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The Global and Local Dimensions of Place-making: Remaking Shanghai as a World City

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Summary. Shanghai, the largest socialist industrial city in China, is now experiencing dramatic restructuring under global and local forces. This paper provides a preliminary account of remaking this city into a world city. The case study suggests the tremendous and pervasive impact of globalisation on the city in transitional economies, although it is still not comparable with a truly global city. The growth of inward investment, particularly its penetration into real estate development, has exerted direct impacts on the urban structure. It is argued that, however, that this global influence can only be realised through the coincidence of indigenous changes in the political economy system. Specifically, the willingness of the central government to give more autonomy to local governments, the new policy to set up a window for China's open policy, the incentive for making money from selling the space, the injection of public money into infrastructure and fierce promotional development strategies, all contributed to the process of urban restructuring. The effect of combined global and local changes has led to an extremely optimistic growth atmosphere and a building boom since the mid 1990s. Shanghai highlights the local as well as the global dimensions of urban change in the post-socialist economies.

1. Introduction

Shanghai, the largest industrial city and the economic powerhouse of socialist China, is now being restructured through global and local forces. The change demonstrates a multidimensional process through which the legacy of the socialist era interfaces with newly introduced international influences. Compared with other cities in southern China, particularly those in the Pearl River Delta, Shanghai was under the tight control of the central state prior to the 1990s. The city contributed a significant proportion of revenue to the central state and hence it was imperative for the central state to impose a strict fiscal policy. There was a lack of the stimulus of 'special' policies which allowed local government a much greater role in southern China. Through 40 years of industrialisation, Shanghai built up a strong economic base which mainly relied on domestic markets. The pace of urban development increased greatly after 1990 when the central government announced the development of Pudong New Area. However, its history over the previous 40 years continues to influence its future growth trajectory. Shanghai is different from the cities in the Pearl River Delta where external influence is predominant

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(Eng, 1997). Instead, both global and local forces are imperatives for urban change in Shanghai. The case therefore may provide a wider snapshot of new urban development processes in China.

Although Shanghai is by no means comparable with those world cities at the top of the global urban hierarchy, the impacts of globalisation on the built environment are nonetheless tremendous and pervasive. A quick glance at the urban landscape can immediately lead to an understanding of the extent of change. Mushrooming skyscrapers have reshaped the city's skyline. Advertisements for commercial goods, especially for the products of multinationals—Coca-Cola, Pepsi, 7Up, Visa, McDonalds, Kentucky Fried Chicken—are quickly becoming the dominant symbols of modern Shanghai (Rose, 1997). Massive redevelopment is taking place in the old urban areas. New infrastructure projects, such as the elevated rapid roads and the Yangpu Bridge and the Nanpu Bridge, are quickly transforming the city's accessibility and creating new development spaces. The conversion of land uses, especially from industrial to commercial uses, can be seen everywhere—a process not uncommonly carefully guided by local governments towards generating maximum land-related benefits. The new development is characterised by the use of resources mobilised from many geographical scales: state enterprises and work-units, district and municipal governments, the central government and international investors. Urban megaprojects are financed by both state investment and international capital. The World Bank and the Asian Development Bank, for example, have funded key infrastructure projects such as bridges and elevated road systems (Olds, 1997). The development process therefore is very complicated and intertwined by various agents and interests (Wu, 1999).

Such a politics of scale is a fascinating phenomenon. It suggests the need to link state policies with external global change in order to understand the new urban process in China. Most studies on Chinese cities have focused on one particular sector of state policies. It is imperative, however, to examine both the local and global dimensions of change. This paper focuses on the recent building boom in Shanghai. In the following section we first attempt to understand the role of inward investment and its peculiar impacts on urban development. The penetration of foreign investment into the sphere of urban development represents the global dimension of place-making. However, it should be seen as a triggering factor rather than a determinant of urban change. It is necessary to examine the local dimension. Therefore, Section 3 contextualises urban changes through a discussion of a series of reform policies, focusing in particular on the changes in post-reform urban governance. Sections 4 and 5 continue with an examination of two aspects of change—the reorientation of urban planning as a place-making tool and the deployment of promotional strategies—which are embodied in the local dimension. As mentioned earlier, the global and local dimensions are not separated. Section 6 comprises a discussion of how these two dimensions act together and create the condition that lead to the inflow of massive investment into the built environment, together with a consideration of how this is transforming urban landscapes. Finally, conclusions are drawn as to the consequences of the changes to the cities.

2. Inward Investment

Inward investment represents the direct global influence. Since China adopted a new open-door policy, foreign direct investments, in the form of joint-ventures, co-operative projects and wholly foreign-owned enterprises, have increased rapidly. Foreign capital provides a much-needed resource for local economic growth. Therefore, to attract inward investment becomes a priority in the government's agenda. Preferential policies are formulated and planning controls are streamlined to satisfy the demand of external investors. From a global perspective, the financial system has gained increasing autonomy in a flexible accumulation regime (Harvey, 1989). To cope with decreasing economic returns, new outlets of investment must be found. Urban space in the developing countries where land was previously subject to a much stronger local control became such an outlet. The willingness of local governments to adjust their regulative regimes to accommodate new investments has stimulated the formation of global property markets (Logan, 1993). Therefore, foreign investors become interested in not only cheap labour for manufacturing industries but also cheap land with a high potential for value increase.

Inward investors can exert strong influences on decision-making in relation to local economic growth. But this is not simply because they are 'global' money. Rather, they are the resources beyond government control. In fact, so-called foreign investments include a large proportion of investments from Hong Kong, overseas Chinese and round-route investments of domestic enterprises (Olds, 1995; Lardy, 1996). As a sort of external resource, inward investments are not subject to traditional planning control. Thus, they demand the new rules of the game. In this sense, the inward investments represent the influence of globalisation in which the fate of a locality is closely related to changes of scale beyond the territorial bounds of local governments.

But Shanghai is different from the cities in south China in its way of using inward investments. Inward investments were not influential in urban development until 1990 when Shanghai was granted preferential status. In the socialist era, Shanghai was a major industrial city and enjoyed strong state support in terms of resource allocation. But, at the same time, the economic structure of the city was domestic-oriented. Shanghai's economic strength was built upon state-owned enterprises, whereas the cities in the Pearl River Delta mainly relied on local and rural resources. The emergence of an export-oriented economy in south China was largely driven by small- and medium-sized and labour-intensive investments from Hong Kong and Macao. The joint-ventures in the Pearl River Delta specialised in the export processing and manufacturing sectors (Sit and Yang, 1997). Shanghai's strong economic base, close relationship with Jiangsu and Zhejiang provinces, relatively better-trained labour force and good infrastructure attracted larger joint-ventures from a wide geographical region. Inward investment projects in Shanghai are characterised by multinational origins (less Hong Kong originated) and high levels of technology. The overseas-based establishments in Shanghai are higher-order enterprises, including the headquarters, representative offices, management offices, sales offices and service centres of firms which have manufacturing functions located in suburban Shanghai or neighbouring provinces, and the operational offices of service and financial sector firms as well as manufacturing factories (Rose, 1997). To a certain extent, Shanghai's utilisation of foreign investments reflects stronger international influences than that of the Pearl River delta cities. But, because of the strong local economic base, the local dimension cannot be ignored.

The growth of foreign investment in Shanghai has been tremendous since 1991 (Table 1 and Figure 1). In 1985, Shanghai attracted only US$759 million of foreign investments measured in the contract value. However, in 1996, the contract value of investment increased to US$15.14 billion with 2709 contracts signed (Shanghai Statistical Bureau, 1997). In the same year, realised foreign investment amounted to US$7.51 billion, among which US$4.72 billion was foreign direct investment including equity joint-ventures, joint co-operative ventures and wholly foreign-owned ventures. Up to 1996, a total of US$15.96 billion was invested in Shanghai as foreign direct investment. From Figure 1, it can be seen that dramatic growth occurred after 1992 when Shanghai promulgated new policies to attract foreign investment, especially the opening of real estate markets to foreign investors. This period of rapid growth of inward investment will be examined in detail in the following sections.

Table 1. The structure of foreign direct investment (FDI) in Shanghai, 1996

Sectors	Number of contracts signed	Total contract value (US$ billion)	Realised FDI (US$ billion)
Primary industry	27	0.040	0.003
Secondary industry	1 286	4.893	2.520
Tertiary industry:	793	6.135	2.193
Transport	3	0.002	0.008
Wholesale and retail	107	0.229	0.571
Real estate	96	4.024	1.053
Services	190	0.803	0.281
Total	2 106	11.068	4.716

Source: Shanghai Statistical Bureau (1997).

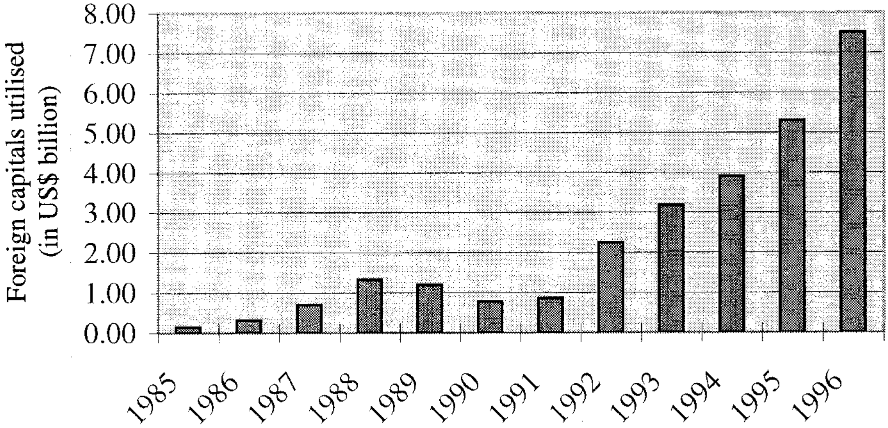

Figure 1. The growth of foreign investment in Shanghai, 1985–96.

External investors, local governments and enterprises are engaged in a very complicated game-like process (Wu, 1999). With different motivations and institutional constraints, these agents must know their strengths and weaknesses in order to win the game. The strength of foreign investors lies in their mobility and their ability to provide a large volume of capital, but they are constrained by the lack of local knowledge and institutional networks. Local governments, however, are the managers of urban land and the only authority to grant land-use permissions. But they are confronted with the competition from other localities and the regulative control from the central state. State enterprises are *de facto* owners of urban land, but they are faced with increasingly stringent market conditions and falling profit returns. In particular, factories built in the socialist era when a land gradient was absent are now facing industrial restructuring, the reduction of employment, relocation and even closure. Both local governments and state enterprises urgently need capital to solve these problems. The outcome of the engagement of these agents is, however, contingent upon their relative strength and the local contexts in which the development takes place.

The involvement of inward investors in the real estate sector produced direct impacts on urban structure. In 1993, the Shanghai municipal government promulgated the regulation of using foreign investments to develop domestic commodity housing which opened the domestic markets to foreign investors (Xie and Wang, 1995). In the past, foreign investors were allowed only to develop properties for sale in international markets. This new policy basically allowed foreign investors to purchase old residential land and to develop properties for local markets. The policy is intended to use foreign capital to redevelop dilapidated urban areas. Nevertheless, to attract investors, local governments have to permit mixed commercial and residential uses in order to guarantee the profit return of the development projects. This is a turning-point because foreign investments were mainly concentrated in the manufacturing industries before, but now they are attracted by the increase in property (land) prices. This penetration into the consumption sphere, however, is not always successful because, without targeting the genuine demand, a large amount of the floor space (for either residential or commercial use) of heroic development projects is now left idle.

One significant impact of foreign investment on urban spatial structure is the transformation from a mixed, cellular pattern of land uses to a more differentiated pattern of land uses according to market principles. In the past, socialist production and urban life were organised through the basic entities of the work-units (Walder, 1986). Such imprints can still be identified in post-reform housing provision (Wu, 1998; Logan *et al.*, 1999). This form of building provision has led to mixed land-use patterns, in particular between residential and industrial uses. However, since the introduction of foreign investment and quasi-market land leasing, this principle has changed. Foreign investments are peculiar in location choice because they are sensitive to local contexts, especially preferential government policies, financial assistance and regional well-being (Hill and Munday, 1995). In the case of China, some studies show that there are constant negotiations between overseas investors and local governments (see, for example, Leung, 1993). Personal contacts are resorted to and social networks were built to achieve preferential treatments (Eng and Lin, 1996). However, the complexity involved in the decision-making process does not necessarily lead to a random and inexplicable location pattern. Unlike domestic projects, foreign investments follow a clear economic motivation and are less bounded by intragovernment politics, social responsibilities, ideological commitment and even planning control. Not surprisingly, this means a highly differentiated development pattern which is highly ‘explainable’. But this does not mean that foreign investors can choose locations regardless of institutional constraints and that the policies of government are irrelevant. Rather, the intrametropolitan locations of foreign investment follow a calculus of the site’s composite ‘suitability’ which is measured in terms of the economic *and* policy factors prevailing at the locations. The preferential policies given to the Pudong New Area are locational factors to be traded-off with other factors. As a result, urban structure is becoming more differentiated. That the distribution of foreign investment follows the pattern of prevailing locational advantages is not unexpected.

The first imprint that can be found lies in the new space of production. While still lacking detailed studies, the re-emergence of the Bund as the locus of financial firms and the creation of the Lujiazui Financial and Trade Zone for high-profile companies are clear. The high-rank hotels and Grade A office buildings clearly show a clustering pattern. In the city core, Puxi, the distribution of overseas companies matches to a large extent the distribution of quality office space, as well as the location of international hotels (Rose, 1997). For example, for US companies in both the service and manufacturing sectors, the highest concentration of firms is found in the area around the Shanghai Centre (Shanghai Shangcheng) while another concentration is in the area of Hongqiao ETDZ and around the International Trade Centre (Rose, 1997). Manufacturing firms are more spread out into suburban Shanghai and nearby counties. The selective location process of foreign investments has helped to differentiate the growth of urban areas.

In terms of real estate development, inward investment accounted for one-third of the total investment in 1995. The real estate companies in Shanghai have a total net value (deducted by the debt) of RMB55.37 billion, among which foreign invested firms account for RMB15.67 billion (China Real Estate Market, 1996). The real estate sector has become the second-largest one to absorb FDI. In 1996, among a total of US$4.72 billion FDI, 22.3 per cent, or US$1.05 billion, was invested in the real estate sector, while the secondary industries absorbed US$2.52 billion, accounting for 53.4 per cent (Table 1) (Shanghai Statistical Bureau, 1997). Moreover, at the high end of the property market, foreign firms constitute the predominant source of demand. For example, an investigation of major Grade-A office buildings shows that foreign companies rented about 90 per cent of high-quality office space, with the Japanese investors renting 40.3 per cent, the US 16.2 per cent and the investors from Hong Kong, Macao and Taiwan about 17.3 per cent (China Real Estate Market, 1996.). The comparative advantage of inward investors lies in their ability to raise a large amount of capital within a short period of time. This is particularly attractive to local governments who are keen to initiate large projects but are constrained by the lack of capital. Packaged development through leasing large land plots to overseas investors is a way to create an immediate effect on urban image. Intensive investments plus carefully engineered styles can symbolise a strong and prosperous local economy. Therefore, large-scale redevelopment projects are supported by local governments and now can be seen everywhere in Shanghai.

The second impact can be identified in the reshaping of urban landscapes, in particular the concentration of luxury housing. Internationalisation not only brings alien lifestyles, but also provides a way to interpret their symbolic meanings. Foreign invested firms are generous in payments to their expatriate employees. Those who work with overseas firms form a new niche in housing markets. High-quality commercial housing is decorated with stylish images. The price varies widely with location and quality. Among 33 listed projects of commercial apartments, the price varies from US$150 to 2650 per square metre. Overseas companies and joint-ventures are the main purchasers of these high-quality apartments (China Real Estate Market, 1996, p. 271). The west part of Shanghai sees the largest concentration of commercial housing sold in overseas markets (mainly in Hong Kong). Among about 300 listed projects of overseas housing in 1995, 89 were in the Changning District, 73 in the Xuhui District, 32 in the Jingan District and 61 in the Pudong new area (China Real Estate Market, 1996, p. 271). The spatial clustering of commercial housing was identified in Shanghai at the beginning of housing commercialisation (Yeh and Wu, 1995), but it has since become more obvious (Zhang, 1997). There is still a lack of detailed, microscopic and empirical studies on social differentiation. But there is enough evidence that low- and middle-income families are being driven to the peripheral and less-convenient areas. It can be foreseen that residential differentiation will continue along with the enlarged land gradient and differentiated incomes, the deterioration of state-owned enterprises and the change from manufacturing to service industries.

The less-intangible impact, however, lies in the reorientation of urban governance because of the sudden awareness of intercity competition. As foreign investment becomes a critical resource in urban development, local governments have formulated policies to draw investors into their jurisdictions. To a certain extent, the rhetoric for the overwhelming importance of foreign investors is now becoming a sort of ideology. Especially before the ‘Asian Crisis’ in 1997, there was a strong expectation of the continuous inflow of foreign investment. The advertisement of the products of multinationals did exert non-material influences on the government's mentality. Governments urged a new style of urban management in line with international practice. Foreign architectural firms are involved in urban design and planning. For example, located in the heart of the city on the famous Nanjing Road, Shanghai Centre, a vast multi-use complex comprising 472 luxury apartments, 25 000 square metres of prime office space, a theatre, a trademark exhibition atrium and a deluxe 5-star hotel, was designed by John Portman & Associates and built by the Japanese Kajima Corporation. The Shanghai Centre combines three towers rising dramatically from an eight-storey podium, creating an image of a convenient, people-oriented, 'city-within-a-city' with outstanding workmanship. Such a large-scale urban redevelopment has enormous impacts on urban management as well as on urban landscapes.

Non-material external influences are also apparent in urban planning. In the past, urban planning relied on socialist ideology (Wu, 1998). Now, the government is willing to seek international expertise. In the building of the Lujiazui Financial and Trade District, for example, élite non-Chinese design professionals have been solicited to heighten public awareness and turn international media attention to the city (Olds, 1997). The design models and plans are used to impress foreign fund managers, investors and politicians, but at the same time the process has helped to initiate the transformation of some streams of urban planning thought and practice in China. This will be further addressed in the discussion of local dimensions of place-making in the following sections.

3. Changing Urban Governance

The opening of the real estate market to foreign investment allowed urban development to be fuelled by external capital. However, real estate development is also a local activity and needs local knowledge. Big investors need to find local partners to deal with the regulative machine (Logan, 1993). This brings up the local dimension of place-making. The most significant change brought about by economic reform is the decentralisation of state power. Such a transition, however, is not a result of pure ideological changes, but has stemmed from political-economic necessities. The force behind this power decentralisation was a severe fiscal deficit and failing public finance in the late 1970s. The state was unable to sustain centrally controlled investments. As a consequence of the introduction of the so-called fiscal contract system, localities emerged as a substantial entity in the transitional economy. The establishment of the city-based land management system has strengthened the power of municipalities (Yeh and Wu, 1996; Wu, 1998). By the late 1980s, municipalities had gained control over urban land through authorising land leasing and granting planning permissions. City governments have become the biggest landowners.

Nonetheless, the city-based land management system is facing further challenges. If the reform process is seen as the redistribution of property rights (Marcuse, 1996), the change has created new incentives, interests and capacities for redistributing property rights. Consequently, various relationships have to be retuned. During the capturing of property rights from current land-users—for example, state enterprises—the municipality confronted various forms of resistance. In the past, land-users had essentially a non-restricted use of the land they occupied. This was largely because the land was developed through construction investment (CCI) allocated on the basis of sectors. Except for nominal approval from the city, enterprises actually managed the whole development process by themselves. After the urban space had been made into a commodity under market socialism, the right to appropriate economic rents from land was subject to competition. Black markets for land thus emerged, imposing a serious challenge to urban planning in China (Yeh and Wu, 1999). As a result, it became obvious that control over urban land could not be effectively achieved through a single large municipal government. In fact, municipalities are facing the same problem as the central state in the late 1970s. In turn, they have to 'sub-contract' certain property rights to the lower levels of government such as district governments. The decentralisation of urban governance is not a simple matter of choice but an inevitable outcome of property-right competition—pragmatism is again employed to cope with the increasingly ungovernable urban space.

The changing fiscal system created an incentive for decentralised urban management. In the early days of reform, economic decentralisation mainly occurred at the national and provincial levels. However, the fiscal contract system continued to force local governments who gained fiscal autonomy to take up responsibility for revenue mobilisation and collection. To cope with such a difficult task, local municipal governments have to further 'sub-contract' the responsibility to county and district governments. The decentralisation of power to lower levels of government now becomes apparent as a feature of urban management in large cities such as Beijing, Shanghai and Guangzhou. For example, Shanghai was granted a preferential fiscal contract package in 1988 (Yeung, 1996). While the municipal government was allowed to retain certain local revenues, the new policy transferred the responsibility from the central to the municipal government. The pressure of revenue mobilisation plus the decreasing revenue base due to the deterioration of state enterprises forced the municipality to entrust greater power to district and county governments. Since 1990, the district governments have gradually gained a whole array of administrative powers, including planning, financial management, maintenance of public works, the pricing of staple commodities, foreign trade and industrial and commercial administration (Wang and Li, 1997). Between 1992 and 1993, the right of land-use planning was given to the district and county governments who are now responsible for preparing detailed development control plans (DDCP) and granting planning permissions.

Decentralised urban governance was consolidated by the further introduction of a new tax-sharing system in 1994. A uniform formula was adopted in revenue sharing across the nation to substitute for the hitherto bilateral bargaining between the central and local governments (Wong, 1995; Yeung, 1996). The new system divides taxes into centrally collected taxes, locally collected taxes and the taxes shared by the central and local governments. Thus, local governments gained fiscal autonomy and the ability to decide local taxes. Concessions or the waiving of development-related taxes—for example, the land value increment tax—are common in order to attract more real estate development (Wang and Li, 1997). Moreover, the new tax system fostered developmental localism. Local governments are keen to promote the growth of tertiary industries, in particular high-density commercial development and service sectors, because these sectors can bring value-added tax and business income tax which are now the main sources of local revenue (Wang and Li, 1997).

The new form of urban governance is characterised by more decentralised, fragmented, ambiguous and constantly redefined power relationships among various levels and branches of government. The division of power between the municipal and district governments varies from city to city. Administrative power shifts from time to time along with the contention of participating actors. Conflicts between government departments—for example, in the management of land leasing and development control—impose a serious threat to effective urban governance. It is under decentralised urban governance that development interests can exert high pressures on planning authorities and find considerable room for manoeuvre. Because of conflicts within the governments, strategic plans—for example, urban master plans—are unable to provide effective guidance for local plans. In the planning of the CBD and commercial centres, each district government wants to set up a local centre in order to draw business to its jurisdiction. The situation is similar with respect to the establishment of development zones. Strong tensions, disagreement and even distrust exist among government departments. More often than not, lower levels of government are willing to sacrifice city-wide planning guidance and principles to satisfy local business interests. Modifying land uses and raising plot ratios are not uncommon. The difficulty in implementing urban plans therefore cannot simply be explained by technical reasons. It is a symptom of a transitional economy within which public versus private and local versus global forces are interwoven.

Despite the enormous difficulty in providing guidance for an orderly overall development pattern, urban planning under decentralised urban governance is by no means trivial and passive. Instead, it is playing an active role in place-making.

4. Urban Planning: A New Device for Place-making

The decentralisation of urban governance essentially transferred the control of urban development to local governments. Urban planning is now a local-oriented regulatory device. This is in contrast with its previous role. Under state socialism, urban planning was characterised as a blueprint for economic planning (Wu, 1998). As a sort of 'incarnation' of economic plans, urban plans were not independent from the measures provided by economic planning. The effectiveness of urban planning relied on whether a plan was linked with economic and government working plans—for example, the Five-year Plan. The result of plan implementation depended on the bargaining practice inside the bureaucratic system. Interestingly enough, such a subordinate status meant that the function of urban planning was not to enforce a development control, as would be the case in a market economy, but to propose the location of state projects and to translate political goals into a physical urban space. The task of creating a new socialist city is quite similar to place-making, albeit the resources upon which planning relied largely came from the central government rather than from foreign investments. Planning legitimacy was guaranteed through the economic command system. Therefore, the statutory framework of urban planning was underdeveloped. This legacy provided a great opportunity for the transformation of urban planning into a device for place-making in the 1990s due to the existence of administrative discretion.

In the 1980s, a series of legislative measures, including the Provisional Regulations for Preparing and Approving Urban Plans and Provisional Standards for Urban Planning, the Regulations for Urban Planning, the Land Administration Act and the Urban Planning Act, established and consolidated the role of urban planning and the administration system. But the current planning system leaves too much administrative discretion and 'material' consideration to processing planning applications. The planning authority has to consider planning applications on the basis of individual projects through the planning application procedure (Yeh and Wu, 1999). The urban master plan is so general that it can hardly provide justification for granting planning permissions. The conflict between the city-wide plan and local plans has further complicated the situation. To strengthen planning control, various experiments have been carried out. New layers of plans, including district plans, development control plans and quasi-zoning, have been added to the two-tier (i.e. the master plus the detailed plan) planning system. However, the effect of newly introduced plans still remains to be seen.

In theory, the flexibility of urban planning should be welcome during rapid urban growth because the city government is bound to make some strategic adjustments. For example, since the announcement of Pudong New Area, the growth strategy of Shanghai has changed drastically. The concept of a multinodal urban system, the growth corridors and, consequently, population decentralisation were abandoned. Foreseeing

Shanghai as the financial and economic centre of China, the strategic task of urban development shifted to the creation of new urban spaces to the east of the Huangpu River. However, the flexibility of urban planning leaves a great manoeuvring space for district governments to implement their visions of urban development. Intraurban competition—for example, developing district retail and commercial centres—is evident. Various urban plans are used to visualise a grand vision of government and to convince external investors. The process of urban planning also plays a symbolic function to justify monumental urban development. This is clearly evident in the planning of the Lujiazui Finance and Trade District (Olds, 1997). The consequence of this transformation is that there is a gap between plan-making and plan implementation. The making of a plan is still a bureaucratic activity, while its realisation depends on external markets. With the increasing interaction between the government and developers, the participation of local residents is still left behind. This does not mean that district governments purposely exclude community participation. Rather, the exclusion stems from a ruthless reality—a lack of local resources and representative mechanisms. In practice, grassroots interests are marginalised because they were traditionally represented by the work-units to which residents are affiliated. With the retreat of state work-units in urban construction, the comprehensive management of local governments and the new land-leasing system, the right of controlling urban space has been transferred from work-units to local governments and then to external developers. In the competition for the control of space, the practice of selling space means that the ready money mobilised in the short term has a competitive edge.

5. Promotional Strategy

Like cities in advanced market economies (Chevrant-Breton, 1997), Shanghai has adopted an aggressive promotional strategy, in terms of state policy support and the involvement of public money. The promotional strategy includes the designation of special zones and preferential policies, the use of land-leasing instruments and massive investment in infrastructure.

The new phase of urban development in Shanghai began with the sheer determination of the central government to revive Shanghai after the success of the Shenzhen Special Economic Zone. State policy support is clearly very important. Shanghai is special in that it has been an important national economic base for more than four decades. The city made a significant contribution to the national fiscal balance. Between 1949 and 1983, as much as 87 per cent of Shanghai's revenue of RMB350 billion was remitted to the central government. The contribution from Shanghai accounted for as much as one-sixth of the state's revenue (Yeung, 1996). Therefore, the new fiscal package and the financial autonomy were critical factors. Since 1984, Shanghai has been designated as 1 of the 14 open coastal cities. Special development zones have been established in the peripheral areas of the city. These include the Hongqiao Economic and Technological Development Zone (ETDZ), Minhang ETDZ and Caohejing High-tech Park, each with its own area of specialisation (Yeh, 1996). The ETDZs attracted foreign investment with some success. But compared with the Pearl River delta, Shanghai experienced slower economic growth up to the early 1990s, owing to the lack of preferential treatment as well as the space for expansion (Yeh, 1996). In 1990, the State Council announced a new strategy for urban development—namely, the development of the Pudong New Area, which marks a new era for Shanghai. The multibillion dollar scheme was to develop an area of 350 sq km to the east of the Huangpu River. The development strategy aims to set up a free-trade zone, an export-processing zone and a financial services centre in the next three to four decades. The overall plan for Pudong consists of 5 relatively independent complex sub-areas (Yeh, 1996). Of particular interest is the plan for the Lujiazui Finance and Trade District with a ring of high rise buildings of 50–60 storeys surrounding a circular park. Approximately 4 million square metres of space were planned for the main area, including over 2.65 million square metres of office space, 300 000 square metres of luxury housing and 500 000 square metres of hotel space (Olds, 1995). The new strategy for the development of Pudong gave a great stimulus to urban development.

The use of various preferential policies is the second feature of the promotional strategy. In order to encourage foreign investment in Shanghai, especially in the Pudong New Area, Shanghai has formulated 74 local economic measures and adopted a series of preferential policies for foreign investment. Among various projects encouraged, projects which can suit the needs of world markets and export products to earn foreign currencies are especially supported. The city also encourages foreign investors to set up enterprises in the Waigaoqiao Free Trade Zone dealing with the import and export trade, international *entrepôt* and services for international trade. Preferential policies for taxation have been developed—for example, in the Pudong New Area, the concessions made in the income tax of foreign investors, and in the custom duties and tax for equipment, vehicles and building materials related to foreign investment. Foreign investors are allowed to invest in infrastructure projects, to operate tertiary industries and to open branches. They are also permitted to contract large tracts for land development. Within the free trade zone, foreign trading companies may be allowed to carry out *entrepôt* activities (Yeh, 1996). These regulations enhanced Shanghai's attractiveness.

A more direct measure in Shanghai's promotional strategy is the use of land-leasing instruments. The public land ownership allows a greater space for governments to formulate their promotional strategies. The first piece of land in Shanghai was leased in 1988. But the pace of land leasing has been quickened since 1992. In 1993, a total of 244 land parcels were leased, providing 49.33 million square metres of development space. The number of land parcels and the space leased in that year were respectively as much as 1.2 and 1.67 times the total for the previous five years (Shanghai Statistical Bureau, 1994). The land supply in Pudong increased even more quickly. By 1994, virtually all land in Lujiazui's core area had been leased out, which gave 1.69 million square metres of the development space (Olds, 1995). The rapid release of new space is a strong stimulus for the real estate boom.

But the oversupply of land became a serious problem. About 600 land parcels were released between 1992 and 1995 to provide Grade-A office space for inward investors, on which the total office space produced is equivalent to what Hong Kong had produced in the past three-and-a-half decades (Huus, 1995; Chan, 1996). There had been a lack of strategic control because land resumption, leasing and redevelopment involved various government branches, existing land-users and developers.

During the land development process, local government plays an important role. It is usually responsible for relocating residents. The Chinese partner in joint-ventures sometimes also undertakes such a task. Without the support of the local state and the use of various land acquisition regulations, it is impossible to achieve prompt site clearance. Affected residents are usually compensated, but may not receive the market price. A number of government development offices were set up to co-ordinate the clearance of development sites. These offices, dependent on the nature of the specific project, are attached to different levels of government. For example, for the key infrastructure projects, such an office can be directly responsible to the mayor. In the Chengdu Road Elevation Project, the office played a critical role in land resumption. The project aimed to ease north–south traffic congestion by linking Chengdu Road to the inner ring road system (Wang and Li, 1997). The 8.45 km long project cut through four major urban districts—Huangpu, Jinan, Luwan and Zhabei—and relocated about 180 000 households and thousands of work-units. With the support of the development office and its branches in the four district offices, site clearance was promptly achieved and the project was successfully completed within only two years.

With active support from the governments, new space is created for development. As discussed earlier, the process is complicated, depending on the relative strength of participants. For the local governments, lack of capital is a severe constraint. Some innovative methods thus are invented. One is packaged development, or literally the sale of a *whole* plot of unserviced land. What is sold is only the right of claiming the large land plot, while developers are required to contribute certain infrastructure investment as the land premium. During the real estate boom, this measure induced speculative investments with the expectation of a land price rise. The lease of large undeveloped land plots has been particularly important to the development of new urban areas. In Pudong New Area, some 25 land plots were leased in 1993, equivalent to an area of 41.17 sq km. This is a significant increase from the 22.87 sq km of the previous 2 years.

Supply-driven land development was an outstanding feature of Chinese cities in the 1990s. But Shanghai experienced more orderly development than the medium and small cities in south China. Spontaneous, unregulated land conversion and the encroachment on rural land became a serious problem there (Wu and Yeh, 1997). However, the pace of land leasing in Shanghai is still subject to certain municipal controls. This is largely because Shanghai has a history of strict economic planning controls and a relatively large governing capacity. Although the control of land has been decentralised to the hands of district governments, Shanghai is still a single municipality, whereas in the Pearl River Delta multiple jurisdictions and fragmentation of governance have led to fiercer intercity competition. Nevertheless, considering the rapid growth of Shanghai, the speed of releasing land is still outstanding. In 1994, 620 land parcels, equivalent to 19.20 million square metres of development space, were leased, among which 452 parcels of an area 15.94 million square metres were leased to inward investors (Shanghai Statistical Bureau, 1995). From 1988 to the end of 1994, land leased to inward investments amounted to 1045 parcels, covering an area of 97.52 million square metres and the development space (exclusive of the whole-plot development) an area of 33.86 million square metres. Even after the tightening of land policy in 1995, 258 land parcels, amounting to an area of 6.4 million square metres, were still leased to inward investors and 239 land parcels of an area of 5.63 million square metres to domestic developers (Shanghai Housing and Land Administration Bureau, 1996).

Despite the rapid release of land, growth is still subject to the influence of local governments. The local forces are not simply responding to global change. In some cases, local government can initiate and usher development towards its desired direction. The redevelopment of the Bund is such an example. Shanghai Municipality perceived that a concentrated financial district was vital to the city's new status. In 1995, Shanghai municipal government promulgated the Regulation of Relocating Public-owned Buildings on the Bund. For the relocation of government offices, a specific development company was set up. Under the strong determination of the government, various departments and work-units have been moved out from the prestigious buildings used by foreign banks before 1949, including the famous Shanghai and Hong Kong Bank Building. Those buildings along the Zhongshan No. 1 Road were again transferred to international insurance companies, commercial banks, foreign investment banks, transnational corporations and other international services companies. Since then, several hundred financial organisations have been located in the Bund, including 38 foreign financial institutes, 68 foreign banks, 200 branches and representative offices, 273 domestic banks and about 10 investment trust companies (China Real Estate Market, 1996). The Bund redevelopment clearly reveals that the invasion and succession of land uses are hardly spontaneous, but are under the support of local governments. In the whole city, through the government's active promotion, financial institutions have doubled in number to 2700 since 1992 and many of the biggest names in international finance—Morgan Stanley, Credit Lyonnais and Dun & Bradstreet—have rented office space in the glittery new office towers springing up around the city (Yatsko, 1996).

The most effective resort in the promotional strategy is the direct use of public investment to develop major infrastructures, which will be examined more closely in the next section.

6. Massive Capital Inflow into the Built Environment

Since the State Council announced the development of the Pudong New Area and the recognition of Shanghai's strategic status, massive amounts of capital have been mobilised and injected into the built environment. This section will examine this capital inflow.

In the pre-reform era, infrastructure investments had been regarded as unproductive and thus constrained by strict planning procedures and the management of capital construction investment. In 1978, infrastructure investment in Shanghai was only RMB0.446 billion (Shanghai Statistical Bureau, 1997). However, investment in infrastructure has witnessed significant increases ever since. In 1991, Shanghai's Eighth Five-year Plan proposed 10 key infrastructure projects. Since then, infrastructure investment has increased at an unprecedented pace (see Figure 2). In 1991, the infrastructure investment was RMB6.14 billion. But this figure increased to 37.88 billion in 1996 (Shanghai Statistical Bureau, 1997). While it is difficult to trace the sources of investment, it is evident that the premium from land leasing became an important source. In 1993, some US$1.8 billion was raised in Shanghai from the leasing of land and the money was spent on improving urban infrastructure as well as compensating residents (Chan, 1996). Land-generated revenue can account for as much as 25–50 per cent of local revenue in some cities (Zou, 1998). This suggests a new mechanism for capital mobilising and reinvesting—namely, the extraction of land benefits and then, through massive state investment in infrastructure, an increase in land values and in turn more land premium generated. It is difficult to assess the exact amount of the input into urban development because the practice of land leasing encourages development companies to make in-kind contributions instead of cash land premiums. The

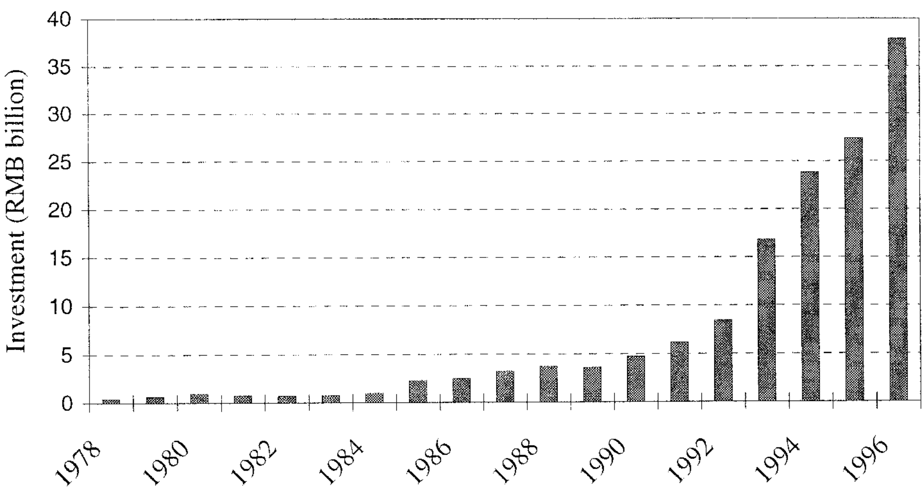

Figure 2. The growth of infrastructure investment in Shanghai, 1978–96.

actual urban-related investments must be much higher than the figure provided by the official statistics. But even the latter is enough to indicate the role of infrastructure investment in place-making.

The new public infrastructures have greatly improved the investment environment. By 1994, the 10 key infrastructure projects launched in 1991 had been completed. The opening of the Nanpu Bridge in 1991 and the Yangpu Bridge in 1993 greatly improved accessibility across the Huangpu River. The 16-km No. 1 Line of the subway system, opened in 1994, linked north and south Puxi at a cost of US$680 million. The project was the largest municipal project in Shanghai's history (Yeung, 1996). The inner ring road, circulating around Puxi and Pudong, was completed in 1994. At the same time, the city's new visions for the 21st century were under discussion. The municipality has prepared strategic development objectives for completion by the year 2010, which include the development of a modern highway system, port facilities and a new international airport in Pudong (Chan, 1996). Since 1990, Shanghai has entered an era of rapid urban growth and a building boom.

But a careful input–output analysis shows that such a rapid pace of urban growth is at the expense of shifting the tendency of investment from the production sphere towards infrastructure. To demonstrate such a shift, it is important to analyse the structure rather than the absolute volume of investment. More specifically, we calculate the ratio of input in infrastructure to the output of the economy. The ratio of infrastructure investment to the gross domestic product (GDP) has been increasing from 0.02 in 1978 to 0.13 in 1996 (Figure 3). This suggests that the speed of economic growth was backed up by increasing infrastructure investments. In other words, although Shanghai saw rapid economic growth in the 1990s, the capital injected into the built environment was at a much higher rate. Although the infrastructure investment is much needed to stimulate long-neglected urban development, the increasing ratio of the input to the output, if it continues in the long term, is worrisome. The ability of raising massive investment may not be sustainable because capitalising urban space is now influenced by market fluctuations.

The building boom was also indirectly fuelled by other sources of public invest-

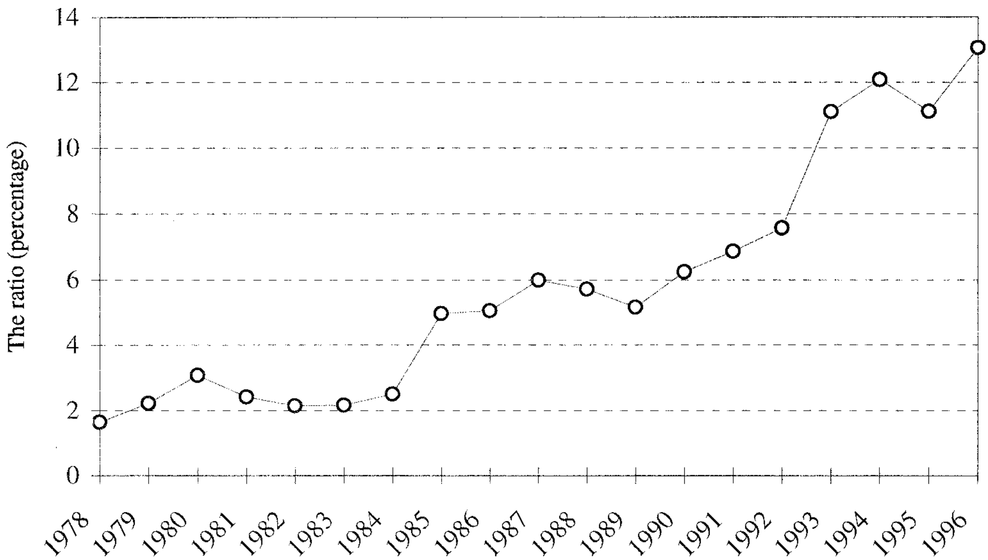

Figure 3. The changing ratio of infrastructure investment to GDP in Shanghai, 1978–96.

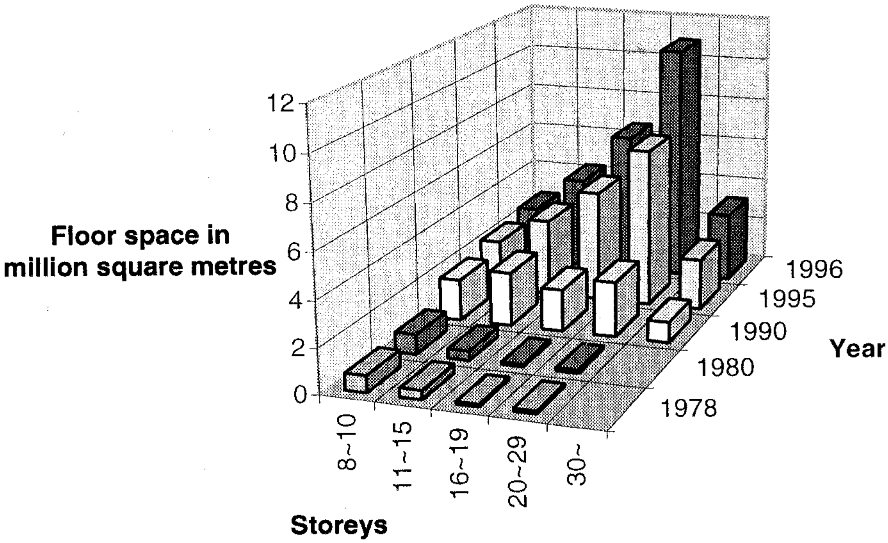

Figure 4. The changing urban skyline of Shanghai, measured by the floor space of buildings of over eight storeys, 1978–96.

ment. The persistence of the 'soft budget constraint' of socialist firms (Kornai, 1992) means that state-owned enterprises continue to play an important role in the financing of commodity housing consumption (Bian and Logan, 1996; Logan *et al.*, 1999). A large proportion of commodity housing was bought by the state-owned enterprises to redistribute to their employees at discount prices (Wu, 1996). The relaxation of planning control has led to the rapid expansion of the hidden housing subsidies and has thus constituted a channel for shifting capital from the production sphere to the built environment (Wu, 1999). While the hidden capital inflow is a subject for further research at a more micro level, it is evident now that the building boom can be attributed to local factors as well as global influences.

The massive capital inflow into the built environment dramatically reshaped urban landscapes. Shanghai's skyline changed. The profile of the number of buildings in terms of the height of the buildings is moving towards the three-dimensional. Figures 4 and 5 show the changes in the urban skyline of Shanghai from 1978 to 1996, measured in the floor space and the number of buildings over 8 storeys. In 1978, most buildings were under 10 storeys, while in 1996 buildings over 20 storeys amounted to 773 with over 11.62 million square metres of floor space. Shanghai now boasts Asia's tallest TV tower. Urban redevelopment is taking place throughout the city. Many old urban blocks are flattened and new skyscrapers erected.

7. Conclusion

Although Shanghai is not comparable with those cities at the top of the global urban hierarchy, the influence of globalisation is profound and pervasive. However, urban restructuring in transitional economies is not simply affected by the penetration of foreign direct investment and multinational corporations. Remaking Shanghai as a world city is also driven by local changes. The Shanghai case clearly shows a local dimension to globalisation—decentralisation of power, redefinition and redistribution of state land property, the incentive for and willingness to reorientate urban development strategies. All these are essential factors in urban restructuring. While these factors are narrated in separate sections, they are by no means

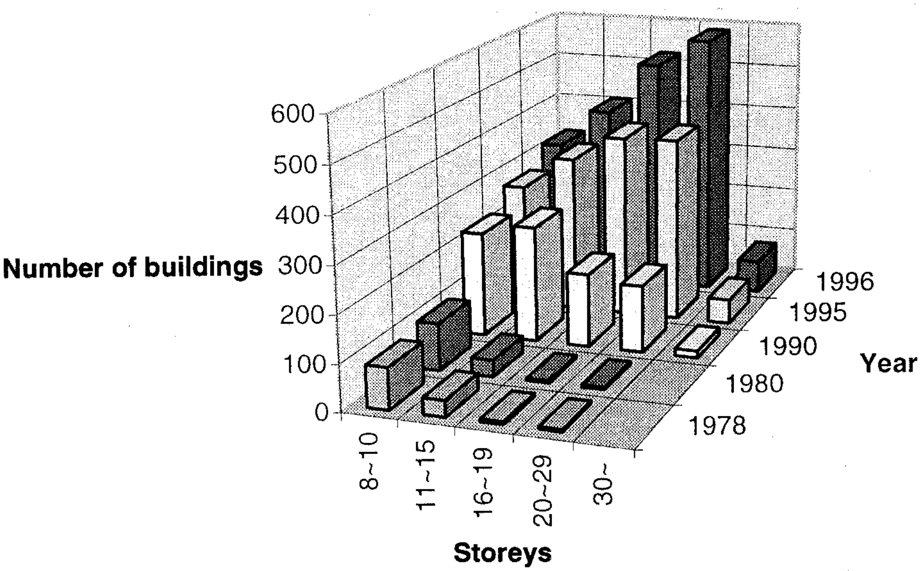

Figure 5. The changing urban skyline of Shanghai, measured by the number of buildings of over eight storeys, 1978–96.

disengaged. In fact, it is appropriate to see the city as a point situated in the space defined by these global and local axes. The politics of scale matters in this space (Cox, 1998b). Although these forces have their original spatial spheres of interest (or the space of dependence—for example, the overseas origin of foreign investment and the localised land property right), they have engaged in this particular space of place-making which can be referred to as the space of engagement (Cox, 1998b). The process of engagement is much like a game defined by the complex interaction between them, which can occur at a fixed local level and through the social structures and the territorialisation of politics (Cox, 1998a). The influence of global forces is filtered through and magnified by these structures. Inward investments not only provide the capital much needed in the boosting of urban growth, but also exert a perception or 'mentality' of how to promote a local economy. By making space available for globalisation, Shanghai—like other cities in market economies—attempts to secure a position in the global system. Such a connection is seen by decision-makers as vital for the city's capacity to face challenges from globalisation. In Shanghai, while the government is still heavily regulating urban development, there is reorientation of regulatory institutions. Thus, although inward investments are not predominant in quantity, they can set the tempo or pace of urban change.

Because local government is willing to make space available for globalisation, inward investments have penetrated the real estate sector. The ability to mobilise a large amount of ready money gives a competitive advantage to foreign investors. Developers enjoyed windfall profits at the beginning of land reform. This is in particular achieved through the change of land uses because of the rent gap between the present land price and the potential land value which facilitated urban gentrification, as in other market economies (Smith, 1996). This in turn became a strong incentive for the further inflow of capital into the real estate sector. The boom of property markets further gave a signal to the local governments who began to use various land-leasing instruments to extract land-related benefits and to reinvest the capital in the built environment. The rise of landed property values justified the need to use public money to back up major infrastructure projects because it was thought that investments would further be rewarded by the increasing return of land-related benefits. In the process, Shanghai adopted various promotional strategies which were examined in detail in this paper.

Nevertheless, behind the glittering skyscrapers, some problems associated with this promotional strategy have begun to emerge. There is a severe problem of high vacancy rates. The estimated vacancy rate varies, but could be as high as 40 per cent (1997). In Pudong, the vacancy rate reached 60 per cent of all grades of office properties in December 1996 and it was estimated that the figure could have been as high as 73 per cent of all grades and 70 per cent of prime buildings in December 1997 (Haila, 1997). The high vacancy rate seriously raised the question of whether the promotional strategy is sustainable. One direct consequence is the speculation of investment which siphoned capital from productive areas through work-units' purchase of commodity housing and involvement in real estate businesses. The vacant properties interrupt capital circulation and have negative effects on economic growth. Transitional economies should learn the lessons of the overreliance of government on the property industry as the vehicle for growth policy from advanced market economies (Fainstein, 1994). It must be realised that to the transitional economies, globalisation is a double-edged sword. In jumping to a larger scale of space, localities seem to be able to use wider and alternative resources to boost the local economy but, at the same time, this subjects the city to the mercy of market fluctuations to a greater extent. The recent Asian financial crisis has already had some effects on Shanghai's property markets—with decreasing overseas investment, particularly from the east and south-east Asian countries, the problem of property vacancy seems to be becoming worse. In a discourse on 'glossy globalisation', Marcuse (1997) sharply indicated the two other ingredients of today's globalisation—the concentration of private control over economic activity and the decline of public control over such activity, particularly public control at the local level. While urban development in Shanghai is still subject to strong government regulation, this study suggests the need for further investigation into the extent and the likely consequences of such development being embedded in transitional economies, in particular under the pervasive dualism of plan and market.

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