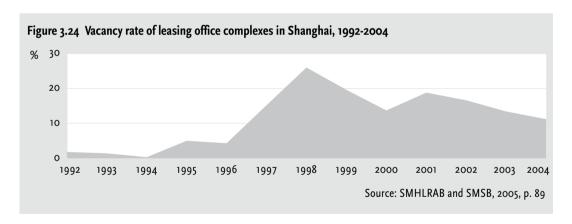
 Demand for commercial real estate. - Apart from housing, the booming economy and growing business sector created increased demand for commercial property for offices, retailing and other functions, for sale or rent.



The demand for office space was driven partly by local investors and partly by the entry of investors from other parts of China and abroad. The origin of the investors affected the nature of their demands for office space in terms of quality, rent and preferred location. Foreign investors tended to choose high quality office space (grade A or A+), whereas domestic investors would choose any of a wide variety of quality levels, ranging from A or A+ (especially for the financial sector) all the way down. As the number of links with the rest of the world increased, an increasing number of foreign businesses and banks started to look for high quality office space in Shanghai. Little such space was available. In 1994, Shanghai had only 194,000 m<sup>2</sup> of grade A office space, compared with five times more in Bangkok, 15 times more in Singapore and 23 times more in Hong Kong (Olds, 2001, p. 185). Many foreign companies had to operate out of four- or five-star hotels while waiting for the construction of new offices. As shown in Figure 3.23, investment in office building doubled in just one year, from 1995 to 1996. There are several possible reasons for such an increase. The shortage of office space, not to mention the high profit to be made from a short-term investment, might have sparked off investors' enthusiasm; another reason may have been the liberalisation of financial policy in 1995.

In the 1990s the real estate sector as a whole showed a strong and





steady increase in both investment and completed volume, as shown in Table 3.6. Investment almost doubled in the ten years from 1993 to 2002. However, this growth was not without its dangers. Unlike the continuing strong demand for housing and the boom in the housing market, the market in office space was more influenced by the state of the local and global economy, which directly impacted investors' decisions on capital allocation. Table 3.6 and 3.7 show that even though investment in office building grew sharply between 1995 and 1997, from 1997 onwards the local office market was deeply disturbed by the Asian economic crisis. Figure 3.24 shows the low occupancy of office space immediately before, during and after the crisis. Investment subsequently fell away sharply, from 15,083 million yuan (US\$ 1,821.62 million) in 1996 to 2,622 million yuan (US\$ 316.67) in 2001.

566.17

630.73

748.89

901.24

1175.46

6372.05

2000

2001

2002

2003

2004

Total

27.80

24.78

25.14

20.85

23.02

330.72

538.37

605.95

723.75

880.39

1152.44

6041.33

Table 3.6 Investment in development and construction of commodity building in Shanghai, 1986-2004							
	Annual investment amount (100 million yuan)			Construction area (10,000 m²)		Completed area (10,000 m²)	
Year	Sub-total	Central	Local	Sub-total	Including new construction	Sub-total	Including residential development
1988 -1994	250.63	12.63	238.00	11075.15	1959.67	1180.02	1097.41
1995	286.45	67.59	218.86	5074.80	1749.55	700.39	529.77
1996	454.79	17.62	437.17	6005.46	1469.08	1207.86	992.30
1997	515.78	52.03	463.75	5341.79	1431.88	1464.96	1207.86
1998	440.47	31.82	408.65	5416.10	1361.80	1565.34	1242.00
1999	401.44	27.44	374.00	5083.18	1308.60	1468.62	1229.23

5523.23

5986.18

6856.96

8267.51

9481.61

74111.97

1992.31

2426.75

2612.74

3134.53

3196.20

22643.11

Source: SMHLRAB and SMSB, 2005, p. 52

1643.62

1791.36

1984.68

2491.84

3443.02

18941.71

1388.01

1524.21

1708.11

2139.99

3076.19

16103.36

Table 3.7 Leasing of office complexes, 1995-2004 (in m²)							
Year	supply of the end of the year	Newly-added supply during the year	Supply available during the year	Occupied area during the year	Occupied area of the end of the year	Volume of vacancy during the year	Vacancy rate (%)
	Α	В	С	D	E	F	G
1995	251,597	101574	102065	89534	239066	12531	5.0
1996	258,225	6658	19189	8188	247254	11001	4.3
1997	235,472	-22783	-11782	-47574	199680	35792	15.2
1998	283,611	48139	83931	10259	209939	73672	26.0
1999	286,097	2486	76158	20221	230160	55937	19.60
2000	292,559	6462	62399	22215	252375	40184	13.7
2001	1,446,775	1154216	1194400	922567	1174942	271832	18.8
2002	1,556,504	109729	381561	123373	1298315	258188	16.6
2003	2,807,394	1250890	1509079	1132264	2430579	376815	13.4
2004	3,056,463	249069	625884	284897	2715476	340987	11.2

Note: In the Table,  $A = A_0 + B$ ,  $C = B + F_0$ , D = C - F,  $E = E_0 + D$ , F = A - E,  $G = F \div A(\%); A_0$ ,  $E_0$ ,  $F_0$  represent the figures for the previous year, B (newly added leasing area in the market during the year), includes newly added area for lease of projects completed earlier.

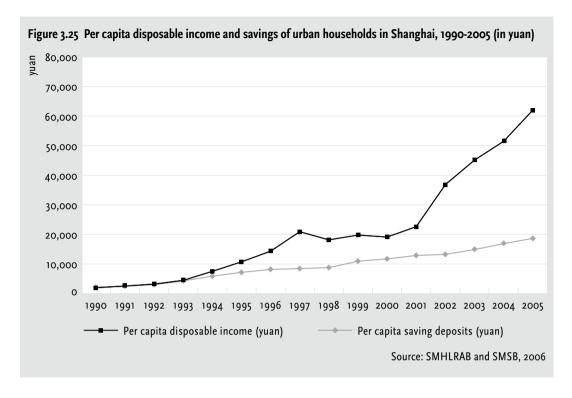
Source: SMHLRAB and SMSB, 2005, p. 89

Only in 2002 did the office market start its long slow recovery, albeit from very low level. The crisis in Shanghai's office market reflected the precarious nature of that market, causing many investors to question its future.

As already mentioned, many commercial buildings in the city centre were converted to provide space for manufacturing, so reducing commercial space to a minimum. Nor was sufficient attention paid to the provision of commercial space in the new districts. The general shortage of commercial space and the growing local demand for such space may well have been one of the main reasons for increasing investment in commercial real estate. Moreover the fact that the economic return on commercial commodities to both rents and taxation are profitable and the profitability of the service sector could be another reason for preferring this form of investment.

6. Empowering local purchasing power. - Even though privatisation of public housing was the driving force behind increasing house ownership, increases in purchasing power and the demand for improved living conditions also encouraged the rapid growth of the real estate sector and the sale of commercial houses<sup>25</sup>. Economic growth brought prosperity to the city's residents. Figure 3.25 gives a vivid picture of the increase in savings and disposable income. Statistics show that between 1978 and 2004 average wages of white-collar and blue-collar workers in Shanghai increased from 672 yuan (US\$ 448) [change in conversion rate in the same year] to 24,398 yuan (US\$ 2946.62). Besides, average disposable income per capita in Shanghai increased 40 times and 15.4% annually from 406 yuan (US\$ 271) to 16,683 yuan (US\$ 2014.86). Meanwhile, total savings by urban and rural households increased from 1.82 billion yuan (US\$ 1.2 billion) to 696.10 billion yuan (US\$ 84.07 billion). Naturally the increase in household income stimulated consumption. Annual consumption expenditures of urban households increased 34 times (14.7% per year) from 357 yuan (US\$ 238) to 12,631 yuan (US\$ 1525.48). As living standards and quality of life continued to rise, the Engel coefficient (the proportion of total expenditure that goes on food) continued to fall, from 56.2% in 1980 to 36.4% in 2003. Expenditure on accommodation, education, medical services, transport and communications also continued to rise, as did expenditure on cultural and leisure activities, each roughly fourfold in 23 years. These figures for expenditure were in line with the intensification of economic reform and the promotion of privatisation in these sectors. 'In only ten years of experimental housing reform, Shanghai has gone from having next to no private home ownership - all but outlawed after the communist revolution - to a market where

<sup>25</sup> Commercial houses refer to the houses in the housing market with the aim of earning market profit. The ownership of the houses can be transferred and is decided by the market supply and demand.



more than 90 per cent of homes are privately owned' (McGregor, 2002).

The stagnation of supply in the first three decades under Mao, the demand created by the ambitious plans to put Shanghai back on the world stage, continuous economic growth and a significant inflow of foreign investment combined to produce a dramatic increase in the demand for commodity building for residential, commercial and manufacturing purposes. Long-term expectations for increased housing quality and property ownership also helped to stimulate investment in a once stagnant construction industry. As a result, in the last several decades Shanghai experienced an unprecedented level of urban development and urbanisation.

# 3.3.2 Pudong - sustainable growth or bubble?

The strong demand in Shanghai's real estate market resulted not only from powerful economic support and business demand since the start of economic reform in China and Shanghai but, more important, from explosive growth in demand after decades of stagnation and neglect. Economic growth and the development of the real estate market, nationally and locally, provide a helpful framework for understanding the Pudong development. But questions still remain about the factors responsible for this growth. What is the real situation in Pudong's real estate market? What is the relationship between the real estate markets in Pudong and Puxi? If Pudong's real estate market continues to grow, will the growth be sustainable? All these questions have a bearing on Pudong's economic and urban development and the future of its real estate market.

# Growth and driving forces

Before 1990 the real estate market in Pudong was very much underdeveloped. The decision to go ahead with the Pudong development encouraged investors to think about Pudong's stock of land, a vast untapped resource. Fur-

Table 3.8 Use of land leased in Pudong before 1993							
Land use	Projects	Area (m²)	%				
Industrial	61	1,562,202	70.22				
Residential	17	562,729	25.29				
Commercial	40	35,991	1.62				
Financial	6	21,047	0.95				
Technology	6	42,811	1.92				
Total	130	2,224,780	100				
	Source	Thang and Wang	2000 n 226				

ther, the application of the principle of land transfer for value adopted by Pudong since 1990 gave private developers from China and abroad a better chance of entering the Shanghai market. By 1992, two years after the start of the Pudong development, Pudong had leased 1335.1 ha of land, about twice as much as in Puxi (Zhang and Wang, 2000, p. 225). The difference between land transfer in Pudong and in Puxi was that in Pudong land leasing and urban development were closely tied to the goal of building up Pudong's special economic functions – finance, manufacture, import and export and high-tech – in four development zones. More than 60% of the first land transferred in Pudong was for manufacturing and more than 20% for housing (see Table 3.8), though in Lujiazui the emphasis was on office space.

As development continued, the amount of office space became a key indicator of the health of the local real estate market. Most office space was located in the Lujiazui financial and trade zone. As Shanghai's new central business district and China's first financial and trade development zone, Lujiazui benefited from a series of preferential policies (see Box 2.3, Chapter 2) designed to attract international financial and trading organisations. Since 1990 Lujiazui has became a development zone specialising in office buildings at different quality levels. One-third of Shanghai's office space is presently located in Pudong, unlike the situation in 1990, when office space in Pudong amounted to a negligible fraction of the total stock.

Housing has always been a crucial part of the real estate market in Pudong, which needed to house its own increasing population (forecast at 2.5 million as against 1.3 million in 1990) and to implement higher housing standards, increasing living space per capita to 26 m² as against 12 m² in 1950. It therefore needed to mass-produce housing. In the 1980s and 1990s Pudong was used by local government for experiments in implementing national housing policy (see Box 3.11). As housing reform proceeded, welfare houses were either privatised or became residential commodities and were put on sale on the housing market. According to district government reports, between 60 and 70% of the revenue from land leasing was used to finace resettlement. The magnitude of the resettlement effort forced district governments to resettle displaced residents off-site rather than on-site, and Pudong became a location for off-site resettlement. Researcher Li Zhanjun (2002) comments:

'Pudong currently accounts for 20-25% of total residential building construction in Shanghai, even though Pudong has an area of only 500 km², amount to 8% of Shanghai's total area (6,000 km²). This is why we

#### Box 3.11 Pudong's first housing estate

According to Li Jianneng, former senior planner at the Pudong planning bureau, the first (experimental) real estate project was actually a housing project, originally intended to provide what under the old central planning system were known as allocation houses (tongpei zhuzhai). These houses were designed as welfare houses for Shanghainese who had no homes or were forced to relocate to allow inner city redevelopment. The Shanghai Municipal Construction Committee, which was in charge of the project, expropriated about 200 ha of farm land for the construction site, but this land was still unused in the 1990s, at the start of the Pudong development. When Pudong introduced new regulations enforcing full implementation of the principle of land transfer for value, this piece of land became one of the first to be made available to the market through the process of land leasing. Houses built on this land could be sold as residential commodities

Source: Li, personal interview, 2002.

describe the volume of residential building construction in Pudong as massive. Pudong's special role in Shanghai's economic and urban development has been one of the main factors determining the development of Pudong.'

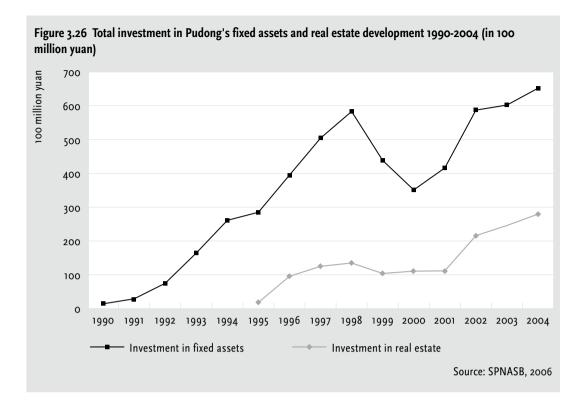
The rate of development of Pudong's real estate market since 1990 (See Figure 3.26) was also affected by the general economic growth at national and local level, the increase of investment in fixed assets and commodity buildings in Shanghai, the preferential policies adopted by national and local government and the continuous injection of public finance to improve its infrastructure. The progress made by the Pudong real estate market stimulated the real estate market in Shanghai as a whole, increasing the volume of land transfers and the commodity development of offices, housing and other functional space. Apart from its economic importance, Pudong also possessed a number of local advantages which probably increased the success of its real estate market.

Its primary advantage was its location. While it is true that when Lujiazui had been linked to downtown Puxi by tunnels, bridges, metros and buses, it became one of the best locations from which to enter Shanghai's downtown, Pudong was already connected to most Shanghai districts. Researcher Li Zhanjun (personal interview, 2002) comments on the way Pudong's strategic location has benefited the development of its real estate market:

'No district in Shanghai borders as many other districts as Pudong. Pudong is linked to Chongmin Island by the Yangtze, and with Baoshan through Wusong kou. This advantage can help Pudong attract residents of other districts to move to Pudong.....'

Compared with districts in Puxi, Pudong is spacious, with a lower population density and a high percentage of green space. It was designed to provide a much more favourable residential environment than the Puxi area generally. Pudong does however have a number of disadvantages which will need to be overcome if the growth of the real estate market is to be sustained:

To compete with other old districts, Pudong will need to overcome its tradi-



tional unfavourable image as a poor, low-quality, residential area, outdated and unfashionable. This stereotype is not so much a problem for newcomers from other parts of China, but remains a major concern to Shanghainese who have spent all their lives in Shanghai.

- Pudong still needs to upgrade its social infrastructure, including its educational, retail and entertainment facilities, to compete with the more sophisticated social environment that the inner city inherited from decades of development. This is the most common complaint made by Shanghainese about the residential environment in Pudong as compared to that of their former homes in Puxi.
- Pudong needs to continue its infrastructural development and provide fast connections to Shanghai's city centre. Traffic jams between Pudong and Puxi could easily raise doubts in the minds of potential investors and home buyers and cause them to reject Pudong as their new location.

Both advantages and disadvantages have had their effect on the growth of the Pudong real estate market and on the thinking of investors considering locating in Pudong. If Pudong is to keep up with the growing real estate market, it will need to overcome its disadvantages and strengthen the advantages it already possesses. Investors judge a location on many factors, according to their own interests and expectations, and investors help to shape the real estate market. The next section will attempt to look at the real estate market through the eyes of an investor, with particular attention to the long-term and short-term vision of investors in Pudong and the origins of the real estate developers and their strategic investment behaviour.



Figure 3.27 Green space along Century Avenue, Pudong's main street

# Origins and strategies

Behaviour in the real estate sector is affected by both long-term and short term considerations. It appears that the origin of the developer plays a significant part in determining his business interests, investment strategy and investment behaviour. A substantial number of developers in Pudong came from abroad (Hong Kong, Taiwan, East and South East Asia, the US and Europe). Some, like Nokai, came from Shanghai. Others came from neighbouring provinces like Zhejiang and Jiangsu, where the private sector found the environment more friendly. It is interesting to note that analysis showed that although different private sector groups participated in the development of Pudong at different times, the main aim has always been the same – to make a profit. The strategies used to determine when and where to invest have reflected the interests, capability and limitations of the private sector.

Before the development of Pudong, locally based state-owned real estate companies performed a hybrid function in the real estate market, performing as commercial entities while at the same time acting in the public interest under public sector supervision. Private companies have participated in the Pudong development since 1990. It was explained in Section 3.1 that the development of Pudong has been partly characterised by investment by Chinese public companies. In fact, Chinese public companies were a distinctive feature of the development scene in Pudong. These companies handled investment by various government organisations at national, provincial, city and district level. The famous product of these public companies was the *shengbu lou*, buildings financed by investments made by Chinese public companies with a ministerial or provincial background. At the beginning of the 1990s the

investment environment was still in a very critical condition. Nanpu Bridge had just been built to link the two sides of the Huangpu. There was only one main road serving the various neighbourhoods and factories in Pudong, which still bore no resemblance to the image presented in the Pudong master plan. Pudong was still too much of a gamble for most private investors. At that time government intervention was designed to encourage companies supported by ministries or provincial governments to invest in the Pudong real estate market. Central government 'recommended' that ministries and provinces should assist Pudong's development. However, even though central government had a powerful influence on government at lower levels, the process of decentralising the economy had already reduced the effect of any pressure exerted on companies, generally state-owned, most of which were operating commercially. Accordingly a series of preferential policies were adopted to lower the barriers to investment and increase investment flexibility. These policies included reduced taxation and the leasing of land at below market price. These practical measures, known as shenbu lou policies, had a positive impact on the decision of ministries and provincial governments to support their companies' investment in Shanghai. In fact these preferential policies also applied to government-related bureaus, national energy companies spun off from government ministries, banks and national insurance companies. A total of 67 buildings in Pudong benefited from these policies. However, shengbu lou were not only the results of this government intervention. Most provinces preferred Shanghai to the cities in South China as 'China's window to connect the outside world'. Shanghai's traditionally close links with neighbouring provinces, provinces further inland and the outside world, meant that it was able to bring increased trade and economic benefits to other cities. Moreover, investment in real estate - for example in Pudong - was considered by many Chinese to be high-risk even if it did offer the chance of high return. If things went well, a company could make a fortune; if things went badly, a company could be bankrupted. For this reason many Chinese provinces decided not to participate at this stage. Since most companies were responsible for their own profit and loss, they had to stand the risk of loss if the investment went wrong. Most of them carried out some sort of feasibility study, and wherever possible took steps to reduce the level of risk. Investors appear to have had a number of characteristics in common:

a) Investment in most shengbu lou projects was not provided by a single company but by a corporation made up of a dozen or more companies supported by a ministry or province. For example, investment in the Jinmao Tower came from 19 different companies headed by the Ministry of Foreign Trade and Economic Development (see Box 3.12). Investment in the Jinshui Tower came from 28 companies headed by China Agricultural Bank, and investment in the China Petroleum Tower came from more than 20 companies all connected in some way with China National Petroleum Corporation (CNPC).

#### Box 3.12 Jinmao Tower as an example of shengbu lou

The Jinmao Tower development was in many ways a typical example of shengbu lou. The project was initiated by the overseas branches of 19 companies headed by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), which wanted to construct a landmark building in Pudong. The decision to invest was influenced by central government's call for support for the Pudong development and the potential benefits offered by Pudong's real estate market. The aim was to build the kind of skyscraper that would be visible from all parts of Shanghai. The chosen location had two main advantages, easy access to good transport links to both sides of the river, including a tunnel (opened in 1988) and the metro (opened in 2001), and the easy availability of the necessary land (a subsidiary of one of the shareholders had a factory situated on one of the three pieces of land designated by the Pudong master plan for the building of landmark skyscrapers). Compensation was quickly arranged for the factory and its employees (who lived in a workers' village) and a new piece of land was found to relocate the factory. Internal relocation was easier and cheaper for the developers since no protracted legal procedures were required. As each of the companies involved in the Jinmao Tower had a strong financial background and considerable experience in operating in accordance with international standards, it was decided to hand over the cost-benefit analysis to an international consultancy firm. However, even Price Waterhouse Coopers' market analysis failed to predict the Asian economic crisis (1997-1999). Even worse, most of the office buildings built in Pudong in 1996 and 1997 came on the market in 1997 and 1998, so increasing supply at a time of greatly reduced demand. Occupancy dropped steadily. By 1999 occupancy of the Jinmao Tower had fallen sharply. To increase occupancy, each investor was required to set up its own sales team to help to promote the building. Outside agencies were called in and attempts were made to make use of employees' connections in the search for potential tenants. The situation only started to ease after 2000, by which time economic conditions had improved and the market was beginning to demand more office space. The rent asked for space in the Jinmao Tower increased steadily, from US\$ 0.7-1.1 per m² in 1999 to US\$ 0.8-1.3 per m<sup>2</sup> in 2000 and US\$ 0.9-1.5 per m<sup>2</sup> in 2002. By 2002 the occupancy rate had attained a steady 85%. The investors anticipated that it would take at least 15 years from the completion of the building to recover their original investment.

Source: Chen, personal interview, 2002

- b) Most of the companies that combined to form an investment corporation had considerable business experience and financial support. As companies with a strong government background, they also enjoyed support at regional and central level, so that in the event of trouble in the real estate market the ministries or provinces concerned would be in a position to adopt some kind of strategy to allow the companies to bear a possible short-term loss without going bankrupt and so wait for the market to recover.
- c) Several projects financed by ministries or banks used their local branches

- as their representatives, to allow the project to get on track quickly in the local environment.
- d) Most shengbu lou projects in Pudong managed to lease land from local development companies at below market price.
- e) Target groups for the projects operated on a variety of different levels; some were interested in space for high quality offices and hotels, though most were more interested in medium or medium to low quality office space. The Jinmao Tower in the Lujiazui financial district, for example, was designed for top-class offices and hotels and so mainly targeted large foreign companies and state-owned Chinese companies, whereas Huaneng Lianhe Tower and Qilu Tower were aimed more at domestic companies requiring lower standards.

Analysis showed that not all companies carried out a proper cost-benefit analysis. Companies with more knowledge of business or more aware of the rules governing global economics, and which applied their knowledge in practice, tended to have stronger profiles in their investment projects in Pudong. However, most shengbu lou projects went through a number of difficult years, particularly during the Asian economic crisis, partly because of a lack of perspectives and target (blind investment), absence of a proper feasibility study, a lack of knowledge of architecture and urban planning, absence of a good project management team and bad property management and service. In particular a number of buildings financed by investments from energy companies, banks or local public offices had problems with design, construction and general building quality. Interviews with a manager of Shanghai Chengtou revealed that these kinds of problems were experienced during the construction of its 80,000 m<sup>2</sup> New Construction Tower (Liu, personal interview, 2002). The original goal was to accommodate a number of public organisations. The design and even the function of the building were changed several times after 1993, when the project started. The project was not finally completed until October 2000, eight years later, compared with the 4-5 years usual for a similar high-rise in Shanghai or Pudong. The main reason was almost certainly lack of market experience. Even though a feasibility study had been carried out, the research was not sufficiently detailed. Even worse, at that time a feasibility study was little more than one of the documents required by local government as part of the procedure for applying for a construction permit. There were also problems with the design, which was not precise enough for the contractor. The shareholders had been unable to agree on what kind of lifts should be installed and what kind of glass wall should be used for the exterior cladding. However, the ability of most shengbu lou to negotiate a cheaper land price in return for their 'efforts in support of Pudong' limited the damage to the final economic outcome. For example, when Shanghai Chengtou invested in the New Construction Tower project, it managed to negotiate a

land price of 980 yuan (US\$ 118.36) per m², far below the ruling market price of US\$ 200 per m². By 2002 the price of land had risen to US\$ 500 per m². Even after so much delay and so many problems caused by design changes it was still possible to generate an economic return sufficient to cover the cost. In a properly functioning market the company would probably have been much less fortunate. It should also be noted that the increase in the value of the land represented a loss to local government.

Another characteristic shared by developers in the Pudong real estate market was that most foreign investors had a Chinese or Asian background or connections (see also Section 3.4). Investors based in Hong Kong and Taiwan played a crucial role in the development of Pudong, providing almost half the FDI. The role they played in the real estate market was even more significant. Investors from those areas were amongst the first to enter the Chinese market after the introduction of the open door policy in 1978. All of them had experience with operating in a market economy and a real estate market and shared a basic cultural and racial background with the mainland Chinese, which made it easier for them to understand the market and the change<sup>26</sup> (see Box 3.13). Chinese based in Hong Kong, Taiwan and Macao who became participants in the Pudong real estate market were soon joined by developers from other Asian countries who shared the same familiarity with Chinese culture. In fact most of the real estate companies which became involved had some kind of link with China. Perhaps the owner or founder of the company was Chinese, or the current boss had a Chinese background, as in the case of the Thailand-based Chiatai Group, or perhaps the investor's home country had close links with Chinese culture, as in the case of Singapore. By 1999, 205 real estate projects had been financed by foreign investment, for a total investment amounting to US\$ 2.97 billion. In fact the majority of such projects were financed by Asian investors, mainly based in Hong Kong, Taiwan, Singapore, Thailand, Malaysia, Japan or Korea. Their geographic advantage encouraged Asian investors to enter the Chinese market in the 1980s, almost a decade before the arrival of the first Americans or Europeans. Some of these investors were overseas Chinese, others came from countries with the same kinds of traditions and cultural background as China and others again had established contacts with local or national politicians. Thus most of them seemed to find their way in China more easily than their European or American counterparts.

<sup>26</sup> Another reason, perhaps less significant but not unimportant, was that they found it relatively easy to fit into China in the first years after the adoption of the open door policy, thanks in part to the positive image some tycoons created for themselves as good-hearted people rather than blood suckers, for example by charitable activities in fields such as education, medicine and response to natural disasters. An understanding of the importance of the local political culture led most Hong Kong businesses to maintain close relationships with politicians at local and national level. Most investors in this group concentrated their investments on medium to high quality offices, hotels and apartments, all much in demand at the time

#### Box 3.13 The Kerry Group and the Shangri-la Hotel

The five-star Shangri-la Hotel is a good example of a project undertaken by Hong Kong-based investors. The Kerry Group was a Hong Kong company specialising in real estate development, particularly the development of its chain of five-star Shangri-la hotels. The group was the first developer to invest in the waterfront on the east bank of the Huangpu, Lujiazui FTZ's 'golden location'. The group was generally positive about the development of the Shanghai real estate market and the potential for growth in tourism in Pudong in connection with business visits and exhibitions. Discussions with local politicians and SLDC did much to increase their confidence. According to the group, the enthusiasm of the private sector tended to encourage the public sector to achieve the promised completion of the key infrastructure required by Pudong. Both the annual infrastructure priority list and the timetable for the implementation of the necessary infrastructure projects confirmed this enthusiasm. In 1994 the group bought the land-use rights on a piece of land on the Pudong waterfront, one of the first pieces of land to be sold by the Fudu World Land Development Company. The group hoped that its hotel on the Huangpu would in due course become a significant feature of Pudong's skyline. On their first visit to the site in 1993, the group found the site still occupied by factories and warehouses. Fortunately by the time of their second visit the task of relocation was almost complete. The group invited KKS, a Japanese firm of architects, to prepare a design for the project. The preparatory work took till 1995 to complete; only then could work start on constructing the 55,000 m<sup>2</sup> hotel. Construction took four years, which meant that the Shangri-la Hotel was able to open in 1998, when the Asian economic crisis was at its worst, severely affecting the real estate market in Shanghai and Pudong. Several projects in the Fudu World block and Lujiazui had to be suspended because of lack of finance. Completed offices also suffered enormous decreases in the number of clients. Occupancy of the Shenmao Tower, a Japanese investment, was still promising, but some of the shengbu lou, including the Huaneng Tower, were completely unable to let office space. In such circumstance the Shangri-la Hotel felt itself lucky to be able to start at its lowest occupancy ever (70%) and achieve more than 80% in each subsequent year. By 2002 occupancy had achieved a steady 94-100%. The group attributed this stability and satisfactory economic return to a proper feasibility study and careful market research, good timing, a good location, a correct assessment of the market and effective targeting of clients. Their estimated payback time for the project was 10-12 years, though the booming market should reduce the time required. In fact the increase in business encouraged the group to make a second investment, to extend the Shangri-la Hotel. The construction of the 50,000 m<sup>2</sup> second phase started in 2000.

Source: Yu and Xiong, personal interview, 2002

While all these companies had investment in Pudong in common, the strategies they adopted to deal with market uncertainty and investment risk could differ substantially. For example, a medium- to small-sized Hong Kong development company might be prepared to gamble on the prospect of high

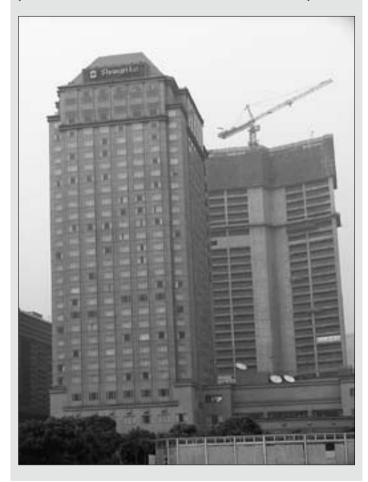


Figure 3.28 Shangri-la Hotel. The front section was built during the first phase, the rear section, still under construction, is the second phase

return, whereas a Singaporean or Japanese developer would probably take a more conservative approach. The first thing the Japanese did to get a proper picture of the investment situation in Pudong, was to go to see for themselves what was actually happening on the spot. In November 1990, a Japanese delegation made up of architects, planners, and legal experts, went to Pudong to attend a consultative conference on the Pudong development. The conference discussed architecture, town planning, infrastructure and land leasing procedures. A month earlier, delegates from Japanese banks and Japanese insurance experts had been to Pudong to assess the chance of Pudong becoming a financial centre. In December, a group of businessmen from Osaka organised a visit to Pudong and subsequently decided to invest in one of Pudong's industrial areas. January 1991 saw the opening of the Shanghai Sino-Japanese Trade Centre in a building financed by the Japanese real estate company KOWA, the Japanese Industrial Bank, the Shanghai Foreign Trade Company and the Shanghai International Trade Exhibition Company. The first collaboration between Japanese and Chinese may have been a painful experience, but

#### Box 3.14 The Japanese Mori Group in Pudong

In 1993 SLDC invited domestic, Asian, European and American investors to tender for the development of three landmark skyscrapers, each some 400 m high, along the east bank of the Huangpu. As one of the earliest foreign investor in China, the Mori Group had foreseen Pudong's growth potential. The group's managing director, who maintained good personal relationships with Chinese politicians at local and national level and had a special interest in Pudong, decided to invest in one of these super high-rise building. Even in 1995 the real estate market in Shanghai and Pudong seemed to be growing. When a feasibility study reported positively on the investment, the group decided to waste no more time and selected two sites for investment. Both were located in Lujiazui. One was to be used for a landmark skyscraper - the Shanghai World Financial Centre - the other for the Shenmao Tower, a standard high-rise office building. The investment in the Shenmao Tower was made in 1995 and the building was completed in 1998. The tower provided A+ quality office space and was aimed at potential tenants from Japanese, European and American companies. The group's careful market research and high quality product meant that the tower was fortunate enough to keep its occupancy above 80% despite opening in the middle of the Asian economic crisis. In 2002, when demand recovered, occupancy rose to 97%. But the investment in the Shanghai World Financial Centre was a source of concern right from the start of construction in 1997. First the investment - and so construction - was suspended during the Asian economic crisis. The project was restarted in 2002, but by that time the design had become outdated and improvements to the original design were needed to satisfy changed requirements. The project is planned to be completed in 2007 or 2008, but little progress seems to have been made.

Source: Ouyang, personal interview, 2002

it did succeed in opening the door to further cooperation between the two countries and gave more Japanese investors the confidence needed to invest in Pudong. It also encouraged more Japanese delegations to visit Pudong.

Singapore may have had more in common with the Chinese, culturally and linguistically, than Japan, but its real estate developers were just as risk-averse as those from Japan. A number of Singaporean developers became involved in Pudong in the mid-1990s. Capitaland (China), for example, was set up in Shanghai in 1994 by the Singapore-based Capitaland, one of Asia's largest listed property companies. Most of their product in Pudong consisted of medium- to high-standard apartments. Chrysanthemum Park (see Figure 3.32), for which construction began on 3 April 1997, comprised 1,109 accommodation units and 30,000 m² of green space, and was completed in June 2001. The project was financed by a 2 billion yuan investment by Capitaland (Singapore) and the Pudong Real Estate Group.

One subject worthy of note is the role played by various governments in promoting investment in Pudong by their nationals. The Japanese government set up the Japanese Business Centre to help Japanese investors get a better understanding of the Chinese market and in 2001 the Singapore gov-

Figure 3.29 Shenmao Tower (far left) was the first investment made by the Mori Group in Pudong; it occupies a key location in Lujiazui Financial Centre



Figure 3.30 Shanghai World Trade Centre (under construction)



Source: CNAP





ernment set up the Singapore Centre to help Singaporean companies to operate in Shanghai and Pudong. Its public housing company was active in real estate development in Pudong. There was also increasing collaboration between governments.

The variety of investors meant that the participants in Pudong's real estate market formed quite a mixed bag. They included not only private sector developers, but public companies operating commercially, something unique to China. However, the public sector background of these companies raised doubts in the minds of outsiders about how 'private' and business-like they would be in matters such as cost-benefit analysis and the management of market risk. The constantly changing mix of participants, particularly the increasing involvement of the private sector, domestic and foreign, suggested a steadily growing market applying more market-oriented rules to its local institutions and trying to become more mature.

#### Short-term versus long-term

As explained in Chapter 2, the Pudong development was not intended primarily for property development but rather for economic development, sector development and the expansion of the area's economic function. Thus the growth of the real estate market in Pudong depended on developers' efforts to satisfy not only the local demand for housing and office space but also the demands of the majority of investors who came to Pudong to become involved in manufacturing, logistics, port operation and other activities. In fact, the sustainability of the real estate market depended on the combined efforts of long-term and short-term investors, some interested in the supply side, others potential customers for office space or housing.

Short-term investors in the real estate market included real estate developers and speculators. The number of real estate companies increased rapidly, from 43 in 1991 to 64 in 1992, 543 in 1993 and 700 in 1994, which was one third of the total number of real estate companies active in Shanghai that year. 522 of these companies, one for every 1,000 m<sup>2</sup> in Pudong, even survived the introduction of a certification process. This number had increased slightly by 2001, but only 9 were certified for grade 1 enterprises, 61 for grade 2 and 95 for grade 3, while 474 were ungraded. Many real estate developers started up in Pudong with short term plans based on a strategy of quick investment, high return, though even they tried to maintain a profitable situation in the Pudong market for as long as possible. This applied to most of the companies from the ministries and other provinces which invested in Pudong. Large developers, often foreign, tended to be cautious about entering the new real estate market, but once they decided to go in, they usually adopted longerterm strategies aimed at creating bridgeheads in the local market, even when times were difficult. Capitaland (Singapore) was one example of a company whose strategy included localisation and brand marketing. Pudong, Shanghai and indeed much of China, had countless small real estate companies which derived most of their profit from speculation in land and real estate. These companies lacked capital; many had connections which enabled them to obtain land from local land offices but were vulnerable to any deterioration in the economic situation, which explains why a downturn in the real estate market, as during the Asian economic crisis, bankrupted so many Chinese real estate companies. In many cases the combination of bureaucratic management style and traditional management structure also played a role in the rush. DTZ Shanghai's Gao Yongyan (2002) described this phenomenon as follows:

'I heard about the approval of some new office projects in the afternoon. Once a decision has been made, money is invested, even when the state of the market is uncertain, because in China decisions are made at the top. As soon as the top man has made up his mind, his employees do their best to put his decisions into practice. The top man is not interest-

ed in cost-benefit analysis. I was often told, "Don't do a feasibility study for us. The decision is already made. It is no longer a question of whether to do it or not, but how best to do it". This attitude is quite common. Some companies, for example state-owned enterprises, behave like this because they still work under the old system. But some are privately owned. Some enterprises from Hong Kong and Taiwan face similar problems, with a very bureaucratic structure and strictly defined layers of management. Even when I was in trouble, the top man would ask for a photograph to prove that the trouble was real. This kind of thing really has an enormous effect on investment profit.'

Short-term investors also became involved in other kinds of speculation. For example, during the Asian economic crisis hot money was speculating on a change in the yuan (renminbi)/US dollar exchange rate. In 2004 a new wave of hot money poured into the real estate market in Shanghai and Pudong, betting on a quick profit if pressure from Europe and the US succeeded in forcing China to increase the pegged exchange rate against the US dollar. There was also speculation in real estate in Shanghai and Pudong fuelled by the hope of short-term gain. Because the rate of interest paid on savings in Chinese banks was being maintained at a historic low, there was little to be earned from savings, and the Chinese stock market too was in deep trouble. People saw hardly any alternative to investing their money in the property market, where prices were rising rapidly. Speculators included rich investors from Wenzhou, Hong Kong and Taiwan, overseas Chinese and foreigners.

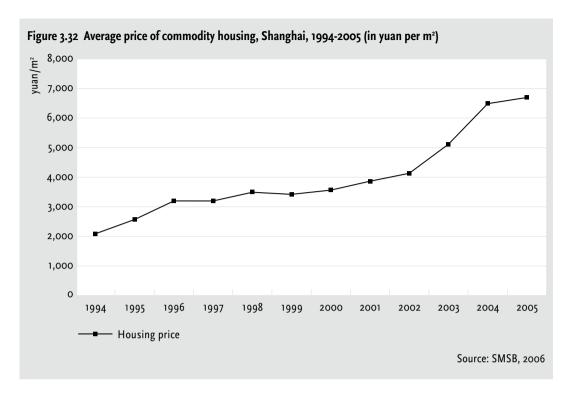
Long-term investors in the Pudong real estate market were interested in a wide variety of activities, including manufacture, finance, trade, the hightech industry and real estate. Statistics for 2001 show that in twelve years of development, Pudong attracted 7,700 projects from 70 different countries or regions. By 2002 some 123 financial organisations, 650 investment companies and 1,400 trading companies, domestic and foreign, had located their main or local headquarters in Pudong. Pudong also attracted a variety of domestic investors because of its function as China's window on the outside world. A total of 30 Chinese provinces, autonomous regions and state-controlled cities and 17 ministries invested in 6,368 projects in Pudong. 32 large enterprises, companies with a registered capital of more than 100 million yuan, moved their headquarters to Pudong. During the same period 200 trust companies and consultancies were set up in Pudong. Different industries tended to concentrate in different development zones. For example, 601 logistics companies and 70 international companies, with 5,000 projects financed by investments from 60 countries and areas, chose to locate in Waigaoqiao tax-free zone. 60 international companies set up in Jingiao export-processing zone, with 400 projects. 20 R&D organisations and 700 software companies set up in Zhangjiang High-tech Park. These investors were not involved as developers in the Pudong real estate market but played a significant role in determining

the supply of and demand for space for manufacture and warehousing, housing, offices, business and entertainment. Their interest in the market was mainly long-term; they lacked the flexibility required for short-term moves to other locations, so their success (or failure) had a significant impact on the prospects of the local real estate market.

### High risk, high return?

Profit has always been one of investors' major concerns. In the Pudong and Shanghai real estate markets, high profits and a sharp increase in housing prices encouraged real estate developers to rush into the market without much in the way of a feasibility study (see Figure 3.32). Haila (1999, p. 584) commented on what she saw in the Shanghai property market in 1999: 'The willingness to invest in China, shared by overseas Chinese and Western companies, is fuelled by expectations of huge profits. Such expectations are to some extent justified, as illustrated by a story told by a Singaporean investor who in the early days made a profit as high as 450%; his profit later reduced to 45%, still a high figure in a mature real estate market'. Such prospects helped to give all kinds of investors the confidence to invest in Shanghai. Gao Yongyan (personal interview, 2002), from DTZ's Shanghai branch, described what he saw in Shanghai's real estate market during and after the Asian economic crisis:

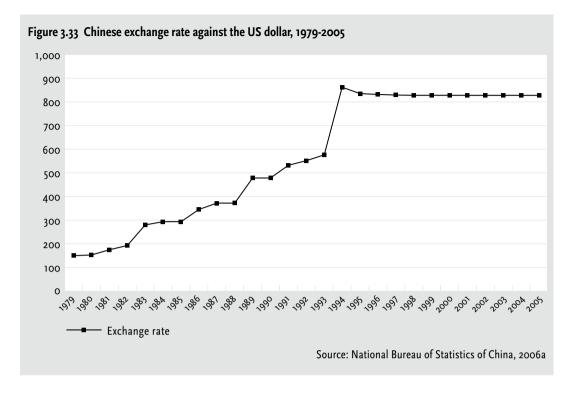
"The office market experienced a downturn, bottoming in 1999. Rents reached a very low level. Even high-quality office space could be rented for US\$ 0.20 per m<sup>2</sup> per day. In general owners still asked a high price but offered special terms, for example a 50% discount for a three-year contract. The market began to recover in 2000, so that today the rent asked can be as high as US\$ 1 per m<sup>2</sup> per day. The current occupancy for office space is 87%, which is pretty high by international standards. I foresee large amounts of office space coming on the market between 2003 and 2006. The housing market is characterised by an enormous amount of speculation. The whole country has gained confidence in Shanghai, especially since China joined the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC). Shanghai has become a world city representing China's economy. That is why so many Taiwanese and people from Wenzhou invest in Shanghai..... They invest in housing, buying 8-10 house at a time. In 1999 the price of housing was not particularly high. Some good housing projects could be sold immediately, but many had to wait a while to find a buyer. The market began to improve in 2000. In 2002 the price of housing has increased by 30%. Housing projects that used to sell for 4,000 yuan per m<sup>2</sup> now cost as much as 6,000-7,000 yuan per m<sup>2</sup>. Some projects whose remoteness made them difficult to sell also experienced a rapid increase in price, thanks to the completion of the metro system."



### Property prices, inflation, interest rates and exchange rates

Real estate developers and international financial organisations were not the only ones to see the chance of high profits; small investors and domestic and foreign house buyers were all drawn into the property market at one time or another. During the Asian economic crisis, smaller buyers were not considered to be particularly important, but by 2004-2005 they had begun to exert a major influence on the property market, particularly at the top end. The main attraction was the increased price of housing in Shanghai (see Figure 3.32). Reports suggested that in popular locations prices could increase eight or nine times. Moreover the sharp increase in prices on the housing market had for some while been accompanied by a policy of keeping interest rates low to stimulate consumption. Not until 2004 did China's central bank raise interest rates, the first increase in nine years, which explains why people turned to the property market to achieve higher profits or simply to maintain the value of their savings.

It has already been mentioned that small investors speculated in real estate in Shanghai and Pudong as a way of making short-term gains. Speculators included rich investors from Wenzhou, Hong Kong and Taiwan, overseas Chinese and foreigners. Investors from Wenzhou became well-known players in China's real estate market. It has been estimated that 100,000 Wenzhou investors together invested 100-160 billion yuan (US\$ 12.08-19.32 billion) in speculative deals on the Chinese property market, including 3 million yuan in Shanghai (Kang, 2003; Li and Chen, 2003) Another significant group of investors was drawn from the 400,000 or so Taiwanese living in Shanghai or the Yangtze delta. Like the Wenzhou investors, the Taiwanese were disappointed with the low interest rates (less than 2%) available in Taiwan and the unstable



performance of the local stock market, so investment in Shanghai's relatively cheap real estate market became a popular alternative (Chen, Lianhe Zaobau, August 23, 2002).

Hot money has been another factor causing uncertainty in China's property market since China became more and more closely integrated in the global economy. The 1997-1999 economic crisis, which affected most countries in East and Southeast Asia, was sparked off by an inflow of hot money and encouraged by the poor functioning of the local banking system. The same kind of thing began to happen again in 2004 and 2005, though this time hot money was betting on pressure from the US and Europe eventually forcing the yuan to revalue against the dollar (see Figure 3.33).

### Uncertainty of legal reforms

A legal system does not determine the nature of market forces, but it is difficult to see how a mature market can develop without proper legislation to support its operations and its participants. The importance to an emerging property market of a legal framework defining the rights and obligations associated with the new markets in land and housing has already been discussed. Although much has been done, many matters still need to be clarified to avoid confusion between the different participants. For example, a ruling by the supreme court in China denied banks the right to take possession of the deposit (mortgaged property) if the borrower was a first-time buyer and failed to make payment, forcing members of the bank association to reduce their risk by raising the threshold to would-be borrowers. This measure had the immediate effect of making it more difficult for people to afford new houses in a red-hot property market. This was just one of many examples of the mis-

match between the legal system and the reality of the property market.

## Balancing supply and demand

China's real estate market is still developing. As already explained, there are many reasons to believe that the explosive growth in this sector has been fuelled by strong market demand. But since the market is still developing, many factors may still be able to disturb the balance between supply and demand, as illustrated by the Shanghai and Pudong real estate markets. The Asian economic crisis provided first-hand evidence of how the market could be disturbed. A current subject of debate is whether the market is experiencing a bubble or sustainable growth, since by 2004 China's real estate market seemed to have entered an unstoppable price spiral. The national bureau of statistics recently reported that in 2004 average property prices in China's main cities rose 12.5%. This surprising double-digit growth delighted developers but made experts fear another market bubble. The price for residential and commercial property averaged 2,759 yuan (US\$ 333.21) per m<sup>2</sup>, and between January and November 2004 the average price of housing alone rose to 2,580 yuan per m2, an increase of 11.6%. Meanwhile the amount of vacant housing continued to drop, falling 12.9% year-on-year to 58.26 million m² (Asia Times, March 29, 2005). Once again the question arose whether the public sector should take the initiative in curbing the undesirable effects of a bursting bubble.

It seems that the public sector has taken measures at both national and local level. Central government experimented with a series of policies, such as limiting the supply of land, tightening bank lending policies and raising interest rates. According to government figures, in the fourth quarter of 2004 property prices in Shanghai were 10.4% higher than in the corresponding quarter of 2003, and in 2004 three-quarters of all bank loans in Shanghai were for real estate transactions. The first strategy available to central government was to attempt to reduce the level of supply by curtailing the amount of finance available to developers and to tighten mortgage lending rules to raise the cost of home loans. The strategy chosen by local government to avoid the collapse of the property market was to limit the supply of land. But the effectiveness of measures taken by the public sector was relatively limited. The market still seems to have the upper hand.

# 3.3.3 Real estate and urban development

Even though the main aim of the Pudong development was economic development and each development zone concentrated on developing its own activities, property development and the growth of the real estate market inevitably played a key role in facilitating that development. Pudong's robust economic growth contributed to the sustained demand for office space, hous-

ing, factories, warehouses and public services. Demand brought a reaction from the real estate market and so stimulated property development. The development of the real estate market in turn contributed to economic growth and encouraged the development of related activities, such as construction, retailing, transport and services, further stimulating Pudong's economic growth and creating extra employment. The interaction between real estate and economic development has had a significant effect on the speed of the Pudong development.

The real estate boom in Pudong, formerly a backward economic area, reflects the current level of economic growth and the booming real estate market at national, regional and local level. Decades of stagnation in Shanghai's construction industry created a demand for additional space which the emerging real estate sector was called on to satisfy. The strong demand for office space, housing, retail space and manufacturing property since the 1990s has made the real estate sector one of the pillars of Shanghai's economy. Pudong is not exceptional in this respect, though it does play a special part in Shanghai's economic revival. Pudong's economy has grown at an annual rate of 20%, attracting investors from all over the world; these investors require an acceptable residential environment, and this demand has created a vast real estate market. Further, the majority of households displaced by urban redevelopment in the Puxi area have been or will be relocated to the Pudong area, creating an enormous demand for proper housing and public services. And the improvement in Pudong's image led to a change in the attitude of the Shanghainese towards housing in Pudong. Although the change was not particularly dramatic, it led to increased interest in buying housing in Pudong, especially housing located on the waterfront on the east bank of the Huangpu.

Another factor contributing to the encouragement of real estate development was the way that expectation of high profits increased the number of developers pouring investment into the market. The kind of profit reported by Singaporean developers was immeasurably higher than that available in a mature real estate market. Investors understand the level of risk inherent in an immature market yet cannot resist the attraction of a potential profit unimaginably higher than available anywhere else. The possibility of high profit also appealed to the gambling mentality common to many real estate developers, especially foreign investors with a Chinese background. Large numbers of Chinese real estate developers (public and private) with little understanding of the operation of the market nonetheless rushed to invest in Pudong simply as a gamble, hoping to profit from getting in early on an immature market. This speculative approach to land and real estate development on both the supply side and the demand sides seems likely to persist in Shanghai as long as prices continue to rise, increasing the risk in the market and uncertainty about its future. The rush to speculate and a high risk, high return mentality also contributed to the speed of Pudong's urban development.

The fact that China's legal framework for real estate transactions is still under development, helped to ease the entrance of organisations previously excluded from the construction industry, for example because land reform now allows land-use rights to be transferred to the private sector. Housing reform has given further encouragement to private sector participation in the real estate market. Relocation regulations have defined the basic procedures for the relocation necessitated by urban redevelopment. These legal developments, as implemented in Pudong, have provided a legal framework for the market and for private sector participation and have created the kind of environment which encouraged the emergence of a lively real estate market, which in turn contributed to the rapid growth of interest in the Pudong development.

# 3.4 Finance

# 3.4.1 Pudong's financial structure

Shanghai needed large amounts of investment to start up and continue the Pudong development. A number of studies into how Shanghai acquired such a vast amount of capital for urban development have credited the heavy hand of the state, speculating that financial support from government was mainly responsible for the speed achieved in this huge urban project, a speed achieved by hardly any Western city (Wu, 2003a; Yatsko, 2001) Other studies credited foreign direct investment with being the major stimulus for Shanghai's rapid urban growth in a period of increasing globalisation (Olds, 2001; Wei et al., 2006; Wei and Leung, 2005). A more accurate picture of the financial structure which underpinned the Pudong development, based on empirical data on financial flows and public-private cooperation, is given below.

#### Sources of finance

At least five different sources of finance supported the Pudong development:

- 1. Domestic loans, i.e. various funds borrowed during the reference period from banks and other financial institutions for investment in fixed assets, including loans made by banks from their own funds and deposits, loans granted by higher authorities, special government loans (including loans for replacing petroleum by coal and for participating coal mines), loans arranged by local government from special funds, domestic reserve loans, working loans, etc.
- 2. Foreign Investment, i.e. foreign funds received during the reference period for investment in fixed assets, including foreign funds borrowed and managed by government or individual units, foreign funds provided in connection with joint ventures, and debt bonds and shares listed on international financial markets. 'Foreign funds borrowed and managed by government'

here means loans made to the government by foreign governments, organisations or financial institutions, subject to official agreements, signed by both sides, making government responsible for the repayment of both principal and interest.

- 3. Directly acquired funds, i.e. funds raised for investment in fixed assets by construction companies themselves during the reference period e.g. from higher authorities or local government.
- 4. Other, i.e. funds received during the reference period which was not derived from any of the sources mentioned above<sup>27</sup>.

Two logical approaches can be used to explain how the structuring of investment in Pudong came about and how each source of finance came to have the significance it has today. The horizontal approach compares the early stages of investment in the development of Pudong with those in the development of Shenzhen, the first special economic zone. Both Pudong and Shenzhen were set up as SEZs as part of China's national strategy and both were oriented towards the outside world. The vertical approach compares Pudong as it was in the early stages of its development with Pudong as it is today, as way of showing how each source evolved to meet changes in the economic context, global and local; it also considers the reasons for those changes.

### Pudong and Shenzhen

The first comparison examines the financial mechanisms in place in the third year of the establishment of the two SEZs, Pudong in 1993 and Shenzhen<sup>28</sup> in 1983. As shown in Table 3.9, more than half of the total finance for the Pudong development came from directly acquired funds, compared with only a quarter in Shenzhen. Domestic loans to Pudong provided a further quarter, making it the second most important source, though still representing a smaller fraction than the one-third in Shenzhen. Foreign investment played an important part in stimulating the development of Shenzhen (25%), compared with its marginal (10%) contribution to the Pudong development in the first year. The state gave little in the way of subsidy to either SEZ; state support to Pudong amounted to less than 1%.

A number of explanations can be given for the noticeably different extents to which the two SEZs relied on different sources of finance in their early years. First, even though both SEZs were expected to make use of foreign invest-

**<sup>27</sup>** Ge (1999) treats debt bonds and shares as other sources; Zhang (2003) treats them as directly acquired funds. The present paper treats debt bonds and shares listed in China as other sources.

<sup>28</sup> Shenzhen is a sub-provincial city in Guangdong province in southern China, located at the border with the Hong Kong Special Administrative Region. Shenzhen is a center of foreign investment and since the late 1970s has been one of the fastest growing cities in the world. It is also the busiest port in China. In the past two decades, outsiders have invested more than \$30 billion in building factories and forming joint ventures in Shenzhen.

Table 3.9 Comparison of investment resources between Pudong and Shenzhen (%)

	Pudong (1990)	Pudong (1993)	Pudong (2004)	Shenzhen (1983)
State budgetary fund:	s 3.9	0.8	0.4	5.2
Domestic loans	28.1	26.5	25.4	37.3
Foreign investment	10.6	9.9	8.7	26.6
Directly acquired funds	46.4	55.6	28.3	26.6
Other	11.0	7.3	37.2	4.4

Source: Ge, 2002, pp.22-23; SMSB, various years

ment and technology in their development, Shenzhen had a better chance of attracting FDI than Shanghai. Shenzhen benefited directly from its strategic location next door to Hong Kong, an established international financial centre for foreign investment. Shenzhen was also similar to Hong Kong culturally

and linguistically, making it easier to attract investors from Hong Kong and, for similar reasons, from Taiwan. Shanghai lacked these advantages, which makes it is easy to understand the limited foreign investment in Pudong compared with the relatively high percentage of foreign investment in Shenzhen. Further, by 1993 competition between municipalities for foreign investment had already become severe. In 1983 foreign investors wishing to invest in China had little alternative to investing in SEZs; by 1993 the choice had become much wider. Investment in Shenzhen focused on labour-intensive, low-tech, small-scale production, whereas investment in Pudong focused on large-scale, high-tech production and the service sector (finance and trade). This strategy was in the long-term interest of Pudong and Shanghai, but made it difficult for investors to see a profit in the short-term or immediately after start-up. Moreover high-end investment requires good investment conditions, physical and institutional<sup>29</sup>, which were hardly achievable in the early stages. Only gradually could Pudong take the steps required to build up or transform its physical environment and to establish the efficient administrative structure and workable legal framework required to attract foreign investment<sup>30</sup>. Because Pudong found it more difficult than Shenzhen to attract foreign investment, especially investment from Hong Kong and Taiwan, the state chose to use its limited budget to give priority to key infrastructure projects in Pudong, such as the new Waigaoqiao deep-water port and various power stations. Thus the difficult situation at the beginning of the Pudong development forced Pudong to search for all possible means to channel capital from the domestic and international market.

Second, although state subsidy was minimal in both cases, the significant size of bank loans indirectly indicates significant support from central and local government. The relatively small amount of state subsidy did not mean

**<sup>29</sup>** Much of the concern felt by multi-national corporations about investing in China had to do with the protection of intellectual property rights and copyright on technological innovations. See research done by Liu (2005), McGaughey *et al.* (2000).

**<sup>30</sup>** This also explains why for 10 years Zhangjiang High-tech Park found it difficult to attract investment and new projects. To assist the park's development, since 2000 the SMG has not only identified Zhangjiang as a priority project, but has also taken drastic measures to improve its accessibility, changing the city's original transport plan to ensure that the No. 2 metro, instead of connecting the east of Puxi to the centre of Puxi, now links Puxi to Pudong and then runs on to the park.

that central government was not supporting SEZs, but rather that its support was provided by subsidies to enable banks to make the necessary loans. As domestic loans were generally acquired from state-owned banks, and arranged or supported by central government, this was more a political gesture than a matter of commercial calculation. In fact, central government support enabled the four main state-owned banks to reserve special loans for the Pudong development. Central government also directed the flow of foreign investment to satisfy its priorities, allowing and assisting Pudong to access loans from international sources such as the World Bank and the Asian Development Bank in the early stages of its development. So, for example, an Asian Development Bank loan helped Pudong to build the Nanpu Bridge and the Yangpu Bridge, a German government loan to build the No. 2 metro line, a Japanese loan to build the Pudong International Airport, a World Bank loan to build a power station, and so on. Furthermore, the fact that at least 48 foreign banks and 8 insurance companies<sup>31</sup> were given permission to operate in Pudong provides one more example of the way the state used its influence to help Pudong attract investment without itself having to make any direct financial contribution. The result was that finance from a variety of sources round the world became involved in Pudong and became linked with the local market through the intermediary of central government.

Third, the fact that a large proportion of the earliest investment in Pudong came from fund-raising all over China demonstrates Shanghai's success with its active land policy. Zhang (2003) pointed out that the transfer of land use rights had become the main instrument for Shanghai's fund-raising. By 2000 the revenue earned from land transfers is estimated to have reached more than 100 billion yuan (US\$ 12 billion). Between 1988 and 1998, 4,337 parcels of land were transferred, a total area of 14,436 hectares. Between 1995 and 2000, 30% of all such transactions involved foreign developers. In value terms the proportion contributed by the foreign developers was even higher, because they had to pay a much higher price for land than their Chinese counterparts. The significance of directly acquired funds suggests that the active land-transfer policy followed in Pudong actually created the link between Pudong and a network of Chinese and international investors. Thus land transfer played a dominant role in bringing together local and global capital.

Fourth, another reason Pudong attracted so much investment from inside China is the strong traditional links between Shanghai, its hinterland and China's inland provinces. Its ability to attract investment demonstrates that Shanghai not only enjoyed historical, geographical and cultural connections with its neighbouring cities and had for centuries been the traditional leader

**<sup>31</sup>** Since its foundation, at least 56 foreign financial organizations, 43 foreign banks, including Citibank, ABN AMRO, HSBC and Sanwa Bank, and 11 insurance companies have set up in Pudong.

of the Yangtze river delta (a point that was considered in more detail in Chapter 2), but also enjoyed a much stronger relationship with inland governments and businesses through collaboration resulting from the socialist allocation system in use prior to economic reform<sup>32</sup>. By comparison, Shenzhen was established almost from scratch; in the early stage its links with inland China were very weak. Unlike Shanghai's unchallengeable role as leader of the Yangtze river delta and its agglomeration effect, a number of centres - Hong Kong, Guangzhou and later Shenzhen - had to compete for resources and market share and for the leading position in the Pearl delta region<sup>33</sup>. Another difference was the weaker economic connection between the Pearl delta region and inland China caused by differences in history, culture and even language. Castells (2000a, p. 436) described this kind of discontinuity as a 'distinctive feature of being globally connected and locally disconnected, physically and socially'. While the Yangtze river Economic Belt (consists by provinces locaed in the Yangtze river valley) was already a fact, the Pan-Pearl River Delta (PPRD) only began to become a reality in 2004, as a way of encouraging economic collaboration between Guangdong and its neighbouring provinces. Shanghai's traditional strength in industrial development, business and trade also attracted investors from inland China to invest and speculate in the new opportunities offered by Pudong. Pudong therefore took advantage of Shanghai's regional network to raise funds from inland China during the early stages of its development. Between 1990 and 1993 alone, Pudong set up 3,100 joint ventures with inland enterprises and raised 22 billion yuan from inland China (Ge, 1999). Its strong regional network, based on cultural and social homogeneity, created the atmosphere of trust required to encourage organisations in the hinterland to become involved in Pudong.

Finally, the increase in finance from other sources, including finance raised from shares and debt bonds in Shanghai, reflects the increasing flexibility of Chinese financial mechanisms. As host to the larger of China's two stock exchanges, Shanghai raised over 100 billion yuan (US\$ 12.08 billion) on the stock market, one-sixth of the total equity capital raised on that market. Pudong,

<sup>32</sup> The strong relationship between Shanghai and the Chinese provinces was strengthened by the allocation system used by the central planning mechanism between 1949 and 1978. China used Shanghai as its most important production centre. Under the direction of central government and its various arms, Shanghai allocated the raw materials it needed from all over China and sent back its products to the provinces. The same allocation system made Shanghai the biggest source of revenue for China's central government, which redistributed that revenue to poorer regions. The allocation system also led to co-operation between Shanghai and under-developed regions, resulting in Shanghai sending large numbers of talented people to inland provinces and cities to help in the building of local enterprises in fields like textiles and electronics.

<sup>33</sup> If we compare the network structures formed by the cities in the two regions, the relationship between the Yangtze delta and its surrounding regions is more like the relation between London or Paris and their surroundings, whereas the Pearl delta is more like the Randstad in the Netherlands (see Castells, 2000a, pp. 434-440).

the site of the stock exchange, has always tried to mobilise public capital for the further development of its development zones and related infrastructure. For example, four development zones were listed on the stock exchange. Debt bonds were rarely issued. Shanghai and Pudong were given permission to issue bonds for various construction projects. However, as the Chinese stock market<sup>34</sup> was immature and risky and the bond market was strictly controlled by central government (which only gave permission for single projects), it is understandable that the bond and stock markets provided no more than 4.2% of the finance raised in 1993 (Ge, 1999). It can be concluded that the increasing marketisation of China's economy made it impossible for the state to intervene financially in its traditional way. Thus Shanghai was forced to search for all possible ways of making good the shortage of capital required to develop Pudong. Apart from its active land policy, various market tools, including the stock and bond markets, were used to channel the flow of capital to Pudong.

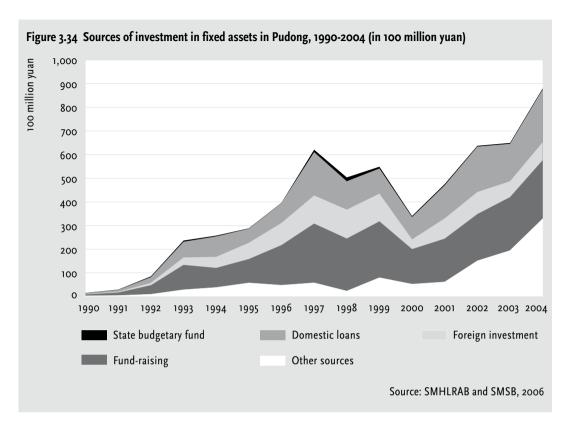
# Evolution and the global economy

In an interview with Chinese internet users, Hu Wei, executive director of Shanghai Pudong New Area management committee, gave details of the massive investment channelled into Pudong.

"Pudong's development is a marketisation process. 300 billion yuan (US\$ 36.23 billion) was invested in the ten-year development. [The investment was] in fact raised through a number of different channels, including 32% from foreign investment, 30% from Chinese enterprises, 30% from bank loans and 8% from the central state, Shanghai and Pudong New Area. Government investment made up a very small proportion, since more investment was raised by opening the market [to outsiders] and attracting investors to our market. Thus Pudong's development was made possible by opening up the market and support from the whole country" (Zhang Gianggio Luntah, March 10, 2002).

In fact, Hu's account gives a clear picture of how Pudong raised its finance during the last decade. Figure 3.34 shows the sharp rise in total investment in Pudong in the 15 years between 1990 and 2004. Total investment in fixed assets in Pudong increased 62.5 times from the level at the start of the project. Almost all sources provided a greater amount of investment. For almost a decade, directly acquired funds had been the most important of Pudong's five sources of finance, only reducing in importance after 2000. Three sources of investment showed a tendency to decline as a proportion of the total amount invested: domestic loans continued to provide a quarter of total investment

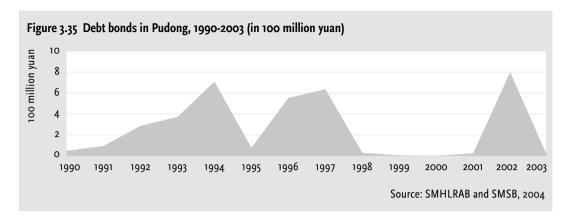
**<sup>34</sup>** China's stock exchanges were officially established in 1990. Access was tightly controlled by the state by means of a quota system, which strongly favoured larger state-owned enterprises and aimed to raise funds to aid state-sponsored projects (Zhang, 2003).



and foreign investment was also a relatively stable source, providing 10% of the total investment. Both sources showed a very slight proportional decrease. Funds from the state budget, consistently the least productive source, showed a sharp proportional decline. Other sources, insignificant in the early stages of development, began to peak sharply in 2001, becoming Pudong's most important source of investment in 2004 (SMSB, 1990-2005)

Figure 3.34 shows that the most dramatic disruption of investment occurred around 1997-1999, the period of the Asian economic crisis. Total investment began to drop sharply in 1997, reaching a low point in 2000. During this period Pudong had great difficulty in acquiring finance. The amount of investment raised through domestic loans, foreign investment and fund-raising all experienced the same drop at the same time. Only contributions from the state budgetary fund increased slightly during the crisis period.

These fluctuations in the performance of Pudong's sources of investment arose because the evolution of Shanghai's financial mechanisms was directly affected by changes in the international financial market. These mechanisms relied mainly on an active land policy. Pudong was even more dependent on revenue from land, since this was the only source of revenue on which it could rely at the time. Thus the operation of the land market and the transfer of rights to use state-owned land was the most important way of raising investment capital. Pudong unquestionably achieved the goal of China's land reform and the commercialisation of state-owned land, at the same time giving all investors an equal opportunity to participate in the market. (This point was discussed in more detail in Section 3.1). Involvement in land linked



the local business network (Chinese developers and investors) and the global business network (foreign developers and investors) to Pudong, but also to Shanghai, the owner of the land. However, during the Asian economic crisis Shanghai's main generator of revenue lost much of its appeal to investors. The international economic crisis had direct consequences for international investors, domestic financial organisations and the performance of the local economy. International investors, especially those based in South East Asia, faced severe financial deficits or even bankruptcy, and were incapable of further expansion. Consider the issue of debt bonds as an example. Even though the decision to issue such bonds was looked on by the Chinese government as a way to mobilise public money and was strictly regulated by central government, the international bond market still largely reflected the ebb and flow in the international financial market, especially in the period 1997-1999 (see Figure 3.35). The second reason that may have contributed to the decline in revenue from land transfers is the mismanagement of land transfers by the local authority. Zhang (2003) claimed that a severe lack of transparency in the operation of the land leasing market was to blame. The heavy involvement of state-owned development companies and a serious oversupply of industrial land brought about by competition between district and county governments appeared to contribute to that lack of transparency. The third reason may have been that land had become scarce after ten years of intensive land transfer; the reduced supply generated a rapid increase in price. (This point was also discussed in Section 3.3)

Interestingly, contributions from state budgetary funds did not follow the general financial trend but rather the reverse. For example, between 1992 and 1994 those contributions rose to support the construction of a number of key infrastructure projects in Pudong, and increased again between 1997-2000 to support Pudong's infrastructure development during the most difficult part of the Asian economic crisis. An interview in October 2002 with Liu Rongming, director of Pudong New Area Administration Committee's investment bureau, revealed in more detail the strategic considerations underlying government investment in Pudong:

"Direct investment by local and central government amounted to 35-38 billion yuan (US\$ 4.23-4.59 billion), including 10 billion yuan from central government, i.e. one-tenth of the total investment in Pudong. The lack of sufficient finance led government to [establish] development pri-

orities and investment priorities. In the last two years the priority areas have been Lujiazui, Huamu, Century Avenue, Century Park and their road systems".

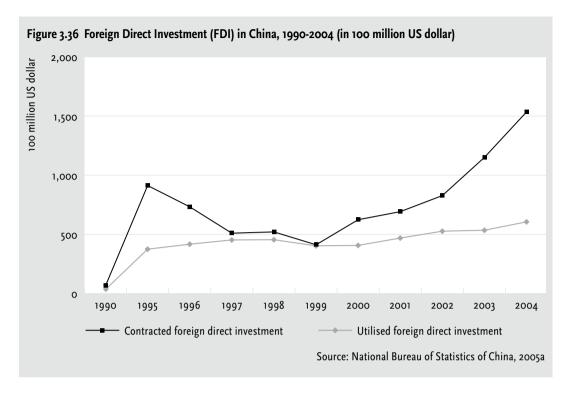
This shows that central government not only played a significant part in guiding and supporting the Pudong development when times were hard, but also had the good sense to relax control and assistance to allow Pudong to progress on its own. The relatively limited amount of state capital in China made it necessary to set priorities. The strategy of selective penetration as reflected in the Chinese government's social, political and economic policies was described by Xia as an important key to success for a developmental state (2000, p. 220). The state also needs to have the ability and flexibility to 'move in and out of sectors, to promote this or that industry' (Cumings, 1987, p. 74 and 81).

Analysis of the evolution of Pudong's financial mechanisms shows that their ups and downs were closely related to changes in the international financial market. However, despite the challenge presented by the Asian economic crisis, Pudong proved that it had the capacity to attract investment both inside and outside China. Its success can be largely explained by the business opportunities offered, its strategic location and Shanghai's industrial tradition. It is fair to say that instead of specifically focusing on private investment from abroad, like SEZs such as Shenzhen, Pudong tended to look beyond foreign investment and make efforts to attract all possible investment both inside and outside China. In fact, contributions from inland organisations supported much of the development of Pudong. As the scale of the Pudong development continued to increase, the amount of FDI continued to grow, as foreign investors generally saw more opportunities to be gained from participating. The same applied to investment from other sources. The proportional growth in investment from those sources resulted from the efforts of local government, which did all it could to find extra investment to make good the shortfall from domestic and international financial organisations.

The following section examines in more detail how the two kind of investment flowed to Pudong and the effect they had during the different phases of development. On the one hand, the relatively stable injection of domestic loans, self-funded investment from local enterprises and neighbouring provinces and ministry-backed enterprises still dominated Pudong's financial mechanisms. On the other hand, foreign investment began to become more significant than in the first three years.

# FDI and the global Chinese business network

'Private finance and credit is increasingly available on a global scale, beyond the range of national control' (World Bank, 1991; Sassen, 2000). The state council's proposal to use foreign investment to develop Pudong took account



of the globalised financial market. Its calculations were also based on ten years experience of attracting FDI to facilitate development in the four southern SEZs - Shenzhen, Zhuhai, Xiamen and Shantou. This was also in line with China's emphasis on continuing economic reform, which attached great importance to the utilisation of foreign capital (Khan, 1991; Huang, 1995, p. 217; Olds, 2001, p. 163). Since 1979, China has constantly developed new policies and regulations to attract FDI, in the confident expectation that FDI would strongly 'facilitate economic development, maximize foreign exchange earnings, relieve domestic capital supply bottlenecks, transfer technology and skills to Chinese enterprises and workers, promote employment and increase interaction between the domestic economy and the outside world' (Olds, 2001, p. 163; Kueh, 1992, p. 637; World Bank, 1997; Li and Li, 1999). The scale of capital flows into China since the introduction of the open-door policy has been enormous, particularly during the 1980s, the first half of the 1990s and after the Asian economic crisis (see Figure 3.36).

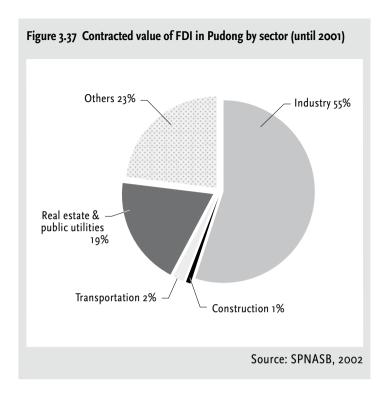
FDI flows were primarily directed towards the special economic zones, the open coastal cities (e.g. Shanghai) and the open economic zones (e.g. Pudong New Area). Shanghai experienced unprecedented levels of FDI, as shown in Figure 3.21. In fact the amount of FDI received by Shanghai in the 1990s was US\$ 45 billion, 15 times the amount received in the 1980s. It has often been suggested that the sharp increase in the 1990s was due to the development of Pudong. Pudong was a 'preferential area' for FDI and a wide range of incentives were offered to encourage 'foreign' investors, including subsidised land prices and tax deductions or exemptions, flexibility in method of investment method and area of investment (see Box 3.15). These policies were kept under strict scrutiny by special research teams in Shanghai, which conducted ex-

### Box 3.15 Tax advantages enjoyed by foreign investors in Pudong

- 1. Manufacturing enterprises were granted a 15% reduction in income tax.
- 2. Any enterprise scheduled to operate for more than 10 years was exempted from income tax for the first two years and granted a 50% reduction for the following three years. If the enterprise was considered 'high-tech', income tax was charged at a reduced rate of 10% for the next three years.
- 3. Export enterprises for which the value of annual export sales amounted to more than 70% of the total value of annual sales paid income tax at a reduced rate of 10%.
- 4. Enterprises involved in ports, energy or transportation, paid income tax at a rate of 15%. If they were scheduled to operate for 15 years they were exempted from income tax for the first 5 years and granted a 50% reduction for the following 5 years.
- 5. Foreign investors buying or building houses were exempt from property tax on those houses for 5 years.
- 6. Banks and joint-venture banks with a capital of US\$ 10 million or more paid income tax at a reduced rate of 15%.

tensive research into how Pudong might best attract FDI (Mao, 1997; Wan and Yan, 2000). In fact policies changed to match changes in the economic situation inside and outside Pudong, Shanghai and China generally. For example in 2000, after a long period of poor performance in the high-tech sector, new preferential policies were introduced to attract FDI to the Zhangjiang high-tech park. Preferential taxation treatment gradually reduced when China entered the World Trade Organisation (WTO) since the rules of that organisation require that all enterprises, foreign and domestic, receive equal treatment. Between 1981 and 1990 a total of US\$ 274 million was invested in 17 projects, whereas between 1990 and 1999, US\$ 592.5 billion of foreign investment came to Pudong. The growth of FDI between 1990 and 2003 is seen as a positive result of preferential policies. By the end of 2001 the total number of contracted projects involving FDI amounted to 7,515, with a total contracted FDI of US\$ 164.54 billion.

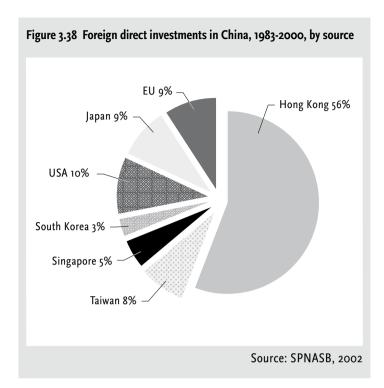
About half of the total FDI in Pudong went into industry, though a relatively large amount was invested in infrastructure and real estate development, as shown in Figure 3.37. Other investment was channelled into real estate projects, either directly, through involvement in the development of real estate projects, or indirectly, through purchases on the property market. A third source of finance was international loans and debts involving foreign governments or multinational organisations with members from most of the important developed countries, which acted as principal donors to developing countries. For example, the ADB, with donors from developed countries including the US, Japan and Germany, specialised in developments in Asia. The ADB invested in several key infrastructure projects in Shanghai, including the Nanpu and Yangpu bridges. The German government provided low-interest loans for the construction of Shanghai's metro lines. Privileged investments made by the World Bank, the Asian Development Bank and the United Nations Development Programme, and the special treatment given by the WTO show that



these institutions were keen that Shanghai should rapidly integrate into the global economic and financial system. This process was assisted by the Chinese government, which relocated the Shanghai branches of the People's Bank of China (China's central bank) and the four largest banks from Beijing to Shanghai-Pudong to establish Shanghai as a national centre (Yulong and Hamnett, 2001, p. 133).

An interesting characteristic of FDI in China is that capital flows were mainly sourced from the Asian-Pacific region. Figure 3.38 gives a good picture of the dominant influence on FDI in China exerted by the global Chinese business network, especially businesses in the Asian-Pacific area, after the introduction of economic reform and the open door policy. Hong Kong, for example, provided more than half the total FDI in China, although the part played by Hong Kong is declining (from 60% in 1995-1996 to 41% in 1998-1999), while the part played by Singapore and Korea has increased from 8% to 11%. Olds (2001, pp. 164-165) suggested several reasons for this:

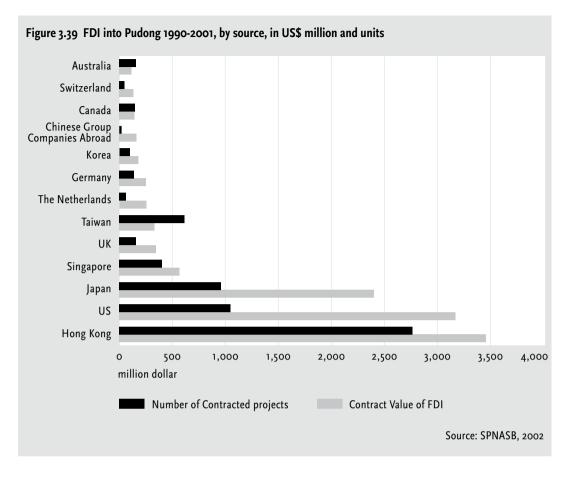
'...first: China's development is linked to the global shift of capital flows to the Asian Pacific region since the early 1980s which aim to take advantage of the availability of skilled and unskilled labour, low wages, natural resources and the bourgeoning domestic and regional markets. The restructuring of the Chinese economy both contributed to and was impacted by this broad structural shift. Second, China was explicitly capitalising on the Greater China concept. In keeping with the pragmatic nature of Dengism, links with ethnic Chinese living in East and Southeast Asia have been encouraged. Cultural, linguistic, and family ties have been extremely helpful in guiding capital flows to China from Hong Kong and Taiwan (the two largest 'foreign' investors). In contem-



porary China, population flow is tightly interwoven with the flows of capital that propel the restructuring of cities such as Shanghai.'

Olds was correct in pointing out the part played by the Greater China concept in foreign investment in China. In fact, the majority of foreign private sector investors were related in one way or another to the global Chinese business network. Research shows that more than 60% of all FDI in China came from overseas Chinese (Guha and Ray, 2000). Overseas Chinese have a stronger connection with China than, for example, overseas Indians to India. This is perhaps the crucial reason why even though other Asian countries may have adopted similar policies to attract FDI, they have not been nearly as effective as those adopted by China. Despite the risk, businesses making up the global Chinese business network were prepared to invest in the immature Chinese market because of their better understanding of Chinese culture and because they were more willing than other international investors to accept risk. When they encountered problems, Overseas Chinese could turn to their networks or quanxi for informal help. Global Chinese business networks have played a key role in initiating and stimulating the growing of the Chinese market, generating the kind of success and high yields required to stimulate interest in FDI.

By comparison, in the early days only a handful of international companies from the US or the EU were bold enough to enter China's market or give strong financial support. Their first steps were to start up 'pilot projects' to investigate the potential and risks of the Chinese market; even if they failed there they would still have other profitable markets outside China. The situation was very different for enterprises in the global Chinese business network, many of which were medium-sized or small. Operating in the Chinese market



enabled some of them to expand and gain recognition.

Things were much the same in Pudong. Investments from the global Chinese business network, especially from Hong Kong and Overseas Chinese in the Asian-Pacific region, played a definite role in supporting the Pudong development. Figure 3.39 shows that Hong Kong took top place both in number of projects (2,766) and amount invested (US\$ 3.5 billion or 21% of the total FDI), followed by the US, Japan and Singapore. Other Asian investors also contributed a great deal to the Pudong development. Countries outside Asia, such as the US, Germany and the UK, increased their investment in the mid-1990s, especially during the Asian economic crisis, helping Pudong to sustain the growth in FDI. Each country had its own preferred area of investment: Hong Kong and Taiwan concentrated on traditional manufacturing industry and real estate, while Japan, the US and countries in Europe were more interested in technologically advanced industries, such as car manufacture and medicine. The number of projects and the amount invested by Hong Kong and Taiwan shown in Figure 3.39 suggest that the projects concerned tended to be medium-sized or small.

Investors from Hong Kong and Taiwan played a crucial role in the development of Pudong, accounting for half of its FDI. Their influence on the real estate market was even more dominant. Investors from Hong Kong and Taiwan were the first to enter the Chinese market after the introduction of the open

door policy in 1978. They shared cultural and ethnic roots with mainland Chinese, which made it easier for them to understand the market. They were generally familiar with the operation of a market economy and had a good deal of experience in the real estate market. Most of them had a strong financial background. Another factor, possibly less significant but not unimportant, was that they were quickly able to fit in to China in the early days after the introduction of the open door policy, and appreciated the importance of establishing a positive image<sup>35</sup>. Most investors from this group concentrated their investments in medium and high-quality offices, hotels and apartments. The share in FDI from Hong Kong declined in the second half of 1990s, while the share from Singapore and Korea increased. Investors from Singapore and Korea began to invest in Pudong much later than those from Hong Kong, but their special political and cultural links with China helped them to build up their networks and localise their businesses.

The input of FDI into the real estate sector grew steadily, matching the pattern of FDI development described above. By 1999 foreign investors had become involved in 205 real estate projects, investing a total of US\$ 2.97 billion. Asian investors have always been important players in this sector, perhaps because the real estate market is a local affair. Asian investors, with the same kind of traditions and cultural background as the Chinese, find it easier to find their way in China than developers from other regions. One particular cultural difference is the willingness to accept risk. For example, a Hong Kong developer tends to be prepared to take more risk, gambling on a possible high return, while a European company prefers to make sure that the investment is feasible before taking on the risk. Further, the geographical advantage enjoyed by Asian investors encouraged them to enter the Chinese market as far back as the 1980s, almost a decade earlier than their American and European counterparts.

Analysis of the sources of funds invested in fixed assets in Pudong suggests that both the public and the private sector played a part in building up the complex financial mechanism. Instead of controlling and intervening in its traditional fashion, the state largely left things to the market. However, this withdrawal by the state did not mean that the private sector dominated the direction of Pudong's development. Rather, the local public sector brought a new entrepreneurship to urban development with its business-oriented behaviour and active land policy. In many cases, increasing collaboration between public and private led to a blurring of the boundary between the two sectors. On the other hand, Pudong's financial mechanism was based on cooperation between global and local participants. Land transfer and other

**<sup>35</sup>** Most Hong Kong businessmen understood the importance of local politics and maintained close relationships with politicians at all levels.

international financial devices (e.g. loans and bonds) enabled global players to penetrate the local real estate and financial markets. Although the role of global participants was relatively marginal compared to that of local participants, its importance in connecting Pudong with global economic systems and financial markets should not be underestimated. It is also necessary to emphasise the role played by global Chinese business networks, especially those located in South East Asia, and their significance in mobilising global capital flows into Pudong.

# 3.4.2 Corporate finance

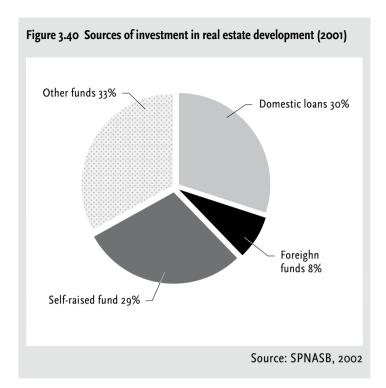
Pudong's financial mechanism presents an active market in which the public and private sector, local, regional, national and global, work together to stimulate financial flow. But how do real estate companies raise their funds? Is the visible hand still as visible in promoting Pudong's real estate market as it was in urban development? This section considers individual firms which were actively involved in real estate development in Pudong, to explain how corporate finance was structured in the real estate sector and how it contributed to the present state of Pudong's financial mechanism.

# Sources of finance

The raising of capital by Pudong's real estate enterprises relies heavily on other funds (33%), domestic loans (30%), directly acquired funds (29%) and a small amount of foreign investment (8%). Though much in line with the financial mechanism employed to finance the construction of fixed assets, this breakdown highlights several interesting ways in which real estate businesses differ from Pudong firms in general.

First, the state has completely withdrawn from any direct financial involvement in Pudong's real estate market. The figures for 2001 (see Figure 3.40) show the state budgetary fund actually disappearing from the scene, indicating that in Pudong's real estate market the decoupling of state and market has become a reality. This is in line with the findings of Allen *et al.* (2005: p. 80) on the subject of financial channels used by Chinese firms generally, to the effect that the part played by the state budget is very limited (10%). Thus Pudong's real estate businesses were likely to operate in a more business-oriented environment.

Second, foreign investment in real estate business is still not as common as in sectors like manufacture, though the growth is steady. A recent estimate suggested that foreign investment made up 20% of the total investment in China's real estate sector. Three channels were involved, direct investment in the real estate sector, investment in property, and international debt bonds or loans. The high risk may have been one of the main factors discouraging international investors from participating in the operation of real estate



projects. The alternative was to invest in local Chinese real estate companies and thus participate indirectly in the Pudong real estate market. Interviews with local real estate companies in 2002 and 2004 showed that the raising of capital was considered almost as important as developing a real estate project on site.

Third, the surprising reliance on other funds has been a distinct feature of the finance mechanism in Pudong, which leads to the speculation that enterprises in Pudong were more active than most Chinese firms in searching for alternative sources of capital, such as bond issues or the stock market. This strategy, which was only allowed when China evolved from a centrally planned, closed economy into an open market economy, could well have been appropriate in the increasingly competitive real estate market.

Fourth, although there was no direct state intervention, many of the real estate enterprises active in Pudong's real estate market still had connections of one kind or another with the state. In 2001 only about 40% of the capital invested in Pudong real estate was totally unrelated to the state; the remaining 60% being connected in some way with central or local government. Allen et al. divided Chinese firms in Pudong into three categories:

- 1. The state sector, i.e. all companies over which the government has ultimate control (State-owned Enterprises [SOEs] and others, i.e. public enterprises).
- 2. The listed sector, i.e. all companies whose shares are listed on an exchange and publicly traded.
- 3. The private sector, i.e. all other companies which are privately owned or owned by local government.

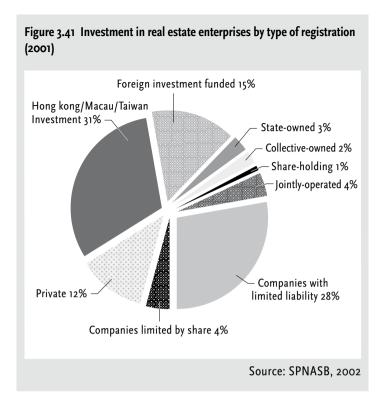


Figure 3.41 shows that the part played by the truly private sector in Pudong's real estate market was significant but not really dominant; traditional SOEs, on the other hand, were being transformed into various types of modern enterprise. The figure clearly shows the various new forms adopted by traditional SOEs, including shareholding, jointly-operated, limited liability and companies limited by shareholding. These changes were to a large extent related to the ongoing reform of China's unprofitable SOEs, which aimed to introduce modern corporate governance into formerly uncompetitive SOEs. One of the ways in which China's economic reform attempted to introduce market institutions involved the introduction of modern business systems to reinvent inefficient and incompetent public enterprises or SOEs with modern corporate governance. The Chinese state adopted a gradual strategy to introduce competition and vigour, without divesting itself of public enterprises, by a process of corporatisation and diversification of ownership designed to reform internal structure, governance and operations and so achieve efficiency, effectiveness, accountability and responsibility, combined with more transparency and openness (Tenev et al., 2002; Khan, M. et al., 2005). This approach increased the number of different ways in which firms could raise funds for their operations through new ownership structures but preserved a somewhat ambiguous connection between the state and traditional SOEs. Fieldwork led to the discovery that companies in different categories tend to target different endusers. For example, state-related enterprises are more likely to target users at the lower end of the market, while the private sector is more likely to target uses at the higher end, making state-related enterprises even more necessary to the housing market. The role of these enterprises can be compared to that

of private housing corporations in Europe.

Fifth, interviews led to the discovery that a large number of businesses, mostly state-related, were not themselves real estate developers. They were never very interested in becoming deeply involved in Pudong's real estate market but hoped to make a substantial profit by entering the market at an early stage. This behaviour by firms searching for stability and attempting to reduce the economic uncertainty characteristic of China's emerging market can be seen as a strategy of diversification. Guthrie's study of Shanghai's firms (1999) argued that this strategy of diversification was 'not about profit-maximisation but, rather ... about economic uncertainty, and firms adopting this strategy are seeking stability by investing in the fast-return markets of China's rapidly expanding service-sector economy'. Pudong provided those companies with a market in which to carry on high-risk, high-return business. This may explain how the *shengbu lou* could exist in Pudong's emerging real estate market.

# Corporate finance in Pudong - the Lujiazui Group

To give a picture of the organisation of corporate finance in the context of Pudong - Shanghai, the present section considers the case of the Lujiazui Development (Group) Company Limited, also known as the Lujiazui Group. One interesting feature of this group is that it appears to have several different kinds of ownerships co-existing under one roof. Shanghai Lujiazui Development (Group) Company Limited is one of five companies established by SMG in August 1990 to develop large tracts of land, to run a comprehensive range of businesses and to coordinate activities in the Lujiazui Finance and Trade zone. Until it became a limited company, in 1997, the group was known as the Shanghai Finance & Trade Zone Development Company. It has a registered capital of 2.7 billion yuan (US\$ 0.33 billion) and the total assets of the company are valued at 14.1 billion yuan (US\$ 1.7 billion), including 6.2 billion yuan worth of net assets.

The Lujiazui Group's ambition was not only to be involved in land development in Lujiazui but to become an international finance, trade and service industries group with the characteristics of the Lujiazui Central Business Centre by the end of the tenth five year period. The adoption of modern business systems as a way of improving commercial efficiency appears to have been the main technique used to improve its competitiveness.

The SLDC has taken a number of different steps to reach its goal.

First, it has tried to nurture a more business-oriented and client-oriented culture than that typical of other public enterprises. Although control ultimately lies with the local government, the internal structure of the group has attempted to adopt a model business system. Three main divisions within the corporation follow the development process through planning, marketing, research and coordination. The development planning division is responsible

# Box 3.16 Main subsidiaries of the Shanghai Lujiazui Development (Group) Company Limited (SLDC)

Shanghai Lujiazui Finance & Trade Zone Development Co. Ltd.

Shanghai Lujiazui Finance & Trade Zone United Development Co. Ltd.

Shanghai Fortune World Development Co. Ltd.

Shanghai Lujiazui Real Estate Development Co. Ltd.

Shanghai Lujiazui Engineering Materials Equipment Supply Co.

Shanghai Lujiazui International Co.

Shanghai Lujiazui Import & Export Co. Ltd.

Shanghai Lujiazui Property Management Co. Ltd.

Shanghai Lujiazui Hongan Industry & Commerce General Co.

Shanghai Lujiazui Urban Construction Development Co. Ltd.

Shanghai Lujiazui Planning K Architecture Design Co. Ltd.

Shanghai Lujiazui Investment Co. Ltd.

Shanghai Lujiazui -Itochu Development Building Co. Ltd.

Shanghai Nancheng Economy United Development Co. Ltd.

Shanghai Zhang Yang Construction & Commerce United Development Co.

Shanghai Lu Yang Economic United Development Co. Ltd.

Shanghai Oriental Forwarding Co. Ltd.

Shanghai Pudong Art & Advertising Co.

Shanghai Grand Construction & Decoration Co. Ltd.

Shanghai Oriental Pearl Amusement Co. Ltd.

Shanghai Lujiazui Green Garden Development Co. Ltd.

Source: Official website of Shanghai Lujiazui Finance and Trade Zone Development Ltd.: http://www.ljz.com.cn

for urban planning and the negotiation of land leasing with interested investors, the marketing division carries out market research and devises marketing strategies and the City Infrastructure Construction Management Company provides a complete after-sale service after land has been leased, providing solutions to any problems faced by investors during the construction process.

Second, it has followed the same kind of diversification strategies found in many other Chinese firms. The Lujiazui Group holds shares in 54 other companies active in real estate, finance, insurance, the stock market and hightech industries (see Box 3.16). Some of its companies specialise in different aspects of the construction industry, so that although independent they are capable of collaborating with each other through the group's close network structure; others have moved away from the construction industry to specialise in fields such as finance or retailing. Many of its subsidiaries were set up as joint-ventures with other public or private companies, Chinese or foreign. Joint ventures, joint-operations and co-financing arrangements have given the group substantial additional capital and enabled strong teams to be assembled to take on further developments.

Third, to enable the group to acquire the capital it need to develop Lujiazui but failed to receive from local government, it listed part of its assets on the stock exchange. The group's parent company is the Shanghai Lujiazui Finance & Trade Development Co. Ltd., which ranks 18th among the top 50 companies

Table 3.10 Shareholders in Shanghai Lujiazui Finance and Trade Zone Development Ltd. (2007) (unit: Share)

Nature of shareholders	Name of shareholders	Number of shares held (millions)	Percentage (%)
State-owned shares (lock-up period: 3 years)	Shanghai Lujiazui (Group) Co. Ltd. (Authorised Operation)	57.17	
A shares held by corporations (Lock-up Period: 1 Year)	Shanghai International Trust & Investment Co. Ltd.	56.00	3.00
	Shanghai Lujiazui (Group) Co. Ltd.	8.82	0.47
	Shenyin & Wanguo Securities Co. Ltd.	8.82	0.47
A shares held by individuals	Individuals	216.70	11.61
Domestic B shares	Individuals	509.60	27.28
Total	1334.06	1867.68	100

Source: Official website of Shanghai Lujiazui Finance and Trade Zone Development Ltd.: http://www.ljz.com.cn

listed on the Shanghai stock exchange. On 28 August 1992, Lujiazui Development (Group) Company Limited and Shanghai International Trust set up the Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. which was listed on the stock exchange on 31 December 1994. Government remained the main shareholder, though foreign investment became an important new source of capital. Table 3.10 shows that about 57% of the shares were still held by government<sup>36</sup>, and those shares were not for sale. Meanwhile, there were signs of increasing influence from outside suppliers of finance (shareholders) on the company's commercial behaviour. The table also shows that a significant amount of foreign investment was achieved through Domestic B Shares; the attempt to raise finance from the domestic market was less successful.

Table 3.10 gives an equally detailed picture of the shareholders behind the scenes. Among the top ten shareholders, only the local government (the main shareholder) and two Shanghai investors (companies associated with the Lujiazui Group) came from mainland China. The other seven were foreign investors. The same phenomenon can be observed in other development companies. These so-called public enterprises were in fact financed by capital injections from the global and local capital markets and the local government. Both the second and third strategies adopted by the Lujiazui Group affected its style of corporate governance and financial structure. In particular an increasing number of shareholders came from non-Chinese backgrounds.

This seemingly modern structure does go some way towards making Lujiazui Group's equity accountable, either through joint ventures with private enterprises or by the listing of the parent company on the stock exchange. The structure is not without flaws however, especially the unclear nature of the state's involvement in the group's operations. In one interview, an employ-

<sup>36</sup> The government's share showed a slight decline over a 10 year period, dropping 3% between 1998 and 2007.

ee (Gong, 2002) made the following comments on the complex relationship between the state and the market and the huge debts faced by the Lujiazui Group:

"Our relationship with government is a sort of binding relationship [kun bang guan xi]. Originally the development companies in Pudong had close connections with the government (which more or less means that we were directly controlled by the government). But at the same time we helped the government to operate; we operated much like companies in a market economy, with shareholders. There was no distinction between government and private shareholders [zheng qi bu fen]. A listed company should be accountable to the entire body of shareholders. No distinction should be allowed. So the Lujiazui Group was one of the last development companies to set up a company with shareholders separate from the parent group. This took place in the second half of 2002. To ensure that the shareholder company had a good balance sheet, the group included much of the good equity to the shareholders and left the bad equity in the group".

Accountability arrangements need to be amended to meet stock exchange requirements when a public enterprise has its shares listed on the stock exchange. However, separation of ownership and control, a common feature of large modern corporations, does not apply to public enterprises in China. Government can exert control over management appointments and rewards, and so over the company's behaviour (Qiang, 2003, p. 777). Although the Lujiazui Group wanted to continue to improve its 'modern business system', it constantly had to face the difficult task of maintaining a balance between the government and the market place. It had to abide by modern market principles while being unable to deal with its main shareholder on a normal contractual basis. The group had to invest its own money in key infrastructure projects, which had formerly been the responsibility of local government (SMG). In the short term the group could use the profits from its real estate activities to cross-subsidise these projects, but in the long-term the group ran into debt. Wan and Yuan (2001, p. 102) pointed out that the increasing cost of land development in Pudong also contributed to the group's worsening financial position. Furthermore, intensified competition from neighbouring areas and the restrictive nature of financial policy after 1996 also reduced the interest of investors. The group's financial deficit could only be made good by loans granted by state-owned banks and guaranteed by SMG, its main shareholder. The same interviewee from the Lujiazui Group also complained about the debt now facing the group:

"The reason we have so much debt is that the group did too many things which the government would normally have done. Now we just let everything go to pot [lan diao le]. The group is in trouble anyway. The group has huge debts but the shareholder company shows a profit. The share-

holding is so big that the shareholder company needs to earn 100 million yuan to be able to show a ten cent profit per share in the annual report".

The problem faced by the Lujiazui group's corporate finance reflects the potential risk faced by most Chinese public enterprises: a huge deficit<sup>37</sup> and poor financial performance, resulting in the imposition of a severe burden on the banking system, and constituting a threat to the country's financial stability. The way this challenge is tackled will have direct consequences for the healthy growth of Pudong and Shanghai's financial market.

# 3.4.3 Public-private financing

When the Pudong project was first set up, the region lacked the advantage of closeness to Hong Kong or Taiwan, areas containing the most important contributors to FDI in Shenzhen. On the other hand, Shanghai not only possessed traditional advantages in fields like manufacture, business and trade with the outside world, but also enjoyed traditional connections with its vast hinterland, the Yangtze delta and the Yangtze valley, a vast market which at the end of the 1980s still remained untapped. These factors played a significant role in determining the financial resources on which Shanghai could rely to develop Pudong.

Research showed that Shanghai took a more integrated approach to setting up its financial mechanism: all possible channels for attracting finance were important, not only private sector FDI. An examination of Pudong's fixed assets showed that the public and private sector both played a part in constructing its complex financial mechanism. Although local governments and officials in China form part of the administrative apparatus – are part of 'the state' – they are also distinct entities, separate from central government, with their own agendas, and increasingly with their own resources. Negotiations between public and private organisations at district level, affecting concrete urban projects, infrastructure and building, take place without the involvement of central government and are not subject to detailed regulations imposed by central government. The local public sector began to display a new entrepreneurship in urban development and its business-oriented behaviour was very much in line with private sector behaviour when looking for new capital resources.

On the other hand, Pudong's financial mechanism was based on global-local collaboration. Shanghai made heavy use of land leasing to attract FDI, and

**<sup>37</sup>** According to a recent survey by the People's Bank of China, China's central bank, by the end of 2000 51.2% of the 62,656 enterprises were failing to repay their bank debts. The proportion of non-performing loans in the state-owned banking system has been estimated at between 25 and 30% (Qiang, 2003, p. 781).

Pudong played its part. Pudong's financial mechanism to a large extent depended on an active land policy to generate revenue for further investment in urban development. Most of the money raised by land leasing was used to invest in infrastructure – new roads, bridges, metro links, etc. – to stimulate private investment in real estate. In this 'experimental land policy', treating land as a commodity, the Chinese public sector became closely involved with the private sector. Deepening globalisation led to the development companies becoming privileged mediators between the local public sector and the private sector, operating on a global scale, directing global capital flows to local urban development.

As a result, urban development has become sensitive to fluctuations in the global market, as demonstrated by the Asian economic crisis. Land transfers and international sources of finance such as loans and bonds have enabled global players to penetrate the local real estate and financial markets. Although the role of global players is marginal compare with that of local players, their importance in contributing capital flow, creating economic growth and employment and connecting Pudong with the global economic system and financial markets should not be underestimated. What also needs to be highlighted is the significant role played by global Chinese business networks, especially those located in South East Asia, in directing global capital flows into Pudong.

'The decisions managers make regarding their firms' strategies are tied to the institutional environments in which they are embedded, the economic constraints they are experiencing, and the networks of firms in which they are situated'. This is especially true of the newly established development companies, which form the front line of the entrepreneurial Chinese government and those state-related enterprises which became involved in Pudong's real estate development. They operate relatively autonomously, in a way far removed from any top-down central planning doctrine. Spreading over the city and operating at district level, these companies work from the bottom up, occupying themselves simultaneously with a variety of building projects involving participation by private developers and investors from all over the world. In many cases, the borders between public and private are blurred, as in the case of the Lujiazui Group.

In this process, local development companies enter into contractual relations with footloose international private companies. As these companies are involved with urban development projects, the price of land is a dominant factor in any negotiation. The collaboration is equal and horizontal, with no substantial direct involvement or hierarchical relationship with government. These entrepreneurs are quite different from the 'bureaucratic entrepreneurs', Castells' name for China's new capitalist class comprising individuals, more often than not members of the Communist Party, whose access to resources stems from their control of government institutions and finance (Castells,

1998, p. 319). Research revealed a trend towards a new kind of organisation characterised by complex and differentiated forms of public and private partnership (De Bruijn and ten Heuvelhof, 2000; Frissen, 1999). These international partnerships combine new types of financial cooperation with competitive relationships and are constantly shifting the foundations of future urban development in Shanghai further outside the reach of central government.

# 4 Networking strategies: managing area development in the developmental state

# Introduction

Shanghai's rebirth is the direct consequence of China's need to survive in a situation of pervasive globalisation. Because China chose to follow the East Asian model of the developmental state in its economic reforms, it substantially adopted a number of the institutional characteristics that helped the five recognised examples of the developmental state (Japan, South Korea, Taiwan, Singapore, and Hong Kong) to create high economic growth, including an active role for the state, a collaborative relationship between the state and the economy, a planned approach to the development, guidance and supervision of industry, a development-oriented dictatorship, an attempt to achieve social equity in the process of development and the executive control of legal institutions (White, 1988; Johnson, 1995; Huff, 1995; Chan, 1998; Xia, 2000; Castells, 2000a and 2000b; Low, 2004). Xia (2000) pointed out a number of substantial modifications made to deal with China's vast size and the legacy of state socialism. One important characteristic he identified as indicating the special character of the Chinese 'developmental state' was its duality, leading to tension and cooperation between national and local development and between an active legal system and strong government. This institutional arrangement had immediate consequences for urban government and for the area management strategies used in the implementation of the Pudong development.

There is much evidence for the evolutionary nature of the policies applied in Pudong to manage the changing environment and the different challenges faced during the development. The different policies and the way they were implemented display a number of distinct characteristics defining the approach to the steering of the Pudong development. The development strategy was shaped by the aim to achieve economic development and its relevance to restructuring the local and regional economy. Local government played an active role right from the start of the project, all the way from decision-making to implementation, influencing the development process both 'overtly' and 'covertly', stepping in or out according to circumstances and the needs of the moment. The application of the SEZ concept to such a huge urban development project and the variety of experimental policies followed in Pudong recall the similar tactics used by China to stimulate economic growth and foreign investment. In many ways the area management strategies that Shanghai adopted for the Pudong development remind one of the ways in which China followed the model of the developmental state in pursuing its developmental strategies. Urban development is a complex process, dynamic and diverse, involving interaction between the state and the market in parallel with increasingly dynamic global-local interaction. Policy making, consequently,

is not pre-planned but rather emerges from the interaction between private companies and bureaucratic agencies, with mediatory organisations playing an essential role. As Mintzberg has said, policy-making is 'emergent', not designed (Mintzberg, 1990 and 1994; Mintzberg *et al.*, 1998).

Compared with the traditional way of managing area development in China – closed, top-down, opaque, bureaucratic and government-controlled – the development of Pudong showed an evolutionary trend, more open and interactive, governed by a hybrid form of control characteristic of the specifically Chinese development model. A networking strategy was essential to facilitate the development. 'Developmental states can be treated as mechanisms to control the political economy characterised by a series of networks' (Xia, 2000, p. 37). Here 'network' means a system of links between societal forces, or informal players, and institutionalised, formal authority. Networks are not only affected by the traditional Chinese culture of quanxi, but also required as political and economic control in the information age. Networking allows government and the market to begin to find ways of approaching and understanding one another. Cooperation between government and the market is generally achieved by institutional adaptation on the part of government leading to the creation of new rules to accommodate the admission of market forces and give them space to operate. The changing strategies used in the Pudong development also reflect how emerging situations led to strategies being redefined.

The following analysis attempts to explain the stunning speed achieved by Shanghai in the Pudong development by comparing the area management strategies used with the model of the developmental state that drives Chinese development. The analysis examines two essential relationships structures, between state and market and between local and global, with particular attention to those relationships that directly affected the speed achieved by the 15-year Pudong development.

# 4.1 State-market

# 4.1.1 Developmental goal

Economic reform and the open-door policy were designed as part of a survival strategy to 'ensure China's entry into the capitalist global economy and into the informational age, using lessons learned from the Asian "tigers" (Xia, 2000). According to Deng, 'Development is the only hard truth. Without development there can be no stability'. In the development state, the state is legitimate 'when it establishes hegemony or consensus vis-à-vis the civil society' or, in other words, 'the legitimacy principle may be excised on behalf of society (the democratic state) or on behalf of a societal project'. Castells (2000b,

p. 284) added: 'When the societal project respects the broader parameters of social order (for example, global capitalism) but aims at fundamental transformations of the economic order (regardless of the interest or desire of the civil society), I propose the hypothesis that we are in the presence of the developmental state'. (Italisation by Castells) Developmental states not only find their survival strategy by affirming economic development and economic internationalisation as the only legitimacy principle, but also assert their national interests in the world.

The developmental state model has led to the Chinese leadership being almost completely preoccupied with efficiency and growth (Xia, 2000, p. 226). This obsession with development is well illustrated in the design of the Pudong development. Pudong was seen not as a property development project or an area development, but rather as an economic tool to advance Shanghai's development and integration into the global market. In the 1970s and 1980s this preoccupation with economic growth led Shanghai's planners to adjust the course of Shanghai's urban development to create new 'engines' to power the city's growth. Whereas formal urban plans restricted the economic strategies available to local government, Shanghai's planners looked to western urban planning for new avenues of development. For example, when they discovered the significant impact made by CBDs on American urban economies, they decided to include this western concept into their master plan, designing the Bund area in Puxi and the Lujiazui area in Pudong as old and new CBDs for Shanghai. Similarly, during the design of the Lujiazui Financial Centre local planners came to accept that land has a market value, and subsequently realised that in Shanghai, as in Hong Kong and Singapore, land could serve as the main source of local government revenue for infrastructural development.

This developmental rationale meant that the strategies used to build up Pudong and sustain its prosperity were very much oriented towards economic growth. By designating Pudong as a separate unit rather than an integral expansion of an existing urban area, Shanghai declared its preference to subject Pudong to regulations different from those applying in Shanghai's other urban districts. In accordance with an agreement reached with central government, Pudong in fact followed China's economic development strategy by becoming one of China's national SEZs, 'a bird sanctuary for the market economy' and 'a laboratory for China's experimental East Asian strategy' (Xia, 2000, p. 51). The powerful drive to integrate into the global economy and the aim to build Pudong as a multi-functional district including finance, trade and export, a tax-free zone and a high-tech zone, reflects China's constant emphasis on economic development. The four main development zones, each designed to target a different economic activity, would rely heavily on foreign capital and foreign investment, foreign markets and the transfer of foreign technology. To earn Shanghai a place on the world stage, Pudong created an economic structure oriented towards the outside world.

The Pudong development enjoyed a number of advantages stemming from urban redevelopment oriented towards economic growth, the designation of special economic zones and the development of economic functions rather than property development.

First, special policies giving extra flexibility were introduced in the SEZ to test the operation of a market economy. Economic activities were mainly driven by the market and joint ventures with foreign companies. Both partnerships and wholly foreign-owned enterprises were permitted. Adoption of the Chinese strategy of selective SEZ development enabled Pudong to enjoy the freedom of experimenting with various market-related ideas and methods to stimulate its economic growth. Constraints that limited the ability of normal urban districts to attract foreign investors and utilise foreign capital were removed, enabling Pudong to concentrate on its goal of establishing an outward and export-oriented economy.

Second, since Pudong was treated as an economic project in a defined urban area, integrated economic policies could be applied in such a way as to test their effectiveness. A series of preferential policies affecting such matters as finance, taxation, industry and construction could easily be set up by local government and implemented collectively by its various departments. The preferential treatment offered by Pudong on taxation and land transfer were the most important factors encouraging foreign investors to invest in the start of the Pudong development. A whole set of economic tools were provided to allow Pudong to react to changes in the market. Different interest groups were able to see possibilities for advancing their own economic interests, so attracting investors with different backgrounds, interests and intentions. As shown in the earlier analysis of financial resources, Shanghai was able to ensure that the Pudong development would allow different departments of local government (involved in economic planning, finance, taxation, construction, urban planning and the environment) and investors (property developers, manufacturers, bankers, insurance companies etc.) to find ways to satisfy their individual requirements.

Third, the emphasis on economic development rather than merely property development allowed Pudong to sustain long-term development with continuous investment from the market, economic output and job supply in various sectors, and also prevented the quick boom and bust that so often occurs in an area whose economy is powered by a boom in the property market.

Fourth, China's emphasis on development meant strong government support for key projects with national and local significance. As Pudong's profile was in line with the national strategy for economic reform, government support at local and national level continued to support the market in Pudong by creating an environment that would encourage the interaction of market forces.

As some localities would benefit from more favourable policies and privi-

Source: SPNASB, 2005

Table 4.1 Development of key state-level development zones in Pudong (at the end of 2004)

			Developed	Invested in		Contract investment (US\$ millions)		
State-level development zones	Date open	Plan area (sq. km)	•	fixed assets (million yuan)	Number of projects	Foreign	Non- Shanghai	Shanghai
Lujiazui Finance & Trade Zone	1990	28	14.50	1718.51	106	30.10	21.81	52.51
Jinqiao Export Processing Zone	1990	20	23.72	623.27	620	114.13	7.52	6.87
Waigaoqiao Free Trade Zone	1990	10	8.50	263.74	8064	85.75		
Zhangjiang High- Tech Park	1992	25	17.00	587.26	938	78.76	8.50	13.98
Total			63.72	3192.78	9728	435.73	37.83	73.36

leges than others, a selective strategy of area development was assumed to result in fragmented area development. Table 4.1 shows how much foreign investment was attracted by various development zones in Pudong over approximately fifteen years. It is clear that preferential policies did in fact play a key role in attracting foreign investment. Any increase in the preferential treatment given to foreign investors increased the amount of investment the development zones were able to attract.

# 4.1.2 Local-central synergy

### Local-central synergy

The first and most important characteristic of a developmental state is the 'state-guided capitalist development system'. White (1988, p. 24) described the predominant role of the state in the East Asian developmental state: 'In each case the developmental impact of the state extended far beyond economic policy to include ideological mobilisation, pervasive political controls and social engineering. Each state has sought to draw a clear line between the domestic and international economies and to define and implement economic priorities through varying forms of strategic planning.' As Xia pointed out (2000, pp. 180-181, pp. 203-204, p. 208), one important modification to China's dual developmental state concerned the relationship between the centre (the state) and individual localities (local government). According to Xia, the relationship between the state and individual localities is characterised by 'interdependence' and 'mutuality'. Each of the two sides possesses resources that are essential to central control and local autonomy: the state does not possess sufficient resources to exercise complete control and local government does not possess sufficient resources for complete independence. Each side needs valuable resources that only the other can provide. It follows that the state and local government both constrain and supported one another's approach to development. The characteristic interdependence of the state and local government creates a framework that is not zero-sum, with the result that the relationship between the centre and local government has always been cooperative, a symbiotic partnership based on a complex balance of mutual dependence. Without this essentially complementary relationship

it would be impossible to sustain a developmental approach either centrally or locally. This 'interdependence' and 'mutuality' was clearly reflected in the decision-making for the Pudong development.

The Pudong development recognised the active function played by the state, but was achieved by a coalition between the state and local government. Decisions affecting Pudong, although largely taken at local level, were typically the synergistic result of local-central collaboration. The time taken to prepare the project reflected the constraints that Chinese local governments faced in pursuing their developmental agendas. The development was seen as a large urban project which would allow Shanghai to re-establish its prestige and to regain the position, lost as a result of China's isolation in the world before 1978, one step ahead of the southern provinces, which traditionally had lagged far behind Shanghai but had benefited from the introduction of the open-door policy. It was therefore thought that Pudong, much like the southern provinces, should be treated as a Special Economic Zone. The prestige gained by SEZ status would help Shanghai to realise its ambition of rejoining the global market and so enhance Shanghai's performance and competitiveness within China and beyond. It was also thought likely that a successful Pudong development would affect the judgement of the performance of local politicians and so their career prospects. However, the granting of SEZ status was in the hands of central government. Moreover, not only were Shanghai's various administrative functions tightly controlled by central government but the same was true of access to finance, particularly from outside investors. Shanghai desperately wanted to be freed from the restrictive political and financial control exercised by central government before the Pudong development began. Li Zhanjun, a local researcher, used the term Songbang (untie) to express the urgency of Shanghai's desire for this freedom to allow it develop its local economy the way it wanted. Lacking the autonomy required to decide on and implement an area development plan, Shanghai was simply unable to carry out an urban project of such a size without approval from central government. Moreover, since Shanghai was still handing over more than 80% of its revenue to central government, it had few resources left for investment in urban projects of the size of the Pudong development.

China's central government, though not always directly involved in local development, simply can not be left out of the essential decision-making process. Deng, the architect of China's economic reform, was not entirely confident about the developmental state's ability to serve as a model for China as a whole. Although the enormous potential created by Shanghai's traditional capacity for economic development, its talented labour force, its businesslike approach and its open culture provided a favourable environment for investors, it did not want to risk 'killing the goose that lays the golden eggs for central government in a state-planned economy' (Xia, 2000, p. 187). As central government relied heavily on revenue from Shanghai (amounting to no less

than one-sixth of total national revenue), it feared that any autonomy Shanghai might acquire would reduce its tax contribution and so disturb the stability of the national economy. Through a continuous consensus building process, both sides finally found common ground, a way to advance their common interest - economic development in the interest of national economic reform. The Pudong development could help Shanghai to restructure its economy and become the new economic engine powering its lagging economic development. Central government saw Pudong as a potential shop window for China's second wave of liberalisation and economic reform. With the support of Shanghai, Pudong had the potential to become an economic powerhouse stimulating its vast hinterland, the Yangtze river delta and the Yangtze river valley. The decision to go ahead was encouraged by a powerful Shanghai lobby within central government, the government's own Pudong feasibility study and the emerging political crisis brought about by the Tian'anmen Square affair. Pudong was chosen by central government as the 'emerging remedy' to assure foreign investors that China would not only continue with its economic reform and open-door policy but would also open up Shanghai, its most important economic centre, to the outside world. Shanghai grasped the opportunity to consolidate central government support for Pudong and lobbied for a full presentation of the Pudong project, asking for full support including preferential treatment and financial assistance. Once both sides recognised their shared interests and constraints and the need each had for assistance from the other, the original conflict between supporters of local development and central government were able to reach a consensus, each, for its own reasons, supporting the start-up of the Pudong development. The achievement of this consensus between central and local government confirmed Xia's view that a beneficial relationship between a developmental state and supporters of local development can be secured by 'setting up a cooperative, non-zero sum, game'.

Understanding the imbalance that might be created by a strategy of selective development, central government exercised its significant political power in the national interest to enforce collaboration between different levels of government and ministries. 'The SEZs used special policies to attract foreign direct investment, technology, joint ventures and foreign enterprises. As these poured in, the SEZs found they needed more talented people and investment from outside their own areas. A large number of inland provinces and central ministries, which also wanted to take advantage of the special policies granted exclusively to SEZs, brought in large amounts of capital and set up offices and factories'. Indeed, many provinces and ministries invested heavily in SEZs as a way of setting up 'shop-window enterprises' and so gaining access to global markets. While central and local government believed that the introduction of preferential policies and provision of financial support to develop a particular urban area in Shanghai could provide China with a second

economic boom, they could not ignore the jealousy and anxiety of supporters of other local developments who were afraid that Pudong would empty the national coffers, leaving nothing for anywhere else. This concern led to a compromise solution, a non-zero sum game satisfying, at least in the short term, the shared interests of other regions. Pudong was designated the 'head of the dragon', charged with stimulating the economic development of the entire region. The consequences of this designation were significant, because it re-established the traditional regional network formed by Shanghai and its hinterland. In fact the Pudong development led to a series of regional developments and an inflow of global capital into the region. Zweig (2002) wrote that FDI followed the flow of regional openings under segmented deregulation. For example, in 1991 the Yangtze river valley received only 4.9% of national FDI; its opening and particularly the opening of Pudong in 1992 had the effect of redirecting foreign investment so that by 1994 it had become the recipient of 29% of all FDI in China. These figures demonstrate the importance of an integrated regional environment to attracting global capital. Although cities within the region tended to compete with one another for capital, resources and business, they also appreciated the importance of mutual collaboration and coordination and their shared interest in attracting global finance to the region. The traditional links and cultural similarities between Shanghai and other cities in the region also helped to enhance economic integration and social and cultural unity.

Regional networking, if it worked well, would actually be in the interest of the Pudong development, allowing it to become the nexus connecting domestic interests and the international market while at the same time being the spearhead for Shanghai's strategic plan to stimulate the economic development of the region comprising the Yangtze river delta and Yangtze river valley. As a state-level SEZ, Pudong enjoyed a series of advantages lacked by other cities. Like other SEZs, Pudong was not only able to benefit from urban deregulation but also found itself in a better position to access foreign trade and foreign investment than areas still operating under the central planning system. Pudong also enjoyed preferential policies providing lower taxation and greater flexibility in dealing with domestic labour, transfer of land to foreign investors and the raising of domestic capital from both national and local government. Furthermore, as the new focus of China's second round of liberalisation in the 1990s, Pudong enjoyed crucial support from central government and a privileged position in the finance, trade and service sectors (see Chapter 3, Section 3.1). Domestic players, restricted by the strict regulations imposed by their own cities, hoped to benefit from the low tax rates and the ease of doing business with the outside world available in Pudong's deregulated environment. The analysis given in Chapter 3 shows that Pudong's financial structure and real estate market were to some extent dominated by domestic players. Many of the companies that became involved in the Pudong

development also speculated in land or became active in the service sector rather then sticking to their original businesses. Land speculation and activity in the service sector, if done well, gave domestic companies a quick economic return. This, according to Guthrie (1999), reflected a type of diversification strategy followed by Chinese companies to counter the economic uncertainty produced by ongoing economic reform.

The difference between Shanghai and developmental states like Singapore is that Shanghai needed to make extraordinary efforts to coordinate with central government and other neighbouring provinces and cities to ensure the plan was well received and was given the national and regional support required to allow it to run smoothly and become reality. The building of a consensus between different political players in support of the Pudong development actually involved implementing a network strategy for an area development project. For this reason, argued Xia (2000, p. 215), China's economy should be characterised as hybrid: 'It is no longer a planned socialist state, nor is it yet fully a pure market economy'. China's economy and politics have been marked by a diversification in the Chinese political structure and frequent bargaining and consultation between important political players and institutions. These new features contributed to the emergence in China's economy and politics of a network style of government, characterised by embeddedness, connectivity and reciprocity. This meant developing links between different institutions and the adoption of the mohe strategy, a combination of cooperation and competition used to guide and manage interaction'. This networking strategy achieved the cooperation between local and central government needed for the Pudong development. It also helped to build consensus between regional players in support of a project initiated by one of their number, with central government playing the leading role. The inclusion of central, local and provincial governments in the same network made it easier for politicians and institutions to connect and communicate with one another (Xia, 2000, p. 205).

### Capacity of state intervention

The developmental state is characterised by 'an active role for the state and a collaborative relationship between the state and the economy'. A central planning system ignores market rules, but a developmental state needs to be 'market-fostering', 'market-facilitating' and committed to nurturing markets (Xia, 2000, p. 27). In the Chinese version of the developmental state, the relationship of 'interdependence' and 'mutuality' between the state and local development initiatives allowed central government, Shanghai local government, Pudong local government and the hybrid development companies to share in decision-making, the design of a development strategy for Pudong, and implementation. Local government played its part as initiator of the Pudong development, designing the development concept and strategies, lob-

bying central government and negotiating the level of support required from central government. As one by one the conditions for further development were met, the local authority started to present its development ambitions to the outside world. Local politicians made promotional trips to Asia, Europe and the Americas and meetings were held between the local authority and international investors to promote the Pudong development and persuade potential participants. To support the city's marketing efforts, the local authority introduced a series of measures to reform those elements of the existing institutional system that were hostile to private investors. These institutional changes and other measures involving matters such as land and infrastructure development, played a key role in facilitating the increasing influence of market forces in Pudong and attracting participants from various sectors from round the world. Amongst the most important improvements in institutional design were those experimental measures which created new entry rules allowing or enabling stakeholders to work in a transitional environment and providing more equal conditions for outsiders to compete in what was a rather closed local market. The role of the state in facilitating the operation of the market was reflected in the use of lower-level agents and development companies, aware of changes in the market and responsive to those changes, to work closely with people who became involved in the market. Clear evidence is provided by the four development companies which represented the interest of the various local authorities on the construction site. The hybrid nature of these companies ensured that they were business-oriented. Although they were required to represent the interests of the government, their biggest shareholder, they also had to be responsive to public shareholders, to whom they were responsible for any profit or loss. This division of functions gave the local authority more flexibility to react to major challenges while leaving its agents free to find practical solutions. When the development was going smoothly the local authority would tend to reduce the amount of intervention and put more reliance on the market to provide capital. However, when action was required to deal with a failure in the market, as in the period 1997-2000 when the local market was in decline because of the Asian economic crisis, or in the period 1992-1994 when Pudong needed specific funds to invest in infrastructure, the local authority immediately stepped in to provide the necessary assistance.

Like the local authority, central government also saw the Pudong development as an economically-oriented national project which would help China, and not just Shanghai, to achieve its developmental goals. Central government's decision to support Pudong was based on an intensive feasibility study and complicated political calculations and consensus-building in the national interest. Once agreed on the significance of the Pudong development, central government devoted itself to meeting its commitments and helping Shanghai to set up Pudong as a new shop window for China's economic reform. Be-

cause it was an economic project, central government was able to implement a series of economic measures to excite investors' interest, not only allowing Pudong to enjoyed the privileges of an SEZ but also giving it special preferential policies not yet enjoyed by other SEZs, to strengthen its specifically economic functions. For instance, besides the preferential policies to reduce or eliminate customs duty and income tax, granted to all economic and technological development zones and certain SEZs, central government also authorised Pudong to allow foreign organisations to open financial institutions and become active in the service sector. Central government also gave Shanghai permission to open a stock exchange, expand its authority to examine and approve investments and allow foreign-funded banks to engage in RMB business. Foreign financial organisations wishing to enter the Chinese financial market and conduct business in Chinese currency were required to set up in Pudong's Lujiazui Financial and Trade Zone. The local authority even moved a number of markets (including the gold and diamond markets) from Puxi to Pudong, to enhance Lujiazui's economic function as financial and trade centre and Shanghai's new CBD. By deliberate measures of this kind, government (central and local) acted 'overtly' to help Pudong establish its financial function in the shortest possible time. During the decision-making process, central government acted more as a consensus-builder, balancing the wishes of conservatives and reformers and of different regions. As soon as the implementation phase began, central government quickly changed to become a facilitator, using its political influence and budgetary support to help the local authority to stimulate the development. At the start of the development, central government also acted as coordinator of the efforts to put Shanghai, or more particularly Pudong, on the world stage. In a number of instances central government acted as intermediary in promoting Pudong to international investors, creating links between Pudong and various multinationals to raise finance from the global market for Shanghai to use for the development of Pudong's infrastructure. The need for the role played by central government also changed as time went by. Once the Pudong development was under way, central government was able to reduce its amount of intervention and budgetary support, though when the development ran into trouble, as for example during the Asian economic crisis, it stepped in to give a helping hand,.

This sharing of tasks between local and central government demonstrated the flexibility with which a developmental state can carry out a particular project. Chan et al. (1998) wrote: 'Indeed, the hallmark of the East Asian countries' economic miracles is precisely their eclecticism. The people and officials of these countries have generally avoided a rigid adherence to particular scholarly conventions or policy orthodoxies, while showing considerable awareness and sensitivity to the lessons and injunctions from seemingly opposing perspectives (such as neoclassicism and statism, as well as dependency theory). Thus we see in these countries the coexistence of vigorous mar-

ket competition and active state administration, energetic export promotion and deliberate import substitution, and both efforts to recruit foreign capital and technology and efforts to control and regulate them.' Low (2004, p. 5) also wrote that the power of a developmental state lies in its capacity and capability to anticipate and respond to economic change. This view is well illustrated by the changing roles of central government, local government and their agents at lower levels, and in the way they accepted tasks in areas of strength and avoided tasks in areas of weakness.

Analysis of the decision-making process and subsequent developments in Pudong clearly shows how in the long term the role of government changed from intervention to enabling, and to continuing its efforts to build a strong cooperation between state and market. This confirms Huff's claim (1995, p. 1435) that a successful interventionist government 'must know when to stop'.

# 4.1.3 Institutional adaptation

As a developmental state China has been forced to concentrate on economic issues. The successful adoption of the developmental state model can only be achieved with the assistance of institutions modified to facilitate market development and help maintain the strength of the state's capacity to advance its development agenda. This means that the traditional institutions used to support the formal rigid central planning system needed to be modified to support economic development. However, although good institutional design can facilitate networking by changing formal or informal rules governing accessibility to the network, this strategy is in general 'difficult to implement and usually takes a lot of time' because of a significant level of criticism and resistance (Klijn, 2005, p. 334). Extra difficulties and frustrations were encountered in the course of China's urban development since the management of networks involved a move away from a formal rigid central planning system and a society within which market rules and networks had been denied for many decades. In fact, for the sake of development, China's central and local authorities were obliged to take a more difficult path to network management, engaging in a series of institutional reforms and adaptations to allow the existence of a series of networks and the growth of a strategy of networking between state and market. Guthrie (1999, p. 7) said of the use of institutional adaptations in relate to firms and organisations in Shanghai: 'It is precisely the institutional environments that define markets and the rational bureaucratic systems within firms that are being invented and implemented. In case of China, we have the unique opportunity to observe the construction of new institutions and markets and the adoption of many new practices within firms, an interesting window onto what one scholar has referred to as the "state-building" project of market construction and transformation.' In the development of Pudong, institutional design, or more precisely institutional adaptation, was essential if the market was to become involved in local development. To achieve such adaptation, Shanghai concentrated on two things, a market-oriented administrative structure with sufficient calibre to advance the development strategy effectively and a market-friendly legal system to ensure the achievement of synergy between state and market.

# Administrative restructuring

Any institutional designer who has to design new institutions or reshape old ones will always need to consider the general efficiency of the proposed institution (Xia, 2000, p. 214). For Pudong that meant that any new body would have to be capable, efficient and fully committed to Pudong's overall economic development. Shanghai used Pudong as a laboratory in which to test the effectiveness of its plans for institutional reform. To increase transparency and provide an efficient and effective service, the institutional design adopted by Pudong combined 'small government', employing as few personnel and offices as possible, 'big service', putting the emphasis on bureaucratic efficiency, and 'big society', transferring functions other than supervision and regulation to associations and NGOs.

Shanghai chose a two-layer administrative structure to create a capable and efficient administrative body to govern Pudong. At the upper level was the Pudong New Area Administration Committee (Later the Pudong New Area People's Government), the political administrative body responsible for governing Pudong; at the lower level were various publicly supported development companies responsible for the development in each zone. The main task of the Pudong New Area Administration Committee was to pass on development recommendations made by Shanghai to district level and to set up efficient administrative services to satisfy the needs of investors. To strengthen the relationship between state and market while not becoming directly involved in the operation of the market, the local authority set up development companies to carry out implementation on site, turn government strategy into reality, negotiate land transfers with private investors, and communicate investors' wishes back to district government and the Shanghai local authority. These companies enabled the local authority to put its ideas on urban development into practice, acting on site to ensure that the development strategy laid down by the local authority was followed in a way acceptable to the market.

In its creation of an effective Pudong New Area Administration Committee, Shanghai put a good deal of effort into emphasising the autonomy of that committee. The Singapore model had identified governmental autonomy excluding particular interest groups (in this case the local Chinese community) as one of the most important factors in creating all-out systematic commitment to economic development. In the case of Pudong, governmental autonomy could only be created by unifying support from segmented local

districts or county bodies for the development as a whole rather their own individual development agenda. Recognising that the land to be used for Pudong was still controlled by three districts and two counties, Shanghai did not immediately dismantle the various local authorities involved. Instead, a coordination team, the Pudong Development Office, was set up to examine the existing situation and the problems faced by Pudong, coordinate the public institutions involved and prepare for institutional transition. The process of institutional adaptation was not begun until Shanghai was certain that it had a thorough understanding of the situation in Pudong. The Pudong New Area Administration Committee was established as a unified administrative body replacing both the old coordinating team and the original five-division structure. Personnel were appointed by Shanghai from outside Pudong to avoid a power struggle and any attempt by existing players to modify reforms to suit their own interests. Meanwhile, the land that originally belonged to the three districts and two counties was put into the name of the Pudong New Area. The institution was further strengthened by the exclusive status granted to Pudong by central government, above that of urban district and SEZ, allowing Pudong to approve certain large-scale investment projects in a way that would not be allowed to an ordinary urban district.

Apart from administrative restructuring, institutional adaptation also involved the revision of approval procedures. A 'one-stop' system was introduced to facilitate the obtaining of administrative approvals, to avoid the usual bureaucratic delays and ensure that investors found the business of getting approval for investment projects fast and relatively painless. All the red-tape could be sorted out at the Pudong Investment Centre. The efficiency of this 'one-stop' system was achieved thanks to the existence of close institutional links and an overlapping of personnel, which meant that information was shared efficiently and the cost of transactions involving a number of different organisations was reduced.

To increase efficiency, each of the four development companies set up subsidiaries capable of handling different phases of land and infrastructure development, making it easier to provide and integrate strategies to deal with the different stages of urban redevelopment. Thus, for example, housing to accommodate relocated households was provided even before relocation actually took place. This saved a good deal of time compared with normal procedures, which required development companies to arrange every stage with independent companies. All this helped to speed up the development. By combining administrative restructuring and institutional adaptation, the Pudong local authority was able to establish new links between state and market and facilitate the entrance of outside investors into the local market.

### Adaptation of the legal framework

Restructuring the legal framework to facilitate investors' entry into and op-

eration in Pudong's market was another part of the institutional adaptation required to accommodate new players. China's newly established legal framework made it possible for foreign investors to participate in the Chinese market and guaranteed those investors certain protections on Chinese soil. For example, Japanese researchers have suggested that the improvements made to the Joint Venture Law in 1990 removed the biggest obstacles to Japanese investment. These improvements protected joint ventures in the private sector by ending the right of local government to transfer them to state-ownership, allowing foreigners to become directors of joint ventures and ending a number of restrictions applying specifically to joint ventures. Unlike the drastic transitional process in Eastern Europe, institutional adaptation in China was gradual, designed to avoid violent social confrontation. The revision of national laws and regulations to support market concepts was also gradual. New laws were introduced to prepare the ground for the introduction of a market economy, but the details were kept vague to allow for later interpretation and implementation. Some of the new laws even contradicted one another, requiring amendment and adjustment to continue as China's economic reform deepens and the operation of the market becomes better understood. During the transitional period the uncertainty and vagueness of the new legal system made it possible for local authorities to make changes for their own benefit. Xia (2000) once claimed that a network strategy enabled East Asian institutions to be flexible and adaptable in their search for change. The institutional adaptation required to ease the relationship between state and market was achieved partly by creating alternative institutions and partly by adding new functions to existing institutions. The changes to the legal system, though not without risk, provided scope and flexibility for local authorities to carry out further experiments to discover what suited them best.

The making of changes to the legal framework in Shanghai in general and Pudong in particular was one such localisation process to implement the new regulations. The changes addressed the need for market facilities and permitted the introduction of a market in land, a real estate market and a housing market. Shanghai needed to put the new laws into practice in a way would suit local conditions. Sometimes it had to innovate and make laws of its own. In practice, the Shanghai local authority chose Pudong for a series of experimental legal reforms which it was not immediately prepared to apply to Shanghai as a whole. Pudong's SEZ status allowed it to implement a number of bold regulations that had already been introduced in other SEZs, e.g. Shenzhen, covering such matters as market liberalisation, freedom for foreign investors to enter the protected local market, and freedom for domestic players to look for partners and capital in the global market. Some experiments were exclusive to Pudong. For example the grant to Pudong of the exclusive right to allow foreign banks and financial organisations to operate in its region undoubtedly encouraged the global financial sector to become involved in China's financial market. Since Pudong was the first region in China to take this step it had to set up a complete set of regulations and criteria for the newly deregulated financial sector. In most cases this work was carried out with the assistance of the national financial administration.

To support area development, the local authority made special efforts to create land institutions which would facilitate the operation of the market, and to dismantle barriers to outsiders looking to enter the real estate market and sectors previously barred to private developers. Pudong's new land institution required all land development in its administrative area to be conducted along commercial lines, with land-use rights transferred by sale or lease. For the first time ever, Chinese and foreign developers were required to compete on an equal footing. A bold decision was made to regulate the commercialisation of urban land transferred under the old allocation system. Pudong also regulated the expropriation of land from collective farms, using a 'land bank' system, and prepared regulations governing the establishment of a local real estate market. Another big step was the transition from a dual-track real estate market, in which Chinese and foreign developers were kept separate, to a unified market giving everyone the same opportunity to bid. Since the public sector hoped that more private finance and more private sector organisations would be attracted to Pudong and so boost the real estate market, it adopted a more relaxed attitude towards private sector involvement in what was formerly public sector territory, such as infrastructure development and the urban renewal of shanty towns. Appropriate regulations, sometimes even providing incentives, were introduced to allow the entry of the private sector into these areas. The combination of changes to the rules governing entry to the network and the new legal framework created the conditions required for foreign investors to enter the state's highly protected area and for Chinese companies to use Pudong as a stepping stone to exploring the global market.

Besides adapting its institutions to communicate with the private sector, the local authority also created a number of informal channels for interaction with market participants, with the aim of keeping Pudong aware of changes in the global market and satisfying the need for the private sector and the local authority to understand and respond to market requirements. The government invited a number of individuals, from China and abroad, to suggest improvements to the master plan and the feasibility studies for individual key projects. A series of platforms was set up in Shanghai to involve the private sector in Shanghai's decision-making. One of the most important events was the Mayor of Shanghai's annual international consultancy conference, a platform for Shanghai's mayor and urban managers to sit down with the CEOs of multinationals to discuss the development of Shanghai and to exchange information and opinions.

The institutional adaptation also attempted to ease the tension between different interest groups. Relocation strategies were changed to suit the

changing situation and the speed of development was adjusted to satisfy popular demand. Relocation regulations changed from requiring compensation in the form of alternative accommodation to requiring monetary compensation, and then back again, as continued investigation and negotiation revealed the changing needs of relocated households. Changing needs meant that relocation strategies which worked well at one time could be inappropriate in different economic circumstances. Constant adjustments to its strategy helped Pudong to reduce to some extent the danger of opposition from relocated households.

# Calibre of leadership and technocrats

The key to successful economic planning in East Asian developmental states has always been the calibre and economic competence of the political leadership. Huff (1995, p. 1432) credits the success story of Singapore and Taiwan to 'a political leadership and associated economic bureaucracy willing and able to think like economists and evaluate choices in hard economic terms. The competence of their political leadership was also demonstrated by their effective utilisation of technical knowledge through appropriate modifications to suit different localities and the actual production process' (Grabowski, 1994, p. 416).

The capacity and capability delivered by a developmental state requires a combination of strong leadership, capable public servants and talented human resources to ensure the consistent efficiency of a project's implementation. In Shanghai, initiatives affecting Pudong were handled by a series of Shanghai mayors with remarkable consistency. Their persistence ensured a thorough examination of Pudong's potential and challenges, leading to development goals that were ambitious but correct. The added value provided by this strong leadership was market-awareness, open-mindedness and a willingness to accept external knowledge and expertise. More important still, the recognition that 'economic matters require skilled specialists' (Vogel, 1991, p. 24) led to special emphasis being put on recruiting highly educated economically aware civil servants from all over China.

Although in the 1990s the mobility of Chinese citizens was still restricted, Pudong's human resource policies focused more on the knowledge and capacity of the individuals in question rather than where they came from. To recruit highly educated staff, Shanghai and Pudong designed a number of financial and social incentives including a measure of flexibility in the time and place of work. A service centre was established to target this group of Chinese workers; their families were given special assistance with finding jobs, schools and housing. SMG also organised annual trips to the US and Europe to look for talented Chinese with knowledge of advanced technology and management skills, who were willing to return to their homeland. As a result Pudong became a magnet attracting a quarter of all Chinese who had studied

abroad and then returned to China. Most of these people now hold important positions in the public sector or the private sector.

A strong regime (strong government) combining capable political leadership with a highly-educated economically aware bureaucracy and supported by technical expertise, ensured that the implementation of the Pudong project was conscious of and responsive to developments in the market. The competence of the regime also allowed a better presentation of each phase of the development, helping to buttress the local authority's credibility and reputation. Its professionalism and commitment to the realisation of the Pudong development undoubtedly helped to convince an uncertain private sector to commit itself to the venture. It also convinced a large number of people that they would benefit from the development. A general desire to improve stagnant welfare and living conditions, housing, infrastructure, and the environment, led the majority to support the project. Pudong residents generally formed a vulnerable group; their economic position was weak and they suffered from location-related cultural discrimination. The level of commitment and the subsequent level of performance in the Pudong development impressed everyone involved and won support from government organisations and the various bodies and even individuals involved in the project, even though national or local interest required a high price to be paid to achieve the necessary compromises.

# 4.1.4 Selective strategy

### Selective intervention

One of the most successful lessons learnt by the developmental states concerned selective intervention. As interpreted in China, selective strategy involves a pragmatic approach to sharing limited resources in a vast land with many different local interests. 'The feature of unevenness or particularism reflected in the centre-localities relationship, is a conspicuous character of network governance. A network society is always in favour of particularism instead of universalism. This has made the Chinese state structure appear to be less institutionalised, and lacking in legibility. However, this amorphism provides freedom for the Chinese state to explore new ways to structure or regulate the centre-localities relationship' (Xia, 2000, p. 205). The state was able to push through area development in a particular favoured area, in this case the Pudong New Area, in the same way as in the 1980s Deng used Guangdong and Fujian as laboratories for experimental East Asian strategies. The highly selective SEZ strategy was chosen by Shanghai, and later China, to handle the development of Pudong, because the state expected Pudong to attract western capital, technology, management skills and experience, and subsequently to help Shanghai to move from a rigid outdated socialist planning system to a market oriented economy. Ge (1999, p. 1268) explained the special function

fulfilled by SEZs: '...through the window [they provide] the rest of the domestic economy can be connected to the outside world, even without leaving the door open. Basically, SEZs function as a laboratory where various methods aimed at overcoming the drawbacks associated with a central planning system can be developed. Fresh concepts and means that originated in a market economy outside China ahead could first be introduced into, absorbed by, and tested out in the SEZs. Those measures that proved to be effective and successful in the SEZs could then be extended, where feasible, to the rest of the country. This, in turn, would help the whole economy, step-by-step, to become more open and efficient.'

The application of the SEZ strategy offered the state a number of advantages in stimulating the Pudong development.

First, economic function was emphasised throughout, all the way from design to implementation. This meant that the economic development and sustainability of an area was not to be supported by the prosperity generated by a one-time game in the property market, but by a sustainable and fully-developed economic structure.

Second, the privileged SEZ status enjoyed by Pudong allowed it to avoid the administrative constraints faced by officials in other towns and cities in their attempts to promote economic development and gave Pudong's local government officials the freedom and flexibility to experiment with a market economy. This openness also allowed Pudong to access higher-quality and more talented personnel to advance the city's development (Zweig, 2002, p. 61). Opportunities to test, learn and adjust are vital to the maintenance of a vibrant economy.

Third, the same privileged status allowed Pudong to implement a series of economic measures, such as tax concessions, to stimulate economic development. In an ordinary urban development, scope for this kind of innovation would be greatly reduced.

Fourth, its special status allowed Pudong access to the global capital market, which was badly needed for its development.

Fifth, the SEZ strategy helped Pudong to obtain the *autonomy* needed to achieve the aims of the developmental state. SEZs are treated separately in national planning (including national financial planning) and have province-level authority over their economic administration. SEZs' local councils and government have legislative authority.

The selective strategy is also reflected in the limitation of the number of parties involved in decision-making. Even though the Pudong development hoped to achieve great publicity and wide support, this did not require a large number of different parties to be involved in the development process as a whole. To achieve its specific targets, the public sector exercised strict control over the number of parties involved, especially in the early stages. For example, in the early stages international organisations and global architects were

welcomed for their investment, innovative concepts and management skills. Although limiting the number of parties involved was inconsistent with the openness favoured in urban development, it reduced to some extent the time required for negotiation and so increased the speed of development.

The strategy employed was further reflected in the sector selection and sector development process. The four main development zones, designated to target different economic activities – finance and trade, export processing, taxfree activities and high-tech activities - relied heavily on foreign capital and foreign investment, foreign markets and foreign technology transfer. These four different economic activities were considered in the light of Shanghai's geographic, economic and social advantages. The designation process led Pudong to formulate an outward-oriented economic structure aimed at giving Shanghai a place on the world stage. Central and local government introduced preferential policies to help to support the four different economic activities. For example, to help the Lujiazui Financial and Trade zone, central government authorise Pudong to allow foreign organisations to open financial institutions there and conduct business in Chinese currency. Central government also gave Shanghai permission to set up one of China's only two stock exchanges, another move to strengthen Shanghai's financial sector. The local authority boldly moved several markets (including the stock exchange, the gold market and the diamond market) from downtown Puxi to Pudong. By such a deliberate measures, government, central and local, overtly assisted Pudong to set up its financial activities in the shortest possible time.

The strategy was also reflected in the limited use made of state budgetary funds. Central government devoted a large sum from the state budget to support the Pudong development, mostly for the development of Pudong's infrastructure. This obsessive strategy is in fact characteristic of most Chinese urban development. Infrastructure projects improve communication between different locations and so are crucial to enhancing the attractiveness of a particular project. Before the development began, Pudong suffered from a lack of efficient connections with Shanghai's downtown areas: access to Pudong could be very difficult. It followed that the most important way of stimulating investors' interest was to improve connections between Pudong and Puxi and access within the Pudong area generally. Important infrastructure projects therefore addressed the provision of connections between the two sides of the Huangpu (bridges and tunnels) and improved mobility and access within the area (ring roads, highways, and a metro). Apart from performing their immediate function, infrastructure projects also helped to promote the development goal, convincing the private sector of the genuineness of government's developmental intentions, and so securing more private sector investment and greater economic growth.

Because the local authority's budget was limited, it too adopted a selective strategy, concentrating its spending on a selected priority area in each zone.

As some localities received more favourable treatment and more privileges than others, it was inevitable that in the early stages the development appeared more fragmented than integrated. However, selectiveness had obvious advantages: if a particular area is given the full attention of the public sector and private investors and sufficient investment, its image can be transformed quite quickly. This will give local government a convincing demonstration to persuade the private sector to participate in the next phase of development, making it a useful piece of city marketing.

This strategy of selective penetration has been crucial to the achievement of China's development goals and has been applied 'in the social, political and economic policies of the Chinese government' (Xia, 2000, p. 220). The state does well to be highly selective in choosing the areas in which it intervenes, if it wants to be effective and efficient. 'If a state wants to follow the development model successfully, it has to deal with the dialectical relationships between autonomy and embeddedness, penetration and selectivity, and centralisation and decentralisation' (Xia, 2000, p. 220). Selectivity is important, as excessive intervention will weaken a state's autonomy. Analysis of the Pudong development suggests that the selective strategy was well adapted to achieving the developmental goal, since selective strategies aim for the most efficient and effective development allowed by the limited resources available.

# Experimentation, gradualism and pragmatism

From the very beginning of the Pudong development, local government was concerned with the potential economic significance of Pudong to Shanghai's economic revival, internationalisation and entrance to the global economy. The Pudong development was selected as the key strategy for China's widening economic reform in the 1990s. Deng Xiaoping foresaw that Pudong could have even greater regional and national significance than his early experiments in Shenzhen. He was very much in favour of experimenting with different ideas in different places. Like Shenzhen, Pudong was one of the places he selected for experimenting with new ideas and providing new experience to assist his strategic planning. Instead of applying a universal standard, topdown, Deng took account of local conditions, winning support by effective demonstration rather than crass coercion (Xia, 2000, p. 184) As Xia argued (2000, pp. 185-186), Deng 'subjected his strategy to improvisation, innovation, and adjustment by the people, based on their practical knowledge, specific environment, and commonsensical judgment. He also left his national strategy open to revision by regional and local forces'. In practice, Deng's version of socialism with a Chinese face meant 'respecting each locality according to its own characteristics', and 'bringing the initiative of the centre and the locality into full play'.

The same approach was adopted for the Pudong development. Pudong became an experimental field for specially designed pilot projects, a place to try

out new strategies and policies, reflecting the nation's pragmatic and gradualist approach to reform. As previously noted, Pudong was used to test the feasibility of a new land policy, a market in land and new methods of land development. China's earliest one-stop service for investment approval was introduced experimentally in Pudong before being introduced generally in Shanghai and neighbouring provinces. The downsizing of Pudong's administration was another pilot programme that Shanghai hoped to extend to other districts if it turned out to be helpful. New mechanisms such as BOT and PPP were introduced experimentally in Pudong for infrastructure development, water plant management and land development. Even building standards could be negotiated and amended, as for example when the new international high-rise standard was introduced by S.O.M. for the Jinmao Tower. These kinds of experiment, coupled with a pragmatic approach, made possible the rapid introduction of efficient and effective measures to help Pudong speed up its development and attract more investment. A belief in utility rather than ideology led to many new ideas being tried out in Pudong. Although the old regime erected enormous barriers to hinder the introduction of new ideas that it saw as conflicting with the existing structure or existing methods, it was still possible to try out innovative ideas in designated test areas. Measures that proved successful could then be tried out in other areas.

This experimental approach went well with the gradual approach adopted by China in its twenty years of economic reform. Woo-Cuming observed (1999, p. 20) that '...in the true developmental state, the bureaucratic rulers possess a particular kind of legitimacy that allows them to be much more experimental and less doctrinaire than in a typical authoritarian regime. This is the legitimacy that comes from devotion to a widely believed-in revolutionary project'. The experimental approach allowed several types of policy (new and old) to coexist, to see which worked best. The gradual approach reduced the risk of short term instability and also provided a time scale for different interest groups to realise their expectations and appreciate their limitations. The reorganisation of Pudong's administration was one such example.

# Market-oriented planning

The Pudong development showed that the planning approach to development was still alive and kicking. This approach owed its rebirth to a growing market-awareness, the responsiveness of new-style planning to changes in the international economy and an ability to take advantage of market awareness through selective government intervention. The sector development in the four development zones was an example of this kind of approach. To adapt the local economy to the international economy, and to use the Pudong development to help Shanghai '[achieve] an international scale and breadth of economic development, and become a modern city of the first order in world terms' (Gamble, 2003), planning transformed its function to become a demon-

strative tool, a promotional device to attract the attention of the public and investors from the outside world, and a bargaining tool to develop consensus between different organisations and interest groups. The open consultation and open competition the local authority used to define the development goals for Pudong brought in world-famous architects, international corporations and expertise of all kinds to help formulate outline and detail plans for Pudong. The celebrities involved attracted enormous attention from the media, indirectly helping Shanghai to promote its development ambitions for Pudong, regardless of whether their plans would ever be put into practice. This interactive process also helped to build trust, with the relationship between state and market being strengthened by the local authority's enthusiasm, commitment and ability to keep its promises. Investors were kept properly informed about what to expect and when, making them more likely to invest.

Huff et al. (2001) used game-theory to analyse the role of credibility, reputation and investment coordination in a developmental state. Their research suggested that to avoid a deadlock in which neither side invests, 'the successful developmental state must demonstrate commitment by promoting its "developmental" credentials through a process of reputation building'. It follows that decisive actions are more likely to 'convince an uncertain private sector of the government's developmental credentials than rhetoric, and these must be undertaken'. The best demonstration of the commitment of a developmental state to an urban project is the completion of brand new infrastructure projects. A blueprint or sand model serves the function of demonstrating the ambitious plans the state has for the area. This also explains why Chinese central and local governments are so keen on investing in infrastructure, because this is the most tangible evidence a developmental government can provide to convince the uncertain investor. It also explains why the planning approach, abandoned in the West many years ago, is still accepted in developmental states. Planning in a developmental state differs from traditional planning in its market-awareness, flexibility and adaptability, and in its role in marketing to potential participants. Consider for example the five-year plan, one of the most important mechanisms used by national, provincial and major city governments, and still in active use in Shanghai. This is not a control document, functioning in the traditional way, but rather a prescription for action to be taken in the coming five-year period. The plan sets out all the major initiatives government intends to take during the period, taking into account both government and private interests. For example, the key infrastructure projects for Shanghai and Pudong could appear in both the five-year plan and the annual plan, so providing an assured level of financial support from the public purse to ensure the implementation went ahead smoothly and without delay. Local government employed a similar strategy, listing key projects to be implemented each year at district level. In this way, not only were government projects open to scrutiny by the market and society at large, but also the list of key projects and the timetable for implementing those projects gave investors sufficient confidence to supply capital even before site preparation was complete. If a local authority had sound reasons for amending a project included in the plan, it was allowed to do so instead of being forced to follow the original plan. Amendments could include changes or additions to the list of projects in the action plan for the coming year, as published at the end of the year. Such market-oriented plans demonstrated to the private sector and the public the commitment the developmental state needed to show to its development goals and gave some assurance that results would be delivered. Comparison of long-term and short-term action plans also helped to increase investors' faith in Pudong. A clear vision of Pudong's future, concrete implementation strategies and practical results all combined to increase investors' confidence. 'In the developmental state, government "planners" have to convince the private sector of their commitment to economic growth, and thus put themselves in real charge of the economy' (Huff et al., 2001).

The present section examines how Shanghai made use of the developmental state model to generate opportunities for the Pudong development. The development was mainly achieved through the active part played by Shanghai 'as planner, reformer, and developer/entrepreneur' (Wei and Leung, 2005). Various government interventions were designed to help Pudong realise its developmental goal, as for example the use of SEZ status, the declared intention of creating an outward-directed economy with the help of foreign investment, institutional design to permit the involvement of the private sector and adoption of a selective strategy to stimulate the development of particular sectors. Further assistance came from the synergy between developmental political systems at central and local level (Xia, 2000, p. 208). To induce market players to take part, local and central government created new entry rules to accommodate the market. Institutional design was used not only as a tool to manage the complex network involved in Pudong's development, but also as a means of introducing efficiency into existing institutions. A series of new laws was quickly passed to put into effect reforms to facilitate the operation of the market. Institutional development and various new laws and policies affecting the transfer of land use rights facilitated land development by making it possible to involve a variety of different participants in the process, so assisting urban development as a whole.

While most of the strategies adopted by a developmental state were adopted in the development of the Pudong area, some were adopted in a modified or revised form. For example, the much desired FDI played a less decisive role than the local authority had hoped. Instead Shanghai adopted a *shengbu lou* policy to raise the necessary funds from other Chinese cities and regions. This and other modifications reflected the 'complexity, dynamics and diversity' of urban development (Dekker and Van Kempen, 2004; Roberts and Sykes, 2000; Borja and Castells, 1997). The adoption of the experimental approach and a

gradual process of reform had already shown that the Chinese state in general and Shanghai in particular were fully aware of the complexity and uncertainty of urban development and were prepared to adapt their intended strategies as circumstances changed.

# 4.2 Local-global articulation

Today's world is subject to random effects produced by the global flow of capital, people, information, images, technologies, and products. Hannerz (1990, 1992a, 1992b, 1992c, 1996) wrote of the historical increase in 'cultural flow, the emergence of the global ecumene ...a single field of persistent interaction and exchange between cultures' and the enabling role of the world city in the formation of such 'open ramifying networks'. Castells uses the term 'space of flow' in this context. Although cities 'increasingly depend on the forms of their articulation with the global economy as regards their standards and modes of living', Borja and Castells (1997) challenged the widespread view that global moulds local. Olds' contribution to the discussion, based on the results of his empirical research into urban development in Vancouver and Shanghai, was the claim that 'global reach is a formative act, depending on a wide range of processes and forces operating at a variety of scales'. As local and central government treated Pudong as a cooperative exercise, helping to stimulate Shanghai's internationalisation by taking advantage of 'the growth of the global financial market, the expansion of the international trade in services, and the repatterning of foreign direct investment '(Sassen, 2001, p. 329), research was able to show the significance to the speed of area development of Shanghai's mechanism for mobilising capital and encouraging information flow in a specific locality. While China's central government had expressed a preference for economic reform, in the Pudong development Shanghai paid particular attention to the attraction of foreign investment and the growth of the property market. China's selective strategy was once more clearly reflected in Shanghai's interaction with global forces in its treatment of the Pudong area development. '[Special Economic] Zones were a key international linkage channel for urban centres and could play a major role in internationalising the city' (Zweig, 2002, p. 71). As capital flowed in, Shanghai worked on improving its financial mechanisms to make them more sophisticated and more in line with international standards. Besides capital preference, Shanghai also took note of advanced experience outside China in fields such as architecture, urban planning, project management and urban development management skills. The knowledge gained, absorbed and adapted to suit the Pudong situation, transformed both the landscape of Pudong and the local business environment.

# 4.2.1 Global-local financial flow

Coincidentally, the Pudong development began at a time when global finance was looking for new opportunities in the East. Sassen's work The Global City (2001a) presents a vibrant picture of the transformation taking place in global financial markets. She wrote of 'the reorganisation of sources of surplus value made possible by massive shifts of capital from one area of the world to another' and named the key components of this process as 'the outflows of capital from old industrial centres' in combination with 'the inflow of capital into newly industrialising countries'. The ability of capital to penetrate traditional local markets is achieved 'not only through foreign direct investment but also through mergers, acquisitions, and joint ventures'. Sassen considered FDI an important element in the process of capital relocation 'because much of the geographic dispersion of production and of the reorganisation in the financial industry is international rather than domestic' (Sassen, 2001a, p. 37). Sassen also claimed that Southeast Asia had replaced Latin America as the main recipient of FDI in manufacturing from highly developed countries. Olds suggested a similar trend in capital inflow to the property market in the same area: 'it is clear that in an overall sense, global capital has been flowing into Asia-Pacific property markets, linking together cities and engendering relationships of uneven interdependencies across space'. Investors were attracted by continuing rapid economic growth, a vast market for cheap labour, rising incomes and the increasingly consumerist culture of the Asian-Pacific Region and sought to take advantage of that vast untapped market. The interest in exploring such a market became even more apparent from the continuous increase in the amount of FDI injected into the region and the arrival of multinational corporations and global pension funds (see Olds, 2001, p. 24).

Over the years China has been one of the biggest recipients of FDI. China began to experience a rapid growth in inward FDI in 1980, which became even greater in 1992 (see Figure 3.36). In 2005 China even surpassed the United States as the country receiving the highest inflow of FDI. This unprecedented success was the result of a series of factors, including the size of the potential market, low labour costs, good infrastructure, preferential policies (e.g. tax credits), increasing political openness, geographical factors, political stability and even the country's exchange rate regime (Wei, 2005; Xing, 2005; Branstetter and Feenstra, 2002; Zhang, 2001; Cheng and Kwan, 2000; Henley et al., 1999; Chen, 1996; Lardy, 1995). Various studies have confirmed in different ways that at the beginning of the 1990s , the time at which the Pudong development was first proposed and approved, global sources of finance were increasing the rate of expansion in East Asia generally and in China in particular, giving Shanghai an opportunity to explore strategies to attract global capital flow to Pudong.

Cities have become increasingly dependent on a variety of different forms

of association with the global economy and their performance as global competitors, and so have needed to find some way of attracting investors, global and local, to invest in local urban development projects. Pudong was presented as a nexus between global players and domestic players. To hook Pudong to the global economy and the global financial market, the project's initiators borrowed the concept of the Special Economic Zone (SEZ) to free Pudong from rigid institutional constraints, so allowing it to bypass the administrative, political, and economic barriers limiting Shanghai's economic activity and to experiment with the development of an outward-looking, market-oriented economic system (Ge, 1999, p. 1268). Pudong was able to offer global players its status as state-level SEZ and its strategic location, a combination which provided a perfect stepping stone to tapping the market offered by a vast hinterland that had for decades been closed to them (Graham, 1994). Pudong's strategic location gave global investors an ideal entrance to the Chinese market. Shanghai's leading role in the Chinese economy generally and the Yangtze river delta and the Yangtze river valley in particular gave it not only a vast local market but also a way for outside investors to enter China's highly segmented and protected local market. Moreover China's impressive economic performance not only offered global players enormous economic opportunities but also encouraged a substantial number of Chinese investors who were looking for opportunities to expand in the Chinese market, and possibly also in the global market. Shanghai's traditionally strong links with its vast hinterland in the Yangtze river delta and the Yangtze river valley encouraged investors from those regions to see Shanghai, rather than the southern Chinese provinces, as a trustworthy intermediary between them and the global economy and the global market.

Shanghai's original intention was to push through the Pudong development by the use of foreign investment. It therefore conducted a series of research projects to investigate FDI and the experience of other developmental states that had been successful in attracting FDI. Both the designation as SEZ and the creation of outward-directed development zones were results of this learning process. The Waigaoqiao Tax-free Zone, the Jinqiao Export Processing Zone and the Zhangjiang High-tech Park, each emphasising a different category of manufacture, processing or export activities, were designed to hook into the global economy by attracting foreign manufacturers, particularly multinationals, to set up industrial sites in Pudong. However, just as strategies adopted by other developmental states were modified to suit conditions in China, Pudong's FDI policies had to be adjusted to suit the Chinese context in a way that would allow them to live with and even benefit from the prevailing restrictions and limitations. As a deliberate piece of central government strategy, the Lujiazui Financial and Trade Zone, the only such zone in China, was designed to attract foreign banks and financial organisations and so give China a new international centre for finance and trade. Because the Chinese

financial system was closed to the outside world, (for example China not only restricts exchange between RMB and other currencies but also controls the exchange rate), Lujiazui opened the door to foreign financial organisations wishing to enter the Chinese financial market. A deliberate policy of establishing capital markets (including a stock exchange and a gold market) and moving those markets to Pudong, had a cumulative effect on people already interested in the market potential of China generally and Shanghai in particular. Central government applied a deliberate strategy of contextual limitation to create the best possible conditions for Pudong to attract financial support. The result was a rush of enthusiastic foreign investors, all waiting for entry approval. Statistics show that in fifteen years, 42 financial organisations set up branches in Pudong.

Analysis shows that much of the foreign investment (55%) went into manufacture. While Shanghai continues to attempt to transform itself into a global city comparable to London, New York and Tokyo, it seems to have no intention of giving up its manufacturing sector. It is interesting to note that Sim et al. (2003) also comment on the development of Singapore as a global city in which manufacture continues to play an important economic role. The same feature can also be observed in other Asian cities. The significance of the manufacturing sector for the growth of Shanghai's GDP coupled with the employment it provides and the current contextual and political difficulty of creating a new international financial hub, seems to have led Shanghai to be reluctant to change its present approach and concentrate exclusively on developing the financial sector.

Pudong's preferential policies to attract FDI were not limited to the financial and manufacturing sectors, the two sectors which Pudong hoped to establish quickly as its main economic supports. It was hoped that inviting foreign investors and foreign investment into Pudong's urban development, especially in areas formerly restrict to the Chinese public sector or Chinese private investors, would encourage an inflow of foreign investment to make good the shortage of capital. Land development projects and infrastructure development were thrown open as the local authority showed its willingness to involve global players into Pudong's urban development and real estate market. Pudong's preferential attitude towards foreign investment gave foreign investors a number of advantages over their Chinese counterparts, such as exemption from taxation in the first three years and other tax concessions (see Shanghai Municipal document Decree. No. 35). The Chinese private sector, in particular, found it difficult to compete, not only because of the tax advantages enjoyed by foreign investors, but also because of state bias in the financial sector and other areas relating to property development. To profit from such policies, local state-owned organisations attempted to set up joint ventures with foreign investors, and large Chinese corporations (some of which were state-owned) preferred to set up a foreign subsidiary rather than investing in Pudong directly. Unfortunately this eagerness to integrate into the global economy and bring global players into the local market, to some extent distorted the local market by encouraging local organisations to develop tactics to reduce or even profit from the resulting inequality.

Although Pudong's property market brought with it huge uncertainties, the opportunities offered – an untapped market and the chance of high return – persuaded a significant number of developers to try their luck. The dramatic increase in prices and rents for housing and offices in Pudong, coupled with the booming property market in Shanghai, has revealed the danger that continuing integration with the global property market may lead to an uncontrollable separation from the local Chinese market and a loss of state influence. Sassen (2000, p. 6) described the impact of the international property market on local property markets in global cities in the following terms:

'It means that the real estate prices in the centre of New York City are more connected to prices in London or Frankfurt than to the overall real estate market in the city. In the 1980s, powerful institutions from Japan, for instance, found it profitable to buy and sell property in Manhattan or central London. In the 1990s, this story was repeated many times. German, Dutch, French, and U.S. investors bought properties in central London and other major cities around the world. The competition forced up prices and raised them even further to allow property to be resold at a profit. How can a small commercial operation in these cities compete with such investors and the prices they can command?'

Although the impact of international investors on Pudong's property market bears no comparison to the situation in London and New York, there is no doubt that international investors greatly influenced the real estate markets in Pudong and Shanghai, especially after the Southeast Asian economic crisis. Not only did investors involved in real estate development rapidly increase their investment in local real estate projects (by 65% between 2003 and 2004 for example), but investors who were reluctant to participate directly in property development for fear of risk, participated aggressively in local corporate finance. Firms like Morgan Stanley and Goldman Sachs were unwilling to participate directly in development activities, but were happy to play the role of shareholder. In fact, as one interviewee said:

'Most real estate companies have two divisions: one works on the realisation of real estate projects, the other targets foreign investors to cover shortfalls in finance for their real estate projects'.

Even in land development companies such as the Lujiazui development company (see Chapter 3, Section 3.1 and 3.4), foreign investment formed a significant part of the whole financial structure. For foreign investors, this approach was more attractive than direct involvement in real estate development, because it was a less risky business than developing real estate on foreign soil. The way that Shanghai's property market is heating up because of the

growing economy, the coming 2010 world expo and speculation on changes in the yuan/US dollar exchange rate, has encouraged foreign investors to see China as an emerging market offering long-term market potential and a high economic return. Investors also hope to make a quick profit on changes in exchange rates and interest rates. It has been reported that in the first 11 months of 2004, foreign investors invested US\$ 22.2 billion in the real estate sector, US\$ 15 billion of which was used for real estate development, directly or indirectly, and US\$ 7 billion to purchase property. In fact foreign buyers made up one-fifth of all house purchasers in Shanghai. The property market in Pudong and Puxi has seen rapid price increases, even between one day and the next (Xu and Chen, Southern Metropolitan Daily, May 27, 2005).

Entering into partnership with foreign investors was not so financially appealing to local developers, because state banks were accustomed to supporting activity in the real estate sector. More appealing was the opportunity to acquire general and financial management skills from foreign counterparts. This situation changed when the state began to try to prevent the real estate market from overheating, as happened in 2003 when central government's newly issued Document 121 imposed stricter controls on bank loans for real estate purposes. According to Document 121, housing developers are not eligible for bank loans until the project's buildings have roofs on them. This rule could cause real estate developers to run short of capital, even real estate companies that are in good shape. Bank loans were the main source of finance for Chinese real estate developers, and bank loans were tightly controlled by the state. If the state thinks the market is overheating and needs to be controlled, it simply issues new regulations to restrict lending. This is why since 2003 Chinese real estate developers in Shanghai have been desperate to raise additional investment.

Speculation by international investors has been said to have set an example to local real estate investors, especially those with limited knowledge of the real estate sector and modern corporate management. Local investors' participation in local markets tended to involve speculation based more on intuition than on professional calculation, with the result that those investors often suffered the effects of bad market analysis, bad management and a lack of vision. (Chapter 3, section 3.1 and 3.3 gave an analysis of the behaviour of real estate companies with a ministerial or provincial government background). Although the size of their losses was limited by profits generated by market growth and preferential treatment on land prices and taxation, they contributed to the increasingly speculative character of Pudong's real estate market and raised questions about the health of the Pudong market.

However, despite the many preferential policies introduced by central government to help Shanghai to shape up as China's financial centre, leading many people to believe that Shanghai has the potential to catch up with or pass Hong Kong and become a new world-class financial hub, contextual

limitations are proving to be a barrier. The main barriers erected by existing Chinese financial systems, such as the non-convertible Yuan, the centrally controlled exchange rate and the state-controlled banking system, will all tend to hinder Shanghai's long-term development into a world-class financial hub. The Chinese legal system and the weak financial system also add to the uncertainty. And although central government has made great efforts to give Shanghai sufficient autonomy to attract FDI and open up its financial sector, it still has not moved the chief decision-making body (the People's Bank of China) to Shanghai. Many investors see this as a significant sign that government has still not completely made up its mind to support Shanghai's ambition to become a leading financial centre and would rather apply its political leverage to maintaining the status of Hong Kong. Given the present state of the market in Pudong, foreign investors, though attracted by the potential of an emerging real estate market capable of yielding a far higher return than any mature market, will still try to minimise uncertainty and risk. Their increasingly speculative activities and the impact of those activities on Shanghai's property market continue to cast doubt on future prospects: how long can local and central government continue to guide and control an area development in which uncontrollable global players are becoming increasingly influential? Can a developmental state maintain the win-win situation created by a liberalised market in the long-term? And is there any chance that the local authority can continue to benefit from the contribution made by foreign investment without suffering the kind of damage caused by speculative FDI in the real estate sector? So far it seems the state has not yet found a likely solution to this problem.

# The global Chinese business network

Overseas Chinese networks and the emerging financial influence of Chinese capitalists and firms operating within the international Chinese community have played a crucial role in helping Pudong to access global sources of capital, formal and informal. This is well demonstrated by Pudong's financial structure and the unusually large proportion of FDI contributed by Hong Kong, Taiwan and Southeast Asian countries like Singapore and Malaysia (Chapter 3, Section 3.3 and 3.4 gave further details), in marked contrast to the fact that 90% of all global FDI currently comes from 'the big three', the European Union, the US and Japan. However, this finding follows a pattern similar to that revealed by studies of FDI into Shanghai and China (Chan, 2000; Olds, 2001; Yeung, 2004; Zhang, 2005). Most of these findings point to Greater China<sup>38</sup> in the Asian-Pacific region and the global Chinese business network as directing

**<sup>38</sup>** Great China generally refers to the areas that include Mainland China, Hong Kong, Taiwan and Macao. Some research also includes Singapore as part of the Great China.

the inflow of FDI into China. For example, between 1978 and the mid-1990s, overseas Chinese invested more than US\$ 50 billion in mainland China, accounting for more than 80% of total realised FDI and helping mainland China to become the largest recipient of FDI of all developing countries throughout the 1990s (Yeung, 2004). Yeung (2004) described the 'adaptable' Chinese capitalist as a hybrid capitalist, more concerned with individuals than institutions, a representative of an open and flexible form of capitalism: 'Once they have established businesses in their host economies, ethnic Chinese and their firms begin to extend their operations and networks across borders to form increasingly seamless webs of Chinese capitalism on a regional and, sometimes, global scale.' In fact, the network approach of the developmental state has already been followed by global Chinese capitalists, whose operations, based on thousands of clan networks, have enabled them to 'penetrate local communities, expand into mainland China, join the global network, and send their children to the best schools, all for the purpose of engaging in networking. This "truly global, tribal network" derives its strength from the network' (Naisbitt, 1996; Xia, 2000, p. 37). Though starting up a good deal later than Guangdong and other regions in southern China, Shanghai quickly achieved the same level of connection with the informal, loosely knitted, global Chinese business network. Shanghai had the advantage that a large number of Shanghainese who immigrated to other countries or fled to Hong Kong or Taiwan before the Communist party took power, now hope to re-establish connections with their hometown. Most of these people are highly educated and many are involved in business and trade, being part of the Overseas Chinese network.

# 4.2.2 Global-local information flow

Global-local interaction is not restricted to economic production, the primary activity of almost every industry and R&D undertaking in the Pudong area. Pudong also provides an interesting example of the influence exerted by foreign expertise, directing and assisting Shanghai's urban development, participating in different phases of the planning and architectural design, establishing a land regime and setting up public-private partnerships. One of the most interesting characteristics of this knowledge transfer is the degree of local pragmatism in adapting advanced knowledge and know-how before applying it to the local situation.

# **Urban planning**

Architecture and urban planning were two of the areas most active in adapting knowledge from the outside world to suit the Pudong situation. Local professionals, encouraged by their own professional curiosity and the eagerness of local politicians to hear outside opinions, were largely responsible for ini-

tiating interaction with the outside world, although the earliest initiative was more a matter of 'importing' than interaction. The result of local planners' research into American zoning concepts and Hong Kong's Outline Zoning Plans (OZP) led them to apply similar principles to Pudong's land use plan. Their search for new 'engines' to power the city's growth led them to examine the impact of the Central Business District (CBD) on the American economy and its application to Pudong's development plan. Interacting and conferring with outside experts gave local professionals an insight into how to examine local projects in the light of western planning concepts. SMG was determined to employ world-class architects who had a clear understanding of what a futuristic 21st-century international centre should look like (Olds, 1997, p. 17). Olds concluded that the fact that this foreign input had little impact on the actual master plan was unimportant, because their role was largely promotional: 'Lujiazui was simply branded by the world's design elites, and the SMG made full use of their "signatures" to achieve broader goals than the practical development of the 170 ha area' (Olds, 2001, p. 234). The resulting images, used in brochures and on websites, had the effect of increasing the flow of global capital into Pudong. The lack of Chinese experience meant that the locality could be treated as a tabula rasa. None of the creative references used by foreign architects were derived from Chinese cities, nor did they relate in any significant way to the current situation or take much account of implementation problems such as the relocation of existing residents. In fact the local context was largely ignored. It seemed that every city was treated the same way. In Rogers' words, 'Shanghai is a modern city, and modern cities are shaped by the same kind of pressures all over the world' (quoted in Olds, 2001, p. 208). This approach underestimates the power of the local situation and the complex web of relationships between global and local. In their proposed plans, foreign architects drew upon their considerable experience of global cities. For example, the Ito proposal drew heavily on a 1992 master plan submitted for the redevelopment of a large site in Antwerp. The Perrault plan was heavily influenced by reference situations in New York, Venice and Paris (Olds, 2001, p. 215). These examples show that Castells' 'space of flows' is also reflected in a tendency towards architectural uniformity (Castells, 1996, p. 417). Nevertheless, all this information and knowledge was not without value to planning practice. The different proposals were actually used by local Shanghainese planners in a more pragmatic and practical way, adapted to suit local conditions. This demonstrates that the articulation of global and local is dualistic, dynamic and under constant tension. The relationship is contextual (Kooijman and Wigmans, 2003, p. 324). The same conflict is even more apparent in architecture. The example of the Jinmao Tower is a perfect example of the conflict between modern and traditional and between global and local.

#### Land institutions

Pudong's land regime was largely based on the experience of other developmental states, particularly Singapore and Hong Kong, which established successful land institutions to leverage state ownership of land and profited from large amounts of revenue from their land. Pudong did not in fact copy what had been done in other successful cases, but went to great lengths to adapt the various techniques to their own locality and changing economic situation. Because of its different economic situation, Pudong focused on different types of investment to develop land. Sometimes specific policies were adopted to stimulate changes in emphasis, as for example the special policy to support private investment in the Orchid Garden urban renewal projects. To reduce the financial pressure on the city created by land and infrastructure development, Shanghai adopted a strategy to 'rotate land use rights'. The change of emphasis from companies with a provincial or ministerial background to overseas Chinese and later to international players is another illustration of the different strategies adopted by Pudong to adapt to the changing global-local market. Of course all aspects of the land market, the land development companies and the land bank (set up to expropriate land and prepare it for further development) combined to create a land provision system (covering the expropriation of land, trade in land, the prioritisation of blocks of land for development and the development of strategies for future expansion) were subject to public-sector guidance.

The institutionalisation of land development therefore became part of the process of China's transition, facilitating the development of the market by sustaining the developmental state model. The adoption of an active land policy increased the speed of development by encouraging new players to invest and earn increased revenue from land leasing.

# Public-private partnership

The introduction of public-private partnership (PPP) is another interesting aspect of Pudong's pragmatic approach to foreign management techniques. Some academic researchers actually doubted the applicability of PPP to Confucian countries in Asia, arguing that the political and social culture in such countries is far less amenable than Western cultures to a plural or partnership mode of service delivery (Common, 2000, pp. 135-148; Wettenhall, 2003, p. 87). 'Confucian Asia' here includes the People's Republic of China (PRC), the Hong Kong Special Administrative Region (SAR), Taiwan, South Korea and Japan in the east and Singapore in the southeast, all of which share many socio-economic characteristics with the rest of East Asia (Common, 2000, p. 134). Confucianism's hierarchical structure and its influence on a nation's political and societal structure are said to explain the difficulties encountered in putting PPP into practice. This claim is based more on a theoretical analysis of cultural differences than on an exploration of practical issues. However, many

different kinds of player were involved in the development of Pudong. For the first time, urban planning and urban development was not just a public task, but the collective responsibility of a broad-based group of stakeholders. This interactive approach, which became even more common in the implementation stage because of the need to gain financial and public support, was very different from the traditional Chinese approach to urban redevelopment, in which the central role was generally played by the public sector and public finance. It should be noted that in China the creation of PPPs was based on purely financial considerations rather than social concern. The main concern was how private sector investment could be involved in Pudong, not just in real estate but in the industrial and service sectors generally. The flexibility to allow public-private interaction and arrange public-private partnerships reflects an important Chinese belief: the end is more important than the means (Chen, 2004 and 2006). This pragmatic approach on the part of Chinese reformers and urban managers has helped them to take useful experiences from others and quickly adapt them to their own situation, and to react quickly to a changing situation and new difficulties. In its pursuit of marketoriented reform, Shanghai showed itself to be creative in borrowing and applying free-market concepts and adapting them to suit existing ideological constraints. Many useful experiences and new financial mechanisms were 'borrowed' from the free market and actively used in the Pudong development. Several types of capital market were set up in Pudong, including a stock market, a futures market, a gold market and a 'property rights exchange centre'. A number of free-market principles were also used to guide the reform of the market in urban land. A new feature of the Shanghai land policy was the designation of special experimental zones, with specified priorities and facilities, to stimulate private initiatives and to test reactions from the free market. These kinds of measures had been found to encourage competition between different districts within the same city, e.g. Shanghai, and between different Chinese cities, especially the 'open' coastal cities.

The first aim was to discover which PPP typologies were applicable to the Chinese context, but in the event this approach turned out to be rather pointless. The applicable typology is directly limited or restricted by contextual factors, so the PPP typology Shanghai adopted for Pudong was defined by the nature of the locality and the conditions in force at the time. In fact, a more interesting question is why and how such a mechanism can be embraced, given the changing relationship between the public sector, the private sector and society at large, in the context of global-local interaction. China has followed the developmental state model, and networks and network strategies are essential if such a state is to achieve its development ambitions. 'Because networks provide connectedness and embeddedness among organisations, they encourage organisations to learn from each other. They also facilitate coordination and emulation among organisations, increase responsiveness of or-

ganisations to each other, and also reduce transaction cost for organisations.' Xia further explains, 'A network strategy encourages reciprocity, guiding the pattern of interaction among individuals and organisations and leading to self-restraint rather than confrontation'. The use of the network approach to understand the developmental state makes it possible to explore the connection between the state and the market, between individual localities and the centre, and between local and global, and the logical basis of the interdependence of important players and institutions. 'Under the constraints arising from its vastness and Communist legacy, China had to creatively transform its institutional arrangements and modify the developmental state model to facilitate the development of the market while still maintaining the power of central government. The two most important modifications are seen in the relationship between government and the legal system, and between the centre and individual localities' (Xia, 2000, p. 209). These modifications facilitated the forging of networks and the construction of public-private partnerships. Xia (2000, p. 215) observed that the Chinese political system contained no clearcut boundaries between different institutions: 'instead, they are intertwined through institutional links and overlapping personnel'. This mutual embeddedness gave China the strength to achieve a gradual transition while still maintaining the dual developmental state, 'because a network strategy provides flexibility for institutional adaptation without jeopardizing long-term stability'.

# 4.3 Conclusions

A variety of evidence points to the evolution of policy to deal with changing conditions and the different challenges faced during the development of Pudong. The various policies and their implementation all possessed a number of significant characteristics which defined the way in which the Pudong development was handled. The urban development of Shanghai Pudong was facilitated by the adoption by a developmental state of an open-door policy. The aim underlying the development strategy employed in Pudong was to achieve economic development. All the way through from decision-making to implementation, an active local government influenced the development process, both openly and discreetly, according to circumstances and the requirements of the moment. The application of the national SEZ concept to a large-scale urban development project and the wide range of experimental policies followed in Pudong is reminiscent of the tactics used by China to stimulate its economic growth and foreign investment. The management strategies adopted by Shanghai in developing Pudong, reflect China's use of the developmental state model. The activities of the development companies show the way the developmental state, assisted by local corporatism, set up connections

with global networks. The explosive growth of Shanghai over such a short period was largely the result of ad hoc decisions made by a great variety of participants, with disparate interests, making compromises, resolving conflicts and forging alliances, all triggered by policies of economic reform.

Like other SEZs, Pudong serves Shanghai in particular and China in general as a 'shop window' and a 'base', creating opportunities for interaction between western culture and Chinese culture: foreign investors can gain a better understanding of China's social and economic traditions, while the Chinese have greater opportunities to learn about western technology, management and expertise (Wong and Tang, 2005, p. 307). Thus Pudong's SEZ status not only gave Shanghai sufficient autonomy to hook into the global capital market but also allowed global players to penetrate the local market, providing a deregulated zone in which to carry on their activities within a China that was still largely regulated. Moreover the significance of the Pudong development to Shanghai's economic restructuring and linkage with global economy, meant that locating in Pudong gave investors an important stepping stone to the market, both internal and external.

The research showed why Pudong, out of the dozens of urban districts given similar status and privileges (SEZs and ETDZs [Economic and Technological Development Zones]) and the hundreds of urban renewal projects conducted during the same period, was able to achieve its development goals in such a short time. On the basis of a thorough examination of the way the project developed, there can be no doubt that Pudong was a temporary process of urban transformation executed in an era of increasing globalisation. In a local project of this kind, local, global, national and regional forces interact with one another; the dynamic process tends to benefit them all. The government of a developmental state, assisted by local state corporatism, with local connections to the global network, is invariably exposed to powerful global forces. This, in essence, is the logic of globalisation. The process of globalisation and the urban and financial outcome of the development process challenge the autonomy of the state. Full integration into the market economy makes it increasingly difficult for government to stand aside. A developmental state cannot remain isolated from and unaffected by the globalisation process (Chen and Wigmans, 2005). The nature of urban design and the dominant activities within a given city increasingly reflect links to global capital markets. National government and the local government of Shanghai treated Pudong as a stimulus to Shanghai's internationalisation by seeking to benefit from 'the growth of the global financial market, the expansion of the international trade in services, and the restructuring of foreign direct investment' (Sassen, 2001, p. 329). The urban development process in Pudong-Shanghai enabled local government to attract FDI at the cost of the loss by central government of control of management of the project and the complex financial structures and the many international capital transfers generated. The financial mechanisms employed in Pudong demonstrate the difficulties faced by the state. When a local financial system is integrated into the global system of capital flow, the state faces increasing difficulty in controlling the flow of capital and overseeing the different joint ventures, each with its own way of generating funding.

The Pudong development demonstrates the dynamics of local-global articulation, in which an individual locality takes an active role in responding and adapting to global challenges, and in some cases even takes the offensive to take advantage of the opportunities presented. Although the state treated the impact of knowledge transfer and global capital inflow with caution (for fear of negative influence), it was also aware of how significant global capital and advanced knowledge could be to a local area development project and to the efficiency and effectiveness of urban governance so long desired by local authorities. To benefit from external influences rather than being swallowed up by them, local authorities (in collaboration with central government) spent ample time on study and research before taking ideas accepted internationally - particularly in the West - and adapting them to suit their particular localities. This progressive pragmatism was not only applied to global capital flow, but also to the transfer of knowledge from the outside world. The designation of Pudong as an SEZ created a 'national enclave' within which bold experiments could be carried out on various market concepts, helping to accelerate a pragmatic adaptation to information inflow and knowledge transfer.

# 5 Conclusions and observations

# 5.1 Conclusions

The basic focus of this research has been on how China's urban transformation dealt with the effect on area development of the dynamic tension between global and local influences and the speed achieved by Shanghai's Pudong area development. The study has considered two different aspects of this speed: the impact of global influences on area development exerted by networks and global capital, and the local response to the formulation, implementation and adjustment of area development strategies by a local authority working in a developmental state. The study has treated global and local influences as both phenomena requiring explanation and explanations for a phenomenon.

To explain how global-local tension was managed to achieve speed in the Pudong area development, the research first considered the practical effects of interaction between global and local influences, from decision-making to implementation, from land and infrastructure development to property development, from operation to finance. The research discovered how the area development strategy for Pudong was formulated by a process of interactive decision-making. The aim of the development was to help revive Shanghai and establish its importance to the global economy. Interaction with market players from China and abroad enabled local government, supported by central government, to explore innovative management strategies and maximise the possibility of attracting market players and investment. Each aspect of the interaction between local and global influences was examined and highlighted.

Two sets of interrelated variables, local and global, were disentangled to see how each contributed to the management of global-local tension. The first part of the analysis provided a partial explanation of the driving force behind local government's enthusiastic ambition to become part of the global economy and presented the rationale which underlaid the formulation of its area development strategies. The analysis also considered the modus operandi of the relevant local and national institutions and organisations and the means made available to them by the developmental state. The second part highlighted the dynamic linkage between global and local influences in an area development, achieved by knowledge transfer and capital flow. The inflow of information and knowledge helped Pudong to improve its physical environment and other aspects of its spatial design to meet market demands and expectations. Global financial inflow gave local government the strength to carry out its ambitious plans, despite the risks and uncertainties created by global influences. The significant role played by the global Chinese business network in channelling the flow of capital to Pudong was determined by historical and cultural factors, demonstrating a significant Chinese modification to the successful strategies applied by other East Asian developmental states.

#### Area development and interaction between global and local influences

Area development has been influenced by the changes imposed on cities by a changing world. The strategic turnround in the urban agenda for Pudong reflects the kind of shift experienced by many cities, from regulation and distribution to the promotion of economic growth and competitiveness, making revitalisation and competitiveness the central aims of urban intervention. Cities around the world tend to use a common language of urban regeneration to brand themselves, using terms such as 'competitiveness', 'flexibility', 'efficiency', 'state entrepreneurship', 'strategic partnerships' and 'collaborative advantages'. Emerging urban policies tend to 'rely on the planning and implementation of large-scale urban development projects to lead economic regeneration ... set against a background of changing urban governance that incorporates a critical shift in scale, domains of intervention, actors and agents, institutional structures and relations, and policy tools' (Swyngedouw, 2005), as in the case of the Pudong development.

The decision to develop Pudong formed part of the strategy of the local authority and central government to assist Shanghai to develop into a significant global centre, whether as an emerging global city (Olds, 2001), a world city (Yusuf and Wu, 2002; Wei and Leung, 2005), or a globalising city (Li and Wu, 2006; Wu, 2003). This meant that Shanghai not only needed to acquire a range of economic, geographic and institutional strengths but also to benefit from the energy released by openness (Yusuf and Wu, 2002, p. 1215). Given its strategic goal of becoming an international centre for finance, trade, transportation and telecommunications on the Western Pacific Rim, Shanghai was determined to encourage the creation of the conditions required by a global city acting as a centre for the exchange of global capital and information and a key location for the headquarters of multinationals. The function of Pudong, a leading large-scale urban development project, was to enhance the competitiveness and capacity of Shanghai's 'hardware' (its physical environment and economic growth) and 'software', (its market institutions and economic openness) both of which were essential to the re-positioning of Shanghai on the map of globally competitive metropolises.

The Pudong development was used by Shanghai to help it to carry out two forms of strategic restructuring, urban and economic. Urban restructuring (the restructuring of urban space) created high-quality space to accommodate multinationals and global financial institutions just 500 meters from the old city centre, and improved telecommunication systems and national and international transport links (e.g. by developing Shanghai Pudong International airport and the Waigaoqiao deep-water harbour). Economic restructuring established a base for an open economy, focused on the service sector, stimulating the flow of global finance and high-end export-oriented manufacture. In some ways the Pudong development followed what Swyngedouw described as the developmental logic of large-scale urban investment projects in Euro-

pean cities, 'following the rationale of global finance, real estate capital, and the real or imagined need for competitive restructuring' (Swyngedouw, 2005, p. 67). But there were important differences. The three global cities New York, London and Tokyo gave preference to financial services and the service sector generally, with much reduced emphasis on manufacturing. In Pudong however, Shanghai not only developed the service sector but also encouraged manufacturing, though with more emphasis on high-tech industry than on textiles and other traditional heavily polluting industries. Even more interesting was the role played by the state in leading area development, attracting private participants, curbing bureaucracy and creating a business-friendly environment. These features were closely linked to the logic of the developmental state, China's chosen model.

Although Pudong is a typical example of area development, the use of developmental logic as a guideline was clearly expressed in the strategy adopted, which was initiated and mainly shaped by the determination to achieve economic development<sup>1</sup>. A selective strategy, giving preference to specific urban areas, reflected the fragmentation of government responsibilities and the increasing involvement of the private sector in the design and implementation of urban policy. The application of the national SEZ concept to a largescale urban development project and the various experimental policies tried out in Pudong were reminiscent of the kind of tactics used by China to stimulate economic growth and foreign investment in the country as a whole. An active local authority influenced the development process all the way from decision-making to implementation, sometimes openly, sometimes discreetly, depending on circumstances and demands at the time. The restructuring of state intervention radically transformed traditional urban management to create a new style of urban governance designed to produce results, efficiency and effectiveness. The activities of the development companies illustrate how the developmental state, assisted by local state corporatism, set up local connections with global networks.

As Shanghai's initiators prepared for the Pudong development, their vision of how to bring Pudong and Shanghai as a whole on to the world stage as a globally competitive metropolis involved a good deal more than the simple improvement of urban space or property-led urban regeneration. Rather their vision was comprehensive and integrated, seeking a continuing development of the economic, physical, social, environmental and even institutional conditions in Pudong. Urban development as such often requires a strategic framework to address the interrelated problems it creates. This realisation led to a series of urban policies, established over a period of time and touching on almost every aspect of Pudong's development. While Pudong maintained its vision and a number of basic strategies to guide the daily practice and management of its urban development and the distribution of resources, in general those strategies were flexible, subject to and prepared to accept change.

The explosive growth of Shanghai over such a short period was largely the result of ad hoc decisions made by a great variety of participants with disparate interests, making compromises, resolving conflicts and forging alliances, all triggered by policies of economic reform. Over the years, these policies evolved, improved or were replaced, as required to deal with changing political, economic or social circumstances. For example, the environment changed in ways that had not been predicted. Thus Hu Wei (2002), director of Pudong New Area, described Pudong's development as a 'learning process, taking lessons learnt in other parts of China and applying them innovatively to the situation in Pudong'. It seems more reasonable to say that local government used the Pudong development as an aid to learning how best to carry out an urban development process in a global context.

This process of learning and evolution, defining and redefining, formulating and reformulating, all aimed to promote Pudong's progress in a situation of changing national institutions (for example the evolving land policy discussed in Chapter 3, Section 3.1) and a rapidly growing economy demonstrates the impossibility of ignoring emergent elements in such a dynamic and complex process. Because of the institutional vacuum left after the 1978 reform, 'the exploration of alternative institutional and organizational approaches to managing cities, society, the economy, and the environment [proceeded with a remarkable amount of creativity and invention' (Albrechts and Mandelbaum, 2005, p. 233). Even if there is an awareness of environmental change, it does not follow that the right strategies can be formulated immediately. 'Strategies may fail, not only by being unsuccessfully implemented, but also by being successfully implemented and then proving inadequate' (Mintzberg, 1994, p. 360). The changes to the strategies adopted for Pudong show that not all strategies, whether deliberate or emergent, fit successfully into the environment. For example, central government took a number of different measures to damp down the increasingly overheated real estate market in 2004 and 2005, but without much success. Only in 2006, when government took drastic measures to limit foreign investment in the property market, including the introduction of new forms of taxation, was it possible to see signs of a gradual cooling down in the housing market. The Pudong development provided a good opportunity to examine the effect of the interaction between global and local influences on an evolving area development, to see not merely how globalisation and the resulting network society affected local life at area level, but also how a developmental state can benefit from that interaction to actively transform challenges into opportunities for local development.

# Factors affecting the speed of the Pudong development

The present study was prompted by a wish to discover the factors which determined the speed of the Pudong development, a development was remarkable not only for its extent, with an annual construction area equal to that of

Spain, but also for the accompanying explosive economic growth, which ultimately led to a twelfth of Shanghai's land area and a tenth of its population contributing one fifth of the city's total GDP and a quarter of its exports. The per capita GDP of Pudong rocketed from US\$ 1,000 in 1990 to US\$ 7,700 in 2001 and US 11,950 in 2005. The speed achieved by the Pudong development has become a symbol of Shanghai's increasing stature and an image of China's future. Shanghai's rebirth has given rise to a range of superficial speculations on cause and effect. The mass media tend to see the lack of democracy and the heavy hand of the communist regime as the explanation for the speed of Pudong's growth. However, such linear explanations hardly show much insight into the complex nature of a city's growth. Cities are complicated, made up of many parts interconnected in intricate ways. In any area development interrelated factors evolve and affect one another, producing unexpected consequences and creating dynamic complexity. The usual intuitive judgement of cause and effect can do no more than highlight the effect of a single factor and cannot provide any worthwhile insight into the operation of a dynamically complex city with non-linear characteristics. The speed of the Pudong development was made possible by a number of different factors interrelated in such a way as to perform a unique function not achievable by any one of those factors in isolation.

The research made use of urban theories of globalisation and the theory of the developmental state to explain the nature of a large-scale area development in a specifically Chinese context in an era of globalisation. The theory of the developmental state<sup>39</sup> made it possible to clarify a number of features of the Pudong development, especially the powerful motives underlying government intervention in local affairs. Although the study distinguished the main features which affected the speed, the fact remains that the complexity and dynamics of a city cannot be simplified into just a few elements. Different factors interact and reinforce one another. The developmental state, the most explicit context of the Pudong development, played a dominant role in determining not only the state's goals and the role played by the state in the development but also the network approach exploited by local government to deliberately formulate coalitions between state and market, global influences and local influences. However, the decision by the state to take an active role in this local development project was not taken blindly or subjectively, but followed a careful observation and understanding of global economics followed by a progressive adaptation to the potential and opportunities offered by the global economy. The pragmatic adaptation of advanced know-how derived from the outside world to suit conditions in Pudong was a distinctive devel-

**<sup>39</sup>** The political survival of Chinese society is the central aim of the developmental state (Castells, 2000); Xia, 2000; Huff, 1995; Woo-Cuming, 1999).

opmental strategy introduced by local government, allowing the developmental state to use all possible means to achieve its developmental goal. The most representative example of pragmatic adaptation in the field of urban development was the active land policy, creating an intermediary between state and market and attracting global players to a local development. The active land policy not only generated substantial income for the further development of local infrastructure, but also led to changes in entry rules allowing the private sector to become involved in what was traditionally the domain of the public sector. The same experiment was carried out with infrastructure development. Later, with the development of housing reform and the emergence of a real estate industry, the private sector and private finance began to play a significant role in the property market, leading public and private finance to combine in support of the Pudong development. One strikingly unusual characteristic of Pudong's financial mechanism was the role played by the global Chinese business network as nodes in the global financial network linking a local area development and financial market to global capital. This network not only played a key role in attracting global capital to the Pudong development, but also encouraged speculative investors hoping to earn a quick return from Pudong's booming real estate market.

# 1. An active public sector and a network strategy

A developmental state is characterised by 'an active role for the state and a collaborative relationship between the state and the economy' (White and Grey, 1988; Johnson, 1995; Huff, 1995; Chan, 1998; Woo-Cumming, 1999; Xia, 2000; Castells, 2000a and 2000b; Low, 2004). The development of Pudong took place in the context of a developmental state, with a developmental mission and a determination to explore every last possibility that might lead to economic success and integration into the global market. The active role played by the state in the Pudong development was achieved by a synergistic coalition between local and central government involving preferential policies and financial support. As a matter of developmental logic, local and central government defined the Pudong development not just as an area development but as the use of an area development to create an economic powerhouse for the region. The designation of particular areas as Special Economic Zones (a standard feature of developmental states) is a strategy of active state intervention to create an enclave within which the acceptance of market rules and local-global interaction can be accelerated without disturbing society at large. The creation of an SEZ allows central and local government to explore various economic means to create synergy between state and market, global influences and local influences. The state can intervene in such an enclave by assisting the local authority in its efforts to connect to the global market, promoting economic activity with the outside world, opening up the market in trade and financial services and encouraging knowledge transfer. It can also

create the greatest possible freedom for outsiders to enter, introduce preferential policies to encourage foreign investors to accept the inevitable market risk and address specific issues to attract FDI.

In an area development process involving a complex network with a multiplicity of stakeholders, central and local governments achieve their ends by creating networks to build up trust and create a coalition between state and market, global influences and local influences. In the case of Pudong, local government started by involving a number of market players in the making of decisions affecting the development. This network strategy led to a series of institutional reforms, the creation of alternative institutions, the addition of new functions to existing institutions, the introduction of permissive legislation to facilitate the achievement of developmental goals and the construction of a coalition between the state and the economy. The creation of a legal system to facilitate the introduction of market concepts was not a precondition for the kind of market reforms achieved in Pudong, but was to a large extent the result of daring experiments carried out on the spot. Thus the legal system combined acceptance of the market with an awareness of local interests. The new legal framework defined a number of key concepts for area development, relating to land, property, urban planning, the real estate market and the housing market, and included regulations controlling the entry of participants from China and abroad. The local authority also replaced its existing administrative structure with an efficient two-layer administration, sensitive to the way the market operated, businesslike, pragmatic and result-oriented. The overlapping of leadership and personnel and the calibre of the staff further enhanced the feeling of responsibility on the part of those involved in accelerating the approval of major decisions. Institutional innovations in Pudong helped the local authority to maintain the integrity of the developmental state model, creating powerful government with a developmental orientation and the flexibility required to adjust its strategies to respond to global change. To ensure a smooth development, local government did not hesitate to 'make certain interventions in support of its "invisible hand" when the market was not working properly' (interview with Hu Wei, director of Pudong New Area Government, Shanghai Star, 21 April 2005). In such cases, the local authority plays a stabilising role, ensuring investors' confidence in the development, either by acting as mediator to resolve conflicts or by supporting the private sector during crises. Examples of state intervention include providing a solution to the Super Brand Mall law suit, and the Shanghai Municipal Government's purchase of the stock of the Japanese Yaohan retail store (see Chapter 3, Section 3.1 and 3.3). As Fishman (2005) suggested, 'Because this is China, and Shanghai in particular, once recommendations are made, they are quickly weighed and, if accepted, acted upon'. Undoubtedly flexibility and adaptability contributed to the speed of Pudong's development.

Although the Shanghai local authority was successful in attracting domes-

tic and foreign investment in Pudong's urban and economic development, the limitations of the developmental state make it necessary to consider the longterm role of the local authority in the future development of Pudong. First, in the long run preferential policies will not by themselves be able to continue to attract foreign investors and foreign investment (besides being in conflict with China's undertaking to the WTO to give every company the same opportunities). Second, although Pudong has benefited hugely from FDI, the speculative activities of foreign investors in the real estate market have acted against the interests of the local authority, boosting the housing market and helping to push up house prices to a level more associated with that in other global cities, so leaving the vast majority of households unable to afford decent housing. The resulting housing shortage has become a source of social unrest and resentment. Government, both central and local, is finding it increasingly difficult to protect the market from global players, casting further doubt on whether local government can continue to play an active role in the long-term.

# 2. Market potential

The design of the Pudong development was a progressive response to the ongoing process of globalisation and an opportunity to attract global capital into China through Shanghai in its role as China's formal business centre. When the Pudong project started, at the beginning of the 1990s, global players (multinationals, financial organisations, and others) were already accelerating their pervasive expansion into the Asian Pacific Rim generally and China in particular. Investors were attracted by the advantages offered by the Chinese market, including a continuing stable high rate of economic growth, a vast supply of cheap labour, rising incomes, growing consumerism and a vast untapped market for manufacture, production, real estate and property. Huge investments were made in the manufacturing and real estate sectors. The attraction of investment in Shanghai was guaranteed by a number of key advantages: a strategic location, roughly in the middle of China, providing easy access to a vast hinterland, good economic conditions, manufacturing and management capacity, a well-educated labour force and traditional links with the big three providers of FDI (Western Europe, America and Japan). In the real estate sector, market potential and high profit margins provided the greatest incentives for global players.

Shanghai needed vast amounts of FDI and advanced know-how if it was to transform the urban and economic status of Pudong. Global investors were able to provide both capital and knowledge transfer. What Pudong could offer in return was its prestigious status as a national SEZ, its special openness and freedom to establish links with the global capital market and its role as intermediary between global investors and the domestic market. Pudong had the potential to serve as a gateway through which the rest of China's econo-

my could become linked with the outside world, even if that gateway was not thrown wide open. A closer linkage with the global economy also meant local economic and financial systems becoming increasing vulnerable to world economic crises, as in the case of the Southeast Asian economic crisis between 1997 and 1999.

#### 3. Pragmatism

The involvement of global players brought in not only the vast amount of capital Pudong needed for investment in land and infrastructure, but also foreign technology, management skills and new development strategies. Western know-how had a major influence on architectural design, urban planning, construction and project management and on the transformation of the local institutional framework and legal system. It is however interesting to note that the successful utilisation by Pudong of know-how from other countries was not achieved by simply copying the original, regardless of local conditions, but by respecting local conditions and carrying out experiments to discover which variations would be most appropriate. This pragmatic approach was similar to the experimental approach used by China in the design of SEZs. Basically, SEZs function as laboratories for developing various methods aimed at overcoming the drawbacks associated with a central planning system. Fresh concepts and methods originating in market economies outside China can first be introduced into, absorbed by, and tested out in the SEZs. Those measures that prove to be effective and successful in the SEZs can then, wherever feasible, be extended to the rest of the country. This, in turn, will help the entire economy to gradually become more open and efficient. The pragmatic approach taken by Chinese reformers and urban managers helped them to take useful experiences from others and quickly adapt them to their own situation. The same approach has also enabled them to react quickly to changing situations and new problems. In its pursuit of market-oriented reform, Shanghai has shown itself to be creative in borrowing and applying free market concepts and adapting them to suit existing ideological constraints. Many useful free market experiences and financial mechanisms were 'borrowed' and actively employed in the Pudong development.

In fact many examples of a pragmatic approach can be observed in the Pudong development. The proposals made by global architects for the Lujiazui Centre, Pudong's CBD, were adapted pragmatically in a way that recognised the limitations of and the restrictions imposed by the site. The design of the Jinmao Tower skyscraper required local urban managers to work to construction standards unlike any they had previously encountered. In this example those involved were not afraid to learn from their American counterparts, and used American experience to fill the gaps in existing regulations, so giving rise to a new set of standards for Chinese skyscrapers. Different types of capital market were established in Pudong's financial sector, including a stock

exchange, a futures market, a gold market and a 'property rights exchange centre'. A bidding system and a fresh approach to project management were both introduced and improved during the construction of the Nanpu and Yangpu bridges, a collaborative effort between the Shanghai local authority and the ADB. Pragmatism also came into play in the adoption of a series of institutional reforms, for example land reform, housing reform and the establishment of a real estate market, designed to introduce market principles into the development. A series of new policies and regulations was introduced, but only after intensive examination of and research into experience with similar regulations in other countries. Later reforms were only given concrete form and put into practice with extreme caution and were always preceded by small-scale experiment. Shanghai was fully prepared to revise any policy which proved unable to deal with changing economic conditions, as shown by its active land policy and the financial mechanism employed for infrastructure development. Pragmatism allowed Shanghai to make full use of the knowledge needed for the Pudong development. The respect paid to local conditions also resulted in the creation of less opposition and the production of better results, so further contributing to the speed of development.

# 4. Legal reform

The distinctive features of the Chinese legal system had direct consequences for the speed of the Pudong area development. Ever since the beginning of the period of reform, legal reform played a key part in addressing the legality of the market, accommodating market concepts and market participants and re-establishing and redefining the former markets. However, since the Chinese legal framework was developed from an old system which legitimised the allocation system, the framework, although greatly improved by the introduction of new laws and regulations, had still not been developed into a fully fledged body of legislation capable of supporting a capitalist system and the kinds of property rights enjoyed by businesses and individuals in most Western (capitalist) societies. In many cases new laws had to be introduced to catch up with the needs of the market, rather than to set guidelines for new kinds of economic activity. Pudong, as one of the biggest special economic zones, took the lead in carrying out a series of economic reforms, including innovative reforms affecting the finance and trading sectors. However, not all the necessary laws have yet been introduced: more laws are still required to regulate, support and protect ongoing economic experiments. The immaturity of the new legal system may well create much uncertainty and risk for newcomers, but it also provides flexibility and scope for interpretation and sometimes for innovation in areas not yet falling within the existing legal framework.

Interestingly, the lack of maturity of the existing legal system gives local government the flexibility to experiment with innovations, the ability to take an experimental approach to the process of lawmaking and scope for adjusting laws to suit a changing economic situation. Since the future of the reforms was not clear and the potential for conflict with those parts of the population whose interests were affected was high, central government actually introduced draft laws on an experimental basis. This approach of trying out something in a pilot project or in a specific area was important to ensuring that a new law was properly understood and its consequences predicted. Thus the new legal system was actually based on practical experience. Many laws introduced in the last two decades were based on the results of pilot projects, advice from internal and external experts and references to similar legislation in force abroad. Comparison of different legal systems and a study of the effects of experimental legislation in pilot projects helped China to take account of changing economic conditions and the effect of the new legal system. Western democracies provide many examples of legal systems which were developed to suit conditions as they were decades or even centuries ago, and so tend to slow down development because any change required the protracted following of rigid formal procedures.

Local implementation of the legal system and regulations also provided extra scope for local government. Since the legal framework has major effects on the interests and welfare of different groups, attempts were made to avoid social unrest by subjecting all measures of reform to close scrutiny. Sometimes new legislation was deliberately couched in vague terms to reduce the level of opposition; vagueness also left room for localisation. The practical application of the Land Law to allow the commercialisation of land use rights was worked out in detail by the local authorities in Shanghai and the Pudong New Area (see Chapter 3). Pudong, a pioneering location in the field of urban and economic development, was a perfect place for experiments. Any reported dissatisfaction was investigated to see whether adjustments were required. The relocation regulations, for example, underwent a good deal of adjustment over the years. This subtle approach had the effect of damping down potential conflicts between those who could profit from the new legal system and those who might lose from any changes.

In Pudong the legal framework was adapted not only to regulate the operation of the market but also, more importantly, to facilitate the entry of new participants and guarantee their status and rights. Although the immaturity of the legal system created risks and uncertainty, it also provided scope for innovations in the operation of the market and scope for the local authority to operate in the way it found most advantageous. Dynamic interaction between the public sector and the private sector was to some extent stimulated by the lack of institutional constraints. However risks created by the lack of transparency came into conflict with the rules of the global economic system into which China hoped to integrate. The increasingly developed legal framework, national and local, and the desire to adjust the Chinese legal system to

meet the requirements for entry into the World Trade Organisation will undoubtedly reduce the size of the grey area, though this may take some time to achieve.

# 5. An active land policy

A novel feature of Shanghai's land policy was the designation of specific experimental zones, with identified priorities and facilities, as a way of stimulating private initiatives and testing reactions from the free market. This measure encouraged competition between districts within the city, as it already had between different Chinese cities, especially the 'open' coastal cities. Land policy played a central role in the strategy to encourage development in those zones and in Pudong as a whole. The design of this policy was based on experience with the Western leasehold tenure system. Land policy in Pudong in particular was based on experience in Hong Kong and Singapore, two developmental states which treated land as a generator of income to support major infrastructure projects. In practice, Shanghai did not follow the principles adopted by Hong Kong and Singapore rigidly, but constantly took account of changes in market conditions and boldly created new solutions to meet new challenges from the market. For example, during the Southeast Asian economic crisis Shanghai allowed investors to lease land use rights for short periods, even by the year, to help developers to overcome the shortage of capital during that difficult period.

As the economic situation changed, Pudong looked to different types of investment for land development. Sometimes special policies were introduced to stimulate the change in emphasis. For example, a special policy was introduced to support private investment in the Orchid Garden urban renewal project. To reduce the financial pressure on Shanghai created by the development of land and infrastructure, the city introduced a 'land rotation system' to rotate land use rights from local government to the development companies. The change of emphasis from companies with a provincial or ministerial background to overseas Chinese and later to international players is another example of the different strategies used to adapt to changes in the market, global and local. The land market, the land development companies and the land bank (set up to expropriate land and prepare it for development) combined to form part of a land provision system guided by the public sector. A market-conscious land policy increased the speed of development by involving new investors and leasing land to generate additional revenue.

# 6. Relocation strategy

Relocation is always the most difficult issue in any redevelopment, because of the way it directly involves a multitude of different interests and affects the lives of the people involved. Although some aspects were controversial and conflicts did arise, Pudong managed to carry out the necessary relocation relatively smoothly and efficiently. A number of factors contributed to the speed of relocation:

First, Pudong was originally an underdeveloped area of shanty houses, low-grade industry and farmland, located close to Shanghai's prosperous downtown area. The area was economically disadvantaged and historically discriminated against, geographically and culturally. Local residents desperately needed the improved living standards and increased job opportunities that relocation could help to provide. For this reason, proposals for relocation received a reasonable amount of public support and were generally well received.

Second, relocation had something to offer rural households in exchange for their agreement, for example the promise of better living condition, an increased amount of space in a new apartment with modern facilities (kitchen and lavatory, mains water and gas), house ownership at a subsidised price, and an urban standard of welfare generally. But urban households usually lived as tenants in public housing, paid subsidised rent for their accommodation to their state-owned work units, and had limited bargaining strength. Rural households on the other hand were used to owning their land collectively, and so were sometimes reluctant to accept the offer of an urban identity and an improved level of welfare. Businesses that needed to be relocated were offered monetary compensation and often space for expansion in more remote areas, as appropriate to their business strategies. Local government's relocation policies were adjusted to provide monetary compensation or alternative accommodation in response to the changing needs of relocated households created by changes in the market. Originally the expectations of relocated households were reasonably low and so relatively easy to satisfy. Conflicts were also limited through the mediation of employers, in most cases stateowned work units.

Third, relocation was handled collaboratively by subsidiary companies coordinated by their parent company, the development company for the particular zone. Task sharing allowed housing estates for relocated households to be planned and built even before relocation actually began. Furthermore, the requirement that any organisation involved in relocation activities had to be licensed reduced the chance of companies with no knowledge of relocation laws and regulations trying to abuse their position.

Although the speed of relocation greatly benefited the development process as a whole, problems tended to increase. As the Pudong development gathered speed, improvements in the urban environment created a booming real estate market and dramatic increases in the price of land and the rent demanded for housing and offices. A growing number of relocated households were dissatisfied with the quality of their new apartments, the inconvenience created by their remoteness from the downtown area, the limited transparency of the relocation procedures and, in particular, the amount of

compensation. The conflict between relocated households, local development companies (acting as agents of local government) and real estate developers has the potential to escalate. Local government has still not found a way to balance the interests of all concerned; sometimes it even finds itself deriving little if any financial benefit from the boom. (The political benefits enjoyed by local officials is another matter entirely.) Unlike the situation in most Western countries, dissatisfaction with the Pudong project was generated more by the lack of fair treatment and proper compensation than by the objective of the project as a whole (see Chapter 3, Section 3.1; a more general picture of the level of satisfaction with relocation is given by Wu (2003) in his account of his research into relocation in Shanghai).

# 7. Public-private finance

The great strength of the financial mechanism employed for Pudong was that it was founded on collaboration between the public sector and the private sector and between global investors and local players, so that the active role played by local (and sometimes central) government did not imply the dominance of public finance. Although state capital directly or indirectly funded the construction of a large proportion of the development, the state was more concerned with introducing policies and regulations to attract private finance to develop the four development zones and Pudong's economy generally. Pudong was successful in assisting Shanghai's efforts to use land leasing to attract FDI. Shanghai was not however totally committed to a feverish hunt for FDI but took a more pragmatic approach to possible sources of finance. In fact although the contribution made by the global private sector was quite essential, many local and regional investors also took advantage of the opportunity to explore Pudong's real estate market and economic potential. The dominant role played by self-raised funds emphasised how important local players can be to the raising of finance.

The financial mechanism employed for Pudong depended to a large extent on an active land policy to attract private investors. The revenue generated by land was a major source of finance for Pudong's infrastructure projects, its roads, bridges, metro lines, parks and green space. The mechanism involved local development companies entering into contracts with 'footloose' international private companies. Since the business of these companies was becoming involved in urban development projects, the price of land was the main subject for negotiation. The collaboration was equal and horizontal, with no substantial direct involvement of or multiple hierarchical relationships with government. The 'land policy experiment' (treating land as a commodity) resulted in the Chinese public sector becoming closely involved with the private sector. The development companies became privileged mediators between the two, operating on a global scale, directing global capital to local urban developments. This close relationship was evident in a number of infrastructure

projects, in which private finance served to supplement the limited amount of public finance. The penetration of private finance into public organisations and corporations led to the creation of a new kind of mixed entrepreneur, sensitive to the requirements of both government and the market. As in the case of Lujiazui (Development Group) Company Limited, strategic decisions made by managers were affected by the institutional environment in which they found themselves, the economic constraints to which they were subject and the networks and partnerships to which they belonged.

# 8. The global Chinese business network

Central government and Shanghai local government treated Pudong as an aid to stimulating Shanghai's internationalisation in the expectation that such internationalisation would enable them to benefit from 'the growth of the global financial market, the expansion of the international trade in services, and the restructuring of foreign direct investment' (Sassen, 2001, p. 329). But the task could not have been completed without the help of a powerful global Chinese business network. The world-wide Chinese business network, as represented by wealthy ethnic Chinese in the Asia-Pacific region, played a key role in the mobilisation of global capital for the Pudong area development and Pudong's emerging real estate market. Versatile Chinese capitalists have established a complex worldwide network capable of involving ethnic Chinese in different parts of the world in business and commercial ventures and using cultural networks for business development. The traditional interest has been in property and deal making. Despite the fact that 90% of global FDI actually comes from 'the big three' (the EU, the US and Japan), an unusually large proportion of FDI in Pudong actually came from Hong Kong, Taiwan and Southeast Asian countries like Singapore and Malaysia. The contribution from overseas Chinese was badly needed in the early stages of the Pudong development, since at that time the big three were discouraged from participating by the level of market risk and political uncertainty. Overseas Chinese investors had the advantage of knowing the local culture and were more inclined to take the risk of betting on an immature market in the hope of large profits. In practice the network of ethnic Chinese served as nodes, channelling the flow of capital from the global capital market to the local area development and the emerging real estate market.

# 9. Real estate market and speculation

Even though the Pudong development was designed to encourage economic development, it was inevitable that a key role would be played by property development and the growth of the real estate market. Pudong's robust economic growth contributed to a sustained demand for office space, housing, factories, warehouses and public services. Demand provoked a reaction from the real estate market and so stimulated property development. In turn the

development of the real estate market contributed to economic growth and encouraged the development of related activities such as construction, retailing, transport and services, further stimulating Pudong's economic growth and creating extra employment. This interaction between real estate and economic development had a significant effect on the speed of the Pudong development.

The demand for housing generated by housing reform and the ongoing relocation from the city centre to Pudong encouraged the private sector to grasp the opportunity to participate in Pudong's real estate sector. But another reason for the feverish investment in the Pudong real estate market was the expectation of high profits and quick returns. The kind of profit reported by Singaporean developers, for example, was immeasurably higher than anything available in a mature real estate market. Although investors understood the level of risk inherent in an immature market, they were quite unable to resist the attraction of a potential profit so much higher than available anywhere else. The possibility of high profits also appealed to the gambling mentality common to many real estate developers, especially foreign investors with a Chinese background. Nonetheless large numbers of Chinese real estate developers, public and private, with little understanding of the operation of the market, rushed to invest in Pudong simply as a gamble, hoping to profit from getting in early on an immature market. This speculative approach to land and real estate development on both the supply side and the demand side seems likely to persist in Shanghai as long as prices continue to rise, increasing market risk and uncertainty about the market's future. The inflow of US\$ 20 billion of foreign capital into Shanghai's real estate market in 2005 alone reveals the level of speculative activity by international players. This rush to speculate combined with a high risk, high return mentality also contributed to the speed of the Pudong development.

# Limitations of the developmental state

China's interpretation of the developmental state model in a Chinese context involved the creative modification of power relationships between the centre and local government, and between the executive and the legislature (Xia, 2000). A number of important institutional innovations helped China to 'maintain the integrity of the developmental state model, namely, a strong state with a developmental orientation. Although China has adjusted the developmental state strategy and produced a new type of practice to suit its own peculiarities, it still is definitely within the general parameters of the developmental state model'. China therefore demonstrated 'the true nature of the developmental state, only if our analysis moves one level higher to see the development state approach as a kind of network strategy and as a way to maintain state capacity'. One important strategy in the Pudong development was networking, a strategy successfully used by developmental states in East

Asia enabling them to be flexible and adaptable in their search for change. These states improved their position by combining the advantages of global openness with the flexibility and efficiency with which the developmental state adapts global change to suit the local context. However, if a system does not allow a proper level of independent control and supervision, there will always be a risk that certain individuals will grasp the opportunity to use their power and their political, business and social networks to take advantage of the system. Although networking plays an important role in promoting Chinese capitalism within and outside China, the exploitation of networks must be realistic, i.e. the network and networking strategy needs to conform to the well-defined rules of the global economic system, otherwise networking can easily result in the creation of a pervasive crony capitalism (Safire, 1998). The recent scandal concerning the Shanghai pension fund led to the fall of Shanghai's party chef Chen Liangyu, a major political figure in Shanghai with close ties to business and investors. Chen was the most senior of a group of at least six politicians and businessmen implicated in the misappropriation of about a third of Shanghai's 10 billion yuan (US\$ 700million) social security fund. Chen was accused of illegal business activity, covering up crimes and abusing his position to secure benefits for his family (Guardian Unlimited, 26 September 2006). Although views differ on the true nature of this scandal, the investigation can be seen as a sign of measures to curb the pervasive growth of crony capitalism<sup>40</sup>. To find a solution, China needs to re-examine its models, Singapore and Hong Kong. Both those city-states took advantage of the global Chinese business network while at the same time exploring the application of a network strategy in accordance with the well-defined rules of the global economic system. It will take a long time for the Chinese legal system to catch up with the progress made by Singapore and Hong Kong in the last 50 years, but the need to catch up is unavoidable, and China's legal reforms show a clear recognition that this is so.

Confidence in the developmental state model was shaken by the South-east Asian financial crisis, which led believers to recognise its limitations and the possibility of change (especially by democratisation). The crisis exposed weaknesses in the financial systems of the developmental states such as overborrowing and excessive risk-taking, and the inadequate regulatory response which made them vulnerable to adverse macroeconomic shocks (Crafts, 1999, p. 128). Although the quick recovery of the countries affected and the excellent performance of the Chinese economy thereafter restored people's belief

<sup>40</sup> Chen Liangyu, who was also a member of the policy-making Politburo, is the highest ranking official brought down by allegations of corruption in more than a decade. Chen is alleged to be involved in the misuse of more than 3 billion yuan (US\$ 380 million) from the 10 billion yuan (US\$ 1.2 billion) Shanghai social security fund. The investigation was made public on 27 September 2006.

in the adaptability of the model, the difficulties involved illustrated the long and painful process of transplanting two foreign systems, capitalism and democracy, on to Asian soil, the difficulty of reconstruction and adjustment (Xia, 2000, p. 216) and the limitations faced by the state in its efforts to combat global forces (Chen and Wigmans, 2005).

The most noticeable effects of the pitfalls encountered by the developmental state depend largely on the situation in the particular locality. Although the theory of the developmental state provides ample proof that local government can become sufficiently efficient, effective, entrepreneurial and flexible to cope with urban change and even become the driving force behind rapid area development, obsession with development may lead to spatial fragmentation, disturbing the ideal of maintaining a balance between social, economic and environmental factors. Putting Pudong on the world stage required the state to employ a selective strategy, allowing a defined area privileged access to capital, information and flexibility, all limited resources. This preferential treatment, discussed in Chapter 4, created contrasts not only between Pudong and other districts of Shanghai, but also between different areas within Pudong itself. Although the Pudong development turned out to be one of the few examples of Chinese urban development that took some account of issues of sustainability and attempted to balance environmental, social and economic factors, the selective strategy employed reinforced the highly uneven effect of globalisation (Graham and Marvin, 2001) by creating segregated urban areas, rather than aligning and coordinating their various spatial functions and creating coherence between them. Fragmentation is evident in areas in which pieces of farmland and dilapidated village houses stand alongside modern buildings built with the most advanced techniques. This kind of fragmentation also casts doubt in how sustainable an urban area should be. Lujiazui, the area which became Shanghai's new CBD, erected hundreds of high standard, high-rise office towers, surrounded by parks and green space, proving a strong profile for office property. But Lujiazui's housing market and to some extent its office market were affected by complaints from local residents that Lujiazui lacked rengi, a Chinese word for the liveliness and range of social functions that are an absolute necessity for any residential environment. People were unlikely to find a supermarket or snack bar within walking distance. Responsibility for this lack of convenience lay in part with the concentration of function and the segregation of different areas. The same explanation can be given for why a piece of land that had not yet been leased and was temporarily used for restaurants and entertainment suddenly became so popular with people living or working in the area, or why so many office buildings turned their ground floors into restaurants and supermarket to meet the demands of their occupiers. It remains a critical question whether the Pudong development can strike a balance between integration and fragmentation; a task that the speed of the development makes even more difficult.

Current research findings are quite worrying. Yang and Ding (2004) actually suggested a correlation between social polarisation and economic polarisation (concentration of economic function). Their findings suggested that the size of the gap between rich and poor was increasing sharply and reaching an alarming level. The explosive development of Pudong needs to be further sustained by a recognition of the human side of a development project. This is particularly true of an area development, since every phase of the development affects not only organisations, land, resources and individuals, but more important, people's attachment to the area, quality of life and residential environment.

Another pitfall involved the inability of the financial system to deal with the uncertainty brought about by global integration and the inability of the related legal framework to control and minimise potential damage. Although local government has done all it can to grasp the opportunities presented by globalisation, it seems to be increasingly difficult for it to combat malicious attacks on its real estate market by professional speculators from around the world. The red-hot real estate market of 2004 and 2005 raised questions about the maturity of Chinese legal and financial systems. Speculation only started to reduce when central government used administrative measures to define the boundaries within which foreign investors could operate and increased taxation to discourage investors. In fact however the measures only enjoyed limited success and hurt genuine house buyers. The development of a financial system that is more compatible with the rules and operation of the global financial market will require a combination of a strong financial sector, national regulatory efforts and the state's willingness to accept change.

### **Applicability**

An attempt has been made to give an account of the current dynamics of a network society and the repositioning of cities and the way in which this repositioning is, or could be, managed. Preference has been given to looking for a concrete interpretation of the tension developing at urban district level and an example capable of representing its complexity and dynamics, rather than searching for similar examples of global-local interaction in case studies on other area developments. A case study depends not on 'statistical generalisation', but on 'analytical generalisation'. A single case study, if the selection is 'critical', or 'extreme or unique', can 'represent a significant contribution to knowledge and theory-building' (Yin, 1989, 1984). The results of the present research, though not yet reproduced by other case studies, not only provide an insight into area development in Shanghai, but also help to increase the understanding of the current dynamic interaction between global and local factors in urban development generally. The choice was therefore made to use a single case, the Shanghai Pudong development, which seemed to be capable of achieving this goal. The Pudong case presents an extreme situation

in which interaction between global and local factors took place in a location whose boundaries had been closed to the outside world for almost forty years and in a period when doors and windows were beginning to open. Thus the Pudong development presented a unique example, involving tension and confrontation and, even more important, speed. Furthermore, the involved nature of the Pudong development provided a unique opportunity not only to test the application of the theory of the developmental state at local level, but also to link two different domains, political economics and urban study, in an examination of the complexity of the impact of context on urban management and area development.

Generalisation and applicability are major topics in any discussion on urban studies. During the research the question of whether the outcome of the present study would be applicable to other cases was discussed at length. Since Pudong was promoted by central government as a show case for China's second round of reform, Pudong's transformation aroused enormous curiosity from other special economic zones and the coastal cities, eager to find out whether there were any lessons to be learnt. The opportunities created by the new preferential policies introduced by central government to stimulate economic development in poorer areas encouraged more and more interest from regions in central and western China, whose stagnant cities were in serious need of revival. These regions seemed to be interested in a variety of different strategies, such as a network strategy to create a market-friendly environment for investors, bold measures of institutional adaptation to make the public sector effective and efficient and strong input from development companies into land development and infrastructure. Some strategies, like the use of development companies for infrastructure development, were subsequently adopted by other cities. Even so, some reservations are in order about the general applicability of the findings. Shanghai found itself in a unique configuration of context-dependent processes. Autonomous direction to suit the will of a local authority is no longer possible in the open society of which China now forms part. Any new situation creates the need to discover what measures will be effective. After all, when a particular approach is transplanted from one situation or time to another, the context is different and an emerging process is expected. Recommendations to other cities, Chinese or Western, would therefore be inappropriate.

By the same token, Shanghai's experience needs to be evaluated more realistically. Cities differ from one another in many ways: each city has its own unique history and culture and has gone through its own development process. Different strategies for urban development and redevelopment may have a common basis but each evolves and is adjusted to fit the particular situation. Essentially every strategy has to be designed to address the same kinds of problem. Most of the world's cities have to deal with similar patterns of challenges: how to take advantage of urban change to increase their com-

petitiveness and enhance their position in the global urban system, and how to deal with the place-related characteristics of a specific locality and its geographical, political and economic context, all of which play a significant role in determining the problems and the strategies required to deal with them. Each city faces its own unique problems. A success in one city cannot simply be repeated in another city where geo-political and economic circumstances are different. The most that can be said is that the patterns cities formulate for their development strategies, especially in large-scale urban development projects, can be borrowed and adapted, pragmatically, to suit a specific locality in which circumstances are different.

The question about how applicable the lessons learned in Pudong are to cities in general is quite challenging. In fact the question needs reframing: the real issue is the extent to which the local, regional or organisational context can be changed to benefit from the lessons learned from the Pudong development. For example, the legal system may be one of the most difficult things to change, but it is easy to adopt a pragmatic approach which makes use of pilot studies. The introduction of an active land policy, a driving force behind the development of Pudong, had already proved its effectiveness in Singapore and Hong Kong. Policies like this can be tried out in a restricted area or as a pilot project to judge how effective they might be.

A few studies, for example the research into the redevelopment of Tokyo (Saito, 2003), have examined the role played by the local authority in urban development and the position occupied by urban change in a developmental state. But there has as yet been no systematic study linking the experience of these cities in the developmental state context. Further research is required to compare these cases to see whether the same kind of logic is present in each case. This comparison should encourage the next step, a comparison between those cases in which the context was provided by a developmental state and the rest, to examine how context influences the management of large-scale urban development projects.

# 5.2 Observations

In an area development project, the strength of the developmental state lies in its application of the network approach in a way that explores every possibility for making the project a success. Network logic seems to go well with traditional Chinese culture and the structure of Chinese society. When the traditional merits of the network were introduced into the network logic of the developmental state, 'Chinese political life and economy were revitalised' (Xia, 2000). Castells (2000b) has even claimed that the new competitiveness of China came not from its inefficient state enterprises nor, for the most part, from its still infant private business sector, but was organised around

investment, know-how and world market expertise from overseas Chinese investors. These investors, in cooperation with a special kind of institutional partner (guanxi or relationship network, particularly tongxiang, people coming from the same place, their relatives and friends and acquaintances from the same dialect group), constituted the fundamental link between China and the global economy in the 1980s and 1990s.

#### **Networking and Chinese culture**

Before the start of the Pudong development Shanghai was an unattractive place to invest, notorious for its rigidity, bureaucracy and red tape. But within 15 years all this had changed. The city used the Pudong development, a huge urban pilot project, to embrace globalisation for its own benefit, for investment, knowledge, and information and to transform itself into a city which would attract investors from all over the world. It is surprising how quickly local urban managers learned to establish relationships with significant players generally, and global players in particular. Networking played a central part in the Pudong development, particularly in the way it combined global, central and local strengths and created synergy between the state and the market. It seems that China has a cultural advantage when it comes to adapting to a network society, because of its traditional emphasis on and age-old obsession with networks and relationships. Indeed, the first step towards being Chinese is socialisation into a network society. Chinese are taught how to create networks, cultivate good relationships, care about and respond to other people's feelings, save face for themselves and others, behave with propriety, and anticipate reciprocity (Xia, 2000, p. 216). Economic and political institutions are always affected by cultural factors and ideologies (Moon and Prasad, 1998). Once the traditional merits of the culture had been implanted in the developmental state model and the difficulties of reconstruction and adjustment to a modern context had been overcome, it became possible to reinvent networks to provide new strategies to facilitate China's economic development. Manuel Castells (1996, p. 173) even argued 'if the informational/global economy is better suited to the network form of business organisation, then East Asian societies, and the organisational forms of their economic activity, would have a distinctive advantage in global competition, because such an organisation model is embedded in their culture and institutions'.

Apart from the advantage that networking was already an integral part of Chinese culture, China's network strategy to integrate with the global economy (in the present case, Pudong's global connections) was achieved by exploiting the global Chinese business network (Wedenbaum and Hughes, 1996; Chan, 2000; Castells, 2000b; Olds, 2001; Yeung, 2004). The overseas Chinese business network, especially in Hong Kong, Taiwan and Southeast Asia, has been a major source of foreign investment in China. Between 1978, when China opened its doors, and the mid-1990s, ethnic Chinese located abroad

had invested more than US\$ 50 billion in China, accounting for 80% of all FDI. Between 1979 and 1995 they had set up more than 100,000 joint ventures in China (Wedenbaum and Hughes, 1996, p. 27; Chan, 2000; Yeung, 2004, p. 15). Networks of overseas Chinese, Chinese capitalists and firms belonging to the international Chinese community, all of which had become increasingly influential, played a crucial role in helping Pudong to access global sources of capital, formal and informal, and to bring in advanced technology and management skills, as shown by Pudong's financial structure and the unusually large proportion of FDI contributed by Hong Kong, Taiwan and Southeast Asian countries like Singapore and Malaysia (see Chapter 3, Section 3.3 and 3.4). Castells (2000b, p. 317) used the term 'guanxi [network] capitalism' to draw attention to the importance of networking and the network of overseas Chinese to China's efforts to become part of the global economy:

'... overseas Chinese business networks are indeed the main intermediaries between global capital, including overseas Chinese capital, and China's markets and producing/exporting sites. But the reason is not that they both like steamed cod. It is because China's multiple links to the global economy are local, that is, are created by connections between overseas Chinese business and local and provincial governments in China, the sui generis capitalist class ...'

The complex worldwide social and financial network created by the Chinese diaspora<sup>41</sup> tends to involve ethnic Chinese in different part of the world in business and commercial ventures and in using cultural networks for business development (Chan, 2000), with 'a historically close relationship to property and a preference for 'deal-making' (Olds, 2001). Tanzer used the term 'bamboo network' to suggest that this kind of informal business network has become a powerful and enduring driving force behind the economic development of the region adjoining the South China Sea (1994, pp. 138-145). Yeung (2004) described the versatile Chinese capitalist as a hybrid, capitalist<sup>42</sup>, a person whose social organisation centres on the family firm, *guanxi* relationships and business networks. Chinese capitalism is an open and flexible form of capitalism, not tied to particular nation-states. 'Once they have established their businesses in the host economy, ethnic Chinese begin to extend their operations and networks across borders, forming increasingly seamless webs

<sup>41 &#</sup>x27;Chinese diaspora' refers to ethnic Chinese living outside mainland China. Li (2000) wrote: 'The Chinese diaspora has no political or national boundary, and its Chinese membership can only be loosely defined based on a lax interpretation of descent, origin or other imprecise cultural features. However, the Chinese diaspora is intimately connected to China, possessing or at least claiming ancestral roots and a common cultural heritage. Taken together, the population of China and the Chinese diaspora account for 22% of the world's population.'

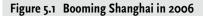
**<sup>42</sup>** The definition by See Yeung (2004, pp. 5-6) of the key attributes of Chinese capitalism. He emphasised that Chinese capitalism is an institutionalised mode of economic organisation not tied to specific national or state boundaries. It is versatile, rooted in, but not limited by, the institutional context.

of Chinese capitalism on a regional and sometimes global scale'. In fact, the developmental state's network approach has already been adopted by global Chinese capitalists, working through thousands of clan networks, penetrating local communities, expanding to mainland China, joining the global network and sending a their children to the best schools, all for the sake of engaging in networking. The strength of this 'truly global, tribal network' lies in the network (Naisbitt, 1996; Xia, 2000, p. 37). In the global age, 'the course followed by the Chinese will almost certainly be blessed with a hybrid mixture of families, networks, hierarchies and markets as the core foundations of economic organisations among ethnic Chinese within and outside mainland China' (Yeung, 2004, p. 255).

## Looking ahead

Although a wide range of problems arose during the period of reform, China has successfully and creatively transformed its institutional arrangements to facilitate the operation of the market. 'China has adjusted the strategy of the developmental state and produced a new type of practice to suit its own peculiarities' (Xia, 2001). A network strategy is helping China to create synergetic relationships between state and market and combine global and local influences into a single development process. Nonetheless the uncertainty of China's development path has made people wonder how far China can cope with global change (Saich, 2004, p. xv) 'China is changing so fast that is it difficult to keep up with what is significant and enduring and to ignore what is irrelevant and ephemeral. China is a country full of intricacies, complexities and contradictions'. However, 'If China succeeds in managing globalisation and marshalling society in its transition to the information age', Castells (2000b, p. 337) claimed, 'it means that the developmental state is alive and well for at least one fifth of humankind. And if nations and states around the world feel increasingly powerless vis-à-vis global financial markets, they may look for alternatives and find inspiration in the Chinese experience. But...it may well happen, instead, that China loses control of its economy, and a rapid sequence of alternating deflation and inflation wrecks the country, triggers social explosions and induces political conflicts. If so, the developmental state will have run its historic course, and the global flow of capital and information may reign uncontested...'.

Shanghai is making every effort to use the Pudong development as a flagship project to earn itself a significant role in the global urban hierarchy. However only time will tell what kind of status Shanghai may achieve and to what extent the role of Shanghai in the global urban network will become recognised as comparable to those global cities, like London, New York and Tokyo, which serve as switching centres for information, knowledge, images and symbols (not to mention capital flows), and where, as researchers have suggested, global flows are mediated by networked institutions (Friedmann, 1986;





Source: CNAP

Knox and Taylor, 1995; Clark, 1996; Sassen, 2000 and 2001; Castells, 2000b). Meanwhile, the social, cultural, economic and political conditions that enable the production of flow and the growth of a global city have raised critical issues to which Shanghai will need to react. Can Shanghai, like Hong Kong, burst out from China's national boundaries and overcome problems like a non-convertible currency, a controlled exchange rate and a converted Westernised legal system, all of which tend to act as barriers to global integration? There hardly seems to be a choice. Shanghai's strength lies in the network and networking it shares with regional and provincial authorities and various public-private coalitions, local and regional. Nonetheless it seems that the city is likely for many years to remain remote from the global urban hierarchy and operate in its own individual way as an Asian version of a global city.

The explosive development of Pudong also emphasises the importance of recognising the human side of a development project. This is particularly true of an area development, since every phase of the development not only affects different parties, resources and individuals, but more important, their feelings, quality of life and residential environment. Although the Pudong development can be seen as one of the few examples of China's urban development to have concerned itself with issues of sustainability and to have attempted to balance environmental, social and economic factors, the selective strategy employed reinforced the highly uneven effect of globalisation (Graham and Marvin, 2001). Putting Pudong on the world stage involved the creation of segregated urban areas. It remains a critical question whether the Pudong development can strike a balance between integration and frag-

mentation. The issue of fragmentation is not limited to the unevenness of geographic boundaries, but is also involves social imbalance. For example, a smooth start to the Pudong development was achieved simply because everyone involved, including those households which were subjected to compulsory relocation, shared the belief that the project would result in increased prosperity for all. Whether that belief was justified will depend largely on the division of economic and social benefits between the parties involved and will definitely affect any further development. Finding a solution will call for all the local authority's concern and creativity.

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## Appendix A Notes on methodology

The nature of this research was qualitative. A case study approach was used as the research strategy to examine the explosive development of Shanghai in general and the area development in Pudong in particular in the context of globalisation. As mentioned in Chapter 1, a case study is an empirical inquiry that 'investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used' (Yin, 1984, p. 23). This appendix reviews the research methodology adopted for collecting data.

#### Social network and the obtaining of data

The analysis in this dissertation draws on two main stages of research. The first stage was made up of pre-PhD experience as a student at Tongji University in Shanghai from 1988 to 1992, seven years experience as an urban planner in Beijing from 1992 to 1999, and two years of education in Europe, at the Institute of Housing and Urban Development Studies in Rotterdam, the Netherlands, and Lund University in Lund, Sweden. The second stage was made up of PhD research at Delft University of Technology from 2001 to 2007 and participation in research, education and consultancy. The two stages were interrelated and interdependent, with knowledge gained from different phases within the two stages assisting the construction of this dissertation. The earliest phase, in particular experience in Shanghai, was crucial in that it enabled reliable social networks to be formed made up of Shanghai-based individuals who could be used during the second phase. It also provided a unique opportunity to observe the city of Shanghai from close to, before and during the early phases of Shanghai's rocky rise, allowing comparisons to be made with the results of fieldwork carried out in Shanghai and Pudong ten years later.

The author was involved in Shanghai, directly and indirectly, in a number of different ways:

First, Tongji University's school of architecture and urban planning is China's oldest and most respected university department in its field. Its graduates have become senior officials in Pudong New Area government and Shanghai Municipal Government and occupy leading positions in the field of urban planning, urban management and urban development in Shanghai. Experience as student in the department made it possible to form links with members of the alumni network and to take advantage of those connections. The four year of study in Shanghai gave opportunities to form contacts with people who were later interviewed, provided further contacts or helped with the arrangement of interviews during later research. Employment at Delft University of Technology gave opportunities to meet visiting scholars from Shanghai who were involved in similar urban studies of Shanghai, and to extend the social network beyond the group of alumni.

Second, the assignments carried out during the period of study in Shanghai gave opportunities to observe how Shanghai's urban development was

carried on in practice. Assignment to the preparation of preservation plans for Nanjing Road, Shanghai's busiest shopping street, made it possible to participate in extensive discussions and interact closely with local and district decision-makers, professionals and academics from various companies and institutions. Knowledge and understanding of urban development practice and the extent of local influence on that practice was further strengthened during a period as urban planner in Beijing.

Third, a period as consultant and interpreter for the Dutch company Teun Koolhaas Association (TKA) between 2001 and 2003 gave opportunities to participate in Shanghai's urban development as a private sector observer from abroad. Continuous participation in the bidding and design process for the design of Gaoqiao Town (the Dutch Town in Pudong) led to the establishment of close contacts with government officials, professionals and local governors working in Shanghai and Pudong New Area. A study trip to the Netherlands made by Pudong's local government officials and professionals strengthened the network allowed close relationships to be built with members of the group during the trip. A number of interviews were arranged during the visit.

#### **Fieldwork**

The majority of the data required for this dissertation - first-hand information about the large-scale urban development project in Pudong New area - was collected during the period of fieldwork. Thanks to the social network created in Shanghai during the four-year period of study in Shanghai and membership of the powerful alumni network of Shanghai's Tongji University, assisted by proficiency in Mandarin Chinese (as a native speaker), ability to understand the local dialect (Shanghainese) and knowledge of English and Dutch made it unnecessary to be completely dependent on local hosts to arrange the fieldwork. A substantial number of interviews were arranged through the author's own network or reliable intermediaries.

The trip to Shanghai in June 2002 as a representative of the Dutch design company TKA was an opportunity to warm up for reconnecting with the local network in Shanghai and in Pudong. The most concentrated stretch of field work took place in October and November 2002, during which period more than 30 interviews were held. While many of those interviews were arranged with contacts made back in Holland during the visit to TKA by Pudong local government officials and professionals, some of the new appointments were arranged by interviewees who suggested other individuals, companies and projects with experience that could be relevant to the case study. Being 'one of them' plays a crucial role in building the level of trust required when questions are to be raised that have not previously been asked by others. Ability to understand the language and the local dialect made it easier to get the interviewees to describe a particular phenomenon in detail and in depth.

While Shanghai was striving to walk the path to economic development

Table C.1 Fieldwork details					
City	Dates	Main host	Research objectives		
Shanghai	21-26 June 2002	n/a	To attend the public bidding for the commission to design Gaoqiao Town (with the concept of a Dutch town) in Pudong (as consultant to TKA), to visit Pudong and to set up a base for fieldwork in the October of the same year.		
Beijing	13-19 Sep 2002	n/a	To conduct research into issues related to real estate development and land policy in China at Tsinghua University and to interview various ADB staff members about ADB's initiatives in Shanghai.		
Shanghai	9 Oct -15 Nov 2002	n/a	To conduct research into aspects of the development of Pudong, such as the involvement of the public and private sector, project initiatives, the decision-making process, the roles played by the various parties involved, and academic comments; to collect documentary, archival and related information from public libraries and private (company) libraries.		
Shanghai	23 June-10 July 2004	Jiaotong University	To update research into the development of Pudong and its development zones, market participants and issues related to urban development, to lead a Dutch study trip¹ and organise an international symposium to discuss urban development, urban management, real estate, finance and housing reform in Shanghai with local academics, market participants and government officials.		
Beijing	11 July-16 July 2004	n/a	To conduct interviews with staff from the Japan International Cooperation Agency China Office.		
Shanghai	10-22 July 2006	Tongji University, Shanghai Normal University	To discover the latest developments in Pudong and its development zones, to collect the latest information on the results of the development and market changes and to lead a Dutch study trip. <sup>2</sup>		

- 1. The Dutch group consisted of students from the 'Master City Developer', a post-master program given by Delft University of Technology and Erasmus University, Rotterdam for professionals who had worked in urban development for more than five years in the Netherlands, and postgraduate students from the Department of Applied Economy, Erasmus University. The aim of the study trip was to learn about Shanghai's urban development in general and the large-scale urban development in Pudong in particular.
- 2. The Dutch group consisted of 25 postgraduate students from Delft University of Technology's Department of Real Estate and Housing, and the study trip was organized by BOSS, the Department of Real Estate and Housing's student society. The aim of the study trip was to learn about Shanghai's growth as a global city and Shanghai's urban development. The author was one of the two academic supervisors and took responsibility for the study programme.

as a global city, urban transformation and cultural and societal change did not always go hand-in-hand. Although openness had to a certain extent been achieved, by a wide range of different reforms and the increasing influence of foreign capital and knowledge, the local institutional system continued to play a crucial part in shaping the local mentality and culture. Although Shanghai is one of the most open Chinese city in terms of information flow, it remains difficult for outside researchers to access important information and arrange interviews with people from private companies or local government, many of whom tend to consider giving interviews to researchers a waste of time rather than appreciating the added value researchers and their researches can bring to their

work. In such circumstance, trust between the interviewer and his or her social network is essential to reduce the chance of rejection a potential interviewee.

The difficulty of arranging interviews for the fieldwork was reduced because a network characterised by mutual trust was already in place. Asking an interviewee to help to arrange interviews with his or her colleagues, employees, lower rank officials, business partners and clients proved to be quite effective. Only in one case did the level of trust fail to overcome political sensitivity or personal reluctance. When a company or individual was not linked to any part of the network, extensive research was carried out into the background of the potential interviewee by reference to the Internet and the mass media. Letters, faxes, phone calls and e-mails were all used to make contact with potential interviewees until the required result was achieved. In cases where it appeared impossible to get into a local company, attempts were made to make contact through those companies' international partners. Experience of living in Europe has taught that European companies are more open and willing to receive researchers than Chinese companies. Fortunately, in the end most attempts were successful.

The second and third field trip to Shanghai was made as member of a study group of Dutch professionals and graduates studying for a masters' degree. In these two field trips the local host and partner university played a key role in arranging meetings with high-ranking officials in Pudong and Shanghai, visits to prestige projects not normally open to the public, and administrative support, including arranging for the assistance of local students.

The ability to establish and manoeuvre through social networks, tight and loose, is important to building relationships of trust with a wide range of different people (Olds, 2001). Trust enables the researcher to obtain confidential information, discuss sensitive topics, widen and deepen his or her social network and find more people willing to supply reliable contacts. The main methods used to build trust and to interest potential interviewees included:

- using powerful contacts to extend the network;
- reciprocating by providing information, short term and long term, e.g.
   Dutch books on urban issues, academic articles and research material from Europe;
- offering the possibility of collaborative research;
- presenting oneself in a professional manner, emphasising one's Chinese education, practical experience in China and education in Europe;
- convincing contacts of familiarity with and understanding of the issues and so interesting them in discussion.

A case-study protocol was written before the fieldwork started. The protocol included questionnaires, the background to the project and company information. Case study reports were prepared after the fieldwork and all interviews were documented. All material collected was archived.

#### Research methods and data sources

This dissertation is mainly based on qualitative data, using quantitative date to supplement or address incomplete information or provide a macroeconomic background. 'Quantitative evidence can indicate relationships which may not be salient to the researcher. It also can keep researchers from being carried away by vivid, but false, impressions in qualitative data, and it can bolster findings when it corroborates those findings from qualitative evidence. The qualitative data are useful for understanding the rationale or the theory underlying relationships revealed in the quantitative data or may suggest directly theory which can then be strengthened by quantitative support' (Eisenhardt, 1989, p. 538). Qualitative data focus on 'naturally occurring, ordinary events in natural setting' and therefore can provide 'a strong handle on what "real life" is like' (Miles and Huberman, 1994, p. 10). The 'richness and holism' of qualitative data and the vivid data collected during a 'sustained period' provided comprehensive information to reveal the complexity of the Pudong development and the dynamic interplay between local and global influences.

The research methods used consisted of literature review, internet searches, formal open-ended interviews, group discussions, workshops, symposiums and conferences. Use was of course made of the experience and knowledge derived during earlier observation in Shanghai. Data was collected from archives, interviews, questionnaires, and observation. Evidence could be qualitative (verbal), quantitative (numerical), or both. The following were the main sources of qualitative and quantitative data:

- Formal open-ended interviews with 52 people in the periods Oct-Nov, 2002 and June-July, 2004. The vast majority of the interviews were conducted in person, and the interviewees included senior and junior representatives of a variety of different interests. They included politicians, local officials, market participants, academic researchers, journalists and community representatives. Interviews were recorded unless the interviewee objected, and were subsequently documented
- Personal observation, first by on-site fieldwork in Oct-Nov 2002 to get personal experience and make independent judgments. These early observations were updated in June-July 2004 and July 2006 during an organised study trip. The information received was extended by attendance at presentations, lectures and exhibitions organised by public and private participants in Shanghai's development in general and the Pudong development in particular.
- Group discussions involving both public and private individuals and organisations involved in the Pudong development, and academic discussions in workshops, lectures, symposiums, conferences and PhD colloquiums. Group discussions generally occurred during the organised study trips. Sometimes a group discussion developed when an interview involved more than one interviewee and the interviewees were interested in learn-

ing about the results of the research. Group discussions at conferences, symposiums and workshops were more likely to involve academics and be concerned with the choice of methodology than the results of the research, and so were more relevant to the design and analysis of the research.

■ Written material in English, Chinese and Dutch, including academic books and articles, conference proceedings, national and local laws and regulations, policy documents, statistical yearbooks, local almanacs, official annual investment and market reports, official company reports, analyses of listed company active in Shanghai, brochures, company websites, company reports (published and unpublished), internal evaluation reports on project performance and management strategies, confidential market analyses, archival records including maps and charts of Shanghai and Pudong, news clippings and articles in the mass media.

A wide variety of methods was used to triangulate the research findings to overcome any possible weaknesses or intrinsic bias and the problems that can be generated by relying on a single method, a single observer, and a single theory. The reliability of the data was ensured by the use of the following techniques:

- The data was collected over a continuous period of almost six years, with four on-site visits, more than forty one-to-one personal interviews and nine group discussions. The majority of the interviewees were professionals
- Interviews were held with as many people as possible who might have different views on the same topic. Within each topic comparisons were made between the responses of the government officials and private companies that were involved in the same project. Answers were checked with local academic researchers and, where possible, multinational organisations. As the number of interviews increased, certain patterns began to appear in the responses, which helped to confirm or cast doubt on certain answers.
- Information and data obtained from interviews was cross-checked against written material, results of academic research and official statistics, especially when the data was questioned in western media or by western researchers.
- In a few cases it was impossible to cross-check the information obtained from an interview. Three different techniques were used. First, the mass media were examined and different resources used to identify the most relevant information. Second, contact was made with different local academic researchers to check the information. Third, reference was made to local archives and libraries.
- Conferences, symposiums and workshops in China and Europe (e.g. in the Netherlands and the United Kingdom) were used as forums for discussing the findings of the research with academic researchers with expertise in China.

# Appendix B Interviewees and discussion partners

### Shanghai and Beijing

Anonymous lady	Relocated rural inhabitants, relocating in Jinqiao because of Lujiazui redevelopment
Bao Ziyuan	Sales Manager, Division of Sales & Marketing, First China Property Group
Bruce Murray	Resident Representative, Asian Development Bank Resident Mission in the People's Republic of China,
Chang Cun	Manager Director, International Business, Shanghai Forte Land Co., Ltd.
(Ms.) Chen	Relocated rural inhabitants living in Huamu because of Jianhua Tower
Chen Bangguo	Property Manager, Jinmao Leasing & Sales Department, China Jinmao Group Co., Ltd., presently deputy general manager, Shanghai JM Imtech Facility Co. Ltd.
Cheng Yijun	Assistant managing Director, Assets Management Division
Chen Min	Shanghai Lujiazhui development (Group) Company Ltd.
Cong Cheng	Senior Economist, Department of Policies & Regulations Shanghai provident Fund Management Center
Ding Li	Tenent Coordination Officer for Super Brand Mall, Property Management Shanghai Kinghill Ltd.
Ding Yongyue	Deputy General Manager, Shanghai (Z.J.) High-tech Park Development Co., Ltd.
Dong Haiwei	General Manager and Chief Representative- Shanghai, ING Real Estate Investment Manager (Shanghai) Co., Ltd.
Fan Xingliang	General manager, Investment & Development Department, Shanghai Industrial Development Co. Ltd.; SIIC Shanghai Development & Investment Consultant Co; Ltd.
Gao Junjie	Senior Project Manager, Industry Property Development Department, Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd.
Gao Yongyan	Project Officer, Commercial Department, Debenham Tie Leung International Property Advisers (DTZ)
Ge Zhenming	Faculty of Construction & Real Estate, Tongji University
Gong Qiuxia	Vice Manager, Development Planning Division, Shanghai Lujiazhui Development (Group) Company Ltd.

Huang Fuxiang	Senior Planner, Shanghai Urban Planning & Design Research Institute
Huang Jimin	Vice Director, Shanghai Urban Planning & Design Research Institute
Ji Dehong & neighbours	Relocated urban inhabitants living in Jinyang Village because of Jinmao Tower
Jin Song	Vice General Manager SIIC Shanghai Haiyun Real Estate Co., Ltd.
Li Jianeng	Consultation Committee, former director of City Construction Bureau, Pudong Area
Li Zhanjun	Director, Pudong Real Estate research Centre, Pudong Reform and Development Research Institute, under Shanghai Social Science Academy
Li Zhengjie	Manager Corporate Communications, Capitaland China Holding Group
Liu Hongyu	Professor, Director, Department of Construction Management and institute of Real Estate Studies, Tsinghua University
Liu Rongming	Division of Investment Management, Development and Planning Bureau of Pudong New Area
Liu Shen	Land management Department, Shanghai Urban Construction Investment & Development General Corporation (Chengtou Corporation), presently general manager, Shanghai Chengtou Yongye Development Co. Ltd.
Liu Yu	Comprehensive Development Division, Development and Planning Bureau, Pudong New Area
Ni Yucheng	General Manager, Integrated Communication Dept., Shanghai Forte Land Co., Ltd.
Ouyang Yaopeng	Project manager, shanghai World Finacial Co., Ltd.
Peng Xi	Project Officer, Occupier Services, Debenham Tie Leung International Property Advisers (DTZ)
Shangguan Ling	Plan and Finance Department, Lujiazhui Construction Company under Lujiazhui development Corporation
Shi Tao	Administration & Personnel Dept., Shanghai New International Expo Centre Co., Ltd.

Tang Yichun	Division of Real estate Management, Real Estate and Land Management Bureau, City Construction Bureau, Pudong New Area
Wang	Project manager Shenmao Tower
Wang Baofa	Press & Information Office, Shanghai Pudong New Area People's Government
Wang Fen	Wenhui-Xinmin United Press Group
Wang Yong	Comprehensive Development Division, Development and Planning Bureau, Pudong New Area
Wu Qingdong	Deputy Director Shanghai Pudong New Area Planning & Design Research Institute
Xiong Guolong	Former project manager Shangri-la Hotel
Yan Jun	Vice General Manager, Shanghai Lujiazhui Development (Group) Company Ltd.
Yao Jianliang	Shanghai Lujiazhui Development (Group) Company Ltd.
Yu Mei	Shanghai Lujiazhui Development (Group) Company Ltd.
Yu Yongwei	Public Affair Manager, Pudong Shangri-la Hotel, Pudong, Shanghai
Yuan Liqiang	General Manager, Shanghai Zhangjiang Creative Industry
Zhao Bo	Project Officer, Investment & Consultancy Department, Debenham Tie Leung International Property Advisers (DTZ)
Zhao Dehe	Management Division, Shanghai Municipal Construction & Management Commission, City
Zhao Jieping	Shanghai Lujiazhui development (Group) Company Ltd.
Zhao Yongsheng	Manager, Investment & Development Department, SHLG
Zheng Shiling	Professor, Director, Institute of Architecture & Urban Space, Tongji University
Zhou Jing	Office for Program & Evaluation, Japan International Cooperation Agency China Office
Zhu Jiaying	Vice president, Shanghai Lujiazhui development (Group) Company Ltd., City Infrastructure Construction management Company

#### The Netherlands

Edwin van den Heuvel	Projectmanager, Vakgroep Projectmanagement, OBR Gemeente Rotterdam
Peter Oussoren	Coördinator Gebiedsontwikkeling, Kennis Centrum PPS, Ministerie van Financiën
Richard Price	Former general manager, ING Real Estate Asset Management - Asia
Rudolf p. Mulder	Unit directeur, infra development & management, DHV Milieu en infrastructuur BV
Teun Koolhaas	Former director, Teun Koolhaas Association

## Appendix C Questionnaire

Interviews were partly structured by using a concise questionnaire as a guideline. Unstructured interviews were used when appropriate to the specific circumstance and the knowledge of the particular interviewee. Questions were selected in such a way as to keep the interview running smoothly. All interviews were conducted in Chinese unless the interviewee requested otherwise. Quotations used in the dissertation from interviews conducted in Chinese have been translated into English.

#### I Public sector

#### Background

- It has been said that the idea for the Pudong development was proposed at the end of the 1970s. Is this true? How many times was the plan officially proposed before the final approval in 1990? Which people or decision-makers were important to the project?
- When designing the project did you consult anybody outside the municipality, for example developers, academics or local residents? What procedure was followed and what were the results?
- Some researchers have said that the support of the central government acted as the direct trigger for the Pudong development. Some have argued that if politicians in central government with a Shanghai background had not taken decisive action, the Pudong project would never have been approved, no matter how correct that approval has now proved to be. Do you agree?

#### Approach and stakeholder involvement

- How would you describe your approach to the implementation of this giant plan? Did the Shanghai Municipality use any innovative strategies for the development?
- A huge amount of investment and a good real estate market were necessary to develop such a huge plan. How would you describe the situation in Shanghai?
- Where did the money come from? How was so much money channelled into investment in infrastructure?

- Apart from government, what developers or organisations can you name that came in at an early stage in the Pudong development? (Name, address, contact information)
- How did you supply information to these developers or organisations? Why were they interested in the Pudong project?
- How was it possible to get them interested in Pudong in the early stages, when there were plans but no infrastructure? What strategy did you use to encourage the private sector to invest in the Pudong development?
- How did the project begin? What was the first project? Who financed it? What impact did it have?
- Did any stakeholders join or leave a project in the middle? When did they leave? Why did they leave?
- How were stakeholders involved in the various projects?
- Did both the public sector and the private sector share the risks and benefits? What were their respective concerns?
- How successful do you think the policy was that you used to attract the private sector?
- Did your approach evolve over time? In what way did it change? Why were these changes made? Were the new policies successful? Do you think they were effective, or not? Why? Did you apply any measurement to ensure that your strategy was effective?
- Were there any ways in which Pudong New Area's urban management differed from the style of public administration?
- How is the cost-benefit management in this project?
- Would you say that the introduction of land banking was important? Why?
- How would you describe the relocation situation in the Pudong area? How big an area was required for relocation? How was relocation handled? What policies were adopted on relocation?
- How well do you think relocation went in practice? Were there any problems?

- Did the local community or private land owners have any influence on negotiations affecting the project?
- How much investment did the project attract from the public sector? From the private sector? How difficult was it to get contributions from the public sector? Was it easy to negotiate investment issues with the private sector?
- Would you say that public sector investment acted as the driving force behind the whole project? How great an influence was exerted by money from the private sector?
- How did local communities view the project? Did they have any impact on the design and implementation of the project?
- How successful was cooperation between the local community, government and private participants?
- What did local residents think of the Pudong project?

#### Result and impacts

- After 12 years of development, what changes can be seen in the Pudong area?
- Did the implementation of this project have any social impact, for example a higher employment rate or an improved social environment? Was the social aspect considered to be important for the project? How much employment did the project generate?
- What do you consider to be the achievements or failures? What lessons were learnt? Did you apply any performance measurement to the project? To what extent did the project achieve its goals?
- Are you satisfied with the strategy used? Was it successful? If you had to do it all again, would you do everything the same way? If not, what things would you want to improve?
- How do you see the role of different stakeholders in the project? What do you think were the results of their co-operation?
- Did you have any criteria to measure the effectiveness of cooperation between the different stakeholders? Have you ever done any research into this?

#### Public-private partnership

- How would you define public-private partnership? What are the main characteristics of a PPP?
- Did you have any prior experience of PPP? Do you know of any other kinds of PPP arrangement? When and why was the particular kind of PPP arrangement chosen? What was the motivation for this decision?
- Was the urban redevelopment of the Rotterdam area the first project in which PPP was used? In the light of 12 years of implementation, how well do you think PPP approach was applied in this project?
- What factors contributed to the decision to make use of public-private partnership? The strength of interest from the public sector or the public at large? The favourable economic situation? The booming real estate market? Urban strategy or policy? The strength of the private sector in Rotterdam? Local culture? Support from the local community? The international trend towards globalisation? Encouragement to adopt a PPP approach by the European Union?
- Do you think that particular politicians contributed to setting up the project?
- If you could choose now, what arrangement[out of what possibilities?] would be the best choice for the Pudong project?
- What do you think of the way Pudong was developed? Which aspects were successful and which not? Were there any failures which could have been avoided if the style of management had been improved?
- What do you think of the use of PPP in a Chinese context? Do you think there are any advantages or disadvantages in using PPP? What particular added value can PPP give to an urban development or redevelopment project or programme?
- Is there any legislation to support PPP?
- In China, government plays an important role in PPP. Do you think this was important to the success of the Pudong project? Do you think that the combination of an urban policy which promotes PPP and public intervention can play an important role in accelerating decision making?

Public participation is not a common feature of Chinese society. Did this have any influence on the Pudong project? In what way might the development of PPP be shaped by aspects of national character such as historical background, political influence, public intervention, decision making relating to urban redevelopment, public policy on PPP and urban redevelopment, the state of the economy and the market, social and cultural factors, the legal framework and concern with social issues.

#### II Private Sector

#### Background of the company

- Had your company any prior experience of urban development or real estate projects in Shanghai? For example?
- Based on your experience or your general impression, how would you describe the investment environment in the Shanghai real estate market? What do you think is good and what not so good?

#### The Pudong development

- When did you first hear of the Pudong development? When and why did your company first become interested in the Pudong New Area development?
- Why did you choose the ----- project? What was your expectation at the time? Had you been interested in development projects in Pudong for some considerable time?
- Did you contact local officials to find out more about Pudong? Or did the local authority contact you for advice or suggestions for the design of this project? Or did they invite you to make an investment?
- Do you think it would have been a good idea for your company to be invited to help designing the project or to make suggestions as a consultancy group acting on behalf of real estate companies?
- Was your company interested in part of the project, a single project, part of a single project, or in becoming involved in the project as a whole? Why?

#### **Project briefing**

- When do you start this project? Had you already signed the contract? Did you start by leasing land? Did you negotiate a lease or go to the land market? If you negotiated a lease, what was it like to negotiate with the municipality? Were there any standard terms or conditions for leasing land?
- When did you finally decide to take on the project? How?
- Did your project involve relocating the original residents? If so, what did you do about it?
- Did you ever look into the results of the relocation? What do you think of the relocation policy?
- Do you think you got a good deal? Have you ever done any cost-benefit analysis on the project?
- Were you satisfied with the infrastructure and public space provided by the government? If not, why not?
- Did you have any discussions with the original residents or neighbouring communities?
- Were there any problems with your project and its implementation?

#### Real estate market and investment environment

- How would you describe the real estate market and the investment environment here in Shanghai and in Pudong?
- Did government keep the promises it made to you before you invested in the project?
- How would you describe the local authority's public administration? Was it effective? Did you have to wait a long time or cut through a mass of red tape before getting approval?
- If there was any dispute about the implementation of the contract, what did you do? Go to a lawyer? Or negotiate with government?
- Do you think the law was properly enforced in Shanghai? Did your view on this question influence your investment decision?

- Was it easy to get the information you needed about the real estate market? Was there any information that you needed but could not get?
- Did you have a voice in the Pudong development as a whole, rather than just in the project in which you invested, on such matters as infrastructure, facilities and the function of adjoining buildings?
- If you wanted to complain or give an opinion, could you find a channel that would allow you to communicate with local government?
- Did you have problems in accessing finance, e.g. getting a loan from a bank? Did your company achieve what it had planned?

#### Public-private partnership

- Have you heard of public-private partnership?
- Did you have any prior experience of PPP? Do you know of any other kinds of PPP arrangements? What do you think of co-operation between the public sector and the private sector? How would you define PPP?
- In what circumstances would PPP be appropriate? Do you think PPP can usefully be used in a Chinese context? What problems could there be and how might those problems be overcome?
- Was any PPP involved in any project undertaken by your company in Pudong? If so, how successful was it? What differences would there have been if government had been involved in the project in the traditional way? If no PPP was involved, do you think the result would have been different if the government had made use of PPP?
- Government played an important role in the Pudong development. Do you think this was important to the success of the project? Did the extent of government involvement encourage or discourage investment?
- In what way can the development of PPP be shaped by aspects of the national context such as history, political influence, public intervention, the decision making process relating to urban redevelopment, public policy on PPP and urban redevelopment, the state of the economy and the market, social and cultural factors, the legal framework and concern with social issues?

# Appendix D Facts and figures of Pudong (2004)

# among which
n.a. means not available
1 yuan = 0.12 US\$

Table D1.1 General indicators		
Indicators	1993	2004
Land Area (sq. km.)	533.44	569.57
Population (million)	1.44	1.8
Total households (year end) (households)	486,325	667,265
Employed persons (million)	1.05	1.3
Gross output value of Pudong New Area (billion yuan)	16.4	178.98
Financial revenues (billion yuan)	1.12	40.22
Total investment in fixed assets (billion yuan)	16.46	65.19
# Investment in real estate development (billion yuan)	_	27.95
# Investment in infrastructure (billion yuan)	5.47	12.12
Floor space per urban residence (sq. m./person)	n.a.	22.15
Total resettlement in unit	n.a.	16,647
Total resettlement in floor area (million sq. m.)	n.a.	4.87
Total area of parks, gardens and green space (million sq. m.)	n.a.	82.46
Public green space per capita (sq. m.)	n.a.	25.44
Passenger capacity in Pudong International Airport (million person-times)	-	21.04
Volume of cargo handled at Pudong International Airport (million tons)	_	1.88
Volume of cargo handled at port (million tons)	90.17	130.9
Container handling capacity (million TEU)	-	9.43
Number of FDI contracts (unit)	924	1,688
Amount of FDI (billion US\$)	1.76	3.22
Operation earning of main tourist attractions (million yuan)	-	567
Total number of tourists (million person-times)		15.51
Number of exhibitions Hosted (time)	-	108
Number of international conferences hosted (time)	-	177
Average wages of staff and workers (yuan)	5,999	29,512

Table D1.2 Floor space of housing and buildings in fixed assets investment 1990-2004 **Indicators** 2004 (10,000 sq.m) (10,000 sq.m) Residential housing 453.83 4493.79 Factory buildings and warehouses 44.79 963.52 Commerce 26.76 338.69 Office 13.89 479.39 Education 3.14 163.32

11.98

78.37

632.76

46.21

558.02

7042.94

Table D1.3 Functional zones in Pudong New Area						
Name	Land area (sq. km.)	Population (person)	Density of population (person/sq. km.)			
Lujiazui Functional Zone	42.77	457,616	10,699			
Jinqiao Functional Zone	74.86	83,311	1,113			
Zhangjiang Functional Zone	115.31	145,564	1,262			
Waigaoqiao Functional Zone	97.13	154,199	1,588			

Healthcare

Others

Total

1990	2004
84	406
0	52
32	46
0	65
1	74
0	32
13	52
1	32
	84 0 32 0 1 0

					Waigao-	Zhang-jiang
Indicators	Unit	Total	Lujiazui FTZ	Jinqiao EPZ	qiao FTZ	HTP
Land development	sq. km.	63.72	14.5	23.72	8.5	17
Area of land leased/sold	million sq. m.	22.03	2.7	9.1	4.28	5.95
Investment value in fixed assets	billion yuan	319.28	171.85	62.33	26.37	58.73
Number of approved and contracted projects	unit	9,728	106	620	8,064	938
# Foreign directly-invested	unit	7,013	18	419	6,232	344
# Domestic invested	unit	2,715	88	201	1,832	594
Projects in operation	unit	9,051	70	472	8,064	445
# Industry	unit	1,155		362	692	101
# Commerce	unit	6,145		9	6,114	22
# Other tertiary industry	unit	1,751	70	101	1,258	322
Amount of approved and contracted projects	billion US\$	43.57	10.44	12.85	10.16	10.12
# Value of overseas Investment	billion US\$	30.88	3.01	11.41	8.58	7.88
# Domestic investment absorption	billion US\$	12.7	7.43	1.44	1.58	2.25
Projects under construction	unit	184	34	34	33	83
Length of completed Roads	km	275.31	89.57	68.18	55.06	62.5
Floor area of completed buildings	million sq.m.	25.6	11.73	6.04	6.34	1.49
# Commercial and office buildings	million sq.m.	10.4	6.83	1.05	2.16	0.36
# Factory buildings	million sq.m.	6.7		2.82	3.19	0.69
# Residential housings	million sq.m.	6.75	4.9	1.57		0.28

Table D1.6 Investment in fixed assets in key development zones						
Name	1993 (billion yuan)	2004 (billion yuan)	Accumulated (billion yuan)			
Total	14.48	39.84	319.28			
Lujiazui FTZ	8.58	15.9	171.85			
Jinqiao EPZ	3.09	4.34	62.33			
Zhangjiang HTP	0.2	2.27	26.37			
Waigaoqiao FTZ	2.61	17.33	58.73			

Table D1.7 Floor space of buildings in Lujiazui Finance and Trade Zone Floor space of Floor space of buildings buildings completed (million sq. m.) (million sq. m.) **Indicators** Total 20.84 15.53 Residential housing 11.1 8.39 Commercial buildings 2.32 1.84 Office buildings 5.35 3.62 Others 2.07 1.68

Table D1.8 Trained personnel resources in Zhangjiang High-Tech Park				
Indicators	Number	Percentage		
Total number of employed persons (year end)	59,437	100		
# Doctor degree	1,476	2.48		
# Master degree	7,205	12.12		
# Bachelor degree	26,710	44.94		

# Summary Shanghai Pudong. Urban development in an era of global-local interaction

Yawei Chen

#### Introduction and research approach

This research was concerned with large-scale urban area development in general, and in particular with gaining an understanding of the role played by global-local interaction in shaping the area development strategies in one particularly explosive urban project, the development of Shanghai's Pudong New Area. The Pudong development provides an extreme example of a situation in which interaction between global and local forces took place in a location whose boundaries had been closed to the outside world for almost forty years and in a period when doors and windows were beginning to open. The research led to a concrete interpretation of the tensions developing at district level and provided an example capable of representing the complexity and dynamics of current area developments. The practical question addressed by the research was: What were the main factors responsible for the speed achieved by the Pudong development? The associated theoretical question was To what extent did the development of the Pudong New Area reflect the characteristics of a developmental state?

The starting point of the research was a theoretical analysis of global-local interaction and its impact on the creation of urban space. Urban theories, theories related to the network society and the global city, were used to explain the significant changes taking place in the creation of urban space. A number of significant influences were observed. One such influence was the rise of the network society, transforming the relationship between traditional organisations operating within cities into a more intertwined and interdependent relationship and leading to a new style of urban governance. Another was the formation of a global urban network resulting from economic globalisation and global financial flow. The paradigm of the world city, as developed in pioneering research into global cities (Sassen, 1991, 1994) and the world city hierarchy (Friedmann, 1986, 1995), recognises that cities have become the driving forces behind economic globalisation and at the same time have become increasingly dependent for their survival on their articulation with the global economy. The essential finding of these urban studies was the key role played by global capital flow and knowledge transfer in interlinking global and local economic systems and creating urban space.

Even when the impact on cities of global forces has been recognised, it is still necessary to recognise the global-local dualism expressed in an area development process. The formulation of area development strategies is rooted in the local political and economic situation but is increasingly influenced by the uncertainty imposed by global forces. The success with which area development strategies are formulated to deal with the complexity, dynamics and uncertainty of the development process is directly affected by the way the lo-

cality views itself and the outside world and the way political and economic institutions function, adjust and adapt. Thus formulating an area development strategy is more a learning process, in which emerging situations need to be addressed and adjustments need to be made to suit changing requirements. As China chose to base its economic reforms on the model of the East Asian developmental state, it naturally introduced many of the same institutional structures that had helped other countries and regions to generate economic growth. This same strategy was adopted by Shanghai and played a role in shaping Shanghai's institutional system. Although each East Asian developmental state has its own individual system, the central concern is always to achieve a steady high rate of economic growth. In general the state plays an active role, laying down industrial policy and promoting economic development. Ensuring a high rate of economic growth requires the state to create a significant degree of trust from and a close relationship with the market. The complex character of the Pudong development provided a unique opportunity not only to test the application of the theory of the developmental state at local level, but also to link two different domains, political economics and urban study, in an examination of the complexity of the impact of context on urban management and area development.

#### Case study

To explain how global-local tension was controlled to achieve speed in the Pudong area development, the research focused on the two sets of interrelated variables, local and global. The case study analysed in depth the practical measures which affected the speed of the development, including the decision-making process, management strategies affecting land development, infrastructural development and the closely related local real estate market and the way in which investment and finance was mobilised. To provide a comprehensive picture, the research made use of a variety of different methods, including literature review, internet searches, formal open-ended interviews, group discussions, workshops, symposiums and conferences. Data was collected from archives, interviews, questionnaires, and fieldwork observations. The case study revealed ample evidence for the evolutionary nature of the policies applied in Pudong to manage a changing environment and the different challenges faced during the course of the development. The different policies and the ways in which they were implemented displayed a number of distinct characteristics defining the approach taken to steering the development.

#### Findings

The theory of the developmental state was applied to explain the relationship between the speed of the development and the interaction between state and market. The analysis considered the motives which underlay the different responses to global-local tension, especially the response of local government and its effect on the strategies formulated by local government. The analysis examined two key relationships, the relationship between state and market and the relationship between local and global forces, paying particular attention to those aspects that directly affected the speed achieved by the 15-year development.

#### State-market networking

As compared with the traditional way of managing area development in China - closed, top-down, opaque, bureaucratic and government-controlled - the development of Pudong showed an evolutionary trend, more open and interactive, governed by a hybrid form of control characteristic of a specifically Chinese development model. Use of a networking strategy was essential to facilitate the development, allowing government and the market to begin to find ways of approaching and understanding one another. Cooperation between government and the market was generally achieved by institutional adaptation on the part of government, leading to the creation of new rules to accommodate the admission of market forces and allow them to operate. Four aspects of the networking strategy were found to be particularly significant:

1. Developmental goal - The urban development of Shanghai Pudong was facilitated by the adoption by a developmental state of an open-door policy. The aim of the development strategy employed for Pudong was to achieve economic development. All the way through from decision-making to implementation, local government actively influenced the development process, sometimes openly, sometimes discreetly, according to circumstances and the requirements of the moment. The application of the national Special Economic Zone (SEZ) concept to a large-scale urban development project and the wide range of experimental policies followed in Pudong was reminiscent of the tactics used by China to stimulate its economic growth and foreign investment, following the developmental state model. Like other SEZs, Pudong serves Shanghai in particular and China in general as a 'shop window' and a 'base', creating opportunities for interaction between western culture and Chinese culture, giving foreign investors the opportunity to gain a better understanding of China's social and economic traditions and the Chinese greater opportunities to learn about western technology, management and expertise. Thus Pudong's SEZ status not only gave Shanghai sufficient autonomy to hook into the global capital market but also allowed global players to penetrate the local market, providing a deregulated zone in which to carry on their activities within a China that was still largely regulated. Moreover the significance of the Pudong development to Shanghai's economic restructuring and linkage with global economy, meant that locating in Pudong gave investors an important stepping stone to the market, both internal and external.

- 2. Local-central synergy The active function played by the state in the Pudong development, was achieved by a coalition between state and local government, each supported the other's approach to development and each needing valuable resources that only the other could provide. Once the two sides had recognised their shared interest in economic development and the need each had for assistance from the other, the initial conflict between supporters of local development and central government could be resolved, and the two parties were able to reach a consensus, each, for its own reasons, supporting the start-up of the development. It is interesting to consider the efforts made by central government to balance the conflicting interests of Shanghai and other provinces. In fact central government helped to create an enabling environment that local government could never have created alone. In the Chinese version of the developmental state, the relationship of 'interdependence' and 'mutuality' between the state and local development initiatives allowed central government, Shanghai, Pudong and the hybrid development companies to share in decision-making, the design of a development strategy for Pudong and implementation. Local government played its part as initiator of the Pudong development, designing the development concept and strategies, lobbying central government, negotiating the level of support required from central government and marketing its development ambitions to the outside world. The role of the state in facilitating the operation of the market was reflected in the use of lower-level agents and development companies, sensitive to changes in the market and responsive to those changes, to work closely with those individuals and organisations which became involved in the market. The need for the role played by central government also changed as time went by. Once the Pudong development was under way, central government was able to reduce its intervention and budgetary support, though when the development ran into trouble, as for example during the Asian economic crisis, central government stepped in to give a helping hand. Analysis of the decision-making process and subsequent developments in Pudong clearly showed how in the long term the role of government changed from intervention to enabling, and to continued efforts to build a strong cooperation between state and market. This sharing of tasks between local and central government demonstrated the flexibility with which a developmental state was able to carry out a particular project.
- 3. Institutional adaptation The development of Pudong demanded urgent institutional redesign, or more precisely institutional adaptation, if the market was to become involved in local development. To achieve such adaptation, Shanghai concentrated on two things, a market-oriented administrative structure with sufficient calibre to advance the development strategy effectively and a market-friendly legal system to ensure the

achievement of synergy between state and market. To increase transparency and provide an efficient and effective service, the institutional design adopted by Pudong combined 'small government', employing as few personnel and offices as possible, 'big service', putting the emphasis on bureaucratic efficiency, and 'big society', transferring functions other than supervision and regulation to associations and Non-Government-Organisations (NGOs). In its creation of an effective Pudong New Area Administration Committee, Shanghai put a good deal of effort into emphasising the autonomy of that committee. A 'one-stop' system was introduced to facilitate the obtaining of administrative approvals, to avoid the usual bureaucratic delays and ensure that investors found the business of getting approval for investment projects fast and relatively painless. To facilitate investors' entry into and operation in Pudong's market, new laws were introduced to prepare the ground for the introduction of a market economy. but the details were kept vague to allow for later interpretation and implementation. Some of the new laws even contradicted one another, requiring continued amendment and adjustment as China's economic reform deepened and the operation of the market became better understood. To support area development, the local authority made special efforts to create land institutions which would facilitate the operation of the market, and to dismantle barriers to outsiders looking to enter the real estate market and sectors previously barred to private developers. The changes to the legal system, though not without risk, provided scope and flexibility for local authorities to carry out further experiments to discover what suited them best. Furthermore, a strong regime (strong government) combining capable political leadership with a highly-educated economically aware bureaucracy and supported by technical expertise, ensured that the implementation of the Pudong project was conscious of and responsive to developments in the market.

4. Selective strategy - One of the most successful lessons learnt by the developmental states concerned selective intervention. As interpreted in China, a selective strategy involved a pragmatic approach to sharing limited resources in a vast land with many different local interests. The state was able to push through area development in a particular favoured area, in this case the Pudong New Area, by exploring the highly selective SEZ strategy to attract western capital, technology, management skills and experience. A selective strategy also involves the limitation of the number of parties involved in decision-making, in the selection of sectors to form an outward-oriented economic structure and the limited use of state budgetary funds. Because the local authority's budget was limited, it too adopted a selective strategy, concentrating its spending on a selected priority area in each zone. Pudong could be used as a laboratory for specially designed pilot projects, a place to try out new strategies and policies, reflecting the

nation's pragmatic and gradualist approach to reform. These kinds of experiment, involving administrative restructuring or new mechanisms such as Build-Operate-Transfer (BOT) and Public-Private Partnership (PPP), coupled with a pragmatic approach, made possible the rapid introduction of efficient and effective measures to help Pudong speed up its development and attract more investment. A belief in utility rather than ideology led to many new ideas being tried out in Pudong. Although the old regime erected enormous barriers to the introduction of new ideas that it saw as being in conflict with the existing structure or existing methods, it was still possible to try out new ideas in designated test areas. Measures that proved successful could then be tried out in other places. The Pudong development showed that the planning approach to development was still alive and kicking. This approach owed its rebirth to a growing market-awareness, the responsiveness of new-style planning to changes in the international economy and an ability to take advantage of market awareness through selective government intervention. Planning transformed its function to become a demonstrative tool, a promotional device to attract the attention of the public and investors from the outside world, and a bargaining tool to develop consensus between different organisations and interest groups.

#### Local-alobal articulation

A thorough examination of the way the project developed left no doubt that Pudong was an example of a temporary process of urban transformation executed in an era of increasing globalisation. National government and Shanghai's local government treated Pudong as a stimulus to Shanghai's internationalisation by seeking to benefit from the growth of the global financial market, the expansion of the international trade in services, and the restructuring of foreign direct investment. In a local project of this kind, local, global, national and regional forces interact with one another. The Pudong development demonstrated the dynamics of local-global articulation, in which an individual locality takes an active role in responding and adapting to global challenges, and in some cases even takes the offensive to take advantage of the opportunities presented. Although the state treated the impact of knowledge transfer and global capital inflow with caution (for fear of negative influences), it was also aware of how significant global capital and advanced knowledge could be to a local area development project and to the efficiency and effectiveness of urban governance so long desired by local authorities. To benefit from external influences rather than being swallowed up by them, local authorities (in collaboration with central government) spent a substantial amount of time on study and research before taking ideas accepted internationally - particularly in the West - and adapting them to suit their particular localities. This progressive pragmatism was not only applied to global capital flow, but also to the transfer of knowledge from the outside world. The designation of Pudong as an SEZ created a 'national enclave' within which bold experiments could be carried out on various market concepts, helping to accelerate a pragmatic adaptation to information inflow and knowledge transfer.

- 1. Global-local financial flow Pudong was presented as a nexus between global players and domestic players. To hook Pudong into the global economy and the global financial market, the project's initiators borrowed the concept of the SEZ to free Pudong from rigid institutional constraints and so allow it to bypass the administrative, political, and economic barriers limiting Shanghai's economic activity and to experiment with the development of an outward-looking, market-oriented economic system. Pudong's preferential policies to attract Foreign Direct Investment (FDI) were not limited to the financial and manufacturing sectors, the two sectors which Pudong hoped to establish quickly as its main economic supports. It was hoped that inviting foreign investors and foreign investment into Pudong's urban development, especially in areas formerly restricted to the Chinese public sector or Chinese private investors, would encourage sufficient inflow of foreign investment to make good the shortage of capital. Land development projects and infrastructure development were thrown open as the local authority showed its willingness to involve global players into Pudong's urban development and real estate market. Although Pudong's property market brought with it huge uncertainties, the opportunities offered - an untapped market and the chance of high return - persuaded a significant number of developers to try their luck. The dramatic increase in prices and rents for housing and offices in Pudong, coupled with the booming property market in Shanghai, revealed the danger that continuing integration with the global property market could lead to an uncontrollable separation from the local Chinese market and a loss of state influence. It is noteworthy that in Pudong's financial structure, the unusually large proportion of FDI contributed by Hong Kong, Taiwan and Southeast Asian countries demonstrates the importance of the global Chinese business network to directing the inflow of FDI into China generally and Pudong in particular.
- 2. Global-local information flow Pudong also provided an interesting example of the influence exerted by foreign expertise, directing and assisting Shanghai's urban development, participating in different phases of the planning and architectural design, establishing a land regime and setting up public-private partnerships. Architecture and urban planning were two of the areas most active in adapting knowledge from the outside world to suit the Pudong situation. Local professionals, encouraged by their own professional curiosity and the eagerness of local politicians to hear outside opinions, were largely responsible for initiating interaction with the outside world, although the earliest initiatives were more a matter of 'importing' than interaction. Interacting and conferring with outside experts gave local professionals an insight into how to examine local projects in the

light of western planning concepts. The lack of Chinese experience meant that the locality could be treated as a *tabula rasa*. Hardly any of the creative references used by foreign architects were derived from Chinese cities, nor did they relate in any significant way to the existing situation or take much account of implementation problems such as the relocation of existing residents. In fact the local context was largely ignored. Nevertheless, all this information and knowledge was not without value to planning practice. The different proposals were actually used by local Shanghainese planners in a more pragmatic and practical way, adapted to suit local conditions.

Pudong's land regime was largely based on the experience of other developmental states, particularly Singapore and Hong Kong, which had established successful land institutions to leverage state ownership of land and had profited from large amounts of revenue from their land. Pudong did not in fact copy what had been done in other successful cases, but went to great lengths to adapt the various techniques to suit its own locality and different economic situation. The institutionalisation of land development therefore became part of the process of China's transition, facilitating the development of the market while maintaining the developmental state model. The adoption of an active land policy increased the speed of development by encouraging new players to invest and earn increased revenue from land leasing.

The introduction of public-private partnership was another interesting aspect of Pudong's pragmatic approach to foreign management techniques. For the first time, urban planning and urban development was not just a public task, but the collective responsibility of a broadly based group of stakeholders. This interactive approach, which became even more common in the implementation stage because of the need to gain financial and public support, was very different from the traditional Chinese approach to urban redevelopment, in which the central role was generally played by the public sector and public finance. The main concern was how private sector investment could be involved in Pudong, not just in real estate but in the industrial and service sectors generally.

The Pudong example demonstrated that urban development is a complex process, dynamic and diverse, involving interaction between the state and the market in parallel with increasingly dynamic global-local interaction. Policy making, consequently, was not pre-planned but rather emerged from the interaction between private companies and bureaucratic agencies, with mediatory organisations playing an essential role. As Mintzberg has said, policymaking is 'emergent', not designed (Mintzberg, 1994).

#### Conclusions and practical implications

The research applied urban theories and the theory of the developmental state to understanding the nature of a large-scale area development in a spe-

cifically Chinese context in an era of globalisation. The speed of the Pudong development was made possible by a number of different factors interrelated in such a way as to perform a unique function not achievable by any one of those factors in isolation. The theory of the developmental state made it possible to clarify a number of features of the Pudong development, especially the powerful motives underlying government intervention in local affairs and the network approach exploited by local government to deliberately construct a coalition between state and market, global and local. However, the decision by the state to take an active role in this local development project was not taken blindly or subjectively, but resulted from a careful observation and understanding of global economics followed by a progressive adaptation to the potential and opportunities offered by the global economy. The pragmatic adaptation of advanced know-how derived from the outside world to suit conditions in Pudong was a distinctive developmental strategy introduced by local government, allowing the developmental state to use all possible means to achieve its developmental goal. The most representative example of pragmatic adaptation in the field of urban development was the active land policy, creating an intermediary between state and market and attracting global players to a local development. The active land policy not only generated substantial income for the further development of local infrastructure, but also led to changes in entry rules allowing the private sector to become involved in what was traditionally the domain of the public sector. The same experiment was carried out with infrastructure development. Later, with the development of housing reform and the emergence of a real estate industry, the private sector and private finance began to play a significant role in the property market, leading public and private finance to combine in support of the Pudong development. One striking characteristic of Pudong's financial mechanism was the role played by the global Chinese business network as nodes in the global financial network linking a local area development and financial market to global capital. This network not only played a key role in attracting global capital to the Pudong development, but also encouraged speculative investors hoping to earn a quick return from Pudong's booming real estate market.

Although the Pudong development demonstrated the strength with which a developmental state could combine the advantages of global openness with flexibility and efficiency in adapting global changes to suit the local context, there are a number of limitations that need to be recognised. First it is necessary to be realistic about the exploitation of networks and network strategies and to take account of the need to conform to the well-defined rules of the global economic system. Second, while the use of a selective strategy is effective, it needs to be applied in such a way as to avoid the escalation of spatial segregation and economic polarisation. Third, it has to be appreciated that the local financial system will be increasingly unable to deal with the uncertainty imposed by global economic integration.

Research into the Pudong development has given some understanding of the complexity and dynamics that feature in today's area developments and the nature of the interaction between global and local influences. The Pudong development was found to be a unique configuration of context-dependent processes. While different strategies for urban development and redevelopment can be expected to have much in common, each strategy evolves and is adjusted to fit the particular situation. Each individual approach, as in the case of the approach taken for the Pudong development, needs to be realistically evaluated to determine its suitability for transplanting from one situation to another. Generally the patterns on which cities base their development strategies for large-scale urban development projects can be borrowed and adapted, pragmatically, to suit other locations where circumstances are different. The question of applicability can therefore better be reframed in terms of the extent to which the particular local, regional or organisational context can be changed to benefit from the lessons learned from the Pudong development.

# Samenvatting

#### Inleiding en onderzoeksaanpak

Dit onderzoek was gericht op grootschalige stedelijke ontwikkeling in het algemeen en in het bijzonder op het verkrijgen van een inzicht in de rol van de mondiaal-lokale interactie bij het vormen van strategieën voor de ontwikkeling van gebieden in een uiterst controversieel stedelijk project, de ontwikkeling van Sjanghai's Pudong 'New Area'. Het Pudong-project is een extreem voorbeeld van een situatie waarin de interactie tussen mondiale en lokale krachten plaatsvond op een locatie waarvan de grenzen bijna veertig jaar voor de buitenwereld gesloten waren geweest en tevens in een periode waarin de deuren en ramen van China begonnen open te gaan. Het onderzoek heeft geleid tot een concrete interpretatie van de spanningen die zich op districtsniveau ontwikkelden en leverde een voorbeeld waarmee de complexiteit en dynamiek van de huidige ontwikkelingen in het gebied konden worden weergegeven. De praktische vraag die in het onderzoek werd gesteld was: Wat waren de belangrijkste factoren die hebben geleid tot de snelheid die werd bereikt in het Pudong-project? De daaraan verbonden theoretische vraag was: In hoeverre kon uit de ontwikkeling van Nieuw Pudong de kenmerken van een ontwikkelingsstaat worden opgemaakt?

Het uitgangspunt van het onderzoek was een theoretische analyse van de mondiaal-lokale interactie en de gevolgen daarvan voor de vorming van stedelijke ruimte. Stedelijke theorieën, theorieën met betrekking tot de netwerksamenleving en de mondiale stad, zijn toegepast ter verklaring van de significante veranderingen die optreden bij de vorming van stedelijke ruimte. Er zijn een aantal significante invloeden waargenomen. Een van die invloeden was de opkomst van de netwerksamenleving, waarbij de relaties tussen traditionele organisaties binnen steden werden getransformeerd tot meer verweven en onderling afhankelijke relaties, wat een nieuwe stijl van stedelijk bestuur tot gevolg had. Een andere invloed was de vorming van een mondiaal stedelijk netwerk als gevolg van de economische globalisering en mondiale geldstromen. Het paradigma van de wereldstad zoals ontwikkeld in pioniersonderzoek naar mondiale steden (Sassen, 1991, 1994) en de hiërarchie van de wereldstad (Friedmann, 1986, 1995), erkent dat steden de drijvende kracht achter de economische globalisering zijn geworden en tegelijkertijd in toenemende mate voor hun voortbestaan afhankelijk zijn geworden van hun geleding binnen de mondiale economie. De essentiële conclusie van deze stedelijke studies was de sleutelrol die door mondiale geldstromen wordt gespeeld en de overdracht van kennis bij het koppelen van mondiale en economische systemen met het vormen van stedelijke ruimte.

Zelfs als we de effecten van mondiale krachten op steden erkennen, is het nog steeds nodig om het mondiaal-lokaal dualisme te erkennen dat tot uitdrukking komt in een gebiedsontwikkelingsproces. Het formuleren van strategieën voor gebiedsontwikkeling komt voort uit de lokale politieke en

economische situatie, maar wordt in toenemende mate beïnvloed door de onzekerheid veroorzaakt door mondiale krachten. Het succes waarmee strategieën voor gebiedsontwikkeling worden geformuleerd om te kunnen omgaan met de complexiteit, dynamiek en onzekerheid van het ontwikkelingsproces wordt rechtstreeks beïnvloed door de manier waarop de lokale gemeenschap zichzelf en de buitenwereld ziet en de manier waarop politieke en economische instituten functioneren en zich aanpassen. Dit betekent dat het formuleren van een strategie voor gebiedsontwikkeling eerder een leerproces is waarin de situaties die zich voordoen moeten worden aangepakt en aanpassingen nodig zijn in verband met veranderende eisen. Aangezien China besloten heeft haar economische hervormingen te baseren op het model van de Oost-Aziatische ontwikkelingsstaat, heeft het uiteraard veel van dezelfde institutionele structuren geïntroduceerd die andere landen en regio's geholpen hebben economische groei te realiseren. Dezelfde strategie is gevolgd door Sjanghai, wat tot uiting komt in de vormgeving van diens institutionele systeem. Hoewel elke Oost-Aziatische ontwikkelingsstaat zijn eigen individuele systeem heeft, draait het steeds om het bereiken van een constante, hoge economische groei. In het algemeen speelt de staat een belangrijke rol door het vastleggen van het industrieel beleid en het bevorderen van economische ontwikkeling. Een hoge economische groei vereist dat de staat een aanzienlijke mate van vertrouwen van, en nauwe relaties met, de markt creëert. Het complexe karakter van het Pudong-project bood een unieke kans om niet alleen de toepassing te testen van de theorie van de ontwikkelingsstaat op lokaal niveau, maar ook om twee verschillende domeinen, de politieke economie en het stedelijk onderzoek, aan elkaar te koppelen in een analyse van de complexiteit van de gevolgen in de context van stedelijk beheer en gebiedsontwikkeling.

#### Case studie

Om te kunnen verklaren hoe de spanning tussen mondiaal en lokaal werd gehanteerd om snelheid te bereiken in het Pudong-project, heeft het onderzoek zich met name gericht op de twee sets gerelateerde variabelen, lokale en mondiale. De casestudy omvatte een diepgaande analyse van de praktische maatregelen die invloed hadden op de snelheid van de ontwikkeling, zoals het besluitvormingsproces, managementstrategieën die invloed hebben op de grondontwikkeling, ontwikkeling van de infrastructuur en de nauw daarmee verbonden lokale onroerendgoedmarkt, en de manier waarop investeringen en financiering werden gemobiliseerd. Om een duidelijk beeld te krijgen is in het onderzoek gebruikgemaakt van een verscheidenheid aan methoden, waaronder literatuuronderzoek, internetonderzoek, formele interviews, groepsdiscussies, workshops, symposiums en conferenties. Gegevens zijn verzameld uit archieven, interviews, enquêtes en veldonderzoek. De casestudy leverde uitgebreide aanwijzingen op voor de evolutionaire aard van de stra-

tegieën die in Pudong zijn toegepast. Deze betreffen het omgaan met een veranderende omgeving en de verschillende uitdagingen die in de loop van de ontwikkeling het hoofd geboden moesten worden. De verschillende strategieen en de manier waarop deze werden geïmplementeerd toonden een aantal kenmerkende eigenschappen van de aanpak die werd gevolgd om de ontwikkelingen te sturen.

#### Bevindingen

De theorie van de ontwikkelingsstaat is toegepast voor het verklaren van de relaties tussen de snelheid van de ontwikkeling en de interactie tussen staat en markt. De analyse richtte zich op de motieven achter de verschillende responsen op de spanning tussen mondiaal en lokaal, vooral de respons van de lokale overheid en het effect daarvan op de strategieën die door de lokale overheid zijn geformuleerd. In de analyse zijn twee sleutelrelaties onderzocht, de verhouding tussen staat en markt en die tussen lokale en mondiale krachten, waarbij in het bijzonder aandacht werd geschonken aan die aspecten die rechtstreeks invloed hadden op de snelheid die werd bereikt tijdens de 15 jaar durende ontwikkeling.

#### Staat-markt netwerken

Vergeleken met de traditionele manier van omgaan met gebiedsontwikkeling in China – gesloten, hiërarchisch, ondoorzichtig, bureaucratisch en beheerst door de overheid – toonde de ontwikkeling van Pudong een evolutionaire trend, meer open en interactief, bestuurd door een hybride vorm van regelkenmerken van een specifiek Chinees ontwikkelingsmodel. Toepassing van een netwerkstrategie was van wezenlijk belang om de ontwikkeling mogelijk te maken, waarbij de overheid en de markt manieren beginnen te vinden waarop ze elkaar kunnen benaderen en begrijpen. Samenwerking tussen overheid en markt werd in het algemeen bereikt door institutionele aanpassingen aan de kant van de overheid die resulteerden in het opstellen van nieuwe regels om het toelaten van marktkrachten mogelijk te maken en deze te laten werken. Vier aspecten van de netwerkstrategie werden bijzonder significant geacht.

Ontwikkelingsdoelstelling. - De stedelijke ontwikkeling van Sjanghai Pudong werd mogelijk gemaakt door het 'open-deur' beleid waartoe de ontwikkelingsstaat was overgegaan. Het doel van de voor Pudong gevolgde ontwikkelingsstrategie was het bereiken van economische ontwikkeling. Gedurende het hele proces van besluitvorming tot implementatie heeft de lokale overheid het ontwikkelingsproces actief beïnvloed, soms openlijk, soms discreet, volgens de omstandigheden en de vereisten van het moment. De toepassing van het nationale Speciale Economische Zone (SEZ) concept op een grootschalig stedelijk ontwikkelingsproces en de grote verscheidenheid aan experimentele strategieën die in Pudong werden gevolgd, deden denken aan de tactiek

die China gebruikte om economische groei en buitenlandse investeringen te stimuleren volgens het model van de ontwikkelingsstaat. Net als andere SEZ's doet Pudong dienst voor Sjanghai in het bijzonder en China in het algemeen als 'etalage' en 'basis' voor het creëren van kansen voor interactie tussen de westerse cultuur en de Chinese cultuur, wat buitenlandse investeerders de kans geeft om China's sociale en economische tradities beter te begrijpen en de Chinezen meer kans geeft te leren van westerse technologie, management en deskundigheid. Op die manier gaf de SEZ-status van Pudong niet alleen Sjanghai voldoende autonomie om aan te haken bij de mondiale kapitaalmarkt, maar gaf ook mondiale spelers de mogelijkheid de lokale markt binnen te dringen door een gedereguleerde zone te bieden waarin zij hun activiteiten konden uitvoeren in een China dat nog steeds voor een groot deel gereguleerd was. Bovendien betekende het belang van het Pudong-project voor Shanghai's economische herstructurering en aansluiting bij de mondiale economie dat investeerders, door zich in Pudong te vestigen, een belangrijke springplank verkregen naar de markt, zowel intern als extern.

Synergie lokaal-centraal. - De actieve rol van de staat in het Pudong-project werd bereikt door een coalitie tussen de staat en de lokale overheid, die elk elkaars aanpak van de ontwikkeling ondersteunden en die elk waardevolle middelen nodig hadden die alleen de ander kon bieden. Toen beide partijen eenmaal hadden erkend dat ze een gezamenlijk belang hadden in de economische ontwikkeling van Pudong en dat ze van elkaars hulp afhankelijk waren, kon het oorspronkelijke conflict tussen de aanhangers van lokale ontwikkeling en de centrale overheid worden opgelost. De twee partijen konden zo een consensus bereiken waarbij ze, elk vanuit hun eigen standpunten, het in beweging zetten van de ontwikkeling ondersteunden. Het is interessant om te kijken naar de inspanningen die de centrale overheid zich heeft getroost om een balans te vinden tussen de botsende belangen van Sjanghai en andere provincies. In feite heeft de centrale overheid geholpen een omgeving te creëren en mogelijk te maken die de lokale overheid alleen nooit zou kunnen hebben bereikt. In de Chinese versie van de ontwikkelingsstaat maakte de verhouding tussen 'onderlinge afhankelijkheid' en 'wederkerigheid' tussen de staat en de lokale ontwikkelingsinitiatieven het de centrale overheid, Sjanghai, Pudong en de hybride ontwikkelingsmaatschappijen mogelijk te delen in de besluitvorming, het ontwerp van een ontwikkelingsstrategie voor Pudong en de implementatie ervan. De lokale overheid heeft een rol gespeeld als initiator van het Pudong-project: deze heeft het ontwikkelingsconcept en strategieën ontworpen, bij de centrale overheid gelobbyd, over het niveau van steun dat van de centrale overheid vereist was onderhandeld, en haar ontwikkelingsambities aan de buitenwereld kenbaar gemaakt. De rol van de staat bij het faciliteren van de marktwerking bleek uit het gebruik van vertegenwoordigers en ontwikkelingsmaatschappijen op een lager niveau die gevoelig zijn voor veranderingen in de markt en snel op die veranderingen kunnen reageren, om zo nauwer samen te werken met die individuen en organisaties die bij de markt betrokken raakten. De behoefte aan de rol van de centrale overheid veranderde ook in de loop der tijd. Toen het Pudong-project eenmaal draaide, kon de centrale overheid haar interventie en budgettaire ondersteuning verminderen, hoewel toen het project in de problemen kwam, zoals bijvoorbeeld tijdens de Aziatische economische crisis, de centrale overheid te hulp schoot. Analyse van het besluitvormingsproces en de daaropvolgende ontwikkelingen in Pudong laat duidelijk zien hoe op de lange duur de rol van de overheid veranderde van interventie naar ondersteuning en vervolgens naar blijvende inspanningen om tot een vruchtbare samenwerking tussen staat en markt te komen. Deze verdeling van taken tussen lokale en centrale overheid liet de flexibiliteit zien waarmee een ontwikkelingsstaat een bepaald kon project uitvoeren.

Institutionele aanpassingen. - De ontwikkeling van Pudong vereiste dringende institutionele herstructureringen, of nauwkeuriger gezegd institutionele aanpassingen als de markt betrokken moest raken bij lokale ontwikkeling. Om een dergelijke aanpassing te bereiken concentreerde Sjanghai zich op twee dingen: een marktgericht bestuursstructuur van voldoende kaliber om de ontwikkelingsstrategie effectief te bevorderen en een marktvriendelijke wet- en regelgeving om een goede synergie tussen staat en markt verzekeren. Ter verhoging van de transparantie en voor een efficiënte en effectieve dienstverlening, streefde het door Pudong ingevoerde institutioneel ontwerp naar een combinatie van een 'kleine overheid' met zo min mogelijk ambtenaren en kantoren. Men wilde een 'hoogwaardige dienstverlening' met nadruk op bureaucratische efficiëntie en een 'betrokken samenleving', waarbij andere functies dan toezicht en deregulering werden overgelaten aan verenigingen en NGO's. Bij het opzetten van een effectief bestuurscomité voor het nieuwe Pudong, heeft Sjanghai zich erg ingespannen voor het benadrukken van de autonomie van dat comité. Een 'één-loket'-systeem werd geïntroduceerd voor het eenvoudiger verkrijgen van overheidsgoedkeuringen, om de gebruikelijke bureaucratische vertragingen te vermijden en ervoor te zorgen dat investeerders snel en zonder al teveel obstakels goedkeuring konden krijgen voor investeringsprojecten. Om toegang tot en activiteiten op de markt van Pudong makkelijker te maken voor investeerders, zijn nieuwe wetten geïntroduceerd ter voorbereiding op de introductie van een markteconomie, maar de bijzonderheden zijn vaag gehouden om latere interpretatie en implementatie mogelijk te maken. Sommige nieuwe wetten waren zelfs met elkaar in tegenspraak, zodat voordurende wijzigingen en aanpassingen nodig waren naarmate de economische hervorming van China zich voortzette en de werking van de markt beter werd begrepen. Om de ontwikkeling van het gebied te ondersteunen, heeft de lokale overheid zich speciaal ingespannen om grondinstituten op te zetten die de marktwerking moeten vergemakkelijken en de barrières te slechten voor buitenstaanders die zich willen begeven

op de onroerendgoedmarkt en in sectoren die vroeger niet toegankelijk waren voor private ondernemers. De veranderingen in de wetgeving, hoewel niet zonder risico, leverden mogelijkheden en flexibiliteit voor de lokale overheden om verdere experimenten uit te voeren om te ontdekken wat hen het beste beviel. Bovendien zorgde een sterk regime (sterke overheid) waarin capabel politiek leiderschap werd gecombineerd met een hoogopgeleide, economisch bewuste bureaucratie en werd ondersteund door technische deskundigheid, dat de implementatie van het Pudong-project plaatsvond met aandacht voor en adequate reacties op marktontwikkelingen.

Selectieve strategie. - Een van de belangrijkste lessen die ontwikkelingsstaten hebben geleerd heeft betrekking op selectieve interventie. In China is een selectieve strategie geïnterpreteerd als pragmatische aanpak voor het delen van beperkte hulpmiddelen in een uitgestrekt land met veel verschillende lokale belangen. De staat kon gebiedsontwikkeling in een bepaald voorkeursgebied doorzetten, in dit geval Pudong New Area, door met behulp van de uiterst selectieve SEZ-strategie kapitaal, technologie, managementdeskundigheid en ervaring uit het Westen aan te trekken. Een selectieve strategie betekent ook het beperken van het aantal partijen dat betrokken is bij de besluitvorming, in de keuze van sectoren voor het vormen van een naar buiten gerichte economische structuur en het beperkte gebruik van overheidsgelden. Omdat het budget van de lokale overheid beperkt was, ging die ook over op een selectieve strategie en richtte haar uitgaven op een bepaald prioriteitsgebied in elke zone. Pudong wordt gebruikt als laboratorium voor speciaal ontworpen proefprojecten, een plaats om nieuwe strategieën en vormen van beleid uit te proberen in het kader van de nationale pragmatische en gradualistische aanpak van hervormingen. Dit soort experimenten, waarvoor bestuurlijke herstructurering of nieuwe mechanismen zoals Build Operate Transfer (BOT) contracten en Publiek Private Samenwerking (PPS) nodig zijn en gepaard zijn gegaan met een pragmatische aanpak, maakte de snelle invoering van efficiënte en effectieve maatregelen mogelijk om Pudong te helpen haar ontwikkeling te versnellen en meer investeringen aan te trekken. Doordat doelmatigheid boven ideologie werd gesteld, konden vele nieuwe ideeën worden uitgeprobeerd in Pudong. Hoewel het oude regime enorme barrières opwierp tegen de invoering van nieuwe ideeën die men in strijd vond met de bestaande structuur of bestaande methodes, was het toch mogelijk om nieuwe ideeën uit te proberen in daartoe aangewezen proefgebieden. Maatregelen die succesvol bleken konden vervolgens op andere plaatsen worden uitgeprobeerd. Het Pudong-project liet zien dat de planmatige aanpak van ontwikkeling nog steeds uiterst succesvol was. Deze aanpak dankte zijn wedergeboorte aan een groeiend marktbewustzijn, de ontvankelijkheid van een nieuwe stijl van planning voor veranderingen in de internationale economie en de mogelijkheid om te profiteren van het marktbewustzijn door selectieve overheidsinterventie. De functie van de planning veranderde in een demonstratiehulpmiddel; een promotiemiddel om de aandacht te trekken van het publiek en van investeerders uit de buitenwereld, en een onderhandelingshulpmiddel om consensus te bereiken tussen verschillende organisaties en belangengroepen.

#### Lokaal-mondiale geleding

Bij een grondige beschouwing van de manier waarop het project zich ontwikkelde liet het geen twijfel dat Pudong een voorbeeld was van een tijdelijk proces van stedelijke transformatie dat werd uitgevoerd in een tijdperk van toenemende globalisering. De nationale overheid en de lokale overheid van Sjanghai behandelden Pudong als een middel voor het stimuleren van de internationalisering van Sjanghai door te proberen te profiteren van de groei van de mondiale financiële markt, de uitbreiding van de internationale handel in diensten, en de herstructurering van buitenlandse directe investeringen. In een dergelijk lokaal project vindt interactie plaats tussen lokale, mondiale, nationale en regionale krachten. Het Pudong-project liet een beeld zien van de dynamiek van de lokaal-mondiale geleding, waarbij een individueel district een actieve rol speelt bij het reageren op en aanpassen aan mondiale uitdagingen, en in sommige gevallen zelfs het voortouw neemt om te profiteren van de geboden mogelijkheden. Hoewel de staat voorzichtig omging met de gevolgen van de overdracht van kennis en de instroom van mondiaal kapitaal (uit angst voor negatieve invloeden), was men zich ook bewust van het feit dat een behoorlijk mondiaal kapitaal en geavanceerde kennis van groot belang konden zijn voor een lokale gebiedsontwikkeling en voor de efficiëntie en effectiviteit van het stedelijk bestuur waar de lokale overheden al zo lang naar streefden. Om te kunnen profiteren van externe invloeden in plaats van door ze te worden opgeslokt, hebben lokale overheden (in samenwerking met de centrale regering) veel tijd besteed aan studies en onderzoek voordat ze internationaal -vooral in het Westen- geaccepteerde ideeën overnamen en ze aanpasten aan hun eigen lokale behoeften. Dit progressieve pragmatisme werd niet alleen toegepast op de mondiale kapitaalstroom, maar ook op de overdracht van kennis vanuit de buitenwereld. Door de aanwijzing van Pudong als SEZ ontstond een 'nationale enclave' waar gedurfde experimenten konden worden uitgevoerd voor diverse marktconcepten, wat bijdroeg tot een versnelde pragmatische aanpassing aan instroom van informatie en overdracht van kennis.

Mondiaal-lokale geldstromen. - Pudong werd gepresenteerd als schakel tussen mondiale spelers en binnenlandse spelers. Om Pudong te kunnen laten aanhaken aan de mondiale economie en de mondiale financiële markt, leenden de initiatiefnemers van het project het idee van de SEZ om Pudong te bevrijden van de bestaande institutionele beperkingen en het mogelijk te maken de bestuurlijke, politieke en economische barrières te omzeilen die de economische activiteit van Sjanghai beperkten en om te experimenteren met de ontwikkeling van een naar buiten gericht, marktgeoriënteerd economisch

systeem. Pudong's voorkeursbeleid om Directe Buitenlandse Investeringen (DBI) aan te trekken bleef niet beperkt tot de financiële en industriële sector, de twee sectoren waarvan Pudong snel de twee belangrijkste economische pijlers hoopte te maken. Men hoopte dat door het uitnodigen van buitenlandse investeerders en investeringen in de stedelijke ontwikkeling van Pudong, vooral in gebieden die vroeger beperkt waren tot de Chinese publieke sector of Chinese particuliere investeerders, voldoende instroom van buitenlandse investeringen zou aanmoedigen om het tekort aan kapitaal te compenseren. Grondontwikkelingsprojecten en ontwikkeling van infrastructuur werden opengegooid toen de lokale overheid bereid bleek te zijn mondiale spelers te betrekken bij de stedelijke ontwikkeling en de onroerendgoedmarkt van Pudong. Hoewel de onroerendgoedmarkt van Pudong gekenmerkt werd door enorme onzekerheden, brachten de geboden kansen - een onaangeroerde markt en de kans op hoge opbrengsten - een flink aantal ontwikkelaars ertoe een gok te wagen. De enorme stijging van prijzen en huren voor huisvesting en kantoren in Pudong, in combinatie met de opbloeiende onroerendgoedmarkt in Sjanghai, onthulde het gevaar dat steeds verdere integratie met de mondiale onroerendgoedmarkt zou kunnen leiden tot een onbedwingbare scheiding van de lokale Chinese markt en verlies van staatsinvloed. Het is vermeldenswaardig dat in de financiële structuur van Pudong het ongewoon grote aandeel van DBI uit Hong Kong, Taiwan en Zuidoost-Azië het belang demonstreert van het mondiale Chinese zakelijke netwerk voor het sturen van de instroom van DBI in China in het algemeen en in Pudong in het bijzonder.

Mondiaal-lokale informatiestromen. - Pudong was ook een interessant voorbeeld van de invloed die werd uitgeoefend door buitenlandse deskundigheid, waardoor de stedelijke ontwikkeling van Sjanghai werd gestuurd en geholpen, alsmede deelname aan de verschillende fases van het plannen en het architectonisch ontwerp, het opzetten van een grondregime en het organiseren van publiek-private samenwerking. Architectuur en stedelijke planning waren twee van de gebieden waar kennis actief uit de buitenwereld het meest werd aangepast aan de situatie in Pudong. Lokale deskundigen, aangemoedigd door hun eigen professionele nieuwsgierigheid en het enthousiasme waarmee lokale politici meningen van buiten willen horen, waren grotendeels verantwoordelijk voor het opzetten van interactie met de buitenwereld, hoewel het bij de eerste initiatieven meer ging om 'importeren' dan om interactie. Interactie en overleg met deskundigen van buitenaf boden lokale deskundigen inzicht in de manier waarop lokale projecten moesten worden onderzocht in het licht van westerse planningsconcepten. Het gebrek aan ervaring in China betekende dat het district kon worden beschouwd als een tabula rasa. De creatieve referenties gebruikt door buitenlandse architecten werden niet of nauwelijks afgeleid van Chinese steden en evenmin hadden ze op enige significante manier een relatie met de bestaande situatie of hielden ze veel rekening met implementatieproblemen zoals het verplaatsen van

de oorspronkelijke inwoners. In feite werd de lokale context grotendeels genegeerd. Toch was al deze informatie en kennis niet zonder waarde voor de praktijk van de planning. De verschillende voorstellen werden in feite door de lokale planners in Sjanghai op een meer pragmatische en praktische manier gebruikt, aangepast aan de lokale omstandigheden.

Het grondregime van Pudong werd voornamelijk gebaseerd op de ervaringen van andere ontwikkelingsstaten, vooral Singapore en Hong Kong, waar met succes grondinstituten waren gesticht die gebruik maakten van het staatseigendom van de grond en die profiteerden van grote bedragen aan inkomsten uit hun grond. Pudong heeft in feite niet nagebootst wat in andere succesvolle gevallen is gedaan, maar heeft zich tot het uiterste ingespannen om de verschillende technieken aan te passen zodat ze geschikt waren voor het eigen district en de afwijkende economische situatie. De institutionalisering van de grondontwikkeling werd op die manier onderdeel van het transitieproces in China, waarbij marktontwikkeling mogelijk werd gemaakt onder behoud van het model van de ontwikkelingsstaat. De invoering van een actief grondbeleid versnelde de ontwikkeling door nieuwe spelers aan te moedigen om te investeren en meer te verdienen aan de verhuur van grond.

De invoering van PPS was ook een interessant aspect van de pragmatische benadering van buitenlandse managementtechnieken in Pudong. Voor het eerst was de stedelijke planning en stedelijke ontwikkeling niet alleen maar een publieke taak, maar de verantwoordelijkheid van een groep belanghebbenden op een brede basis. Deze interactieve aanpak die nog algemener werd in het implementatiestadium vanwege de noodzaak financiële en publieke steun te verkrijgen, verschilde sterk van de traditionele Chinese aanpak van stedelijke ontwikkeling waarin de centrale rol in het algemeen werd gespeeld door de publieke sector en publieke financiering. Een belangrijk punt was de manier waarop gebruik gemaakt kon worden van private investeringen in Pudong, niet alleen in onroerend goed maar ook in de industrie en de dienstverlening in het algemeen.

Het voorbeeld van Pudong toonde aan dat de stedelijke ontwikkeling een complex, dynamisch en gevarieerd proces is waarbij interactie plaatsvindt tussen de staat en de markt die parallel loopt aan de toenemende dynamische mondiaal-lokale interactie. Daarom werd de beleidsvorming niet vooraf gepland maar kwam veeleer voort uit de interactie tussen private bedrijven en bureaucratische instellingen, waarbij bemiddelende organisaties een belangrijke rol speelden. Zoals Mintzberg heeft gezegd, beleidsvorming wordt niet ontworpen, zij 'ontstaat'.

#### Conclusies en praktische gevolgtrekkingen

In het onderzoek zijn de stedelijke theorieën en de theorie van de ontwikkeling toegepast op het verkrijgen van een begrip van de aard van een grootschalige gebiedsontwikkeling in een specifiek Chinese context in een tijdperk van globalisering. De snelheid van de ontwikkeling in Pudong werd mogelijk gemaakt door een aantal verschillende factoren die zodanig met elkaar verweven waren dat ze een unieke functie vervulden die door elk van die factoren op zichzelf niet realiseerbaar was geweest. De theorie van de ontwikkelingsstaat maakte het mogelijk een aantal kenmerken te verduidelijken van het Pudong-project, in het bijzonder de krachtige motieven voor overheidsinterventie in lokale aangelegenheden en de netwerkaanpak die werd gevolgd door de lokale overheid om doelgericht een coalitie te vormen tussen de staat en de markt, mondiaal en lokaal. De beslissing van de staat om in deze lokale ontwikkeling een actieve rol te spelen is echter niet blindelings of subjectief genomen, maar was het resultaat van zorgvuldige observatie en kennis van de mondiale economie, gevolgd door een progressieve aanpassing aan het potentieel en de kansen die door de mondiale economie werden geboden. De pragmatische aanpassing van vanuit de buitenwereld verkregen geavanceerde kennis aan de omstandigheden in Pudong was een gerichte ontwikkelingsstrategie die door de lokale overheid werd geïntroduceerd, waarbij de ontwikkelingsstaat gebruik kon maken van alle mogelijke middelen om haar ontwikkelingsdoelstelling te bereiken. Het duidelijkste voorbeeld van de pragmatische aanpassing op het gebied van stedelijke ontwikkeling was het actieve grondbeleid waarbij een intermediair werd gecreëerd tussen de staat en de markt, en mondiale spelers werden aangetrokken voor lokale ontwikkeling. Het actieve grondbeleid genereerde niet alleen aanzienlijke inkomsten voor de verdere ontwikkeling van een lokale infrastructuur, maar leidde ook tot veranderingen in toegangsregels waardoor de private sector betrokken kon raken in wat vanouds het domein van de publieke sector was geweest. Hetzelfde experiment werd uitgevoerd met de ontwikkeling van de infrastructuur. Met de latere hervorming van de huisvesting en de opkomst van een onroerendgoedsector begonnen de private sector en private financiering een belangrijke rol te spelen in de onroerendgoedmarkt, waardoor publieke en private financiering samen de ontwikkeling van Pudong begonnen te bevorderen. Een opvallend kenmerk van het financiële mechanisme in Pudong was de rol die werd gespeeld door het mondiale Chinese zakelijke netwerk waarbij knooppunten in het mondiale financiële netwerk de lokale ontwikkeling en financiële markt koppelden aan mondiaal kapitaal. Dit netwerk speelde niet alleen een sleutelrol bij het aantrekken van mondiaal kapitaal voor het Pudong-project, maar moedigde ook speculatieve investeerders aan die hoopten snel geld te verdienen aan de zich razendsnel ontwikkelende onroerendgoedmarkt in Pudong.

Hoewel het Pudong-project heeft aangetoond hoe krachtig een ontwikkelingsstaat de voordelen van mondiale openheid kan combineren met flexibiliteit en efficiëntie bij het aanpassen van mondiale veranderingen aan de lokale context, dient hier toch een aantal beperkingen genoemd te worden. Allereerst is het noodzakelijk realistisch te zijn over het gebruik van netwer-

ken en netwerkstrategieën en om rekening te houden met de noodzaak zich te conformeren aan de duidelijk vastgestelde regels van het mondiale economische systeem. Ten tweede, hoewel toepassing van een selectieve strategie effectief is, moet deze op een zodanige manier worden toegepast dat een toename van ruimtelijke segregatie en economische polarisatie wordt vermeden. Ten derde moet worden erkend dat het lokale financiële systeem in toenemende mate niet in staat zal zijn om te gaan met de onzekerheid die wordt veroorzaakt door de mondiale economische integratie.

Onderzoek naar het Pudong-project heeft enige kennis opgeleverd van de complexiteit en dynamiek die moderne gebiedsontwikkelingen kenmerken en van de aard van de interactie tussen de mondiale en lokale invloeden. Het Pudong-project bleek een unieke samenstelling te zijn van context-afhankelijke processen. Hoewel verwacht kan worden dat er veel overeenkomsten bestaan tussen de verschillende strategieën voor stedelijke ontwikkeling en herontwikkeling, zal elke strategie evolueren en aangepast worden aan de specifieke situatie. Elke individuele aanpak, zoals in het geval van de aanpak van het Pudong-project, moet realistisch worden geëvalueerd om vast te stellen in welke mate deze geschikt is om over te brengen van de ene situatie naar de andere. In het algemeen kunnen de patronen waarop steden hun ontwikkelingsstrategie voor grootschalige stedelijke ontwikkelingsprojecten baseren worden geleend en op een pragmatische manier worden aangepast om ze geschikt te maken voor andere locaties waar de omstandigheden verschillen. De vraag van de toepasbaarheid kan daarom beter worden geherformuleerd in termen van de mate waarin de specifieke lokale, regionale of organisationele context kan worden aangepast, zodat kan worden geprofiteerd van in het Pudong-project geleerde lessen.

# 概述

本研究对大规模的城区发展给予特别的关注,着重理解在一个迅猛发展的城市开发项目——上海浦东新区的发展中,全球因素和区域因素的相互作用如何对区域发展战略的制定产生影响。浦东案例提供了一个极端的情况:国际和区域因素之间的相互影响发生在这个对外部世界关闭了将近四十年的地区,发生在其门户开始对外开放之时。本研究对形成于市区层面的张力进行了具体的解释,并提供了一个可代表当前区域发展进程中的复杂性和动态发展的例子。本研究所提出的问题是:哪些主要因素推动了浦东的高速发展?同时,学术研究上的问题是:浦东新区的发展在何种程度上反映了发展型国家的特点?

本研究的起点在于对全球因素和区域因素之间的相互作用及其对创造城市空间的影响之理论分析。城市理论是与网络社会和全球城市相关的理论,被用于解释城市空间建设中所发生的重大变化。一个已确定的影响来自网络社会的出现,它将运行于城市内部的传统组织之间的关系转变成更为互相牵制、互相依赖的关系,这为新的城市治理方式提供了背景。另外一个影响来自经济全球化和全球资本流动所形成的全球城市网络。在全球城市 (global cities, Sassen 1991, 1994) 和世界城市等级 (world city hierarchy, Friedmann 1986, 1995) 的导引性研究下,世界城市的范式认为城市已变成驱动经济全球化的力量,同时城市为了存续,日益依赖于它们与全球经济的联系。这些城市研究的本质在于,它们突出了全球资本流动和信息传递在互相关联的全球和区域的经济体系、以及城市空间建设中的关键作用。

认识到全球力量和区域力量对城市的作用,我们也应该意识到区域发展 进程中所表现的全球和区域之间的二重性。区域发展战略的规划根植于区域 的政治和经济形势,但也日益受到全球作用的不确定性的影响。如何更好地 制定区域发展战略以应对区域发展过程中的复杂性、变动性和不确定性、直 接受到该地区看待本地区和外部世界方式的影响,也受到区域发展进程中其 政治和经济制度的运行、调整和适应方式的影响。在这种意义上,制定区域 发展战略更是一种学习的过程,在这个过程中为了适应变化的要求,需要应 对新的形势并作出调整。由于中国选择了按照东亚发展模式实施经济改革, 它亦步亦趋地模仿了某些制度结构,这些制度结构帮助其它国家和地区实现 了高速的经济增长。这些战略体现在上海地区,在上海的地方制度体系构建 中发挥了作用。虽然东亚每个发展型国家都有其独特的制度体系,但其中心 思想总是如何取得稳定高速的经济增长。据此,政府在制定产业政策和推动 经济发展的过程中通常发挥积极的作用。此外,为确保高经济增长率,政府 需要与市场之间建立高度信任和紧密的关系。浦东发展的复杂性质提供了一 个独特的机会,不仅可以测试发展型国家理论在地方层面的应用,而且还可 以在检验城市管理和区域发展背景的复杂影响时,将政治经济学和城市研究 这两个不同领域连接起来。

#### 案例研究

为解释浦东地区如何处理全球和区域之间的张力从而取得高速发展,本研究聚焦于两组相关的变量——区域的和全球的——案例研究深度分析了与浦东

发展速度相关的具体区域发展措施,包括处理土地开发、基础设施发展、与地方关系非常紧密的房地产市场等问题的决策程序和管理战略,以及动员投融资的方式。为提供浦东发展的一幅详细图景,本研究使用了各种方法,包括文献查阅、互联网搜索、正式的开放式访谈、小组讨论、研讨会、座谈会和会议。从档案、采访、调查问卷和实地考察中获取数据。

#### 发现

发展型国家理论被用来理解区域发展速度和"政府一市场"互动之间的关系。我们的分析考虑了不同行为主体面对全球一区域矛盾所作的不同反应背后的驱动力量,特别是地方政府的动力及其对地方政府制定战略的影响。我们的分析研究了两个基本关系的结构——政府和市场、以及区域和全球,特别关注了那些直接影响浦东15年的发展速度的关系。

#### 政府 - 市场网络

与中国管理地区发展的传统方式——封闭、自上而下、不透明、官僚主义、政府一手包办的方式——浦东的发展显示了一种不断演变的趋势,更加开放,更具相互作用,由一种具有特定中国发展模式特征的混合管制模式所主导。网络战略对于促进发展至关重要。网络使得政府和市场开始寻找相互接近和相互理解的渠道。在制定新规则从而为市场力量提供准入并给予它们运作空间时,政府的体制调整实现了政府和市场的普遍合作。我们着重强调网络战略的四个方面:

发展目标。实施发展型国家的开放政策促进了上海浦东的城市发展。浦东所采用的发展战略其背后的目的是取得经济发展。从决策到政策执行,地方政府积极影响了整个发展过程,这一影响有时是公开地进行,有时是谨慎地加入,完全根据环境和当时的需要。将"经济特区"这一概念应用于一个巨大的城市开发项目,以及浦东所相应实施的大范围的实验性政策,让人不禁想起中国仿效发展型国家理论的模型,为了刺激经济增长和外国投资所采取的类似策略。与其它经济特区一样,浦东对于全中国尤其是对于上海,起到一个"展示窗口"和"基地"的作用,为中西方文化的互动提供了机会:外国投资者能更好地理解中国的社会和经济传统,而中国人则有更多机会学习西方技术、管理和经验。因此,浦东经济特区的地位不仅使上海有充分的自主权以并入全球资本市场,还使国际企业可以渗透进本地市场,为它们在中国提供一个可以开展经营活动的解除管制的地带,而中国的大部分地区仍旧是受到管制的。此外,浦东发展对于上海经济结构调整以及与全球经济连接的重要意义在于,进驻浦东给了投资者进入外部和内部市场一个重要的立足点。

地方 - 中央的协同作用。政府在浦东发展中所发挥的积极作用,是通过中央和地方政府的联合所实现的,中央和地方政府在浦东发展中相互牵制相互支持,各自都需要对方提供自身所需的宝贵资源。一旦双方意识到它们的共同利益——经济发展及其必要性,以及获得对方协助的需要,原先地方发展的支持者和中央政府之间的冲突便可达成共识,双方都基于自身的理由支

持浦东的发展。有意思的是考虑中央政府为了平衡上海和其它省份之间的利 益所做的努力,事情会比较有意思。通过这种方式,中央政府就协助建立了 一个"授权环境",而这是地方政府不可能单独建立的。在发展型国家的中 国版本中,国家和地方的发展积极性之间的"相互依赖"和"相互依存"的 关系,使得中央政府、上海市政府、浦东区政府以及各种成分的开发公司共 同承担起决策、为浦东制定和执行发展战略的责任。地方政府作为浦东发展 的发起人,规划发展理念和战略,游说中央政府,向中央政府争取所需的支 持力度,并向外部世界宣传其发展的宏伟蓝图。国家在促进市场运作中的作 用反映在对更低层级的政府机关和开发公司的使用上,这些机关和公司意识 到市场的变化并对之作出迅速反应,与市场相关的人士一起工作。对中央政 府角色的需要也随着时间的推移而改变。一旦浦东发展步入正轨,中央政府 就能够减少其干预和预算支持,而当发展遭遇困难时,例如在亚洲经济危机 期间,中央政府就介入伸出援手。对决策程序及随后的浦东发展的分析清楚 地显示,长期中政府的角色是怎样从干预变为授权,然后又为了建立政府和 市场的强有力的合作而继续努力。任务在地方和中央政府之间分担,这显示 了一种灵活性,通过这种灵活性,发展型国家可以实施特殊的项目。

制度调整。在浦东的发展中,如果地方发展涉及到市场时,制度设计, 或更准确地说,制度调整就很必要了。为了实现这种调整,上海重点抓好 两项工作:推进市场导向的高质量的行政结构,以有效地提升发展战略; 建立为市场服务的法制系统,确保实现政府和市场的协同作用。为增加透明 度,提供高效切实的服务,浦东所实施的制度设计是"小政府"、"大服 条"和"大社会"的结合。小政府是尽可能少地使用人员和办公室, "大服 务"则强调行政效率,"大社会"是将除了监督和管控以外的职能转交由协 会和非政府组织承担。在设立精干的浦东新区管理委员会时,上海做了大量 工作,加强该管委会的自主性。同时引进了一站式体系,便于更快获得行政 审批、避免通常的官僚主义延误、使投资者的投资项目审批过程更快更省 事。为便于投资者进入浦东市场并展开经营,制定了新法律,为引进市场经 济奠定基础,但是具体细节还很模糊,给今后的解释和执行留下一定的空 间。有些新的法律甚至互相矛盾,这需要随着中国经济改革的深化以及更好 地理解市场运作之后,继续进行修改和调整。为支持区域发展,地方政府为 创新土地制度而做了特别的努力,这将为市场操作提供便利,为寻找机会进 入以前禁止民营开发商进入的房地产市场和部门的外来投资扫除障碍。法律 体系的变动,虽然并非毫无风险,却为地方政府进一步实施试验以发现哪些 做法最符合当地发展,提供了空间和灵活性。此外,强有力的政治体制(强 大的政府)以及由高学历日有经济头脑的官员构成、技术专家支持的能干的 政治领导班子,确保浦东项目在执行过程中对市场的发展敏感且能迅速作出 反应。

选择性战略。发展型国家所学到的最成功经验涉及到选择性干预。正如中国所阐释的,选择性战略涉及到在广阔的领土上与许多不同地方利益分享有限资源的一个实用主义方法。国家可以在某一享有特殊优惠政策的地区完成区域发展,例如在浦东新区的案例中,就是通过探索实施高度选择性的经

济特区战略以吸引西方资本、技术、管理技能和经验。在参与决策的各方的 数量中, 在组建成外向型经济结构的部门选择中, 在部门发展过程中, 在国 家预算资金的限制使用中,都反映了这种选择性战略。尽管地方政府的预算 有限、它也采用了选择性战略、将其财政开支集中于每个地区优先选择的领 域中。此外,浦东被当作一块试验特殊设计的示范性项目的试验田,一个试 验新战略和政策的地方。这反映了国家务实、渐进地推进改革的方式。这些 试验,包括行政结构重组和建筑-运作-移交(BOT)、公私合作关系(PPP) 等新的机制,连同务实的方法一起,使得有可能快速引进高效切实的措施, 帮助浦东加快发展,吸引更多的投资。实用主义而非意识形态上的信仰使浦 东尝试了许多新观点。虽然旧体制制造了许多障碍,阻止了新观念的引进— 一旧体制认为这些新观念与既有结构和既有方法相抵触——但仍然可以在指 定的试验区域试验新观点。被证明成功的措施随后可在其它地区推行。浦东 发展显示,发展中所使用的计划手段仍然具有生命力。这种手段重新焕发生 机,应归功于日益增长的市场意识、在国际经济中准备好迎接改变的新型应 变力、以及通过选择性政府干预而利用市场意识的能力。计划手段改变了其 功能,成为一种指示性工具,一种吸引外部世界的公众和投资者注意的推广 手段,以及一种在不同组织和利益团体中达成共识的谈判工具。

### 区域 - 全球的关联

在对浦东计划的开发方式进行透彻研究的基础上,我们认为毫无疑问浦东只 是全球化日益扩张的时代中所实施的城市化转型的一个暂时过程。中央政 府和上海市政府将浦东作为一种刺激因素,推动上海通过寻求全球金融市 场的增长、国际服务贸易的扩张以及外国直接投资的结构调整等一系列变化 所带来的好处而实现国际化。在类似的这样一种地区项目中,来自区域、全 球、国内和地区的力量产生相互作用。浦东的发展显示了区域一全球关联的 动态态势,在这种关联中,单个地区积极面对和适应全球挑战,甚至有些时 候还出动出击抢夺所出现的机遇。虽然国家对知识传播和全球资本流动的冲 击心存谨慎(担心出现负面影响),但它同时也意识到,全球资本和先进 知识能够对一个区域发展的项目、以及对地方政府长期所希求的高效切实的 城市治理而言,有多么重大的意义。为从外部影响中受益而非被其吞没,地 方政府(与中央政府相配合)花费大量的时间进行学习和研究之后,才接受 国际——尤其是西方——所普遍流行的观念,并将这些观念在其特定地区灵 活推行。这种积极进取的实用主义并不仅限于对待全球资本流动,还运用在 来自外部世界的知识传播上。将浦东指定为经济特区,创造了一块"国家飞 地",在这里可以大胆地进行各种市场观念的试验,有助于加快适应信息流 入和知识转移的务实进程。

全球 - 区域资金流动。浦东成为国际企业和本国企业的枢纽。为了加深浦东与全球经济和全球资本市场的联系,浦东项目的发起者借用了经济特区的概念,将浦东从僵化的体制束缚中解放出来,允许其跨越限制上海经济活动的行政、政治和经济的障碍,试验发展外向型的市场导向经济体制。浦东吸引外国直接投资的优惠政策并不限于金融和制造业这两个浦东希望迅速建成其主要经济支柱的部门。人们希望在浦东的城市发展中引进外国投资者和

外国投资,特别是在过去仅限于中国公共部门或中国私有部门的领域,将鼓励外国投资的流入从而改善资金短缺的状态。当地政府表达了欢迎国际公司进入浦东市政发展和房地产市场的意愿,开放了土地开发项目和基础设施开发。虽然浦东的房产市场存在巨大的不确定性,政府所提供的机会——未开发的市场以及高回报的机会——吸引了相当多开发商进来试试运气。浦东商品房和写字楼售价和租价的急剧上涨,以及上海发展迅猛的房地产市场,已经显示出危险:与全球房地产市场的不断融合可能导致浦东房地产市场将不可控制地与中国本土市场分离,同时国家将失去对它的影响。需要强调的是,浦东的金融结构以及来自香港、台湾和东南亚国家的外国直接投资超常的比重,显示了全球中华商业网络在引导外国直接投资流入中国和浦东过程中的重大影响。

全球 - 区域信息流。浦东还提供了一个有趣的例子,关于外国专家在指导和协助上海的市政发展、参与规划和建筑设计的不同阶段、建立土地制度和建设公私合作关系中所发挥影响力的例子。建筑和城市规划是将外部世界知识运用到浦东现状的两个非常活跃的领域。受自身的职业好奇心和地方官员急于听取外界意见的心理的驱使,本地专业人员是发起与外部世界互动的最主要原因,虽然最早的行为更多的是"引进"而非互相影响。通过与外界专家的互动和交换意见,本地专业人员获得了一种眼光,懂得如何根据西方规划概念检查本地的项目。由于中国没有经验,这就意味着这些地区可以被看作是白纸一张。外国建筑师所使用的任何创作借鉴几乎都不是来自中国的城市,跟当前形势也没有太重大的联系,也很少考虑到执行过程中所遇到的诸如原有居民区搬迁的问题。实际上当地的背景大部分被忽略了。尽管如此,所有这些信息和知识对于规划实践并非毫无价值。实际上当地的上海规划师以此为基础,以更务实和更实际的方式,提出了适合当地条件的不同的提案。

浦东的土地制度很大程度上是根据其它发展型国家的经验制定的,尤其是新加坡和香港的经验,这两个地区建立了成功的土地制度以强化土地的国家所有,并受益于从土地中获得的大笔收入。实际上浦东并没有原样照搬其它成功案例的做法,而是尽力调整各种技巧以适应他们自身的地区和变化的经济形势。土地制度化的发展因此成为中国转型过程的一部分,通过维护发展型国家模型,促进市场的发展。采用积极的土地政策由于鼓励了新的参与者投资土地并从土地租赁中获得增加的收入,从而加快了发展的速度。

公私合作关系(PPP)是浦东务实地运用外国管理技巧的另一个有意思的方面。这种做法第一次表明,城市规划和城市发展不仅仅是公共事务,而是更广泛基础的利益相关者群体的共同责任。这种互动的方式与中国城市发展的传统方法——其中公共部门和公共财政发挥着核心作用——有很大的区别,特别是在执行阶段,由于需要获得资金和公共支持,这种互动性变得更为普遍。主要着眼点在于,私营部门的投资如何才能进入浦东一般意义上的产业和服务部门,而非只是房地产行业。

浦东案例显示了城市发展是一个复杂的、动态的和内涵丰富的过程,涉及到政府和市场之间的互相作用,以及变化日益增多的全球一区域之间的相互作用。因此,决策并不是提前计划好的,而是在各种中介机构发挥根本作用的基础上,从私营公司和政府机构的互动中产生的。正如明茨伯格(Mintzberg)所言,决策是"突然出现的",而不是预先计划好的。

### 结论及实践启示

本研究运用城市理论以及发展型国家理论、解释了在全球化时代中特殊的中 国背景下大规模的区域发展的特点。许多不同而相互关联的因素造就了浦东 的发展速度,这些不同因素的相互关联发挥出一种独特的功能,而这种功能 是任何这些因素单独所不可能达到的。发展型国家的理论使我们有可能阐明 浦东发展的许多特点,特别是政府干预地方事务背后的强大动机以及地方政 府为谨慎地形成政府和市场、全球和区域之间的关联而运用的网络手段。然 而,国家在地方发展项目中发挥作用的决定并非盲目和主观的,而是在对全 球经济学进行仔细观察和理解、并对全球经济所提供的潜在条件和机会进行 积极适应之后作出的。对来自外部世界的先进技术经验根据浦东实际情况进 行务实调整,是地方政府所提出的特色鲜明的发展战略,使发展型国家可以 使用各种可能手段以达成其发展目标。城市发展领域最具代表性的务实调整 的例子是积极的土地政策,它在政府和市场之间制造了一种中介,并吸引国 际参与者加入到区域发展之中。这项积极的土地政策不仅为进一步发展地方 基础设施带来了可观的收入,还导致了进入规则的变化,允许私有部门参与 传统上公共部门所占主导地位的领域。同样的试验与基础设施发展同时进 行。随后,随着住房改革的发展和房地产行业的出现,私有部门和私有资金 开始在不动产市场中扮演重要角色,从而公共和私有部门的资金一起支持浦 东的发展。浦东金融机制的一个惊人而不同寻常的特征是,全球华人商业网 络所发挥的作用。这些全球金融网络的结点,将区域发展和金融市场连接到 全球资本上。这个网络不仅在吸引全球资本到浦东发展中发挥了关键作用, 还鼓励了投机投资者,他们希望从浦东迅猛发展的房地产市场中获取快速的 回报。

虽然浦东的发展展示了发展型国家模式在结合全球开放的优势、灵活性和效率方面——发展型国家通过这种模式导入全球变化并使之与国内背景相适应——的长处,也须承认它的许多局限性:首先是我们必须对网络和网络战略的利用有一个现实的认识,特别是需要考虑使之遵守全球经济体系中严格界定的规则;其次,选择性战略的实施确实很有效果,但需要避免空间隔离的扩大以及经济的两极分化;第三个局限性与这一事实有关,即地方财政体系越来越无法应对全球经济融合所带来的不确定性。

关于浦东发展的研究给提供了一种见识,让我们可以总体把握当前区域 发展所具有的复杂性和动态,以及全球和区域因素之间的相互作用。研究的 结果显示了独特的环境相关过程构造中的浦东发展。不同的城市发展和再发 展战略也许有共同的基础,但每一个战略都会发展演变并需进行调整从而与 特殊的情境相契合。一种特殊的方法,如浦东发展所使用的,需要就实施情 况对之进行现实的评估,并根据不同的情况进行移植。通常我们可以说,城市在大型城市开发项目中制定发展战略的模式可被务实地借鉴和调整,以适合不同环境的特定地区。因此,我们可以更好地重构适用性的问题到这种程度,即可以改变区域的、地区的或机构的环境以从浦东发展的经验中获益。

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# Curriculum vitae

Yawei Chen was born in Xinxiang, China, in 1971. From 1988 to 1992 she studied urban planning at Tongji University's School of Architecture and Urban Planning in Shanghai, obtaining her bachelor's degree in engineering in 1992. Between 1992 and 1999 she worked as planner at the Beijing Urban Planning and Research Institute, under the former Ministry of Coalmining, during which period she participated in more than thirty planning projects at home and abroad. In 1999, supported by a scholarship from the Netherlands Fellowship Program, she studied urban housing management at the Institute for Housing and Urban Development Studies in Rotterdam, the Netherlands, and at Lund University in Sweden. In 2000 she obtained her master's degree in science, with distinction, after which she began her PhD research in the Netherlands at the Department of Real Estate and Housing of Delft University of Technology's Faculty of Architecture. Her research, which led to the production of the present book, focused on large urban development projects, in particular the rapid development of Shanghai's Pudong New Area. Yawei Chen is a regular speaker at conferences and contributor to professional journals and books on urban studies. She frequently acts as consultant to public and private clients in the Netherlands on issues related to urban planning, urban development and public-private partnership in China.

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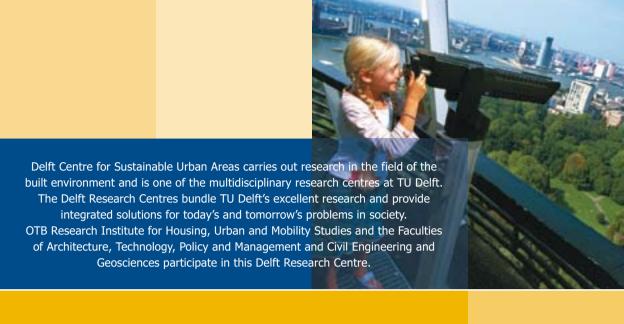
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The emergence of large-scale urban development and redevelopment projects presents urban managers with tasks of daunting complexity. Such projects involve a huge variety of participants, global and local, public and private.

The development process can be lengthy. The development of Shanghai's Pudong New Area was a mega project developed with the kind of speed that few other projects in the world have ever achieved. The present book considers the problems with particular reference to the way in which global-local interaction helped to shape the strategies followed. It will become clear that the speed achieved by this development was made possible by a number of factors interrelated in such a way as to perform a unique function not achievable by any one factor in isolation. The theory of the developmental state is employed to clarify the powerful motives which underlay government intervention in local affairs and the network approach exploited by local government to construct a coalition between state and market and between global and local interests.



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