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How the City State Fares Under State Capitalism in the PRC: Local and State-Wide Reform

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**HOW THE CITY STATE FARES UNDER STATE CAPITALISM IN THE PRC:
LOCAL AND STATE-WIDE REFORM**

A thesis submitted in partial fulfillment
of the requirements for the degree of
Master of Arts

By
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Bachelor of Arts, Wright State University, 2007
2012
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WRIGHT STATE UNIVERSITY

GRADUATE SCHOOL

13 December 2012

I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER MY SUPERVISION BY Alex Gregory Elkins ENTITLED How the City State Fares Under State Capitalism in the PRC: Local and State-Wide Reform BE ACCEPTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF Master of Arts.

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ABSTRACT

Elkins, Alex Gregory. M.A., Department of Political Science, Wright State University, 2012. How the City State Fares Under State Capitalism in the PRC: Local and State-Wide Reform.

How do national political and economic policies impact the ability of cities to accomplish urban growth and economic goals? This study examines the state policies Shanghai operates under to assess the potential for software reform in China. Specifically, this study examines software by drawing on the corruption and rule of law theories of Larry Diamond and Randall Perrenboom. This study also uses Richard Florida's creative class theory to examine tolerance of lesbians and gay men in Shanghai and its impact on the city's priority industries. Additionally, this study examines Shanghai's placement on the 2008, 2010, and 2012 Global Cities Index and the political influence of the Shanghai Clique to assess the likely future of Shanghai from a comparative international perspective. This study concludes with a discussion of the potential for reform and implications of China's success or failure internationally through the scope of Andrew Nathan's theory of authoritarian resilience.

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List of Acronyms

CCP – Chinese Communist Party
CCGA – Chicago Council on Global Affairs
SAR – Special Administrative (or “Autonomous”) Region (i.e. Hong Kong and Macau)
WTO – World Trade Organization
PLA – People’s Liberation Army
GCI – Global Cities Index/Indices
NGO – Non-Governmental Organization(s)
PRC – People’s Republic of China
GDP – Gross Domestic Product
CCTV – China Central Television
USD – United States Dollars
PRPS – Public Recommendation and Public Selection
IPR – Intellectual Property Rights
SMG – Shanghai Municipal Government
SCB – Shanghai Cultural Bureau
CCYL – Chinese Communist Youth League
CCJQ – “*Chuangyi chanye jiju qu*” or “creative industry clusters”
GM – General Motors
IBM – International Business Machines
NEC – Nippon Electric Company
BASF – Baden Aniline and Soda Factory
FDI – Foreign Direct Investment
R&D – Research and Development
SOE – State Owned Enterprise
CITIC – China International Trust and Investment Company
SMSB – Shanghai Municipal Statistics Bureau
MPI – Martin Prosperity Institute
EU – European Union
NATO – North American Treaty Organization
WCO – World Customs Organization
ECO – Emerging Cities Outlook
PPRDZ – Pan-Pearl River Delta Zone
YRDR – Yangtze River Delta Region
MNC – Multi-National Corporations

Chapter 1: Introduction

“Within China, Shanghai has a special status. It is where Chinese people go to get a taste of Europe by taking a turn on the Bund, with its stone facades as backdrop, or walking down the planer tree-lined streets of the French Concession” (Merkel-Hess, Pomeranz, & Wasserstrom, 2009, p. 117)

Statement of Problem and Significance of Research Question

How do national political and economic policies impact the ability of cities to accomplish urban growth and economic goals and improve the lives of their citizens? In order to answer this question, I will examine some of the political, economic, and civil challenges facing the city of Shanghai and its attempts to become a dominant global city and the Asian economic super hub. This is important because many cities throughout the world face similar problems and challenges in their efforts to create sustainable growth and development. The results of this research will be useful to leaders at all levels of government as well as those in the private sector in developing policies and approaches for creating sustainable growth and development.

Literature Review

The city of Shanghai, since long before the 1949 communist revolution, has been very different from China’s more traditional cities, particularly Beijing. Known as the “crown jewel” of China, Shanghai is both the most industrialized and the most cosmopolitan city in China (Friedmann, 2005, p. 10). The very look of modern Shanghai is one that would remind a viewer not of a carefully planned and organized socialist

utopian city, but one of rapid expansion reminiscent of the western European and Manhattan style with sprawling business districts, skyscrapers, neon lights, and a seemingly non-stop cycle of construction at almost every turn.

Even during the Chinese Civil war (1912-1949), Shanghai's population had exploded to nearly twice that of Beijing, reaching 3.7 million inhabitants by 1937 (French, 2009, p. 118). As Rong and Lieberthal argue, Shanghai's growth was similar to that found in other fast-growing coastal areas, particularly the cities of Jiangsu, Fujian, Beijing, Zhejiang, where migrants made their way from inland China (Lieberthal, 2004, p. 182). Some 80 million modern migrants made their way from rural villages to larger cities following the reforms of the 1980s; Shanghai is estimated to have approximately 3 million of these non-permanent working migrants living within its city limits (Rong, 2003, p. 242). Although their estimate of the total movement is smaller, approximately 50-60 million (Jie & Taubmann, 2002, p. 184), Jie and Taubmann also cite the massive movement into the urban coastal cities, but add that this movement was a shock to many urbanites who worried these newcomers would threaten the traditional entitlements. Many migrants did not register with the local Public Security Bureau, making their presence both illegal, and a concern for administrators, who were faced with a large population of undocumented people that were beyond the state's control.

For many throughout China, the move to the city was short as Public Security officials in most areas began rounding up and forcing out what became known as the "temporary population" soon after their arrival (Friedmann, 2005, p. 63). As Howell notes, most temporary workers are not entitled to any of the benefits of being a permanent resident in most of China's urban areas including schools for their children,

housing, or health care. Coupled with unemployment and discrimination often perpetrated against migrants by urbanites, these disadvantages create the potential for social unrest and protests (Howell, 2004, p. 233), both things the Chinese Communist Party (CCP) is not interested in seeing. However, throughout the 1990s and 2000s, Shanghai began easing the rules on the migrant population including the provision of some services, particularly housing and health care. These policy shifts with regard to migrants within Shanghai illustrate the ever-fluctuating political relationship between the central government in Beijing and the city leaders in Shanghai. As Jai and Taubmann discuss, by the mid-late 1990s, migrant villages were springing up on the edges of the major cities (Jie & Taubmann, 2002, pp. 187-189). This served a dual purpose in that it kept a large labor force nearby to ensure the ability of the city to sustain a rapid economic growth rate and it provided another means of accommodating or housing the large migrant population.

For many of these migrants, survival is dependent on their ability to scavenge, remake, and resell anything they can in the vast, but vanishing, network of alleyways, backstreets, and open air markets that make up old Shanghai (French, 2009, p. 119). Like the much more publicized process of demolition and reconstruction that occurred in Beijing prior to the 2008 Summer Olympic Games, old Shanghai is being swept away to make room for the new and modern. Citizens who have taken notice are those who have been inhabitants of this part of Shanghai for most of their lives. For many of the planners, “metropolitanistas,” and foreign investors, this part of Shanghai is largely a relic of the pre-communist period, making the process and ordering of demolition all the more simple. Many Shanghainese have welcomed and cooperated in these efforts by

celebrating that which is new and forgetting the old and blemished (French, 2009). Shanghai's Pudong project is, without a doubt, the quintessential example of this process and the area of Shanghai that city leaders and leaders in Beijing have got behind with both their figurative and literal support. Pudong is an eastern district of Shanghai established in 1993 and administered by Shanghai Municipal Government. Prior to 1993, Pudong was mostly agricultural land, dotted with a few warehouses. Since then, Pudong has become a financial and commercial hub within China. By sweeping away the old Shanghai to make way for the new modern, finance-based, technology savvy, entrepreneur-magnet city, Shanghai has sought to build itself into the next powerhouse economy in Asia.

But is the process of becoming a financial and technological economic giant so simple? Even with a seemingly willing population, a vast amount of resources, more economic freedoms than any other city in China (save Hong Kong),¹ and the support of the central government, the city of Shanghai has quite a task ahead of it if it wants to become *the* center for financial and technological economic activity in Asia.

For a city to be considered "global", according to *Foreign Policy's* 2008 Global Cities Index, it must possess values that "shape the world" (Chicago Council on Global Affairs, 2008, 2010, 2012; hereafter referred to as "CCGA"). It should be home to the largest capital markets, top of the line universities and educational institutions, a well-educated and diverse population, and powerful international firms and organizations.

Sassen argues the global city "represents a strategic space where global processes

¹ Both Hong Kong and Macao operate as Special Administrative Regions (SAR) and are privileged with a much greater degree of autonomy from the Central Government. Article 12 of Hong Kong's Basic Law specifically lays out this provision. These regions still report directly to the Central Government in Beijing (Government of Hong Kong, 2009). By contrast, Shanghai is a Special Economic Zone. This means it is a provincial level city and, like the SARs, it reports directly to Beijing (Kuhn, 2010, p. 21)

materialize in national territories and global dynamics run through national institutional arrangements (Sassen, 2001, p. 347). Above all, global cities must be “making urbanization work to their advantage by providing the vast opportunities of global integration to their people” (CCGA). While Sassen would argue that Shanghai certainly meets the definition of a global city, it is a much more contentious question to ask if it has the potential to become one that is dominant or one that has the ability to outpace and outgrow its competition to become the financial and economic super hub of Asia.

Many authors point to the fact that Shanghai has the “hardware” to achieve its goals, but lacks the necessary “software.” “Hardware” describes the infrastructural upgrades the city has made with particular emphasis on airports, highways, public transportation, electricity, running water, fiber-optics and other modern and next generation technologies. Yatsko points to the ability of the Shanghai government to engage in “heavy government intervention” to install the necessary infrastructure, such as highways, water and sewer systems, convention centers, etc. But Yatsko also points to the city’s ability to provide services by hosting events, streamlining bureaucracy, and demonstrating responsive law enforcement (Yatsko, 2001, p. 294). In addition, Yang points out China’s World Trade Organization (WTO) accession in 2001, which allowed local leaders in Shanghai to halve the number of economic-related approval and licensing requirements normally required by the city (Yang, 2004, p. 158). All of these abilities are referred to as “hardware” in the discourse. By contrast, Yatsko notes that “heavy government intervention does not work well for building strong indigenous brands, encouraging entrepreneurship, nourishing innovation, and unleashing creativity in the market economy” (Yatsko, 2001, p. 294). Yatsko believes, in order for Shanghai to

continue growing throughout the 21st century, it must make greater strides to put these “software” ideas such as “free-flowing economic and business information”...increased transparency and accountability...intellectual and artistic freedom; greater political responsiveness to local constituents; and decision-making autonomy from Beijing into practice (Yatsko, 2001, p. 294). Many of these ideas, however, conflict with or at least worry the CCP as it perceives them as a threat its ability to maintain power (Yatsko, 2001). Kong agrees with this assessment and believes “the development of creative indigenous cultural products is stymied by the need to negotiate within a context where culture has been used as national propaganda to protect ideological positions” (Kong, 2007, p. 401). Essentially, Beijing and the political goals of its leaders may be hindering the ability of Shanghai to pursue these “software” objectives and achieve goals of global preeminence. By examining several areas where the clash of these goals has come to a head, we can see how Shanghai has fared when the city’s goals do or do not match the central government’s goals.

This dynamic is not lost on the leadership in Shanghai. In designing Shanghai’s reemergence in the 1990s, Shanghai city leaders and their allies within the CCP itself, particularly Jiang Zemin, had to remain constantly aware of the desires of foreign investors to operate in an environment that would keep those investors coming back to Shanghai (Yatsko, 2001). Yatsko points to Shanghai’s business oriented respect for intellectual property, or at least what can be interpreted as such, as an example. The problem for this approach is that there is little precedent in China for dealing with intellectual property rights. This became a prime issue for China, particularly when it sought and gained membership in the WTO (2001), and remains an issue to this day.

Thus far, Chinese courts have been willing to hear cases involving IPRs and take them seriously enough to seek higher expertise when necessary. This may develop with time as Shanghai continues to gain experience in the area (Yatsko, 2001). The problem here deals with the “rule by law Vs. rule of law” dynamic, and the understanding of the CCP that greater power being concentrated in law and the courts, as opposed to with the Party, will significantly diminish the CCP’s ability to govern unquestioned.

Another area that may continue to cause problems is the inability of Shanghai to develop “cultural capital.” Kong argues that Shanghai’s global city ambitions remain held back mostly by the inability of the city to foster entrepreneurs’ creativity, attract students and artists, and foster growth in indigenous cultural products. In other words, Shanghai’s economic growth, while tremendous, is almost wholly dependent on foreign investment, non-Chinese products and firms, and ideas that are not developed in China. As Kong states “...grand infrastructure alone is inadequate for any ambition; city, national, or global” (Kong, 2007, p. 402). Examining the issue from the national level, Yang writes “...the Chinese leadership’s emphasis has so far been on order rather than democratic ideals, technocratic control rather than popular participation (except at the grassroots level), governability rather than regime type” (Yang, 2004, p. 311). This emphasis on regime maintenance, order, and control rather than cultural capital growth policies illustrates this problem.

Shanghai’s primary efforts to become an internationally recognized and dominant global city, as orchestrated by the central government, particularly Jiang Zemin and his allies in the CCP, have been concentrated in the Pudong area of the city and, more specifically, in the Lujiazui Financial District, the central business district or

“international and finance zone” as it is known in Shanghai. This massive area, situated opposite of the famous Bund area, on the banks of the Huangpu River, was very different only 20 years ago. Until the early 1990s, this area was essentially comprised of sprawling industrial facilities, housing for workers, and farmland. Its transformation, along with similar trends in several other cities, has made China one of the most rapidly urbanizing countries the planet has ever seen (Marshall, 2003). Marshall demonstrates the carefully broken down and planned out districts of the Pudong area. The “free trade” zone is located in Waigaoqiao, “finance” in Lujiazui, “export processing” in Jinqiao, and “high-tech” in Zhangjiang (Marshall, 2003, p. 87). All of these illustrate Shanghai’s planned industrial and economic points of emphasis.

In addition to the economic and legal factors facing Shanghai, undoubtedly political and economic decisions made by CCP leaders in Beijing have a significant effect on the ability of Shanghai to accomplish its goals. Although political leadership in China is not explicitly attached to a particular position within the CCP structure, the leader generally holds at least one of three positions; General Secretary of the Central Committee of the Communist Party of China (party head), President of the People’s Republic of China (head of state), or Chairman of the Central Military Commission (commander-in-chief of the armed forces). Most notably, Deng Xiaoping, China’s second generation leader (1978 – 1991) never held the post of General Secretary of the Central Committee of the CCP. Jiang Zemin, Deng’s successor (1991 – 2002), held all three positions as leader, in addition to being the mayor of Shanghai and the Shanghai Party Secretary before his elevation to the Politburo. As a political entity, Shanghai is a mammoth within China and as more and more technocrats rose through the CCP power

structure throughout the late 1990s, a noticeable pattern emerged shining a light in Shanghai's favor.

It could be argued that ascendance to political leadership in China during the 1990s largely depended on connections to Shanghai. Jiang Zemin and his allies from the Shanghai area were originally and irreverently referred to as the "Shanghai Gang" by the Hong Kong press, and have come to be known as the "Shanghai clique" or "faction" (Wortzel & Scobell, 2004, p. 99). At the time, Jiang's appointment to the position of General Secretary in June of 1989 was not viewed as terribly significant in terms of his ability to wield power. The position of General Secretary itself was not considered the seat of power, but instead, as Chang describes, as "more of a clerk who had to please several elderly bosses" (Chang, 2001, p. 37). Jiang's ascendance to the position of paramount leader of China, however, indicated a shift in the traditional leadership of China as promoted most generally via the CCP and the People's Liberation Army (PLA). As a technocrat from Shanghai, Jiang was different from his predecessors in that he was not a revolutionary.² Whereas Mao Zedong (1949 – 1976), Hua Guofeng (1976 – 1978), and particularly Deng were able to govern largely through their personal influence and revolutionary legacy, Jiang's ability to govern was far more reliant on his masterful leadership capabilities and his ability to "wield power through his top leadership positions in the party, PLA, and government" (Chang, 2001, p. 40). Jiang's successful leadership led to the integration of his "Three Represents" theory into the CCP's Constitution at the 16th Party Congress, China's membership in the WTO, and Beijing's

² Jiang Zemin and the new generation of leaders in the 1990s did not struggle through formative events, particularly the Long March (1934-1936), as Mao Zedong, Hua Guofeng, and Deng Xiaoping had during the civil war and revolutionary period in China. For example: Jiang Zemin was born in 1926, making him 10 years old at the end of the Long March. Additionally, he would have been well beyond his formative years during the Cultural Revolution (1966 – 1976).

successful bid for the 2008 Olympics (awarded in 2001), all of which have solidified Jiang's ideas and contributions to China and the CCP as a leader and visionary alongside "Mao Zedong Thought" and "Deng Xiaoping Theory" (Zheng, 2005, p. 23).

Perhaps most importantly for Shanghai, however, was Jiang's ability as leader to place his Shanghai supporters and allies in positions of leadership during his tenure. The 16th Party Congress in 2002 saw the first peaceful leadership transition in China's history, but it was not without political maneuvering. Jiang Zemin's allies, among them Zeng Qinghong (also a leader of the so-called "princeling group, aka "*Taizidang*"), He Guoqiang, Liu Yunshan, Jia Qinglin, and Huang Ju were very quickly reshuffled into elevated positions of power within the CCP on the eve of the 16th Party Congress. All five men would subsequently serve on the Political Bureau or the "Politburo Standing Committee" of the CCP (Zheng, 2005, p. 26). Following the successful transition of power from Jiang to Hu, the former could rest assured that he held significant influence over six of the nine members of the Politburo Standing Committee. In addition to Wu Bangguo and Li Changchun, these men, all allies of Jiang and many having served alongside him in Shanghai, comprise the powerful "Shanghai Clique" (Bachman, 2003, p. 122).

Initially, the Shanghai Clique's ability to control and contain Hu Jintao was very much apparent. As Zheng points out, "Although Hu Jintao ranks highest in the Political Bureau Standing Committee, he lacks factional support" (Zheng, 2005, p. 18). The non-Chinese media's initial portrayal of Hu was as a "hapless leader under Jiang's shadow," as demonstrated by the headlines "Hu's in charge?" (*Time (Asia)*, Nov. 25, 2002), "Hu pledges to confer with Jiang on issues" (*International Herald Tribune*, Nov. 21, 2002),

“The Shanghai faction consolidates its grip on power” (*South China Morning Post*, Nov. 15, 2002), and “Is Hu going to be a Lame-Duck leader?” (*The Sunday Times*, Nov. 17, 2002) (Zheng, 2005, p. 18).

Lam argues that factional politics between Beijing and Shanghai came to a head in 2004 during the macro-level adjustment and control campaign to cool down the economy. Lam attributes Shanghai’s resistance to the Shanghai Clique and ex-leader Jiang. Shanghai’s municipal leaders resisted the central government and Wen Jiabao’s calls to “comprehensively implement the decisions and steps of the central authorities” with regard to the macroeconomic controls and adjustments. Municipal leaders in Shanghai maintain that many of the new initiatives that were to be put on hold by the central government’s policies were crucial to Shanghai’s hosting of the 2010 World Expo (Lam, 2006, pp. 53-54).

Over time, however, the influence of Jiang and the Shanghai Clique has diminished, largely due to factionalization of the Shanghai Clique and the full retirement of Jiang Zemin in September 2004. There are now two groups comprising Jiang’s “Shanghai Clique.” The first is the original Shanghai gang, comprised of Wu Bangguo, Zeng Qinghong, and the late Huang Ju. The second is the group of Jiang supporters comprised of Jia Qinglin, Li Changchun, and Wu Guangzheng. Infighting among these two factions has erupted from differences between their desires to remain loyal and their duty to the respective institutions and positions they hold. Additionally, as Hu solidifies his power, it is not inconceivable that several members of the Shanghai Clique, while initially making Hu’s job very difficult, may seek to gain his favor in order to ensure their continued political viability (Zheng, 2005, p. 18). Furthermore, numerous members of

the Shanghai Clique retired at the 2007 CCP Congress and many others with unpopularity to Jiang are expected to fade away politically over the next few years (Lam, 2006, p. 286). Undoubtedly, this decline will make it more difficult for Shanghai to implement the policies it would like without significant constraint by the central government, but the degree to which it will affect the city's ability to pursue its goals is yet to be seen.

There is little doubt that Shanghai's "economic steamroller" is at the heart of the city's seemingly never-ending cycle of "tear down and rebuild" construction, but it is also leading the charge of greater China's miraculous economic growth. The CCP's ability to govern China without electoral approval from citizens has permitted Shanghai's leaders, with assistance from powerful political forces in the central government, to manage the city's growth while building the necessary functional infrastructure to ensure the city remains an attractive destination for foreign investors, often at the expense of the native Shanghainese.

As Shanghai continues its march toward victory over its domestic and foreign rivals, status as China's most prominent city, recognition by the world as the central hub for Asian commerce, and dominant global city status, what consequences are left to be considered for the political, economic, and civil governance of the city and of the rest of China? How can the city of Shanghai's administrators and planners adapt their political, economic, and civil policies to accommodate Shanghai's rapid growth and international investors while maintaining the political support of the central government in Beijing?

Hypotheses

Based on the literature, I will make several forecasts as to the outcomes of this study. I believe the ability of Shanghai to continue economic growth is unquestionable. As the rest of China continues to grow (perhaps at a slower rate than that of Shanghai), and its population urbanizes, there is little doubt that Shanghai will continue to be a leading economic powerhouse in China. As to global aspirations and even domestic aspirations of economic dominance however; Shanghai faces numerous challenges that will be difficult to overcome.

1. *Hypothesis One*: Through this study, I expect the idea of “software” to play a prominent role in Shanghai and its leader’s abilities to achieve their goals. I anticipate that a closer look at Shanghai’s real estate, financial, and technological sectors growth throughout the 1990s and early 2000s as well as Shanghai and the central government’s policies toward gay and lesbian individuals, using Richard Florida’s theories on cultural capital, will be particularly revealing with regard to the city’s abilities, or lack thereof, to produce “cultural capital” and domestic, local entrepreneurship.
2. *Hypothesis Two*: While the issue of “software” will play a prominent role throughout this study, I anticipate finding other challenges to Shanghai and its leaders. Notably, I expect that an analysis of the competition from other cities for investment and cultural prominence via the 2008, 2010, and 2012 Global Cities Indices (GCI) will demonstrate a challenge that may be too difficult for Shanghai’s leaders to overcome in order to achieve their goals.

3. *Hypothesis Three*: Finally, I expect the political rivalry between Shanghai and Beijing and the occasional rifts this has produced within the CCP leadership, especially during the transition period between Jiang Zemin and Hu Jintao (approximately 2002 – 2004), will be particularly revealing as to the degree of political influence Shanghai has lost within the central party leadership since 2002 and thus, the degree to which the city’s autonomy may have been reduced.

Methodology

For this analysis, a case study of the city of Shanghai will be used to examine the interaction of urban growth and national government policy outcomes within the People’s Republic of China (PRC) to determine what affect the interactions of these policies have on the ability of the city government to accomplish one of its primary goals: that of gaining recognition as *the* dominant Asian global city.

In measuring what being a “global city” entails and where Shanghai currently stands in relation to being considered the dominant Asian global city, this study will examine data from the 2008, 2010, and 2012 GCIs. The GCIs rank cities based on 24 measures³ spanning five dimensions for qualification. The five dimensions are Business Activity, Human Capital, Information Exchange, Cultural Experience, and Political Engagement. The Business Activity dimension measures cities on the number of Fortune Global 500 Headquarters and Top 40 Business service firms, the size of stock and commodities markets, flow of goods, and number of industry conferences within the city.

³ The 2008, 2010, and 2012 GCIs differ slightly, as the 2010 and 2012 versions add an addition dimension, censorship, to the study, giving it 25 measures.

The Human Capital dimension takes into account data on the top universities, number of international students and inhabitants with university degrees, size of foreign-born population, and primary and secondary international schools. The Information Exchange dimension focuses primarily on news and information availability and exchange with measures on bureaus of global publications, coverage of international news, and broadband penetration. The Cultural Experience dimension measures the number of international visitors, performing arts venues, international shows and sporting events within the city as well as the diversity and quality of the culinary scene. Finally, the Political Engagement dimension measures the city's global and domestic political influence by measuring the number of embassies, consulates, international organizations, think tanks, international policy conferences, sister-city arrangements, and investment promotion agencies and non-governmental organizations (NGOs) in a particular city (CCGA).

Methodological Justification

Ragin provides justification for case study methodology. As with all case-oriented studies, the goal of this examination will be both historical interpretation and causal analysis of the case of Shanghai (Ragin, 1987, p. 35). As case studies are designed to seek out patterns of invariance and constant association, this particular case study will seek out patterns of association with regard to the political, economic, and civil policies of the local Chinese leadership in Shanghai and the national policies set by CCP leaders in Beijing. Using the data in the 2008, 2010, and 2012 GCIs as indicators, this study will develop a theory to explain the hurdles facing Shanghai in light of the city's goal of

recognition as the dominant Asian global city and financial super-hub while providing potential prescriptive alternatives to policies and practices preventing progress in these areas.

As this study is interested in identifying and explaining what may be a combination of conditions or causal complexities that are producing the outcomes indicated by the data, examination of the entire case as a whole will yield the greatest insights. This differs from a statistical approach, which might examine a large number of observations, but allows the investigator to understand the relational aspects only in the context of analysis of the entire population or sample (Ragin, 1987, pp. 51-52). Additionally, the limited nature of reliable data to examine in this case makes a case study the best approach even according to this method's critics, particularly Lijphart.⁴

Lijphart and others⁵ have argued that the case study method does not—or does so very poorly—provide the researcher with the ability to control for disruptive third variables. Van Evera, however, disagrees, citing several methods available, including congruence procedure and process tracing, which allow for researchers to control for third variables (Van Evera, 1997, p. 52). In addition, Van Evera argues that the strengths of case studies offset these weaknesses in their ability to capture evidence that may not be observed by or considered in other methods (Van Evera, 1997, p. 54). The case study method, combined with causal hypotheses, has the ability to focus and guide descriptive investigation even if causal inferences, in the end, cannot be gleaned (King, Keohane, & Verba, 1994, p. 45).

⁴ See Lijphart, "Comparative Politics and the Comparative Method," pp. 691.

⁵ Stephen Van Evera presents this view. See Van Evera, *Guide to Methods for Students of Political Science*, pp. 51.

Chapter Outline

Chapter one will serve as an introduction to this study. The objectives of chapter one will be to review the literature and history of the issues this study will be examining, and make the case for this study's focus on the case of Shanghai. Chapter one will provide a short history on the city of Shanghai itself and its development since before the 1949 revolution. Chapter one will also detail the direction planners and leaders in Shanghai and CCP leaders at the national level have been moving in and what their goals have been throughout the 1990s. In short, despite the fact that several other cities in China are experiencing growth similar to Shanghai's, Shanghai has been China's forerunner as evidenced by its growth throughout the 1990s and early 2000s. That is to say, Shanghai is not such a unique case that it bears no relevance as a case study for other cities within China or globally. This background is fundamental to drawing out Shanghai's administrative initiatives contemporaneous with national initiatives and vice versa, and will aid in the discussion throughout the remaining chapters.

Chapter two will focus on the concepts of "hardware" and "software" as components of development and growth within Shanghai. This study's analysis will focus on two particular areas of "software" and detail their importance to Shanghai's continued success. Particularly, this study will focus on the concepts of software in battling corruption and in creating a "creative class" (Florida, 2002) within Shanghai to encourage development of domestic products and services, or goods that are inherently "Chinese."

Chapter three will examine the competition region to region, country to country, and city to city, that Asia, China, and Shanghai face, respectively. The author's original

analysis of the 2008, 2010, and 2012 GCIs will be used to comparatively illustrate trends and patterns among regions, countries, and cities the indices rank.

Chapter four will shift focus to the political challenges facing Shanghai, concentrating on the political tensions between the Shanghai Faction and various other alliances within the CCP. I will focus on two particular cases. First, I will discuss political leadership in China detailing the tenure of Jiang Zemin and the rise of the “Shanghai Clique” and the challenges facing those leaders following the rise of Hu Jintao. Second, I will examine the rise and allegiances of the probable next paramount leader of China, Xi Jinping, and attempt to forecast Shanghai’s fortunes under Xi’s leadership.

The fifth and final chapter will tie the ideas of the previous chapters together to demonstrate this study’s findings and forecasts for the future of the city. Chapter five will recap the idea of “software” as it relates to Shanghai and Richard Florida’s theory of creative class. Additionally, Chapter five will recap Shanghai’s political and economic relationship with the rest of China and the world. Finally, Chapter five will detail this study’s conclusions with regard to the hypotheses as they relate to Shanghai’s goals of becoming a dominant Asian global city while building upon existing theories, particularly those relating to authoritarian resilience, to explain the relationships between Shanghai’s building of “software” and the policies of the CCP.

“A Certain Point of View:” Historical and Political Perspective (1949-1989)

The beginning of state-socialist China in October, 1949 ushered in a new era for Shanghai, which had become *the* cosmopolitan city of the east. When communism made

its way to Shanghai, one of the first changes to occur was a mass exodus of foreigners. Since the Treaty of Nanjing was agreed to, ending the first Opium War in 1842, foreign nationals had made Shanghai their destination of choice for expanding trading, shipping, banking, manufacturing, and other commerce activities in the East (Li, Tse, & Ganesan, 1999, p. 45). By 1949, Shanghai had “14 foreign banks, 128 government-owned and privately owned banks, 13 trust companies and 70 money exchangers,” operating within the city (Li, Tse, & Ganesan, 1999, p.45). Prior to October of 1949, local residents and foreigners cooperated to build a city and commercial center that stood as a model of Chinese ingenuity, success, and entrepreneurship. Communism brought about a mass exodus of foreign nationals, business elites, and investors, many of whom fled to Hong Kong, Taiwan, or the United States to escape the crackdown on all things capitalist. Mao’s new government in Beijing began by appointing non-Shanghai officials to leadership positions in Shanghai in order to bring the city into the communist fold. Nationalizing private companies, cracking down on capitalist institutions and vices, including prostitution and gambling, and bringing tight communist control over the arts scene in Shanghai were the primary priorities of the new communist leaders of Shanghai. Lost internationally as a global metropolis and center of commerce, the question of whether or not Shanghai’s days of prominence were over was very real for those observing from the outside (Yatsko, 2001, pp. 13-14).

But Mao and the newly empowered CCP knew very well that without Shanghai, a socialist paradise in China could not be built, nor could it prosper. Shanghai’s skilled laborers maintained China’s largest industrial base and were known for their technical and management abilities in turning out large numbers of high quality goods. Many of

these laborers were taken to other parts of the country to train and help put the rest of China's unskilled labor to work. Shanghai became one of the driving forces behind much of China's ability to implement a socialist system and integrate state planning into the economy (Yatsko, 2001, p. 14). Shanghai's prosperity however, would begin a gradual decline from 1949 through the early 1980s as light and heavy industry became central to the planned economy that placed priority on production of goods rather than the provision of services (Li, Tse, & Ganesan, 1999).

Perhaps no time in Shanghai's history, or China's for that matter, was more chaotic than the period Mao christened "The Great Proletarian Cultural Revolution" from approximately 1966 to 1976. During this period, Mao ordered Red Guards, usually young people, to make their way from the cities into the countryside attacking counter-revolutionaries and initiating violent clashes on the streets of many of China's major urban population centers. Police were ordered to stand down and allow the Red Guards to persecute anyone they viewed as "counter-revolutionary" or "not sufficiently revolutionary" (Lieberthal, 2004, pp. 112-116). Newspapers in Shanghai reported that the Red Guards' mission was to "rid the country of the 'Four Olds': old culture, old customs, old habits, and old ways of thinking." The precise definition of what this meant was left up to the Red Guard members to determine, which led to violent clashes between factions of Red Guards throughout this period (Cheng, 1998, p. 240).

These violent clashes were however, somewhat subdued in Shanghai. According to Yatsko, "...the battles between Red Guard factions usually were not as violent [in Shanghai] as in cities like Beijing, Wuhan, and Chengdu and the city's residents returned to work more quickly than in many other parts of the country" (Yatsko, 2001, p. 14).

Despite its resilience during the Cultural Revolution, Shanghai's decline under communism was apparent by the late 1970s as the city's growth had stagnated since 1949, largely due to the redistributive policies of the central government.⁶

The 1980s, although widely viewed as a period of reform and the beginning of China's re-opening to the world, were not kind to Shanghai. Initially, Deng Xiaoping's economic reforms and the central government's attention were largely focused in South China, particularly the cities of Shenzhen and Guangzhou, not Shanghai (Chen, 2009, p. xvii). In 1980, Shanghai provided one eighth of the total industrial output of China. Additionally, Shanghai accounted for one fourth of China's exports and produced one sixth of the central government's revenues, an amount unmatched by any other city or province (Yatsko, 2001, p. 15). The period of 1982-1986, however, showed Shanghai's industrial output growth fall from the average 11.3% (since 1949) to only 7.5%. By 1991, Shanghai was responsible for only one-fourteenth of China's industrial output, a decline from one-eighth (Yatsko, 2001, p. 15).

Shanghai's citizens and city officials throughout the 1980s faced a crumbling infrastructure as most of the city's roads, housing stock, transportation, and sanitary systems dated to the pre-1949 period. For example, transit within Shanghai during the 1980s was a challenge in itself. As Yatsko describes: "Although 18 times more people rode the city's buses at the end of the 1980s than in 1949, there were only four times more buses," (Yatsko, 2001, p. 16). With so little funding going into infrastructure and capital investment, what little funding Shanghai did receive from the central government

⁶ The Central Government policy of redistributing much of Shanghai's economic, technical, and labor resources is widely blamed for the decline of the city under Communism. For example, from 1949 to 1985, the central government received 350 billion yuan (approximately US\$40 billion) in revenue from Shanghai, but the city only received 3.5 billion yuan (approximately US\$44 million) in return for construction of infrastructure (Chen, 2009).

or kept for itself⁷ was spent in large part on manufacturing and industrial improvement and expansion, while neglecting housing, sanitation and health systems, transportation, and other infrastructural priorities.

Despite Shanghai's decline in the 1980s, Deng Xiaoping's economic reforms went forward throughout the decade as China began its post-Mao reawakening. Deng's goal for reform was to be able to move China in a new direction while avoiding mass upheaval (Lieberthal, 2004, p. 128). One of the first changes that took place for Shanghai was in 1984 when it and 13 other coastal cities were designated as "open port cities" that would become the receiving points for foreign investment and technology transfers from developed countries. In 1986, the government in Shanghai designated three areas (with the permission of the central government), Hongqiao, Caohejing, and Minhang, as development zones in order to attract foreign investment, particularly in the financial and industrial sectors. It was not until April 1990 when the Shanghai government designated the Pudong area as a development zone that a new and revitalized Shanghai became a potential reality (Li, Tse, & Ganesan, 1999, p. 46).

In addition to Shanghai's economic troubles throughout the late 1970s and 1980s, it suffered from not having political clout in Beijing. Hua Guofeng, Mao's successor following his death in 1976, had Mao's wife and three of her allies (popularly reviled as the "Gang of Four"), all of whom had strong ties to the city of Shanghai, removed from their positions of power. Their replacements, staunchly favorable to Hua, went about purging allies of the so called "Gang of Four" from the ranks of political power in Shanghai and replacing them with more conservative members of the CCP. By the time

⁷ From the period of 1949 to 1985, approximately 85% of Shanghai's revenues went to the central government (Theroux, 1998, p. 254)

Deng came to power and was attempting to institute economic reforms in December 1978, he was forced to overlook Shanghai because of the opposition from its conservative leadership. By 1980, most of the Hua supported leaders of Shanghai were gone, but in their place Shanghai was left with leaders lacking political clout in Beijing. Notably, Shanghai Mayor Wang Daohan lobbied for a new special economic zone to be opened in Pudong long before 1990, but his efforts ultimately failed due to his lack of political influence in Beijing (Yatsko, 2001, p. 20).

Shanghai's fortunes began to change for the better starting in 1985. As previously mentioned, the new economic zones that were permitted to be opened by the central government showed some promise, but were not significant when compared to the treatment of other southern cities, particularly Guangdong and Fujian. The appointment of officials from Beijing who were well educated and connected politically to leadership posts in Shanghai gave the city a strong voice in Beijing once again. One of these leaders was Jiang Zemin, whose initial posting as Mayor of Shanghai, and subsequently Shanghai Party Secretary, put him in a prime position to lobby the party leadership in Beijing for the development of the Pudong area. In addition, by 1988, he and Zhu Rongji had sweetened Shanghai's financial deal with the central government regarding revenues, allowing the city to keep all revenues that exceeded an agreed amount (Yatsko, 2001, pp. 20-21).

The protest of spring 1989, as tragic as the outcome was, probably did more to bolster the cause of Shanghai than harm it. As Party Secretary, Jiang Zemin, along with Zhu Rongji, the new mayor of Shanghai (who went on to become a very popular Prime Minister), kept the student protests in Shanghai well under control during the protests

throughout the spring of 1989. Rather than dispatch the army or the police to handle the student protestors, Zhu dispatched approximately 100,000 of the city's state-owned enterprises' workers into the streets of Shanghai to calm the protestors. By contrast, the events of June 4, 1989 in Beijing saw the violent suppression of the protestors in Tiananmen Square and the surrounding streets by the police and military, which earned some Chinese leaders the title "butchers of Beijing." To their credit, Jiang and Zhu are generally held in much higher regard than their Beijing counterparts for their handling of the situation in Shanghai (Yatsko, 2001, p. 21).

Despite his successes in Shanghai during the 1989 protests, Jiang was not Deng's first choice for succession. Hu Yaobang,⁸ Deng's first protégé, helped Deng carry out economic reforms following his promotion to a number of powerful positions within the CCP by Deng, including General Secretary of the Secretariat, Chairman of the CCP,⁹ and General Secretary of the Central Committee. By the early 1980s, Hu's power in China was second only to Deng's. During the mid-late 1980s, Hu began promoting a series of political reforms, including direct voting in the Politburo, elections with more than one candidate, greater transparency and accountability, and public consultation on some issues. This was coupled with a number of anti-corruption campaigns which targeted the sons and daughters of several top party leaders. Not surprisingly, many of the more conservative party leaders, particularly the older revolutionaries, were enraged by Hu's seemingly anti-Maoist proposals leading Deng to dismiss him in 1988 (officially, Hu "resigned"). Liberal reformers found Deng's dismissal of Hu unacceptable, despite his replacing Hu with Zhao Ziyang, a close ally of Hu and Deng's second choice for

⁸ Hu Yaobang was also a close ally of Xi Zhongxun, the father of Xi Jinping. Hu Yaobang had no relation to Hu Jintao.

⁹ A position he worked to abolish in 1982 in an effort to move China away from Mao

succession. However, the political climate in China was already souring as Zhao faced an all out showdown against the politically powerful conservative faction, headed by Li Peng and Yao Yilin, which was deeply opposed to Zhao's reformist policies. When Hu died in 1989, reformers mourning his death renewed calls for political reforms and anti-corruption policies which blossomed into the nationwide student protests. Zhao, now second only to Deng, was viewed by many of Deng's followers as too tolerant of the protestors at best, and as an instigator and organizer of the protests attempting to drive Deng and the revolutionary-period party leaders from power at worst. Early the morning of 19 May 1989, Zhao appeared in Tiananmen Square¹⁰ and urged the more than one million protestors to end the protest and disperse. The next day, Premier Li Peng's announced the government was declaring martial law and the military was mobilized. Zhao was subsequently stripped of all of his positions, arrested, and placed on house arrest where he remained until his death on 17 January 2005. Zhao was replaced in the General Secretary position by Jiang Zemin, the former Shanghai Party Chief and Deng's third succession choice (Hutchings, 2003, p. 161), (Becker, 2005), (Pan, 2005).

Despite the circumstances leading to Jiang's selection as Deng's successor in 1989, the elevation of one of Shanghai's own was certainly good news for the city, and the early 1990s brought more good news for Shanghai, including the launching of the Pudong project in April of 1990, the central government's granting of numerous preferential policies, the establishment of a free trade zone, permission to establish new service industries, and the ability to attract foreign banks (Yatsko, 2001, p. 21). The

¹⁰ Zhao was accompanied by Wen Jiabao, who would go on to become a member of the Politburo Standing Committee and Premier of the PRC.

projects involved in the development of the Pudong area itself were of tremendous importance to the investment in infrastructural improvements Shanghai needed.

With the economic focus now on the Shanghai and Pudong area, the “Pearl of the Orient” was set to reemerge as China’s national economic champion, regional hub, and global contender. The 1990s and early 2000s were an exciting, but sobering time for Shanghai and its leaders, however, as realizations began to set in that China’s new economic plan was not without its own problems and pitfalls.

Chapter 2: Software Development in Shanghai: Combating Corruption and Creating a Creative Class

...Shanghai's fixation on building the hardware or physical infrastructure of an international economic hub, while undervaluing the importance of the necessary software, including a fair and effective legal system, access to accurate information, and market-oriented corporate incentives. Unfortunately, nurturing software in some cases takes more than time; it takes difficult reforms that reduce the Communist Party's power. Shanghai in this regard is not so different from other Chinese cities, but then again, other Chinese cities are not vying to be "a leader in the world." (Yatsko, 2001, p. 12)

The fate of modern Shanghai could be traced to the 13th CCP National Congress in 1987 and General Secretary Zhao Ziyang's plan for the development of China's coastal areas. Zhao, described the Pearl River Delta in Guangdong Province and the Yangtze River Delta around Shanghai as two "dragon heads" that were to be the driving forces behind the development of China's southern (Guangdong) and eastern (Shanghai) coasts. Summarized as "Two heads facing abroad; big imports, big exports," the policy focused China's economic reform policies on catching up to an economically powerful Taiwan and realizing Deng Xiaoping and Zhao Ziyang's goals of nudging China's socialist system in the direction of market economics (Kuhn, 2010, pp. 56-57).

This chapter details two particular aspects of "software" and demonstrates the consequences of neglecting them for Shanghai's economic development and modern situation. Furthermore, this chapter will illustrate areas where Shanghai is making improvements to its software with regard to those two particular aspects.

The Shanghai of the mid 1980s was in dire shape. For the city to be resurrected, it would need to “update core infrastructure,” by addressing issues of housing, of which it lacked sufficient amounts, traffic jams, communication infrastructure, as well as a growing problem with pollution (Kuhn, 2010, p. 224). When Jiang Zemin became the mayor of Shanghai in 1985, his focus immediately became addressing the most pressing issues, particularly food and housing, but he also recognized the need for Shanghai to dramatically improve its transportation infrastructure. In order to do this, Jiang focused on three particulars of transportation: land, air, and sea, by presenting plans to construct a new railway station and a new passenger ship terminal, as well as further develop and expand Shanghai’s international airport (Kuhn, 2010, p. 225).

Jiang’s presentation of Shanghai’s Comprehensive Plan less than one year into his term indicated his strong commitment to the revitalization and reform of Shanghai’s economic steamroller. The plan itself had three areas of focus where Jiang had placed Shanghai’s hopes of rebounding. The largest area was the central urban area including what has become known as Pudong (literally meaning “east of the Huangpu,” one of the rivers that flows through Shanghai). The idea was to have this large area be developed along with seven surrounding satellite cities and towns and other further outlying towns and villages while connecting all of these areas by high speed trains and highways and establishing a ring of roadways to connect the satellite cities (Kuhn, 2010, p. 225). For both Deng and Jiang, Shanghai had become a priority, and both men placed their bets on Shanghai’s ability to mount what amounts to the one of the greatest comeback stories of the 20th century.

In order to achieve this comeback however, it became imperative that Shanghai's "hardware" or infrastructure and ability to accommodate economic development be improved dramatically. Pudong's development was revealed to the world in April of 1990 as "not just a local plan, but a major strategic decision of the central government" (Kuhn, 2010, p. 225). By December of 1990, it was decided that work would begin on the Lujiazui Financial and Trade Zone of Pudong. This area, while small at only 1.7 square kilometers in area, was to become the new symbol of Shanghai and of Chinese modernization.

Development of the area required heavy investment in Shanghai's hardware infrastructure as investors would want first class buildings and facilities as well as modern public infrastructural installments including roads, water, public transit, and housing. From 1990 to 1995, infrastructure costs totaled US\$3 billion (Li, Tse, & Ganesan, 1999, p. 46).

These elements of "hardware" and infrastructural upgrades were, in the grand scheme of things, not considered difficult. Much as Beijing was unhesitant and hasty about the relocation of residents and construction of infrastructure for the 2008 Olympic Games, so too was Shanghai largely unfazed by the demonstrations by citizens who were to lose their homes due to new construction associated with the growth and infrastructural improvements. In fact, the Chinese press and Public Security Bureau did their best to cover up the demonstrations (Yatsko, 2001, p. 35). Thus, throughout the 1990s, a massive plan to rebuild Shanghai's infrastructure took place where old neighborhoods were flattened and citizens relocated to make room for highways, bridges, roads, a light

rail system, digital telecommunication lines, office complexes, an expanded airport, and additions to the port area (Kong, 2007, p. 387)

The more difficult task for Shanghai would ultimately be the city's ability to create an atmosphere where investors felt comfortable and confident that their investment in Shanghai (and China) would pay off. Additionally, aside from the large amount of foreign investment and multinational enterprises whose investment the city was hoping to attract, Shanghai's environment itself would need to foster the growth of a creative culture of artists and entrepreneurs who would be at the core of creating domestic products, entertainment, and art unique to Shanghai and China. In order for this to happen, Shanghai would need to update what has come to be known as "software." As Yatsko describes, software includes ideas such as "free-flowing economic and business information"...increased transparency and accountability...intellectual and artistic freedom; greater political responsiveness to local constituents; and decision-making autonomy from Beijing (Yatsko, 2001, p. 294).

Because an analysis of all of these ideas would require volumes, this study will examine two particular aspects of this description: Anti-corruption/Transparency and accountability efforts and the promotion of intellectual and artistic freedom as it relates to stimulation of cultural capital and economic growth.

Transparency and Accountability

Crucially important to Shanghai, and indeed China's continued growth, are efforts to combat both real corruption and publically perceived corruption within the CCP. Widespread corrupt acts by members of the CCP, be they politicians, judges,

administrators, or police, severely undermine rule of law (Diamond, 1999, p. 52). For the CCP, maintenance of the regime's legitimacy and China's economic growth in the face of change, both political and economic, is crucial; thus, so is the creation and continuous improvement of a mechanism, such as rule of law, that, while limiting or confining the power of the CCP, allows for both a legal system that enhances fairness and equality among Chinese citizens, and a system of administrative law that assures fairness and competent governance to foreign investors (Peerenboom, 2006, pp. 59, 72-73). Of particular importance for Shanghai is the ability to attract foreign investment. In order for this to happen, Shanghai, and the Pudong area specifically, would need laws and practices that were in line with international standards. This meant effective and clean government, as well as transparent, fair, and standardized administration (Kuhn, 2010, p. 226).

The experience of economic liberalization, or at least the beginnings of such, had been disastrous for anti-corruption efforts in China initially.

The explosion of corruption in mainland China is essentially a policy outcome: It is the unintended consequence of the policies of reform, mainly economic reform, adopted by communist party leaders in the 1980s and 1990s (Manion, 2004, p. 93)

Some neo-liberals argue that economic liberalization is “instrumental in reducing corruption” (White, 1996), and while this may be so, this cannot be argued as the case in China, where political liberalization has never really been “on the table.”¹¹ Instead, it is far more likely that the opposite is true. Without democratization of politics and significant efforts to increase transparency and rule of law, which the CCP has largely not

¹¹ In fairness to White, he argues, as I have, that this does not hold up in the case of China.

allowed, economic liberalization is more likely to produce an increase in corruption (Holmes, 2006, p. 200).

However, the issue of whether or not a connection between economic liberalization and corruption exists is still debated by scholars. Some argue that there is not sufficient evidence to establish a causal link between economic liberalization and corruption. However, Deng Xiaoping seemed sure of such a link and was insistent on implementing a stronger anti-corruption campaign during his “Southern Tour,” pointing to what he called “formalism,” which he described as “excessive bureaucracy,” as chief among China’s problems (Kuhn, 2010, p. 76). Deng would place heavy emphasis on anti-corruption campaigns and insisted that legal measures had to be implemented in order to combat corruption. He said “We should implement two parallel tactics: promoting opening-up on the one hand and attacking criminal activities on the other.” Deng further advocated a need to introduce “powerful measures to eliminate all sorts of social evils” (Kuhn, 2010, p. 78). Given Deng’s propensity for “outside the box” thinking, one might interpret his push for “powerful measures” to include ideas like rule of law. Deng’s hard line opponents within the party also acknowledged the increasing corruption as they linked it to Deng and the market reforms he advocated shortly after his death (Kuhn, 2010, p. 96). Deng’s successor, Jiang Zemin further portrayed rule of law as a necessity for continued economic growth, stability, and party legitimacy, while promoting legal reform in the face of growing corruption (Peerenboom, 2006, pp. 72-73). Jiang once stated that those members of the communist party who wanted to keep their jobs “must not suffer from five weaknesses: love of fame, hunger for power, money, women, and using *guanxi* (“connections”) for immoral gain” (Lam, 1999, p. 50).

A similar issue of centralization vs. decentralization and their respective connections to corruption also exists within China. Decentralization and devolution¹² of power may help to reduce corruption by making local officials more accountable to the public. By taking away the ability of lower level officials to blame higher levels of authority for corrupt acts and increasing the likelihood that an official will be caught, corruption of local officials is combated. At the central level, decentralization has the effect of depriving the government of financial resources that might be used in large scale corruption activities (Pei, 2006, p. 38).

On the other hand, decentralization may also cause greater corruption. As local officials are paid low wages, yet given greater political responsibility and control of financial resources, the process of decentralization is likely to increase corruption. Additionally, in a society such as China's that values relationships or *guanxi*, the act of gift giving, and the building of networks, decentralization can cause corruption to rise because relationships between the government and clients, where once the responsibility of central authorities, becomes spread about among local officials and increases the likelihood that corruption, particularly in the form of bribery, will take place. Decentralization can also create local government "tycoons," who, if unchecked by a strong central authority, often become engulfed by the temptation to accept or collect bribes (Pei, 2006, p. 38).

Pei argues that the latter argument is more persuasive. The former argument assumes away the agency problem.¹³ In addition, the former argument presents the idea

¹² Decentralization being "the reassignment of some authority or selected functions" and devolution being "the handing over of all authority to local government" (MacAndrews, Brillantes, & Siamwalla, 2001).

¹³ The Agency Problem: "the problem of how organizations can structure incentives so that people ("agents") who are placed in control over resources that are not their own with a contractual obligation to

that decentralization provides greater political accountability and this helps control corruption. However, given that the CCP is the only political party in China, and that political accountability only happens within the party, not by citizen participation such as elections, it is far more conceivable that decentralization of power would lead to greater corruption in the PRC.¹⁴

For Shanghai, and indeed all of China, both decentralization and economic liberalization led to significant concerns about an explosion of corruption that would likely occur as a result of both. As explained in Chapter 1, Shanghai's leadership, particularly Jiang Zemin as mayor and party secretary, was given great liberty through both economic liberalization and decentralized planning throughout the late 1980s and early 1990s as Shanghai's reemergence was designed. Understandably, final decisions still passed through the central government and were carefully watched by Deng, his allies (Hu and Zhao), and their conservative opponents (including Li Peng), but the change in the structure of the 'central government to local government initiative' and the designation of Shanghai as a Special Economic Zone meant that both of these elements would confront Shanghai in the form of a serious potential for rampant corruption. In a way, the reforms that were meant to change Chinese economic practices and "open up" the country produced "gray areas in terms of what constitutes entrepreneurial activity as versus illicit moneymaking through abuse of power" (Lieberthal, 2004, p. 198).

Whatever the cause, and despite efforts throughout the 1980s to control corruption by party leadership, the problem seems to have run rampant through the CCP ranks since

use these resources in the interests of some other person or group of people actually will perform this obligation as promised — instead of using their delegated authority over other people's resources to feather their own nests at the expense of those whose interests they are supposed to be serving (their "principals")" (Johnson, 2005).

¹⁴ this notwithstanding recent implementation of anti-corruption efforts by Qiu He

reforms started in the late 1970s. For example, the institution of Discipline Inspection Commissions as a mechanism to control corruption has largely failed due to the fact that each commission is designed to monitor the party committee to which it reports (Lieberthal, 2004, p. 198). Additionally, occasional arrests and punishment of corrupt officials, while meant to deter corrupt practices, do not address the motivations for officials engaging in such acts. Meanwhile, estimates as to the costs of corruption have placed the amount of money involved in corruption in China at as low as 4% and as high as 17% of China's Gross Domestic Product (GDP)¹⁵ (Pei, 2006, p. 12).

Modern China operates and grows largely according to the system's ability to appeal to Chinese citizens' fear of punishment and desire for material acquisition. With party leaders in provinces, cities, counties, townships, and units being given incentives by the central government to devise new and creative methods to instigate growth locally and a failing sense of ideology, ethically questionable methods of bringing about that growth were inevitable. The combination of being the only political party and possessing the power to suspend laws or regulations as needed has led to rampant corruption among cadres and a very serious legitimacy problem for the CCP. This issue leads to poor governance when officials ignore or discount policies and laws in favor of personal political or economic gain, while also failing to serve the citizens they are meant to govern thereby undermining the political system and the CCP's legitimacy (Lieberthal, 2004, pp. 202-203). Thus, by taking bribes, rigging bids, participating in insider dealing, selling government offices, engaging in fraudulent accounting, committing large-scale theft, and engaging in other corrupt practices, Chinese officials reduce their own

¹⁵ 15% of China's 2003 GDP is roughly equal to \$180 billion (Lieberthal, 2004, p. 199).

legitimacy as well as the effectiveness of their departments on the public side, while increasing the costs of engaging in market activities for all involved (Pei, 2006, p. 12).

Thus far however, the CCP has been able to maintain an overall sense of legitimacy and even favorability among citizens by allowing them to report instances of abuse by local cadres to the central government directly. This measure, written into the CCP Constitution, cannot be overridden by any person (in theory)¹⁶ (Yong, 2006, p. 17). The CCP then, following an investigation, takes action against these officials and ensures that these actions are well publicized in order to gain favorability and maintain legitimacy among Chinese citizens (Lieberthal, 2004, p. 299).

The CCP has also received assistance in controlling local corruption from another source: the media. Although still far from the day when the Chinese media can oppose or criticize the central government or the CCP, the media has taken up exposing corruption or incompetence at the local level since the late 1970s with some success and even acceptance¹⁷ by central government officials prior to the events at Tiananmen Square in June 1989. Although the conservative backlash following the Tiananmen crackdown caused a media retreat from these activities, by the late 1990s the media had resurged and was touted by Premier Zhu Rongji as society's "watchdog." Zhu openly expressed his support for the media's investigative reporting of corruption and abuse of power¹⁸ (Kuhn,

¹⁶ Following the enactment of the CCP Regulations on Disciplinary Punishments in February 2004, China's equivalent of a "whistleblower's protection act," party cadres could also be punished if they were found to be attempting to cover up, destroy evidence, detain, punish, or otherwise retaliate against or attempt to silence an accuser (Yong, 2006, p. 17).

¹⁷ Several cases throughout the late 1970s and early 1980s saw instances where the central government came down hard on local corruption or abuse. In particular, a scientist returning from overseas to Fujian Province was suspended by the local government because he had sold his research commercially. After the story appeared in the newspaper and was read by General Secretary Hu Yaobang, who then ordered that "such intellectuals must be reinstated" (Kuhn, 2010, p. 305).

¹⁸ Zhu was once told that China Central Television (CCTV) news was rated 30% negative and 70% positive toward the government. This was, in itself, a sizable shift from the propaganda of the pre-reform and post-

2010, pp. 305-306). Throughout the early 2000s, trends in CCP policy toward allowing the media to root out corruption, incompetence, and other abuses by officials continued. The CCP has also found that greater media transparency has been useful in maintaining stability and avoiding panic during crisis situations, such as the 2003 explosions at Tsinghua and Beijing Universities, when the *People's Daily* noted “transparency played the greatest role in stopping the spread of rumors and avoiding panic” (Kuhn, 2010, p. 306).¹⁹

While this effort to crackdown on local corruption may keep the Chinese citizenry satisfied for now, it does little to address the real consequences of systemic corruption, particularly the gradual chipping away of the state's ability to govern effectively and the resulting socioeconomic inequalities between elites and the masses (Pei, 2006, pp. 12-13).

During the late 1990s and early 2000s, China's regulatory, economic, and institutional reforms began to catch up with the corrupt practices that had been plaguing progress since the late 1980s and mid 1990s when corruption in China hit a fever pitch. By 2002, China's central government had stepped up efforts to root out and punish corrupt officials, investigating over 60,000 cases each year since. In some cases, even powerful members of the party were not spared. For example, in 2006, there was the arrest of former Shanghai Party Secretary and Politburo member Chen Liangyu on charges of corruption including taking bribes to the tune of 2.39 million Yuan and abuse

Tiananmen periods. However, he stated that a rating of 49% negative and 51% positive would be acceptable to him (Kuhn, 2010, p. 306).

¹⁹ Although this paper will does not go further into the subject, further research into the increasingly competitive and powerful Chinese media's role in rooting out corruption since 1979 and their evolving role in maintaining the CCP's legitimacy vs. guarding the public trust would provide valuable insights as to the extent of the institution's influence on public policy.

of power for helping his younger brother acquire huge profits from land deals. Investigators also claimed to have found Chen involved in a scandal that “involved more than 33.9 billion Yuan (approximately \$5 Billion United States’ Dollars (USD)) in Shanghai pensions funds that had been improperly invested in property and toll road projects that included the city’s new Formula One track.” Chen and nearly 16 other city government officials and business leaders would be sentenced to varying prison sentences, as well as several life-in-prison sentences and one suspended death sentence. Chen, the highest ranking official involved in the scandal was sentenced to 18 years in prison for his crimes following a one day trial on 25 March 2008 (Macartney, 2008).²⁰ However, many Chinese citizens who saw the removal of Chen Liangyu as a political maneuver remain skeptical of the government’s true commitment to tackling corruption (Saich, 2007, p. 39).

Some reformers within the party, such as Qiu He, who introduced new approaches to governance at the local level, particularly a practice known as *gongtui gongxuan* or “Public Recommendation and Public Selection (PRPS),” have gained the notice of CCP leaders for their efforts in combating systemic corruption. However, Qiu’s methods were not without controversy. The PRPS system, originally attempted in Suqian City where Qiu was party secretary, sought public opinion before local cadres were given appointments or promotions in order to allow citizens with any evidence or knowledge of corruption, or other illicit activities by officials, to report them before appointments were

²⁰ It is also widely believed that the move to sack Chen was politically motivated as Chen was both a member of the “Shanghai Clique” and was reported to have strongly opposed Wen Jiabao, the Chinese Prime Minister, during Politburo meetings over the central government’s attempts to calm China’s overheating economic growth (Saich, Jan-Feb 2007, pp. 36-37). Ironically, Chen’s replacement in Shanghai, Xi Jinping, is now in a position to become Hu’s successor as President of the PRC and paramount leader (Macartney, 2008). This will be discussed in greater detail in Chapter 4.

granted. Qiu actually referred to this as “enhancing democracy,” saying, “Democracy can be achieved only when the people are fully informed. These reforms guaranteed the people’s right to know, right to participate, right to elect, and right to supervise” (Kuhn, 2010, pp. 449-450). Later, Qiu would introduce the Public Scrutiny System in order to “guarantee the people’s right to supervise cadres’ work and conduct,” while making “power work in the sunlight” (Kuhn, 2010, p. 450). In December 2007, Qiu was named Secretary of the city of Kunming’s Municipal Party Committee and made significant waves when he published the names, job descriptions, and telephone numbers of Kunming’s leading Party and government officials in the city’s official newspaper, *Kunming Daily*.

All of these efforts allow us to glean a few conclusions assuming Qiu’s intentions are genuine and not done just to attract media attention (which he certainly has). Most noticeably, the CCP central leadership did not stop Qiu when he instituted reforms in Saqian City. In fact, his promotion to vice governor in 2006, while otherwise not worth notice, indicates a willingness of the CCP leadership under Hu Jintao to promote even controversial reformers. Secondly, the continued use of the word “democracy” and “enhancing democracy,” although perhaps not having the same meaning that many Westerners conjure, is significant. Notwithstanding the actual actions that followed, the idea of using democratic ideals to check local CCP cadres in the fight against corruption is one that, while recent in practice, was used by Hu Jintao in a speech to the Politburo in June 2006. This could be an indication that, while the CCP leadership has no intention of having full scale, nationwide, free, and fair democratic elections, many within the party leadership realize the advantages of utilizing some democratic institutions, as evidenced

by Qiu's PRPS system, to strengthen the party's legitimacy at the local level. Combined with very public anti-corruption campaigns and the sacking of high level CCP members for corruption from time to time, the CCP's strategy can be characterized as either a concerted effort to honestly root out corruption and address the concerns of Chinese citizens or an exercise in self preservation by way of attempting to maintain legitimacy using whatever means necessary, including use of the word "democracy" in campaigns and some of its tenets in policy. Whatever the case may be, it is clear that the CCP recognizes that corruption is breeding a legitimacy problem and that it is taking actions to address that problem, even though some of those actions seem somewhat unorthodox, especially for the CCP.

While some of the reforms and changes, such as those attempted by Qiu, have only taken place at the local and township levels, many have gone nationwide locally (i.e., practices used locally are then applied nationwide at the local level) and have shown some successes in curbing local corruption. Of particular note, a Politburo meeting in August 2006 saw the reemergence of regulations originally enacted in 1997 that required officials to detail their personal affairs (Saich, 2007, p. 38). Simply put, the closing of loopholes and strengthening transparency laws lessened the supply of available opportunities to commit corrupt actions (Yong, 2006, p. 12).

Despite these gains, bribery remains the most pervasive form of corruption in China, especially in the areas of personnel appointments, contract procurement, and the banking and administrative monopoly industries, and is likely to continue to deal the country and investors large economic losses until confronted directly (Yong, 2006, p. 12).

As these issues are of particular importance in addressing issues regarding China's economic growth, decentralization will need to be coupled with another form of software.

Rule OF Law vs. Rule BY Law

As mentioned earlier, the idea of “rule of law” has been one that the Chinese leadership has only recently begun to warm to. The movement toward “rule of law” rather than “rule by law;” whereas the latter is understood as a system in which laws are a mechanism officials use to govern and the former puts laws ahead of officials and their individual intentions, has begun to see considerable favorability from local governments and citizens all the way to the central government officials and Politburo members in Beijing (Lieberthal, 2004, p. 303). For example, officials in Guangdong were some of the first to advocate for a push toward “rule of law” reforms. For those officials, reforms were viewed as advantageous because of the effects they would have on preventing the central government from encroaching on economic development in Guangdong and because of the “competitive edge” they could gain against other provinces (Li, 2000).

Few would argue that China is currently operating under a “rule of law” system; however, recognizing that a transition is in progress is unmistakable. Nonetheless, it would be a mistake to assume that China is moving in a direction that will one day make its system anything resembling the rule of law systems of western governments such as the United States. Indeed the Confucian and socialist traditions that dominate Chinese society provide for a much stronger role for government when it comes to governance issues including stability, prosperity, and security (Lieberthal, 2004, p. 302); therefore, whatever China's system becomes, it is important not to expect it to resemble a system

like that of most countries with Western traditions. Despite this necessity, much of the pressure to reform China's "rule by law" system has come from entities with Western roots.

More than any other force throughout the 1990s and early 2000s, pressure on Chinese officials to promote reform of the legal framework came from foreign investors who saw China's judicial system as "corrupt, biased, and incompetent" (Peerenboom, 2006, p. 73). The market economy, investors, China's accession to the WTO and other international economic frameworks all forced the Chinese leadership to consider how the CCP was viewed and how it could maintain itself as legitimate in the minds of its citizens and foreign investors (Peerenboom, 2006, p. 74).

With this in mind, officials took note of the advantages and disadvantages of promoting reform of the rule of law. In short, while appeasing investors in order to gain their financial and commercial support for business ventures in China was a priority for the CCP, so too was maintaining the CCP's power in the political arena. Rule of law would undoubtedly include strengthening the judiciary; but an independent and strengthened judiciary would gain authority over not just cases involving the commercial and administrative aspects of governance, but also the political, making this a touchy issue for the CCP. Despite this concern, the pressure to maintain China's economic growth has and will continue to be a top priority of the CCP leadership. Without it, the CCP cannot maintain its legitimacy (Peerenboom, 2006, p. 73).

Clearly, the processes of decentralization and devolution of power are taking place in China. As devolution of power to lower-level government officials has become more prevalent as a mechanism for the central government to promote economic growth,

particularly at the local level, so too has the CCP's power at the center been diminished (Peerenboom, 2006, p. 73). To what extent this process has occurred is still debatable; however, no one can argue that the central leadership of the CCP has the power it did 30, 20, or even ten years ago. This may lead some to conclude that this gradual diminishing of power will inevitably lead to the downfall of the CCP, but this determination is far too premature to be substantiated. Thus far, the CCP's resilience has been quite remarkable. In addition to persevering through many of the destructive policies of Mao, including the Cultural Revolution and the Great Leap Forward, the CCP has managed to remain in power despite a split party from the late 1970s all the way through the 1980s, the Tiananmen Square protests, subsequent crackdown, and aftermath of 1989, radical economic reforms throughout the mid to late 1980s and early 1990s, remarkable economic growth since the mid 1990s, and now the implementation of some relatively radical reforms to the political system that were unimaginable just ten years ago. All of this has occurred while the CCP has maintained a firm hold on power at all levels of government.

For now it is clear that the central government still maintains significant control over the overall direction of the Chinese economy, politics, foreign policy, and almost all domestic decisions regarding culture. Changes are, as of now, only truly evident in the ability of select local party cadres and officials to devise and carry out economic growth plans in their localities, and even then, these plans require approval from the central government. Naturally, the idea of non-centrally controlled planning taking place was unique in China when the first occurrences of it began to emerge in the late 1970s and early 1980s. Local cadres in China, while permitted in some cases to develop economic

development plans, still had to seek approval and funding from the central government before those plans could be put into effect. This is a small step, but a vital one in China's quest to become economically dominant. As these reforms continue to move forward, the shift in power should become clearer. The Pudong New Area of Shanghai can be used to illustrate this point.

Administratively, Pudong is one of 12 districts that comprise greater Shanghai; however, Pudong is different from the other 11 districts in the amount of power it holds politically and economically. Pudong itself is administratively equal to the vice-provincial level of government. Shanghai, of course, has provincial level administrative status. Therefore, Pudong is directly under the administrative jurisdiction of the Shanghai municipal government; however, Pudong possesses its own institutions and bureaus.²¹ This gives Pudong its own jurisdiction in issues of planning, approval of projects, finance and banking, foreign affairs, external trade, labor and personnel. That being said, issues that have any relation to the overall development of Shanghai do not fall under Pudong's jurisdiction, but Shanghai's. In addition, any new proposals or policies that must gain the approval of the central government must first be approved by the municipal government (Tsao, 1996, pp. 100-101).

Pudong's real uniqueness lies perhaps not in its administrative bureaucracy, but in its lack thereof. Pudong is market oriented, so there are no "specialized economic bureaus" in Pudong. For example, whereas there would normally be a bureau to manage economic activities of each individual industry (Automotive, Chemical, Electrical and

²¹ Ten of them to be precise: The Industrial and Commercial Administration, the Bureau of Finance and Tax, The Bureau of Social Development, The Urban Construction Administration, The Bureau of Rural Development, The Bureau of Economy and Trade, The Integrated Planning and Land Bureau, The Commission for Disciplinary Inspection/Supervisory Bureau, The Organization Department/Labor and Personnel Department, and The Party Committee/Administrative Office (Tsao, 1996, pp. 100-101)

Machinery, Telecommunications, etc.), in Pudong, the task of managing that activity is left largely to the private enterprises, although the government does still maintain some level of control over “the flow of capital and...issues of macro management” (Tsao, 1996, p. 101).

Prime to the battle against corruption is Pudong’s approach to anti-corruption efforts. In Pudong, the Organization Department of the CCP and the Labor and Personnel Department of the government are one department rather than two separate entities. Additionally, the Pudong Commission for Disciplinary Inspection (of the CCP) shares its offices with the Supervisory Unit, although they remain distinctly separate units. These kinds of reforms, while not unique to Pudong, are compliant with the approaches reformers advocate in combating corruption (Tsao, 1996, p. 103).

Further evidence points to a realization by the CCP central leadership that, in addition to party and government organization to prevent corruption, new laws would be needed to satisfy investors. During the early 1990s, with a large amount of construction and investment about to occur in Pudong, the city instituted several anti-corruption and anti-bribery rules specifically targeting bribery, China’s most prominent corrupt action. Officials in the Pudong area instituted what were known as the “three high-tension lines.”

The rules set several boundaries to combat corrupt practices:

1. No official could single-handedly set the price of land or authorize preferential treatment.
2. Contracts could be awarded only through open bidding and determined collectively on the basis of expert appraisal.
3. No official could direct business to relatives or friends (Kuhn, 2010, p. 226)

To further appease investors, whose concerns, in addition to personal security and fund security, extended also to the security of intellectual property rights (IPR), Pudong

established China's first IPR court in 1994. As of 2006, the court had handled over 2,000 foreign investor related IPR cases (Kuhn, 2010, p. 226).

All of these reforms that are evident in China's struggle against corruption constitute progress in the way of installing what has come to be known as "software." As evidenced by Pudong's unique approaches, Qiu's reforms, and the CCP's efforts to maintain its own legitimacy, it is clear that the Chinese government's efforts to become more transparent are improving, whether it is through releasing officials' phone numbers or allowing citizens to lodge complaints about local cadres suspected of engaging in corrupt activities. WTO membership and the rise of a populace that continues to become better informed as access to telecom services spreads throughout China have contributed most significantly to this change. The need to attract investment however, has likely played the most crucial role in forcing the whole of the CCP and the government to not only behave in a more transparent fashion, but incorporate transparency into regulatory laws and policies (Yang, 2004, pp. 164-165).

The rule of law is described as "a function of institution building and the creation of a culture of legality" (Peerenboom, 2006, p. 73). For the CCP, we are witnessing a response to a demand to build those institutions from investors, and increasingly, local government cadres, who seek a system that controls corruption while allowing individual economies to compete with other provinces within China (Peerenboom, 2006, p. 74). Finding a balance between just how much decentralization or devolution to allow while implementing reforms to satisfy investors' and increasingly citizens' demands for a more just "rule of law" system will be a major test for the CCP throughout the 21st century. Too much decentralization or devolution of power could send the already endemic

corruption problem spiraling out of control. On the other hand, by implementing judicial reforms in order to curb corruption, the central CCP leadership risks endangering their own firm grip on political power, despite the necessity of these reforms with regard to the CCP's maintenance of legitimacy.

These two approaches - decentralization or devolution of power and implementation of aspects of a "rule of law" system - are only one half of the core of "software" that China must integrate into Shanghai in order for the city, and indeed the entire country, to maintain its economic growth and prominence. This will not be easy. It will require the CCP, at the center and locally, to continue developing the institutions associated with these types of changes, despite the fact that doing so will inevitably weaken the party's hold on power in China.

Building a Culture to Promote Domestic Product Development

For Shanghai, a primary goal of integrating software into the city will be "regenerating the cosmopolitanism" the city was famous for prior to the communist revolution in 1949 (Wu, 2004, p. 163). As described in Chapter 1, prior to the 1949 revolution, Shanghai was a bustling center of international commerce, trade, and culture. But the revolution brought about a gradual decline for Shanghai, which, by the early 1980s, was evident in the city's woefully inadequate infrastructure and sluggish industrial output.

As economic and political forces began to turn in Shanghai's favor in 1984 and continued to improve through the late 1980s, officials in Shanghai, including Jiang Zemin, had developed a plan that would reinvigorate Shanghai and, hopefully, turn it

back into the bustling center for international commerce and cultural exchange it had once been. Shanghai's "Great Build," starting in 1992, saw what has been described as "one of the biggest building sprees the world has ever seen" (Yatsko, 2001, p. 26). Crucial to this building spree was the investment made by the city in infrastructure, largely due to new policies from the central government allowing the city to retain larger portions of its revenues.

While the investment made in Shanghai's infrastructure or "hardware" could be described as magnificent, the speed with which it was done was not without consequence. As infrastructural improvements emerged, a growing problem regarding the lack of the "less tangible, softer components" of infrastructure became apparent. As described previously in this chapter, corruption, particularly bribery, ran rampant throughout China shortly after the reform process began. For Shanghai however, the more serious problem may be how to address "The Great Glut" that followed "The Great Build" (Yatsko, 2001, p. 34).

By the mid 1990s, as Shanghai was deep in the process of transforming old Shanghai into places like the new, modern, and flashy Pudong New Area, a new issue was beginning to be voiced from residents of Shanghai. Yatsko recalls from an interview with one resident of the Lujiazui district in 1995, "They're making us move, but we don't want to" (Yatsko, 2001, p. 34). Indeed the process of bulldozing the areas that were to be redeveloped was underway and the district government was in the process of moving residents to newer, more modern apartment complexes outside of Shanghai's downtown area.

Numerous problems with these living arrangements were detailed by citizens whose homes had been destroyed to make way for the new developments. First of all, in some cases, because of the speed with which demolition/construction was occurring, these new living arrangements were either not properly constructed or were simply not ready for occupancy.²² Secondly, much of this housing was moved outside of the downtown area, thereby making the citizens' commute longer and contributing to an already poor transportation situation in Shanghai. Finally, because many of the displaced in these cases have such a long commute, the expense and drain on time (sometimes an hour or more) makes going downtown to shop or go to the theater in the evenings not feasible, logistically or financially. Despite protests of the government's actions, plans for the bulldozing of neighborhoods went forward throughout the mid-1990s. Without any sort of meaningful organized resistance from citizens²³ or societal institutions (because they are illegal), there was little to stand in the way of Shanghai's bulldoze, clear, and build policy (Yatsko, 2001, pp. 34-35).

But by 1997, something was clearly wrong in Shanghai, and particularly Pudong. Evidenced by below 50% occupancy rates in the area's 250 skyscrapers, it was clear to many in the central government that Pudong's officials had overemphasized real estate during the construction blitz (Lam, 1999, p. 252). In mid-1998, Shanghai had nearly half a million square meters of Grade-A office space, but no tenants to fill it. With an estimated 10 million square meters of unsold, empty housing in 1999, Shanghai faced a

²² Issues included leaking pipes, flooding problems, and lines (electricity, gas, telephone, water, etc.) that were not completed (Yatsko, 2001, pp. 34-35).

²³ Although protests did occur, they were obviously not successful in turning back the bulldozers. In addition, the Chinese Press and Public Security Bureau were used to effectively ensure that news of the protests did not get out (Yatsko, 2001, p. 35).

property glut that was “bigger than anything that has happened in the world before...”²⁴
(Yatsko, 2001, p. 36).

The real estate glut in Shanghai demonstrates a clear pattern of mismanagement of investment in Shanghai’s infrastructural needs. Blame can largely be placed at the feet of the local governments, particularly the Shanghai Municipal Government (SMG). As state-owned land became available for lease to foreign investors and state-owned enterprises, many municipalities realized the advantage of leasing as much land as possible in order to gain local revenues. In 1988, national legislation allowed land leasing by local municipalities (Zhang L., 2003, p. 1556) and during the early 1990s, the SMG decentralized land leasing, thereby giving the city’s district governments authority over land leasing. Soon after, the district leadership discovered they could sell land-use rights for large amounts of income, particularly to foreign investors: a selling spree ensued. This income could then be reinvested in infrastructure improvements and would make the economic numbers look better when reported to senior officials. In essence, this incentivized the selling of as many land leases as possible, which had the effect of putting the city’s development in the fast lane; however, the lack of any central check on the overall number of leases sold meant that the construction frenzy would proceed at high speed with no way of slowing it down.

Between 1988 and 1997, the SMG leased 138.63 square km of land and gained a land leasing income of 24 billion Yuan (about \$3 billion). When that amount is averaged from 1988 to 1997, it comes to approximately 11.2% of local revenues each year; a percentage greater than that of local taxes. Providing further incentive for local

²⁴ according to Andrew Escott, a Shanghai-based commercial director for realtor Colliers Jardine (Yatsko, 2001, p. 36)

governments to lease land was the fact that revenues from land-leasing did not have to be divided with the central government. One would expect that so much land being leased all at once would cause oversupply, resulting in a plummet in the price, thereby deterring local leaders from engaging in this practice for long. However, because the Chinese government did not want locals to fraternize with foreigners, any foreigner trying to purchase office space or housing area in Shanghai had very few, if any, options. Until land-leasing was decentralized to the districts in 1993, artificial restriction of the office space and housing stock resulted in artificially high prices (Yatsko, 2001, p.37).

In 1998, the central government moved to increase regulation on land-leasing in order to preserve precious cultivated land. Unfortunately for residents, the post-1998 land-leasing policy was far more focused on reusing or redeveloping areas that are already built, meaning the forced relocations and displacements to make room for new redevelopment projects were likely to continue (Zhang T., 2002, pp. 483-484).

This kind of development is weighted heavily on the side of “hardware.” In other words, in addition to Shanghai’s building of new roads, shipping ports, public transportation, high speed rail, and a new airport, the kind of construction in which Shanghai was largely engaged throughout the 1990s was focused heavily on real estate and building up the city’s capacity to house new enterprises, particularly in the financial, industrial, and automotive sectors. As evidenced by the real estate glut, local officials had incentive to get as much money out of land-leasing as possible, regardless of what the land was to be used for. The resulting real estate crash of the late 1990s saw office space and housing stock prices in Shanghai plummet, with many investors not expecting to see returns for 15 to 20 years. As foreign investment in Shanghai slowed during the

Asian Financial Crisis of the late 1990s, new office and housing developments lay empty as Chinese citizens were not permitted to rent in areas designated for foreigners; even if they could, most could not afford to do so (Yatsko, 2001, p. 39).

A failed result of economic liberalization and decentralization without the installation of safeguards and proper regulations (components of software themselves) left Shanghai struggling to adjust to the Asian Financial Crisis of the late 1990s, but the overemphasis on building Shanghai's infrastructural hardware left the city clamoring to catch up in another area: creative culture.

Reclaiming the Spirit of Old Shanghai

The 2008 GCI ranked Shanghai 35th out of 60 among global and emerging global cities in the category of “cultural experience.” The ‘Cultural Experience’ dimension of the GCI measures the number of international visitors, performing arts venues, international shows, and sporting events within the city, as well as the diversity and quality of the culinary scene. This measure, while quantitatively placing Shanghai at 35th does not capture or reflect several aspects of Shanghai's lack of cultural experience, nor does the study explain why this is the case.²⁵ Unfortunately, this leaves any observer with questions as to exactly what role culture plays in Shanghai and why a city that less than a century ago proudly held the title of “Paris of the East,”²⁶ falls far behind Beijing (19th), Hong Kong (26th), as well as most major cities in Europe and North America in terms of “cultural experience.”

²⁵ To be fair, the study is merely a brief quantitative analysis and ranking of measures that several authors (mostly notably Sassen) have identified as being important for global city status. The study should not be taken as anything more than just that. Exactly what “35th in Cultural Experience” means and how it differs precisely from 34th or 36th is not explicitly laid out in the study.

²⁶ Shanghai has also been nicknamed “Queen of the Pacific” or “Queen of the Orient” and, due to pervasive corruption, drugs, and prostitution in the city throughout the latter half of the 1800s and the first half of the 1900s, has been called the “Whore of the Orient” (Yatsko, 2001).

Shanghai of the 1920s was, as described by one author at the time, “a meeting ground for people from all countries, a great and a unique city, one of the most remarkable in the world” (Pott, 1928, p. 01). With a population of approximately two million, Shanghai during the early part of the 20th century was a bastion for cultural exchange and trade, an attractive center for artists, actors, composers, musicians, painters, film directors, theater groups, sculptors, and intellectuals. Shanghai was away from the interior of China, which was largely controlled by war lords, and was accessible to foreigners who brought American, British, French, Japanese, and Russian cultural influences and businesses into the city.²⁷ This combination of political stability and some limited intellectual and artistic freedom allowed the city to flourish as the heart of China’s economy and culture (Yatsko, 2001, pp. 136-138).

But the communist revolution in 1949 did not serve Shanghai well; culturally or economically. Shanghai became the workhorse of China for three decades and saw most of its revenue going to the central government rather than reinvestment in the city. Despite a growing population, Shanghai’s infrastructure was neglected or ignored completely by central government leaders, leaving the Shanghai of the late 1970s in largely the same condition as it was during the 1940s. By the time of Shanghai’s reemergence in the mid 1980s and 1990s, it was clear the city desperately required significant investment to improve infrastructure. The combination of the “Great Build” and “Great Glut” that left Shanghai backpedaling in the late 1990s is an example of the city’s lack of attention to promoting the software of a creative culture.

²⁷ This is most evident at Shanghai’s famous “Bund” area where a variety of architecture (mostly British and French) are still present.

“Do or do not; there is no try:” Shanghai Returns?

Shanghai’s redevelopment plan was not without a cultural strategy, but to suggest that the strategy was focused on creating real cultural institutions, new cultural activities, or growing cultural industries, as Wu defines culture, would be incorrect (Wu, 2004, p. 161).²⁸ Instead, Shanghai’s strategy was, perhaps not surprisingly, focused on erecting buildings. Shanghai constructed and opened numerous “cultural icons” throughout the 1990s as part of its redevelopment strategy, including the Shanghai Museum (1995), the Shanghai Grand Theatre (1998), and the Shanghai Library (1997). In addition, the decision to locate the museum and theatre at the city’s center, in “People’s Square” and near the Shanghai government’s headquarters, is significant. The fact that these cultural icons were constructed here, on perhaps some of the most expensive real estate in all of Shanghai, demonstrates the value the SMG has placed on reclaiming its 1920s recognition as China’s “cultural center” and being recognized as a prominent global city (Kong, 2007, p. 390). Similarly, the construction of these buildings, among other efforts to bolster Shanghai’s cultural strategy, did not suffer from a lack of funding. In addition to funding from private donors and the central government, as of 2005 the SMG itself had contributed more than US \$230 million to cultural infrastructure in Shanghai’s city center since the early 1990s; an amount unmatched by any other Chinese city (The International Herald Tribune, 2005).

Furthermore, another peg of the SMG’s attempt to develop creative culture involved designating certain urban areas that have “distinctively high concentrations of cultural facilities, ancillary activities, and companies specializing in culture and design-

²⁸ Wu describes the cultural development of a city to entail “the creation of cultural institutions, the formation of new cultural activities, the transformation of urban space as cultural milieu, and the growth of cultural industries” (Wu, 2004, p. 161)

related business” as “*Chuangyi chanye jiju qu*” (CCJQ) or “creative industry clusters” (Zheng J. , 2010, p. 145). As Zheng explains, for Shanghai, most CCJQs began “as derelict urban quarters accommodating poor artists and cultural businesses outside of the state’s main interest by spontaneous bottom-up participation” (Zheng J. , 2010, p. 145). The SMG recognized that the pragmatic view of artists is the necessity of “affordable, large, and quiet spaces in convenient locations” (Zheng J. , 2010, p. 147) and because these areas were certainly not easily available during Shanghai’s real estate buildup, the old industrial areas containing abandoned warehouses became “Creative Warehouses” of sorts. As the city began to revitalize the derelict and abandoned warehouse areas, it found that the ability of artists to move in under low rents had economic advantages, as often these areas lead to start-up Chinese firms involved in creative industries such as fashion and architectural design or advertising (Zheng J. , 2010, p. 147). However, it was not until 2004 that the city began to pay close attention to these “creative industrial clusters” and considered the economic advantages of fostering their growth (Zheng J. , 2010, p. 148). The construction of cultural icons, their strategic location, the large investment in reclaiming what is known as “Old Shanghai,” and the identification and cultivation of CCJQs as areas that could be used to grow creative industries all represent the city’s attempt to attract what Richard Florida has described as the “creative class” (Florida, 2002).

However, as with so many things in China, there tend to be vast contradictions in what the stated actions are intended to accomplish and what actually occurs. These contradictions, along with shortcomings in Shanghai’s ability to strike a meaningful balance between government censorship and intellectual/artistic freedom have stymied

the city's ability to achieve its goals in terms of creating cultural capital. Yatsko sums it up best: "Shanghai Museum ultimately represents the hardware of a cultural hub...where Shanghai has fallen short is in creating the software necessary for art and culture to thrive" (Yatsko, 2001, p. 150). But where specifically has Shanghai fallen short with these efforts and why? What obstacles must it still overcome? How does this lack of software harm domestic product creation and entrepreneurship? Finally, if Shanghai is not China's cultural center, then what city is?

"That is why you fail:" Shanghai's Shortcomings

Little more than a clarification of what the definition of "culture" is for Shanghai's leaders should be enough for any astute reader to glean insight into one of the reasons for Shanghai's lackluster record with regard to promoting creative culture. First of all, it should come as no surprise that both the central government and the Shanghai government view culture as a "propaganda tool," (Yatsko, 2001, p. 152) and ultimately "an instrument of the Communist Party" (Kong, 2007, p. 393). Needless to say, the ideas behind building culturally creative cities or environments as developed by Richard Florida²⁹ differ from those of the CCP.

To illustrate this point, we can examine Shanghai's Cultural Bureau (SCB). The SCB has been the central government's most prominent tool in implementing control over culture, particularly art, throughout Shanghai. When the 1949 revolution occurred, Shanghai's vibrant art, performance, film, theatre, and radio broadcasting industries were placed under the control of the CCP and leadership of these industries moved from

²⁹ In "The Rise of the Creative Class and How It's Transforming Work, Leisure, Community, and Everyday Life," Florida details the link between creativity and economic growth (Florida, 2002).

Shanghai to the capital in Beijing (Kong, 2007, p. 394). Following Mao's death, his successor, Hua Guofeng, purged Mao's wife (Jiang Qing) and three of her Shanghai-linked allies (Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen)³⁰ from the CCP and installed loyal conservative communist allies into Shanghai's leadership. Hua's conservative-minded allies would maintain power over the SCB and Shanghai well into Deng Xiaoping's tenure as leader. Thus, the SCB throughout the late 1970s and 1980s stood as Beijing's enforcement mechanism, maintaining a tight grip on Shanghai art, performance, and theatre. By the time the city began making a turnaround in the late 1980s, most of what remained of the creative culture that was "Old Shanghai," aside from the old buildings on the Bund and a few areas that were once part of the foreign concessions, had been swept away (Yatsko, 2001, p. 20).

Despite strong investment in cultural hardware as detailed previously, as late as the mid-2000s, the SCB was still enforcing censorship regulations that could be considered strict even by Chinese standards, leaving the SMG with very little to show for in terms of fostering the growth of artistic communities or attracting a creative class to the city. Whereas in other cities, such as Beijing, cultural activities are often organized by individuals, the SCB still effectively plans almost all of Shanghai's cultural events (Kong, 2007, pp. 393-394).

There are several reasons Beijing, the capital city and seat of power for the CCP, could be more open to cultivating creative classes than Shanghai. First, as the seat of power of the central government, Beijing is responsible for monitoring all cultural activities throughout China. It could be that concerns elsewhere in China so dominate Beijing's attention that it neglects or overlooks many of the cultural activities that occur

³⁰ Collectively, these four are known as "The Gang of Four."

within its own jurisdiction (with the notable exception of anything occurring in Tiananmen Square). Second, the political climate of the 1980s in Beijing may have been responsible for attracting artists and other elements of a creative society to Beijing at that time, giving it an advantage that Shanghai never had. Third, Beijing's comparatively lower cost of living makes it far more attractive to both foreigners and artists than Shanghai. Finally, the large numbers of foreign visitors, diplomats, dignitaries, and non-Chinese residents Beijing receives as a result of being the seat of Chinese political power makes international cultural exchange more likely to occur in Beijing than Shanghai (Wu, 2004, p. 174).

Furthermore, some of Shanghai's perceived strengths in certain areas can be seen as hindrances in its efforts to build a more culturally lively city. For example, the numerous CCP agencies, bureaus, and institutions headquartered in Beijing often succumb to jurisdictional confusion, thereby allowing artists and others whose work would otherwise have to be approved by the "cultural monitors" to go unnoticed. The SCB, responsible for monitoring just Shanghai's cultural scene, is not affected by the same jurisdictional confusion as Beijing, thus making it more effective at keeping Shanghai's cultural scene within the parameters of what is found to be appropriate by the CCP's strictest standards (Yatsko, 2001, pp. 156-157).

Another factor that works in Shanghai's favor politically, but harms its ability to foster creative culture growth, is the city's reputation as a sort of "training ground" for future central government leaders.³¹ Shanghai's bureaucrats tend to be very cautious

³¹ Although this trend seemed to slow during the second half of the 2000s, coinciding with the strengthening of the Chinese Communist Youth League (CCYL) faction of the CCP, Xi Jinping's tenure as Party Chief in Shanghai just prior to his elevation to the Politburo Standing Committee in 2007 may indicate this trend is continuing (Li D., 2007).

about every decision they make to avoid upsetting their superiors, primarily because their superiors are responsible for promotions and the direction of one's entire career.

However, Shanghai's reputation as a "training ground" for central government leadership has placed additional pressure from the central CCP leadership on Shanghai's bureaucrats. In other words, because the central government bureaucrats monitor Shanghai more carefully than others, Shanghai's officials have much more to lose from stepping out of line to try something new or innovative that might either be questionable in terms of the CCP's stance on an issue, or may result in failure and embarrassment for the party (Yatsko, 2001, pp. 157-158, 271).

Another damper on Shanghai's cultural growth may be the Shanghainese people themselves: the notorious "Shanghai attitude." Shanghainese are described, by themselves and other Chinese, as "calculating," "detailed-oriented," "conscientious," and "obedient," allowing them proven efficiency in the implementation of ideas, but not in the creation of original, new, or creative ideas. Some artists describe the Shanghainese as "consumed with moneymaking and other issues" and "unwelcoming" to non-Shanghainese. This dynamic adds to non-Shanghainese artists' unwillingness to settle in Shanghai (Yatsko, 2001, p. 170).

What's holding you back? The Trouble with Lagging Cultural Software

The first part of Chapter 2 discussed the trends in corruption that a lack of institutional software can lead to for Shanghai and China in the future, as well as the dire consequences resulting from Shanghai's lagging cultural software, especially as it pertains to becoming recognized as a global city on par with New York, Paris, or London.

Despite more than 25 years of heavy investment in Shanghai, the city remains in the elementary stages in terms of becoming a prominent global city and international, or even regional, cultural hub. Now the question becomes, how has lagging cultural software been addressed in Shanghai?

It is important to take note of the problems that China faces as a whole. In short, the best way to describe the economy of China is “slowly developing, but rapidly changing.” Wu Jinglian, an economist and advisor to Deng Xiaoping during the 1980s and 1990s, explains that the Chinese government’s inability to keep up, in terms of policy-making, with the rapidly changing economy had led to “fundamental problems such as resource consumption, environmental degradation, economic inequality, political corruption, and the widening gap between rich and poor” (Kuhn, 2010, p. 142). Although these issues are present throughout China and pervasive in large cities, the issues examined in this study will relate directly to Shanghai’s cultural software lag.

Shanghai’s problems with regard to its lack of cultural infrastructure run deep, but can most prominently be seen in the city’s inability to develop two particular components of its economy: a burgeoning high-tech industry and successful domestic Chinese enterprises or brands.

It is important to understand, not necessarily the extent to which China’s high-tech industry has developed, but because we are attempting to understand the motivations of the SMG and indeed the CCP central leadership, we must comprehend the importance and priority Shanghai’s planners have placed on the development of certain sectors of the Shanghai economy.

The SMG's focus on creating a high-tech industry is well documented and appears in planning documents from the city itself. Shanghai's Eighth Five Year Plan (for 1991-1995) (in Zhang L., 2003, p. 1562) outlines six industries the city would showcase as "pillar industries." They were:

1. Iron and Steel
2. Automobile
3. Electronic and telecommunications equipment (high-tech)
4. Household appliances
5. Power station equipment and parts manufacturing
6. Petrochemical and fine chemical processing

It is important to note the focus on items 2, 3, 5, and 6 as Shanghai's manufacturing base includes major global corporations involved in these ventures: General Motors (GM) and Volkswagen in automotive; International Business Machines (IBM), Nippon Electric Company (NEC), Sharp, and Philips in high-tech areas; and Baden Aniline and Soda Factory (BASF) in chemical production (Wei & Leung, 2005, p. 23). Shanghai is also consistently ranked as a top ten city on The Global Financial Centers Index, placing fifth in 2010, and eighth in 2011. Shanghai, along with Hong Kong and Singapore are consistently ranked as "[Financial] Centers likely to become more significant," but Hong Kong is the only Chinese city dubbed a "Global Leader" (Z/Yen Group, March 2012). Furthermore, the Outline of the 1999-2020 Comprehensive Plan of Shanghai Municipality clearly outlines in the "Industrial Development Strategy and its Layout" section that Shanghai is:

...taking technological innovation as the main driver to promote optimization and update industrial structure in all aspects, with the priority of developing high-level service industry exemplified by finance/insurance industry and high-tech industry... (Xu, 2003).³²

³² Xu Yisong is the Deputy President of Planning for the Design & Research Institute with the Shanghai City Planning Department.

Based on these priorities, it is clear that Shanghai’s primary goals through 2020 are the maintenance of its manufacturing industry, the sustainable growth of its increasingly powerful financial services industry, and the take-off and growth of its high-tech industry.

Based on the number of employees working in particular sectors, it would appear Shanghai’s trend toward a strong manufacturing and retail focus is being maintained (see Table 2.1).

Table 2.1: Number of Employees by Sector in Shanghai Municipality (2006)

| <u>Economic Sector</u> | <u>Number of Employees</u> |
|--|----------------------------|
| Financial | 26,774 |
| Scientific Research, Technical Service, and Geological Prospecting | 22,095 |
| Real Estate | 40,975 |
| Leasing and Business Service Industries | 69,746 |
| Construction | 58,965 |
| Retail and Wholesale | 184,228 |
| Manufacturing | 381,809 |

Source: Totals calculated by Author using figures from the Shanghai Statistical Yearbook and the reported population of Shanghai in 2006, 13.681 million people (Shanghai Municipal Statistics Bureau, 2006)

It is also worth noting that Shanghai’s financial services industry has only recently gained global recognition as a robust and competitive industry. The reason for this is that most of the investment in fixed assets and Foreign Direct Investment (FDI) going into Shanghai throughout the 1980s and 1990s went toward the manufacturing, real estate, construction, and retail industries (Zhang L. , 2003, pp. 1560-1561) (Wei & Leung, 2005, p. 37). With a heavily regulated financial sector, many of the financial tools available to other global cities and Shanghai’s competitors were illegal in Shanghai through the 1980s and 1990s. Without the ability to attract financial institutions, accounting firms, and law firms of worldwide renown, Shanghai remained “largely

segregated from international financial markets” until industry reforms were mandated when China’s joined the WTO 2001 (Yusuf & Wu, 2002, p. 1222), (Wei & Leung, 2005, p. 37).

China’s high-tech industry, however, has not seen the same success. Since 1999, challengers for research and development (R&D) investment outside of China, and increasingly from other cities within China (primarily Beijing and Shenzhen), have left Shanghai falling behind in the high-tech race. For example, in the late 1990s, the SMG extended low interest loans to stimulate growth of Shanghai’s computer brands, such as Changjian and Huadong. Despite these efforts, it was Beijing-based companies Legend, Founder, and Great Wall that were the top computer makers based on sales in 1999 (Yatsko, 2001, p. 280). Since then, investments in high-tech companies in China have primarily been concentrated in Beijing and Shenzhen, and less so in Shanghai (Wei & Leung, 2005, p.37).

As we can see, despite the attention of foreign investors and considerable SMG efforts to stimulate investment in the high-tech sector, Shanghai’s high-tech industry is losing the “domestic high-tech hub” competition to Beijing and Shenzhen. With competition from dominant global cities such as Tokyo and Hong Kong for R&D investment in high-tech industries, the Shanghai high-tech industry’s growth remains relatively slow, despite global high-tech manufacturing firms like IBM, NEC, Sharp, and Philips locating manufacturing bases in Shanghai (Wei & Leung, 2005, p. 37).

Shanghai’s lagging behind in the high-tech race can be attributed to two major problems. First, if we examine the global firms forming the backbone of Shanghai’s manufacturing industries, we see that none of them are Chinese (see Table 2.2).

Table 2.2: Notable Global Manufacturing Industry Firms in Shanghai (2005)

| <u>Firm</u> | <u>Industry</u> | <u>Home Country</u> |
|---------------------|------------------------|----------------------------|
| General Motors (GM) | Automotive | United States |
| Volkswagen | Automotive | Germany |
| IBM | High-tech | United States |
| NEC | High-tech | Japan |
| Sharp | High-tech | Japan |
| Philips | High-tech | Netherlands |
| BASF | Chemical | Germany |

Sources: Compiled by Author with information in Wei & Leung, 2005

Many acknowledge this is an issue all of China struggles with, but it is especially problematic, given Shanghai's goal of growing a domestic high-tech industry, that none of these high-tech manufacturing firms are Chinese.

Second, in 2000 there were ten Chinese companies on the list of Fortune Global 500 companies³³ (People's Daily, 2000). By 2011, China had increased that number to 61. The problem for Shanghai is that only five of those 61 firms were Shanghai-based and, with the possible exception of China UNICOM, none were high-tech industries (see Table 2.3). Comparatively, 41 of the firms, or about two thirds, were Beijing-based (CNN Money, 2011). Beijing remains a natural headquarters for most of China's most prominent and successful firms and state-owned enterprises (SOEs), leaving Shanghai without many domestic enterprises and firms, but a heavy presence of foreign owned firms (Wei & Leung, 2005, p. 37).

³³ Notably, only two of the ten were Chinese state-owned enterprises: Bank of China and CITIC Group (formerly the China International Trust and Investment Company), both of which are based in Beijing (Wei and Leung, 2005, p.37)

Table 2.3: Shanghai-based Firms in the Global 500 (2011)

| <u>Firm</u> | <u>Industry</u> | <u>Rank in China</u> | <u>Global 500 Rank</u> |
|---------------------------------|------------------------|-----------------------------|-------------------------------|
| Shanghai Automotive (SAIC) | Automotive | 16 | 151 |
| Baosteel Group | Steel | 21 | 212 |
| China UNICOM | Telecommunications | 45 | 371 |
| Bank of Communications | Financial Services | 47 | 398 |
| China Pacific Insurance (Group) | Insurance | 58 | 467 |

Sources: Compiled by Author with information from CNN Money, 2011

Exacerbating the economic problems a lack of domestic enterprises presents China are issues of protectionism, which have evolved with increasing persistence since the implementation of reforms in the 1980s. Many local officials have used (or abused) their powers by enacting strong protectionist policies designed to cultivate growth of local industries in order to curry favor with their superiors and protect their own reputations. In one case, Shanghai's government adopted technical standards for Shanghai taxis that effectively purged all cars other than those produced in a joint venture by the Shanghai Automotive Industry Corporation (SAIC) from competing in that market (Lieberthal, 2004, p. 265). Although this sort of "special treatment" by officials varies from province to province,³⁴ it is common throughout China. With many local industries being protected by officials from local government all the way up to the provincial government, China now faces internal trade barriers that are the result of protectionism, and corruption in the wake of reforms (Yatsko, 2001, p. 274). These policies have had the effect of preventing many Chinese companies from being able to compete regionally, nationwide, or on a global scale because they are unable to achieve real economies of scale. Additionally, China's automotive industry is spread out over more than 100 assembly plants, with many plants only producing a few thousand cars per year. Despite

³⁴ Wealthier provincial governments, like Shanghai's, have the ability to be much more munificent with their policies (Yatsko, 2001, p. 274).

the central government's efforts to consolidate the industry, local officials have resisted and thus far, have been successful. This makes creating a globally competitive product in China exceedingly difficult and cost-prohibitive (Lieberthal, 2004, p. 265).

Lastly, IPR law is still evolving in China. As previously discussed, without an independent judiciary, more often than not, local CCP officials protect the people who are abusing IPR in order to protect local industries. The result is lost revenues and stalled investment in new products, which inevitably stymies entrepreneurship (Lieberthal, 2004, p. 266).

Unfortunately for Shanghai, its success in cultivating a robust high-tech industry throughout the late 1990s and early 2000s could be described as meager at best.

Although the financial services industry suffered from slow growth through the late 1990s, unlike the high-tech sector, it is likely the slow growth in the financial services sector was the result of dominance by state-owned banks with close links to highly indebted SOEs (Zhang L. , 2003, p. 1562) and the fact that China was not yet a member of the WTO, and therefore not in compliance with global financial industry standards which inevitably hindered its growth.

Florida's "Three Ts"

At the core of all of these issues is Richard Florida's Creative Capital Theory, which provides an analytical tool and insight into why Shanghai seems to be stumbling. Florida's Creative Capital Theory describes the necessity of "The Three Ts" of economic development: technology, talent, and tolerance. For Florida, Technology is a "function of both innovation and high technology concentrations in a region." Talent is comprised of

“those with a bachelor’s degree and above.” Tolerance is defined as “openness, inclusiveness, and diversity to all ethnicities, races, and walks of life.” Florida argues that all three of the “Three Ts” are necessary elements in attracting what he calls the “creative class” (Florida, 2005, p. 37).

The creative class, as defined by Florida, is made up of artists, designers, musicians, writers, performers, television/film producers, scientists, innovators, and entrepreneurs. All of these vocations and occupations hold one thing in common: their primary means of income is via “creative thinking, designing, and producing” (Hospers & Dalm, 2005, p. 09). Without one or more of these conditions, the creation or stimulation of growth in a creative class of people, the ability to drive innovation, and the ability to fuel economic growth and development are thwarted (Florida, 2005, p. 37). Shanghai’s cultural lag may be the result of just this kind of problem.

Despite the lackluster performance of Shanghai’s high-tech industry, it is not as though high-tech does not exist in Shanghai. For example, the Shanghai Academy of Spaceflight Technology (SAST) is central to China’s space program as a developer and producer of engines and guidance systems for all of China’s space launch vehicles. SAST is also one of the primary designers of the “Shenzhou” capsule, China’s manned spacecraft (NTI, 2011). The presence of this crucial component of China’s long term scientific, technological, and defense related goals in Shanghai satisfies Florida’s first “T” requirement: Technology.

The creation of a “creative class” requires a strong educational infrastructure; thus educational infrastructure plays a key role in both building and attracting a creative class (Florida, 2002). Shanghai has been improving in the area of educational infrastructure,

but still lags behind other Chinese cities, particularly Beijing. Shanghai boasted over 60 regular institutions of higher learning in 2006, with approximately 140,448 new students enrolling the same year (Shanghai Municipal Statistics Bureau, 2006; hereafter referred to as SMSB, 2006). However, more than half a decade earlier, in 2000, Beijing already had 59 regular institutions of higher learning, with approximately 75,000 new students enrolling (United Nations Economic and Social Commission for Asia and the Pacific, 2000). Admission rates to Shanghai's institutes of higher education rose dramatically from 2000, when admission rates were at 67.4%, to 2005 when admission rates topped out at 84.6% (SMSB, 2006). Similarly, Shanghai has managed to dramatically increase the number of students graduating from these institutions from 5,435 in 2000 to 18,833 in 2006 (SMSB, 2006). With its continually growing population, Shanghai does not seem to have trouble attracting talent; thus, with continued investment in educational infrastructure, Shanghai could be said to possess the means to produce the second "T," talent, described in Florida's theory.

Finally, although it could be argued that Shanghai is one of the more tolerant and diverse cities in China, relative to most of the cities Shanghai is seeking to best throughout the rest of the world, it, and indeed most of China (save perhaps Hong Kong and Taiwan), cannot be considered truly tolerant by almost any measure. Perhaps most important to the understanding of this measure is the idea of establishing few barriers to entry for Shanghai, thus allowing the city to attract people from a variety of different ethnicities, age groups, sexual orientations, and upbringings.

Florida's findings with regard to tolerance demonstrate that the leading indicator of successful high-tech industries in cities is a large gay population, followed closely by

“bohemians” (artists, writers, musicians, actors, etc.) as measured by Florida’s “Bohemian Index,” and then foreign-born residents (Florida & Cates, 2001).³⁵

Examining Shanghai’s gay community specifically, we find that tolerance in terms of homosexuality remains a value that, while gaining traction, is still far from universal acceptance in China as reflected in the following discussion.

Chinese Pride: Gay Life in the World’s Most Populated Country

Prior to the “reform and opening up” period of the 1980s, social norms and laws in China were very much against homosexuality. However, with the reforms of the 1980s and 1990s came a gradual easing of laws and slow, but noticeable erosion of prejudices and the reticence many homosexuals were forced into throughout the Maoist years. Although policies toward homosexuals in China were changing throughout the 1990s, it was not until the late 1990s that true change in social attitude was realized. For example, during the early 1990s, being caught by police with a “dirty magazine” that was gay-themed would have likely resulted in a two week jail sentence as homosexuality was considered a crime under China’s anti-hooliganism laws. In 1997, homosexuality itself was “decriminalized” in China, but it was still classified as a “mental disorder,” which essentially meant that after 1997, police were likely to simply confiscate gay-themed materials rather than arresting those in possession of them (Hogg, June 10, 2009).

However, the turn of the millennium seems to have jolted China’s move toward greater acceptance of homosexuals. In April 2001, homosexuality was removed from the Chinese Classification of Mental Disorders (Xinhua News Agency, 2005), thus ending

³⁵ “The Bohemian Index” as described by Florida in “Bohemia and Economic Geography” (Journal of Economic Geography, 2002, p. 55-71), is maintained and updated by the Martin Prosperity Institute, for which Florida serves as Director.

both the decades of law that made homosexual acts between males illegal and the denial by the central government that homosexuality even existed in China (Yatsko, 2001, p. 206).

Despite improvements to their situation after 2001, China's gay community still faced some harassment from Public Security Bureau officials, but many had found that the government's policy of keeping "one eye open, and one eye closed" had produced a noticeable change in the willingness of many homosexuals to express themselves (Yatsko, 2001, p. 205). Nonetheless, it remained difficult for many homosexuals throughout China to do so because of the societal pressure placed on them by family and the traditional expectation³⁶ that they produce offspring (Zheng G., 2001). For example, one 2011 study showed that nearly 16 million women in China are married to gay men due to the pressure to conform to traditional familial and societal expectations (Shan, 2012).

Socially speaking, the "gay life" in Shanghai in 2001 was not nearly as lively or energetic as it is in other parts of China (Yatsko, 2001, p. 205). Yatsko's interview with a gay Shanghainese bar owner is revealing:

You know, Shanghainese do not like to get into trouble. They fear risk. Whereas northerners are straightforward and will do anything for their friends, Shanghainese are more weak and tender. They know how to take care of their bodies and the importance of going to sleep early. What Shanghai gays do best is buy makeup, wear famous-brand clothes, and make themselves more beautiful
(Yatsko, 2001, p. 205).

³⁶ Families in China are deeply concerned about carrying on the ancestral line. This concern for carrying on the family line, combined with the one-child per couple policy, has made homosexuality difficult for families to accept. In fact, the term "juehu" (meaning "without descendants") is akin to cursing in Chinese (Daily Indonesia, 2010)

This corroborates the experiences of a gay American who had lived in both Shanghai and Beijing:

In Beijing, they're much more open and passionate about it. They go with the flow and then pay the consequences. Here, in typical Shanghai style, everyone is always calculating. They're always thinking of the consequences of their actions
(Yatsko, 2001, p. 206).

But societal trends across China appear to be changing rapidly. Despite China's relatively conservative society, polls and surveys consistently show that a majority of Chinese are at least reasonably tolerant of the country's homosexuals.³⁷ By 2009, a trend of improving acceptance of homosexuality could be seen throughout China, particularly at universities in large cities (Hogg, June 06, 2009).

In fact, Shanghai's progress in terms of tolerance of homosexuals over the last decade has been quite remarkable. In 2009, Shanghai was the first city to allow a "Gay Pride" festival to occur inside its jurisdiction.³⁸ The event was significantly toned down from its American "Pride" counterparts,³⁹ and some parts of the event were even canceled by officials; nonetheless, the event was largely touted by organizers as a success. The event even drew praise from the state-run *China Daily* newspaper, which described the event as one of "profound significance" and a "showcase of the country's social progress" (Hogg, June 10, 2009). This came as a surprise to many in the Shanghai gay community as a policy of "don't condemn, don't promote" had largely been the

³⁷ Most estimates place China's gay population at approximately 30 million people, although many people are unwilling to admit their sexuality. Chinese health officials estimate the gay male population (the population of importance for Florida's measure) to be between five and ten million (Hogg, June 06 2009).

³⁸ See http://shanghaiist.com/2009/06/06/eye_on_gay_shanghai_mainland_chinas.php

³⁹ For example, there were no parades or marches as these are generally not looked upon positively by the Chinese government. Also, none of the events were hosted in public areas, but instead in clubs, bars, and other more private areas.

government's official response to homosexuality or homosexual displays in the past (Hogg, June 10, 2009).

Aside from "Pride"-like events, Shanghai's progress toward tolerance of homosexuality is also evident in its universities and night life. Fudan University in Shanghai was the first university in China to offer a class on gay and lesbian studies (French, 2005). Also, Shanghai is touted as having the fastest growing gay nightlife and bar scene in China. Shanghai's numerous cosmopolitan, sleek, and creatively styled bars and hangouts are at the core of a growing stylish trend in lounges and clubs throughout the city that appeal to the gay community and make Shanghai "the place to be" and the "place to be seen" (Collins, 2010). In early 2001, Shanghai boasted at least four "gay bars" (Yatsko, 2001, pp. 204-205). By 2010, CNNGO reported that Shanghai was home to at least ten bars and nightclubs that are either oriented toward homosexuals or considered "gay-friendly" (Schrader, 2010). In 2011, Gaytravel.com even touted Shanghai as "The Capital of 'Gaysia'" (Gaytravel, 2011). Comparatively, while Beijing also has a growing gay population, most travel observers place Beijing at least two or three years behind Shanghai in terms of developing and allowing its gay community to flourish (Collins, 2010).

All of this being said, Shanghai, like the rest of China, still has a long way to go. Events are still cancelled immediately before they are supposed to occur⁴⁰ and an estimated 90% of gays and lesbians throughout China still feel culturally pressured enough to get married to a member of the opposite sex (Meyer, 2010) (Shan, 2012). The authorities in Shanghai have regularly cancelled small "gay pride" events including social

⁴⁰ See "Mr. Gay pageant shut down in China"
<http://www.cnn.com/2010/WORLD/asiapcf/01/18/china.gay.pageant/index.html>

mixers, film screenings, and plays at the last minute, and with no explanation. Even establishments that cater to the gay population in Shanghai have not been safe from government harassment as evidenced by a police raid on “Q Bar” in April 2011 during which at least 60 people were detained. This is clear evidence of the government’s still uncomfortable attitude toward homosexuals, particularly during “crackdown” periods (Jacobs, 2011). Although it appears a trend toward greater tolerance of homosexuals in China is present, gay communities in Shanghai and throughout China still face a multitude of challenges.

This raises several questions regarding Florida’s “tolerance” requirement. Shanghai is clearly leading China in terms of creating a tolerant environment for the gay community, but the government in Shanghai has only recently begun to show significant willingness to tolerate homosexuals. Fifteen years after homosexuality was “decriminalized in China, eleven years after it was removed from the Chinese Classification of Mental Disorders, and only three years after Shanghai’s (and China’s) first public “Gay Pride” event, it is still too early to see if changes in public policy regarding Shanghai’s gay community are having any significant impact on the evolution of Shanghai’s priority industries and thus, Shanghai’s greater creative culture.

Questions remain as to whether or not using Florida’s measure in China is appropriate at all. The question becomes, “is the tolerance measure fair given China’s conservative society?” Even Florida seems skeptical. According to Professor Maggie Chen, a researcher with The Martin Prosperity Institute (MPI) which Florida directs, the organization was “concerned about the measurement of tolerance,” because “...the forms of China’s tolerance are quite different from that of Western countries” (Chen, 2010).

While the MPI is working on an augmented quantitative measure for tolerance in China, they may find that deeper qualitative analysis of events surrounding the gay community in Shanghai over time are good indicators of a rapidly changing Chinese society. Crucial to any new measure will be the integration of Florida's initial indicator with a cogent and current understanding of the cultural climate toward homosexuals in Shanghai and China.

Despite the progress that has been made in Shanghai, China's overall progress on the tolerance front may be a prime concern for the CCP. The challenge the creative class or "bohemians" often present to authoritarian regimes manifests in the form of political and social dissidents. The lessons of the Soviet Union's own internal struggle with members of the creative class, such as nuclear physicist Andrei Sakharov or author Alexander Solzhenitsyn, becoming outspoken anti-Soviet dissidents and activists are likely very well known to the CCP. These "bohemians" and their supporters likely seem eerily similar to China's own dissidents and political activists, including artist Ai WeiWei, civil rights activist Chen Guangcheng, democracy activist Wei Jingsheng, and human rights activist Hu Jia.⁴¹ China's reaction to dissidents is most often the arrest and imprisonment of the "offenders" on fictitious or unfounded charges, followed by a public campaign to vilify and demonize the activists as troublemakers in state media. Despite the CCP's effort to control media and protect its legitimacy in the wake of dissident actions, the CCP would rather avoid having to deal with these situations at all. Thus, it should come as no surprise that the CCP is not eager to endorse expanded tolerance for

⁴¹ Ironically, both Wei Jingsheng (in 1996) and Hu Jia (in 2008) were awarded the "Sakharov Prize for Freedom of Thought" by the European Parliament. The prize is named for Andrei Sakharov and is given annually to "individuals or organizations that have made an important contribution to the fight for human rights or democracy." (BBC News, 2008), (European Parliament, 2012)

gays, lesbians, and other bohemians in Shanghai due to the risk of appearing to enable, or even endorse, dissident behavior throughout China.

The gay community in Shanghai remains in its infancy, still constrained by social norms and the unpredictable response the national government will have toward anything it does. Assuming social progress regarding homosexuality continues to progress following China's recent crackdowns, studies that monitor the progress of Shanghai's gay community will be interesting to monitor over the course of the next seven to ten years, as they are likely to begin capturing the gay community's impact on Shanghai's priority industries and creative class. Using Shanghai's first "Gay Pride" event in June 2009 as a starting point, comparative studies of progress on these particular measures over the next two decades should begin to yield interesting results, both for the Shanghainese and for Florida's measure.

Shanghai: *The Contender?*

In this chapter, I have described the underpinnings of a vast array of "software" necessities Shanghai's government and the CCP leadership in Beijing must make efforts to integrate in order to facilitate Shanghai's economic growth and China's long term political stability. For Wu, there are four particular conditions that must be met to make successful cultural policy: championship by local officials, adequate investment and funding of new capital projects, sound government structures that will support cultural and creative industries, and a regulatory structure that ensures proper implementation of policy (Wu, 2004, p. 162). These conditions remain at the core of Shanghai's "software" needs.

Shanghai and all of China remain plagued by corruption problems. The maintenance of continued FDI in Shanghai is pivotal to the city's future; thus, so too is the ability of the city to ensure that investors have confidence in the safety of their investments. Shanghai's special status in China has placed particular pressure on the local CCP to combat corruption, especially following the disastrous real estate policies that caused Shanghai to stumble during the late 90s. While most of these policies will or have come into place following China's joining of the WTO, anti-bribery efforts must be continually reevaluated and strengthened to ensure the flow of FDI is not interrupted and economic growth can continue. Furthermore, the central CCP must find a balance between maintenance of its power and implementation of an independent system of courts or "rule of law" in order to maintain its legitimacy in the face of widespread corruption within the party.

Shanghai also has a cultural capital deficit when compared to Beijing and many other cities it is attempting to compete with throughout Asia. The capacity of the city to drive entrepreneurship, innovation, and domestic product development is intrinsically linked to its slow development of cultural software. Domestic industrial and commercial products are dependent on the city's ability to attract those members of the creative class that have the capacity to create, innovate, and develop new ideas. Shanghai's effort to create this capacity must include a commitment to retaining and attracting higher education graduates to the city, investing in the infrastructure necessary to grow the high-tech sector, and promoting tolerance and diversity, particularly in terms of homosexuals.

Although Shanghai has made great strides in all of these endeavors since the city's "resurrection" in the mid-1980s, Shanghai must do more to enhance these

“software” efforts if it hopes to match and overtake its domestic and foreign competitors. Having established these factors and elements of software in this chapter, this project now moves to the question of how these elements and factors are influenced by Shanghai’s domestic and international economic competition (Chapter 3) and political situation (Chapter 4).

Chapter 3: The Competition Heats Up

China and Shanghai's futures are mutually dependent. Just as Shanghai led as China's economic industrial workhorse throughout most of the Mao years, it would seem that, for now at least, Shanghai remains the economic front runner of China.

Chapter 2 detailed Shanghai's "software" development, integration strategy, and progress on two fronts. The first front dealt with anti-corruption and transparency efforts by the CCP. For China, these efforts, particularly those dealing with rule of law, are crucial to maintaining and growing the massive amounts of FDI flowing into cities like Shanghai. The second front dealt with China's efforts to build a creative culture and promote intellectual and artistic freedom. For a city like Shanghai, this means relaxing many of the more strict rules on issues such as artistic expression and homosexuality, while also making affordable housing in the downtown areas a priority. As Florida's research contends, this type of software is crucial for Shanghai's future if the city is to become a regional or global financial hub.

The struggle for urban supremacy and international recognition is constantly playing out on the world's economic and political stages. Doubtless, cities desire to be recognized internationally as some kind of positive superlative because of the media attention and economic opportunity that kind of recognition brings. In addition, to hold the title of "Biggest" or "Best," and the "face"⁴² that comes with such recognition is of enormous importance for the pride of a country, particularly one as rapidly reemerging as

⁴²The concept of "saving face" captures the need to maintain a good reputation and social standing.

China. For a city, honors such as these bring not only national pride, but also domestic pride as a country's "flagship" economic engine.

For the city of Shanghai to gain recognition as a prominent global player, it is important for both the city leaders in Shanghai and CCP leaders in the Beijing to be aware of what they face regarding competition, domestically and abroad. How does Asia as a region measure against other regions? How do Chinese cities perform when compared to their counterparts throughout the rest of the world? What domestic and international competition does Shanghai face? Chapter 3 will examine Shanghai's primary competition to establishing itself as a major global city by analyzing the 2008, 2010, and 2012 Global Cities Indices or GCIs.

In one of the most comprehensive studies of globalization of its kind, the 2008 GCI ranked cities according to "24 measures across five dimensions." The 2010 follow up added a metric, "censorship," to the information exchange category making it a 25 point metric. The 2012 GCI report was virtually the same as the 2010 study; however, 2012 offers an additional look into the cities with the greatest potential to become major global cities. In all three studies, competition between cities domestically and internationally is measured across five dimensions: business activity, human capital and talent, information bureaus, cultural experiences, and political influence. This study and the changes it shows between 2008, 2010, and the additional information regarding emerging cities provided by the 2012 study can be useful in examining trends and patterns relevant to the variables I described in chapter two. Additionally, we can observe the areas of strength and weakness of various cities, allowing us to make some

forecasts. The comparative tables in this chapter have been compiled by the author using data from all three studies (CCGA).

Global Trends: Region-to-Region Competition

After examining trends in the prominence of cities between the 2008 and 2010 GCI indices, some interesting patterns emerge. As Table 3.1 shows, Asia has more cities on the 2008 and 2010 GCIs than any other region; however, Asia is host to nearly four billion people (The United Nations Statistics Division, 2006), so the fact that 21 of the cities on the 2008 and 2010 GCIs are in Asia should be expected. In fact, proportionally, this is actually less than one would expect. This demonstrates that population alone is not sufficient as a factor in determining regional global city strength.

Also worthy of note is the *Average Region Change* (see Table 3.1). Asia averaged a change in ranking of minus four. Latin America experienced similar losses. Asia's losses are likely the result of a combination of several factors: the tremendous gains of North America and Europe, the global economic downturn of 2008, and adjustments made to the methodological factors (i.e. the new "censorship" metric) between 2008 and 2010. It is clear that between 2008 and 2010, North American and European cities made significant gains, while Asian and Latin American cities suffered measurable losses in ranking on the 2010 GCI.

Table 3.1: Summary of GCI rankings from 2008 and 2010 GCI

| <u>Region</u> | <u>Raw Region Change (2008-2010)</u> | <u>Number of Cities (2008)</u> | <u>Number of Cities (2010)</u> | <u>Average Region Change (2008- 2010)</u> |
|--|--|--|--|---|
| North America and Australian | 74 | 10 | 12 | +6 |
| Europe (including Russia) | 62 | 16 | 18 | +3 |
| Asia (including India) | -80 | 21 | 21 | -4 |
| Africa (excluding Egypt) | 1 | 2 | 3 | 0 |
| Latin America (including Mexico) | -15 | 6 | 6 | -3 |
| Middle East (including Egypt, Pakistan, and Turkey) | 8 | 5 | 5 | +2 |
| Total | 8 | 60 | 65 | 5 |

Sources: Analysis by author of 2008 and 2010 GCI

Despite Asia’s overall losses in ranking from the 2008 to the 2010 GCI, the region is still doing well overall. First of all, Asia has more cities represented on the GCI than any other region with 21. Europe follows closely with 18 (see Table 3.1), but is unlikely to overcome Asia in the foreseeable future. The reason being, despite Europe’s gains in 2010 and a significant advantage in the scoring structure due to the addition of the “censorship” metric (which inherently disadvantages a number of Asian countries including China), the European Debt Crisis of 2011-2012 is likely to continue having a significant negative effect on Europe’s ability to compete on future GCIs. Austerity measures, combined with credit rating downgrades across Europe will undoubtedly result in reductions in public sector spending, particularly in the areas of public housing, the arts, public education, and social welfare programs which will directly or indirectly contribute to slowdowns in the creative economy areas described in Chapter two (Ewing, 2012), (Zarrolì, 2011).

The increase in the number of cities named in the index, which increased from 60 in 2008 to 65 in 2010, is also contributing to Asia’s success, as many of the cities near the

bottom of the rankings are in Asia. This factor probably also contributed to the resilience of the Asian region. For example, Asia's only loss among the top 30 from 2008 to 2010 was Bangkok, which fell from 22nd in 2008 to 36th in 2010. Despite this loss in the top half of the rankings, Asia maintained a strong standing overall due in large part to the region's losses being dispersed among its 21 cities. Additionally, although its presence in the top 30 fell from seven to six cities from 2008 to 2010, as a percentage of cities in the top 30, Asia remained fairly resilient; down to just under 29% from about 33% in 2008 (see Table 3.2). Europe experienced similar resilience, dropping from 75% in 2008 to about 72% in 2010. By contrast, other regions experienced much larger declines: the North America and Australia region fell from 80% to 66.7%, and the Middle East region fell from 40% to 20%. The resilience of Asia and Europe is notable for a regional level analysis, but a country level analysis provides clearer explanation of the factors at work.

Table 3.2: Presence in the Top 30 by Region: 2008 and 2010

| <i>Presence in the Top 30 (2008)</i> | | | |
|--|-------------------------------|----------------------------|----------------------|
| <i>Region</i> | <i>Cities (Top 30)</i> | <i>Total Cities</i> | <i>As a %</i> |
| North America and Australia | 8 | 10 | 80.0% |
| Europe (including Russia) | 12 | 16 | 75.0% |
| Asia (including India) | 7 | 21 | 33.3% |
| Africa (excluding Egypt) | 0 | 2 | 0.0% |
| Latin America (including Mexico) | 1 | 6 | 16.7% |
| Middle East (including Egypt, Pakistan, and Turkey) | 2 | 5 | 40.0% |
| Total | 30 | 60 | |
| <i>Presence in the Top 30 (2010)</i> | | | |
| <i>Region</i> | <i>Cities (Top 30)</i> | <i>Total Cities</i> | <i>As a %</i> |
| North America and Australia | 8 | 12 | 66.7% |
| Europe (including Russia) | 13 | 18 | 72.2% |
| Asia (including India) | 6 | 21 | 28.6% |
| Africa (excluding Egypt) | 0 | 3 | 0.0% |
| Latin America (including Mexico) | 2 | 6 | 33.3% |
| Middle East (including Egypt, Pakistan, and Turkey) | 1 | 5 | 20.0% |
| Total | 30 | 65 | |

Sources: Analysis by author of 2008 and 2010 GCI

Global Trends: Country-to-Country Competition

Perhaps not surprisingly, the world's leading economies have the most cities on the GCI (see Table 3.3). The world's ten leading economies by 2010 GDP were the United States (nine global cities), China (seven⁴³ global cities), Japan (two global cities), Germany (three global cities), France (one global city), the United Kingdom (one global city), Brazil (two global cities), Italy (two global cities), India (four global cities), and

⁴³ Without Taipei and Hong Kong, China remains in second place with five. Although the inclusion of these two cities in the China count is debatable, for a long-term analytical outlook such as this, the author believes political, economic, and cultural inevitabilities will lead to the eventual integration of the economies of both Hong Kong (already part of China politically) and Taiwan.

Canada (two global cities) (The World Bank, 2011). Because GDP correlates well with the number of global cities a country has, thus making it a significant factor to the outlook analysis, it is reasonable to conclude that the continued growth of China's GDP and its eventual outpacing of the United States economy according to this measure (likely to occur sometime between 2016 and 2020) will also lead to the eventual overtaking of the United States by China in terms of the number of global cities each country has (Scherer, 2010), (The Economist, 2011), (Arends, 2011). That said, crucial to the assertions made in chapter two of this study will be how the ruling CCP and the Chinese population respond from a domestic political standpoint to a rising per capita GDP and the global prominence and pressure of being the world's economic leader.

The country level analysis also reinforces the regional analysis' conclusion regarding the resiliency of Asian and European global cities' rankings on the GCI. In 2010, 11 countries in Asia had at least one city represented on the GCI; second only to Europe's 13 (see Table 3.3). The large diversification of both of these regions' global cities in terms of country and type of economy likely provides them greater insulation from catastrophic losses due to economic hardship in a particular sector or commodity than regions such as North America with its "too big to fail" banking and financial sectors, or the Middle East, with its largely energy/petrol-based economies. The sustainability of North American and European global cities on and near the top of the GCI will be indicative of the strength of their economic and socio-political models, particularly as more and more Chinese global cities emerge.

Table 3.3: Countries with Most Cities on the 2010 GCI

| <u>Country</u> | <u>Cities</u> |
|---------------------------------|----------------------|
| The United States | 9 |
| China (plus Hong Kong & Taipei) | 7 |
| India | 4 |
| Germany | 3 |
| Japan | 2 |
| Brazil | 2 |
| Spain | 2 |
| Canada | 2 |
| Switzerland | 2 |
| Italy | 2 |
| Russia | 1 |
| France | 1 |
| United Kingdom | 1 |
| Austria | 1 |
| Singapore | 1 |
| Australia | 1 |
| S. Korea | 1 |
| Belgium | 1 |
| Argentina | 1 |
| Sweden | 1 |
| United Arab Emirates | 1 |
| Netherlands | 1 |
| Mexico | 1 |
| Thailand | 1 |
| Denmark | 1 |
| Turkey | 1 |
| Egypt | 1 |
| Ireland | 1 |
| Malaysia | 1 |
| Israel | 1 |
| Philippines | 1 |
| South Africa | 1 |
| Indonesia | 1 |
| Colombia | 1 |
| Venezuela | 1 |
| Kenya | 1 |
| Nigeria | 1 |
| Pakistan | 1 |
| Vietnam | 1 |
| Bangladesh | 1 |

Sources: Analysis by author of 2010 GCI

Global Trends: City-to-City Competition

The Chicago Council on Global Affairs and A.T. Kearney's analysis of the top ten cities in each of the five measures or "dimensions" of the 2010 GCI, titled "The Urban Elite," can give us some indication of recent trends in city-to-city competition on the GCI. Although their analysis and regional groupings differ slightly from those of the author of this analysis, the findings are similar. Once again, the five "dimensions" are: cultural experience, political engagement, information exchange, human capital, and business activity.

The traditional seats of global cultural power (New York, London, and Paris) saw significant challenges from cities such as Tokyo, Moscow, and Los Angeles. London, with a cultural experience score of 7.6, easily dominates this category by outscoring its rivals in all but one of the cultural metrics (number of sister cities) including culinary offerings, international travelers, sporting events, visual and performing arts, and museums. Paris follows with 6.3, then New York with 5.5. New York faces the prospect of losing its ranking of third in this category as Tokyo has closed the gap to a margin of just 0.1 with a score of 5.4 (CCGA).

The top three cities in the political engagement metric come as little surprise. Washington D.C. maintains a tenuous hold on the number one spot with a score of 7.7. D.C. has a slight edge in the number of international organizations, but dominates its rivals in terms of the number of think tanks. It is followed closely by New York, with a score of 7.6. Undoubtedly, New York's hosting of the United Nations Headquarters, the numerous consulates and diplomatic missions that accompany it, as well as the large number of international organizations that locate there make it a strong competitor.

However, New York's advantage in terms of number of political conferences, number of consulates, and number of local institutions with international reach are not sufficient to overcome Washington D.C.'s slight advantage in international organizations metric and dominance of the think tanks metric. Brussels rounds out the top three as the de facto capital of the European Union (EU), the Headquarters of the North Atlantic Treaty Organization (NATO), as well as the World Customs Organization (WCO). Tokyo (fifth, with a score of 4.3), Cairo (ninth, with a score of 3.2), and Beijing (tenth, with a score of 3.1) represent the only cities in the top 10 that are not located in North America or Europe (CCGA). Based on this measure, it is reasonable to say that Asian cities have shown only moderate growth in the political engagement metric.

One area in which Asia's performance is lacking significantly is information exchange. The four metrics used to measure this are international news coverage, news bureaus, broadband subscribers, and the new category in 2010 called "censorship." China's heavy censorship of media and news agencies likely plays a role in the losses experienced by most of its cities in this category, particularly Beijing. The only city in Asia to appear in the top ten of the information exchange category is Tokyo (eighth with a score of 6.83). Aside from New York (first), Tokyo (eighth), and Washington D.C. (tenth), this category is dominated by Western European cities (CCGA).

By contrast, under the human capital category rankings, Asian cities edge back in, but have not shown significant growth or change in rank since 2008. The only real movement on this scale occurred within the top four. From 2008 to 2010, London (first, with a score of 5.6) and New York (second, with a score of 5.4) traded places, while Los Angeles (third, with a score of 4.6) and Chicago (fourth, also with a score of 4.6) also

swapped ranks. Hong Kong (fifth, with a score of 4.4) and Tokyo (sixth, with a score of 4.1) held onto their rankings from 2008. The remainder of this category is rounded out by cities in the North American and Australian region (Sydney in seventh, Boston in eighth, Toronto in ninth, and San Francisco in tenth). The metrics of this category are international schools, international students, inhabitants with tertiary degrees, universities in the Fortune Global 500, and size of foreign-born population (CCGA).

The category in which Asia outperforms any other part of the world is business activity. Although New York (first, with a score of 6.4) maintains the top spot, its score is tied with Tokyo (second, also with a score of 6.4). Paris (third, with a score of 6.3) makes a strong showing and rounds out the top three, which have shown no changes in rank since the 2008 GCI. However, outside the top three, significant changes occurred between 2008 and 2010. Hong Kong (fourth, with a score of 5.4) bested London (fifth, with a score of 5.2), as the two cities trade ranks from 2008. In what must be viewed jubilantly by China, Beijing (now sixth, with a score of 4.7) leapfrogged several other cities in its climb from ninth in 2008. Singapore, now seventh with a score of 4.7 and tied with Beijing, remains just ahead of Shanghai (eighth, with a score of 4.5) and Seoul (ninth, also with a score of 4.5). Chicago finishes out the top ten with a score of 3.5; a full point behind the nearest competition. Asia's command of six out of the ten spots and improvement among these from 2008 to 2010 demonstrates the region's powerful position and growing influence in this category (CCGA).

“A Matter of Pride:” Competition among Chinese Cities and the 2012 GCI

It is important to note that there were no Chinese cities that gained in rank placements from the 2008 to the 2010 GCI (see Table 3.4). From 2008 to 2010, Hong Kong held on to its status as the highest ranking Chinese global city on the GCI at 5th and still trailing 4th place Paris by more than a point: a relatively wide margin. Beijing ranked 12th overall in 2008, placing just behind Washington D.C. (11th) and just ahead of Brussels (13th). Despite a remarkable recovery from the global economic downturn of 2008-2009 and posting its first year of per capita GDP above \$10,000 in 2009 (People's Daily Online, 2010), Beijing was surpassed by Sydney (16th to 9th), Brussels (13th to 11th), and San Francisco (15th to 12th), reducing its overall ranking to 15th in the 2010 GCI rankings. Shanghai ranked 20th overall in 2008, although technically tied, coming in just behind Moscow (19th) and just ahead of Frankfurt (also 21st).⁴⁴ The 2010 GCI rankings⁴⁵ did not show any particularly significant changes for Shanghai (still 20th); although it is now tied with or slightly behind Frankfurt and Boston (all three cities have an average overall score of 2.78). Taipei and Guangzhou both experienced five placement declines: Taipei from 34th in 2008 to 39th in 2010 and Guangzhou from 52nd in 2008 to 57th in 2010. China experienced its largest losses in placements from Shenzhen, which fell eight

⁴⁴ A statistical examination of the numbers reportedly used to compile the 2008 GCI indicates that, while the measurements may be quantitatively sound, some of the overall rankings are not based exclusively on the data. For example, averaging Hong Kong's scores of 5, 5, 6, 26, and 40, gives an average of 16.4, which should place it tenth, between Singapore's 16.2 (ninth) and tied with Toronto's 16.4 (tenth). However, the rankings place Hong Kong fifth after Tokyo's 5.6 (fourth) and before Los Angeles' 10.4 (sixth). There are numerous examples of this throughout the index (a total of 21 discrepancies can be observed). The author of this study believes it is likely some method of weighted scoring was employed, particularly in the first three categories (Business Activity, Human Capital, and Information Exchange).

⁴⁵ Documentation released in late 2010 by The Chicago Council on Global Affairs and A.T. Kearney titled "The Urban Elite: The A.T. Kearney Global Cities Index 2010" details the weighting of certain categories of the 2010 Global Cities Index. Although not noted in either study, similar weighting was likely used in the 2008 study. The weighting for the 2010 GCI is as follows: Business Activity: 30%, Human Capital: 30%, Information Exchange: 15%, Cultural Experience: 15%, and Political Engagement: 10%. Ties in score, such as that shown by the scores of Boston, Frankfurt, and Shanghai, are presumably broken by GDP score.

spots from 54th in 2008 to 62nd in 2010, and Chongqing, which fell six spots from 59th in 2008 to 65th in 2010 (see Table 3.5). Despite the drop in rank of Beijing, the stagnation of Hong Kong and Shanghai, and the larger losses from the other Chinese cities in 2010, the overall trend demonstrates both the previously noted resilience on the part of the Asian, and particularly Chinese, economies, as well as the remarkable strength they have demonstrated in attracting business activity.

Table 3.4: Cities that Improved from 2008-2010

| City | Country |
|---------------|-------------|
| Tokyo | Japan |
| Chicago | USA |
| Los Angeles | USA |
| Sydney | Australia |
| Brussels | Belgium |
| San Francisco | USA |
| Berlin | Germany |
| Boston | USA |
| Frankfurt | Germany |
| Buenos Aires | Argentina |
| Stockholm | Sweden |
| Zurich | Switzerland |
| Barcelona | Spain |
| Rome | Italy |
| Montreal | Canada |
| Geneva | Switzerland |
| Munich | Germany |
| Houston | USA |
| Istanbul | Turkey |
| Mumbai | India |
| Nairobi | Kenya |

Table 3.5: Change in Chinese Cities 2008-2010

| <i>City</i> | <i>2008 Rank</i> | <i>2010 Rank</i> | <i>Change</i> |
|------------------|------------------|------------------|---------------|
| Beijing | 12 | 15 | -3 |
| Chongqing | 59 | 65 | -6 |
| Guangzhou | 52 | 57 | -5 |
| Hong Kong | 5 | 5 | 0 |
| Shanghai | 20 | 20 | 0 |
| Shenzhen | 54 | 62 | -8 |
| Taipei | 34 | 39 | -5 |
| Total | -- | -- | -28 |
| Average | 33.7 | 37.5 | -3.8 |

Sources for Table 3.4 and 3.5: Analysis of by author of 2008 and 2010 GCI

Examination of the 2012 GCI revealed less movement from the 2010 to 2012 GCI, but this lack of movement further emphasizes the resilience of these cities. From 2010 to 2012, Chinese cities slowed their fall in the ranks, averaging a decline in the ranks of only one placement, down from almost four (see Table 3.6). Beijing, Hong Kong, and Shanghai actually managed to maintain their rankings or improve slightly (see Table 3.6). Remarkably, both Hong Kong and Shanghai have managed to maintain their rankings of 5th and 20th respectively from 2008 through 2012. Beijing, up one spot to 14th from its drop in 2010 to 15th, appears to be slowly rebounding from the minus three drop it took from 2008 to 2010. Beijing (with a score of 3.05) is now only 0.06 points behind Vienna (13th with 3.11) and only 0.08 points behind Sydney (12th with 3.13). Beijing is only 0.17 points away from breaking into the top 10 cities.

Table 3.6: Change in Chinese Cities 2010-2012

| <u>City</u> | <u>2010 Rank</u> | <u>2012 Rank</u> | <u>Change</u> |
|------------------|------------------|------------------|---------------|
| Beijing | 15 | 14 | 1 |
| Chongqing | 65 | 66 | -1 |
| Guangzhou | 57 | 60 | -3 |
| Hong Kong | 5 | 5 | 0 |
| Shanghai | 20 | 20 | 0 |
| Shenzhen | 62 | 65 | -3 |
| Taipei | 39 | 40 | -1 |
| Total | -- | -- | -7 |
| Average | 37.5 | 38.5 | -1 |

Sources for Table 3.6: Analysis by author of 2010 and 2012 GCI

The 2012 GCI also measured the outlook for emerging cities in what is appropriately named the “Emerging Cities Outlook” (ECO). The ECO attempts to measure factors expected to affect future changes in the business activity and human capital metrics: the two most heavily weighted factors in the GCI.^{46, 47} Based on the results of the ECO, Chinese cities, particularly Beijing and Shanghai, are well positioned to move up in the ranks (see Table 3.7).⁴⁸

⁴⁶ These factors include Strengths: *GDP growth, Middle class growth, Infrastructure Improvement, Improvement in ease of doing business*; and Weaknesses: *Higher Pollution Levels, Increased Insecurity and Instability rates, corruption, and deteriorating healthcare system*.

⁴⁷ Business Activity and Human Capital are both weighted at 30% of the study. Their combined 60% weight in the GCI makes competing without significant strength in both of these metrics extremely difficult.

⁴⁸ It is important to note that China has been known to distort its reporting on environmental numbers, especially with regard to small-particle pollution. As these numbers are refined and China becomes more accurate in its reporting, it is likely China’s vulnerabilities outlook will be affected negatively (CCGA).

Table 3.7: ECO Strength and Vulnerability Scores 2012

| City | Country | Strength | Weakness | Total | Likely GCI Rank Trend |
|------------------|--------------------|------------|------------|------------|-----------------------|
| <i>Beijing</i> | <i>China (PRC)</i> | 9.5 | 3.9 | 5.6 | Improve |
| <i>Shanghai</i> | <i>China (PRC)</i> | 9.5 | 5.2 | 4.3 | Improve |
| Taipei | <i>China (ROC)</i> | 7.8 | 4.0 | 3.8 | Improve |
| <i>Chongqing</i> | <i>China (PRC)</i> | 8.2 | 5.1 | 3.1 | Improve |
| <i>Shenzhen</i> | <i>China (PRC)</i> | 8.2 | 5.1 | 3.1 | Improve |
| <i>Guangzhou</i> | <i>China (PRC)</i> | 8.2 | 5.2 | 3.0 | Improve |
| Bogota | Columbia | 6.7 | 4.3 | 2.4 | Improve |
| Dhaka | Bangladesh | 7.5 | 5.4 | 2.1 | Improve |
| Ho Chi Minh City | Vietnam | 7.6 | 5.6 | 2.0 | Improve |
| Bangalore | India | 6.9 | 5.4 | 1.5 | Improve |
| Kolkata | India | 6.9 | 5.4 | 1.5 | Improve |
| Mumbai | India | 6.9 | 5.4 | 1.5 | Improve |
| New Delhi | India | 6.9 | 5.5 | 1.4 | Improve |
| Bangkok | Thailand | 4.9 | 3.6 | 1.3 | Maintain Position |
| Jakarta | Indonesia | 6.0 | 4.9 | 1.1 | Maintain Position |
| Kuala Lumpur | Malaysia | 6.0 | 5.5 | 0.5 | Maintain Position |
| Sao Paulo | Brazil | 5.6 | 5.3 | 0.3 | Maintain Position |
| Rio de Janeiro | Brazil | 5.6 | 5.3 | 0.3 | Maintain Position |
| Buenos Aires | Argentina | 6.4 | 6.2 | 0.2 | Unknown |
| Karachi | Pakistan | 5.4 | 5.3 | 0.1 | Maintain Position |
| Johannesburg | South Africa | 6.0 | 5.9 | 0.1 | Decline |
| Istanbul | Turkey | 6.1 | 6.0 | 0.1 | Decline |
| Moscow | Russia | 5.4 | 5.6 | -0.2 | Maintain Position |
| Manila | Philippines | 5.0 | 5.3 | -0.3 | Maintain Position |
| Cairo | Egypt | 5.0 | 6.2 | -1.2 | Decline |
| Mexico City | Mexico | 6.4 | 7.8 | -1.4 | Unknown |
| Lagos | Nigeria | 4.9 | 6.6 | -1.7 | Decline |
| Nairobi | Kenya | 4.3 | 6.5 | -2.2 | Decline |
| Caracas | Venezuela | 3.1 | 6.3 | -3.2 | Decline |

Sources for Table 3.7: Analysis by author of 2012 GCI and ECO

“China’s Triforce”: Hong Kong, Beijing, and Shanghai

Based on these analyses, we can see that there are three cities that seem to be at the core of China’s economic, political, and cultural engines of the 21st century: Hong Kong, Beijing, and Shanghai. One of these cities, Hong Kong, has been well positioned in the top five global cities consistently since 2008. The other two cities, Beijing and Shanghai, have only maintained their positions since 2008; however, both of these cities show the most potential for growth of any of the cities on the GCI according to the ECO.

The author of this study maintains that the necessity of greater “software” remains key for Beijing and Shanghai’s continued growth; however, as noted in chapter two, national level CCP approval is necessary for almost any changes in the realm of software can occur. Bearing this in mind, the politics of the CCP now become a central question to be considered because of key role they will play in deciding which city is best suited to be crowned China’s dominant economic engine. The question of CCP faction competition is the subject of Chapter 4.

Chapter 4: One Party, Many Factions

As we have seen from the GCIs, the prominence of Asian cities throughout the world is dependent on a variety of factors. While chapter three illustrated, among other things, that Beijing, Shanghai, and Hong Kong are three of China's strongest cities in terms of GCI rank and resilience, the GCI does not and cannot measure the political factors within the CCP, nor can it measure those factors' effect on cities within China. Chapter four will examine the struggle Shanghai faces in light of the "Shanghai Faction's" decline and the new Hong Kong/Pan-Pearl River Development Zone, supported by the Hu/Wen faction, better known as the CCYL. Additionally, chapter four will briefly discuss what the likely naming of the "pinceling" Xi Jinping to the paramount leader position at the 18th Party Congress means for Shanghai's goals and the future of the CCP.

Hu is for Hong Kong, Jiang is for Shanghai?

As the capital city and seat of the CCP's power, Beijing holds the unique role of being both the rapidly evolving city at the forefront of China's reemergence, and also the city responsible for maintaining the central government's authority throughout China. From Beijing, the CCP's makes what are likely two of the most critical decisions for the future of the Chinese economy: what projects will be given approval, and where central government resources will be allocated. The competition for approval and funding

provides us with a clear sense of the political competition facing Shanghai and the entire Yangtze River Delta economic zone.

Hong Kong, under British authority from 1989 – 1997, is a city and an economy built outside the purview of the CCP. After the implementation of the “One Country, Two Systems” formula in July 1997, Hong Kong maintained numerous special economic features unparalleled by any city on the mainland. With what could be called a “strong western upbringing” with regard to its economic development, Hong Kong has established itself as *the* gateway city to the rest of China, making its position in fifth on the GCI the strongest among Chinese cities. But for those loyal to Jiang Zemin, Shanghai is the city they would like to showcase to the rest of the world as a crowning achievement of “the Chinese Economic Model.” Yet, Shanghai’s ambitious goals remain contingent on a number of factors, almost all of which are tied to decisions that will be made by the CCP leadership in Beijing.

Divergence: The Shanghai Faction comes to Beijing

The Shanghai Faction or “*Shanghaibang*” has shown itself to be among the most powerful blocs within the CCP, particularly throughout the Jiang Zemin era (Lam, 1999, p. 18). The Shanghai Faction’s rise to power and subsequent maintenance of Jiang’s influence during the reign of Hu Jintao illustrates this political group’s influence and staying power. The faction itself was comprised of a number of advisors, members, and affiliates, but chief among them were former Shanghai Mayor Wang Daohan, Zeng Qinghong, Zeng Peiyan, Wu Bangguo, Huang Ju, and Xu Kuangdi.

Wang Daohan was instrumental in persuading Deng Xiaoping to take political actions against two of Jiang's chief rivals in 1992: former President Yang Shangkun and General Yang Baibing. Zeng Qinghong was one of Jiang's closest allies and the person Jiang brought with him to Beijing upon his elevation to paramount leader. Chief among his accomplishments was the building of ties with the CCYL faction and the isolation of the Zhao Faction (Lam, 1999, pp. 19-21), (Zheng and Chen, 2009).

In short, the members of *Shanghaibang* were “pragmatic, opportunistic neo-conservatives,” that tied their own interests and advancement to Jiang's, while carefully “juggling cautious market experiments with a regime of recentralization” (Lam, 1999, p. 25).

The Good, the Bureaucracy, and the Ugly: The Roots of Power in the CCP

China's political system can appear to be a large, confusing, bureaucracy to those unfamiliar with the different positions and committees within the CCP's structure. In order to understand the internal politics of the CCP, one must first gain an understanding of what political and governmental structures exist, how they interact, and which have ultimate authority when it comes to decision and policy making.

Unlike many other governments that have a well defined role for each position of the leadership, in China, simply holding the job title “president” does not necessarily mean that one is the highest government authority in the country. Although there is no position in the Chinese Government called “paramount leader,” the term “paramount leader” is used to identify the senior-most leader inside the government. Often, this person holds several roles, including General Secretary of the Central Committee of the

Communist Party of China (party leader), President of the People's Republic of China (head of state), and Chairman of the Central Military Commission (head of the People's Liberation Army). Both Jiang Zemin and Hu Jintao held all of these roles at one point or another during their tenure as paramount leader. In short, the "paramount leader" is the head of state, party leader, and military leader of China (Kuhn, 2010, p. 21).

Despite the grandeur and power the position of paramount leader would seem to convey, the paramount leader of modern China is not a dictatorial position and the paramount leader does not always get exactly what he wants. The National Party Congress (NPC) convenes every five years and is highest party organization in China. At each meeting, the NPC elects the membership of The Central Committee, which in turn elects the members of the Politburo, the Standing Committee of the Politburo, and the General Secretary. The Standing Committee of the Politburo (SCP) consists of nine members and is the highest authority in China. Additionally, the everyday operations of the CCP are managed by the six-person Secretariat. The Secretariat is currently (as of Summer 2012) comprised of Xi Jinping, Liu Yunshan, Li Yuanchao, He Yong, Ling Jihua, and Wang Huning. Currently, the membership of the SCP includes Hu Jintao (the General Secretary is always a member of the Politburo), Wu Bangguo, Wen Jiabao, Jia Qinglin, Li Changchun, Xi Jinping, Li Keqiang, He Guoqiang, and Zhou Yongkang (Kuhn, 2010, p. 21), (Miller, 2011).

China's military has also plays an important role in maintaining the power of the CCP. The People's Liberation Army (PLA) is commanded by the Central Military Commission (CMC). Mao, Hua, and Deng all held the position of Chairman of the CMC. The trend of the CMC Chairman having prior military (e.g. revolutionary)

experience, however, ended in 1989 when Deng Xiaoping appointed Jiang Zemin Chairman of the CMC. This move was likely a way to solidify civilian and party control over the PLA (Kuhn, 2010, pp. 21-22). Currently, the Chairman of the CMC is Hu Jintao and the vice-chairman is Xi Jinping.

Despite these other positions, within China's governing structure, the position of General Secretary of the CCP Central Committee possesses the most authority. This position, combined with the above mentioned governing bodies demonstrates the CCP's ability to exercise authority over national policy implementation on all matters involving the party, state, government, and military (Kuhn, 2010, pp. 21-22).

With this understanding in mind, we can examine the case of the Pan-Pearl River Delta Zone and the Yangtze River Delta Zone political battle within the CCP to illustrate the scope of the Shanghai Faction's power, as well as their interests in comparison to their rivals within the CCP.

The Politics of Regional Economics: Pearl vs. Yangtze

Perhaps the most illustrative example of the Shanghai Faction exerting its power in favor of Shanghai is shown by its disapproval of many of the Hu/Wen administrations' economic policies, which appeared to many Shanghai Faction cadres to be a distraction from what they believed China's economic priority should be. Shanghai's growth and the central government's somewhat "tunnel vision" economic focus on the city throughout the 1990s was no accident. The Shanghai Faction's firm control on the CCP during that period placed Shanghai at the top of the priority list for investment from the central government. The departure of Jiang Zemin in 2002 and the goals of the new

Hu/Wen administration to pursue an economic growth strategy that would benefit China's western provinces were not welcome changes among the political powerful and well entrenched Shanghai Faction members of the CCP.

For the Shanghai Faction, the 2004 creation of the "Pan-Pearl River Delta Zone" (PPRDZ) stands as a clear example of the Hu/Wen group's attempt to suppress the political power of the Shanghai Faction and the city of Shanghai itself. The PPRDZ is the combined economic activity of nine of China's provinces (Guangdong, Guangxi, Hainan, Hunan, Fujian, Jiangxi, Yunnan, Guizhou, and Sichuan) and two special administrative regions (SARs) (Hong Kong and Macau) (see Figure 4.1). The original combination of Hong Kong and the Pearl River Delta area was natural given the expansion of Hong Kong factories into Shenzhen and other nearby cities as far back as the 1980s. Nonetheless, this proposed expansion into what is referred to as the "nine plus two" area was greeted with significant dissent among the members of the Politburo Standing Committee, primarily because there was simply no precedent for an economic zone this large. For example, in 2004, the region contained one-third of China's total population and approximately 40% of China's GDP. By 2011, the region accounted for approximately 42% of China's GDP (see Table 4.1). In short, the area is not only geographically enormous, but its importance to the Chinese economy could be described as vital (Lam, 2006, p. 54).

Figure 4.1: The Greater Pearl River Delta Region



Source: Illustration from “The Economist,” 18 November 2004

Table 4.1: Pan-Pearl River Delta Region GDP (2011)

| Province/SAR | 2011 GDP (USD) |
|------------------------|---------------------------|
| Guangdong | 838 billion |
| Guangxi | 183 billion |
| Hainan | 36 billion |
| Hunan | 300 billion |
| Fujian | 277 billion |
| Jiangxi | 174 billion |
| Yunnan | 129 billion |
| Guizhou | 89 billion |
| Sichuan | 340 billion |
| Hong Kong | 351 billion |
| Macau | 292 billion |
| Total | Approx. 3 trillion |
| China Total GDP | Approx. 7 trillion |

Sources for Table 4.1: Analysis by author of International Monetary Fund Data

The combination of the “nine plus two” and formation of the PPRDZ was favored by Hu and Wen, but the Shanghai Faction members of the Politburo Standing Committee,

including Vice-President Zeng and Executive Vice-Premier Huang Ju, opposed the deal. The simple fact that the PPRDZ did not have unanimous Politburo support was apparent.⁴⁹ The first meetings to discuss the creation of the PPRDZ at the “Pan-PRD Regional Cooperation and Development Forum,” were not attended by any top-level cadre from the party or government. Lam notes, “according to usual protocol, either President Wen or Executive-Premier Huang should have attended the first major function of the PPRDZ” (Lam, 2006, pp. 54-55).

The Shanghai Faction Strikes Back

Shanghai Faction cadres had two primary issues with the PPRDZ: one geographical, and one political. Geographically speaking, Shanghai Faction members argued that Jiangxi, Hunan, and Sichuan provinces had more to do with the Yangtze River than with the Pearl River. Many officials argued that these provinces would be more properly considered part of the Yangtze River Delta economic zone due to their proximity to the Yangtze River. Indeed, even the Shanghai-Hong Kong Council for the Promotion and Development of the Yangtze, an influential organization within the region, counts Sichuan Province as a part of the Greater Yangtze River Delta Region (YRDR). It is likely that Chongqing⁵⁰ was not placed in the PPRDZ as one of the “nine plus two” for the same reasons argued by the Shanghai Faction (Lam, 2006, pp. 55, 299).

Politically speaking, the Shanghai Faction was opposed to the PPRDZ for the simple reason that this would be much larger than the Greater Shanghai Region economic

⁴⁹ Lam reports that support for the PPRDZ in the Politburo was not unanimous; however, as is the case with many CCP matters, secrecy prevents us from finding out exactly how split the CCP was on a particular matter.

⁵⁰ Chongqing, like Beijing, Shanghai, and Tianjin, has special status as a directly administered city.

zone (Shanghai plus several cities in Jiangsu and Zhejiang provinces, see Figure 4.2), which was showing signs of overtaking the PPRDZ's predecessor around the Pearl River Delta (Guangdong and Hong Kong only) with regard to economic prominence and importance in China. For Shanghai Faction members, the formation of the PPRDZ would justify the central government investing more money in southern China rather than the YRDR and Greater Shanghai Region economic areas, thus causing Shanghai to fall behind the PPRDZ and particularly Guangdong and Hong Kong, as the perceived economic driving force of China. Shanghai Faction members went as far as to privately accuse the Hu-Wen administration and their allies of attempting to restrict Shanghai's growth (Lam, 2006, p. 55).

Figure 4.2: The Yangtze River Delta Region



Source: *The Yangtze River Delta: Business Guide to the Shanghai Region (Fourth Edition)*

The PPRDZ proposal also tested the loyalties of the officials in the “nine” provinces. As of 2004, the Shanghai Faction remained an extremely strong force in the

Chinese political system in large part due to Jiang Zemin's tenure as leader since the early 1990s. Many of the PPRDZ's provincial officials were risking their political careers by supporting a plan that was known to be opposed by the powerful Shanghai Faction. On the other hand, the approval of the plan would likely mean the inflow of massive amounts of transportation infrastructure funding and economic investment incentives in the provinces (Lam, 2006, pp. 55-56).

For the Shanghai Faction, the message from the Hu-Wen group seemed clear: Shanghai's domination of the Chinese economy will be challenged. Despite how much Shanghai Faction cadres did not want to hear this message, in the view of the author of this study, the Hu-Wen group has good reason to question the economic resilience of the YRDR. Shanghai was showing signs of economic deceleration in 2004, especially with regard to its ability to attract FDI. During the first three quarters of 2004, Shanghai was able to attract \$9.2 billion in FDI. By comparison, Guangdong, one of Shanghai's primary domestic competitor cities, was able to attract \$13.04 billion over the same amount of time. Shanghai also fell behind Suzhou in luring multinational corporations (MNCs) to the city in 2003. As discussed in chapter two, this was largely blamed on what was described as "Hong Kong disease" – the problem of rapidly rising land and wage costs that drives foreign firms away from the city – by the Beijing newsmagazine *International Herald Leader* (International Herald Leader, 2004), (Lam, 2006, pp. 55-56).

In the end, the PPRDZ plan was approved, despite the Shanghai Faction's objections. This development not only serves as an indicator of the diminished power of the Shanghai Faction, but also of the diminished economic prowess of Shanghai itself.

Once declared to be one of the two “Dragon heads” that were to lead China’s economic reforms, Shanghai now faces fierce competition, both politically and economically, for recognition within China as a prominent economic force; a competition it currently looks to be losing on the political front. The inability of the Shanghai Faction to stop or alter the PPRDZ plan, combined with Shanghai’s diminished ability to attract FDI and MNCs, demonstrates the magnitude to which the Shanghai’s Faction’s political power was diminished during the first half of Hu’s reign as paramount leader and makes the outlook for Shanghai’s goals seem somewhat bleak.

Emperor Hu? The Decline of *Shanghaibang* at the 17th Party Congress

The 17th Party Congress of the CCP in 2007 was rough for the Shanghai faction. Having lost some of its more powerful allies on the Politburo Central Committee to retirement,⁵¹ death,⁵² or corruption,⁵³ the Shanghai Faction, while not decimated, was quite noticeably the faction falling out of power (Miller, 2008, p.8), (Zheng and Chen, 2009). This decline occurred in direct conjunction with the consolidation of Hu Jintao’s influence in the CCP. During the 17th Party Congress, Hu was able to get numerous loyalists appointed to key positions. For example, the elevation of Li Keqiang to the Politburo Standing Committee and Liu Yandong to the Politburo strengthen Hu’s political strength among the CCP leadership. Additionally, Hu was able to install his personal staff chief, Ling Jihua, to the directorship of the Party General Office, which is

⁵¹ Chief among these retirement losses was Zeng Qinghong, who was a close associate of Jiang Zemin’s and a member of the Politburo Standing Committee.

⁵² Huang Ju was another prominent ally of the Shanghai Faction and was a member of the Politburo Standing Committee until his death in June 2007.

⁵³ See discussion of former Shanghai Party Chief and Politburo Member Chen Liangyu’s controversial dismissal on corruption charges in Chapter 2.

responsible for logistics and support of the Politburo leadership and plays a significant, if not prominent, role in guiding the direction of the party. Lastly, immediately following the 17th Party Congress, Li Yuanchao, a known ally of Hu Jintao, was appointed to the directorship of the CCP Organization Department. The director of the CCP Organization Department works in conjunction with the CCP General Secretary and the CCP executive secretary of the Secretariat to manage the process of nominating personnel changes, as directed by the Politburo and the Standing Committee. Prior to the 17th Party Congress, this three-man committee was comprised of Hu Jintao (General Secretary) and two Jiang Zemin appointees, Zeng Qinghong (executive secretary of the Secretariat) and He Guoqiang (Organization Department Director). Outnumbered two to one against his predecessor's appointees, Hu's influence on this particular body was likely limited from 2002 to 2007. However, after the 17th Party Congress, the lineup consisted of Hu Jintao (General Secretary), Xi Jinping (executive secretary of the Secretariat), and Hu's ally, Li Yuanchao (Organization Department Director), thus giving Hu the upper hand in terms of influence over the three-person committee (Miller 2008, pp.8).

“Clouded, the Future Is”: Xi Jinping and the Realization of Authoritarian Resiliency

Xi Jinping's appointment in 2007 to the Politburo Standing Committee (without previously serving on the Politburo), as executive secretary of the Secretariat, and to the presidency of the Central Party School were strong indicators that he was being groomed to succeed Hu Jintao because these appointments mirrored Hu Jintao's appointments during his rise to leadership. However, unlike his predecessors, Xi's rise through the

ranks of the CCP does not provide a clear picture of how he will govern and which CCP faction(s) his political loyalties are with, if any.

Xi's career started in Fujian Province where he held positions including Vice Mayor of Xiamen City, Party Secretary of Ningde, Fuzhou, and Governor of Fujian. As Governor of Fujian Province, Xi also gained valuable cross-strait PRC-Taiwan relations experience, and his leadership of the province in the aftermath of the "Yuanhua case," China's largest-ever smuggling and corruption crime, helped contribute to his image as a "clean" politician and bolstered his reputation among Chinese citizens angry over rampant corruption within the CCP. Xi took over as Zhejiang Province Party Secretary in 2002, where he remained until 2007, when he became CCP Secretary of Shanghai after Chen Liangyu was dismissed on charges of corruption. Xi remained in Shanghai for only seven months before he was named to the Politburo Standing Committee, during which time he solidified his image as a "clean" politician in the aftermath of Chen Liangyu's ouster (Zheng and Chen, 2009).

Xi's career experience and characteristics make him a unique political figure and a leader that is acceptable to nearly all of the major factions within the CCP,⁵⁴ the PLA, and China's economic elites. First, as the son of Xi Zhongxun, a revolutionary veteran and former vice-premier, Xi Jinping is often referred to as a member of the "princeling faction." Xi maintained a good relationship with the princeling faction, especially Zeng Qinghong, who was critical in elevating Xi from Zhejiang to Shanghai and then to the Politburo Standing Committee. Second, the elder Xi held close ties to former CCP General Secretary Hu Yaobang, an advocate of economic and political reform during the 1980s and whose death in April 1989 eventually gave rise to the Tiananmen Square

⁵⁴ The TaiziDang (Princeling), CCYL (Chinese Communist Youth League), and ShanghaiFactions

demonstrations. These ties have granted the younger Xi favor among many members of the CCYL faction and likely made Xi an acceptable choice for leadership to Hu Jintao. Third, Xi's governing and administrative bona fides come from his tenure in the southeastern coastal regions during the 1980s and 90s, where he managed poor,⁵⁵ rich,⁵⁶ and "special economic zone" areas.⁵⁷ Fourth, Xi's family's exile to the countryside during the Cultural Revolution period, while difficult, seems to have enhanced his popular credibility among ordinary Chinese. Fifth, Xi served three years in the military when he was in his 20s in the Central Military Commission General Office, likely giving him some working knowledge in managing CCP-PLA relations. Finally, as a member of China's fifth generation of leadership, Xi's educational background, particularly his background in the legal profession, point to a rising trend in Chinese political leadership noted by Cheng Li which will be elaborated on further in Chapter Five (Li, Cheng 2009), (Zheng and Chen 2009), (Miller 2008).

All of this taken into consideration, it is not difficult to understand Xi's appeal within China and especially the CCP. Xi is a "safe pick" for Hu Jintao, as it does not appear Hu is attempting to name his own successor. Xi is a princeling, making him acceptable to what has arguably become China's most powerful faction within the CCP. Xi's ties to the coastal region, Fujian and Zhejiang provinces, and later in Shanghai make him acceptable to the Shanghai faction. Unfortunately for this analysis, Xi's wide appeal and breadth of connections make determining his loyalties or even forecasting how he

⁵⁵ Ningde is one of the poorest regions in Fujian province.

⁵⁶ Zhejiang Province is considered very affluent and is one of China's most economically powerful provinces.

⁵⁷ Xiamen was one of the four special economic zones designated by the Chinese Central Government for "special economic treatment" during the 1980s.

will manage the growth of China's economic powerhouse cities a virtual impossibility, especially given his rather pragmatic record as an administrator.

The author of this study believes the political implications with regard to corruption and rule of law, as well as how both of these will affect the future growth of Shanghai once Xi takes power may be better understood in the context of the growing body of literature describing the CCP's institutionalization of succession as described by Cheng Li and Andrew Nathan's theory of authoritarian resilience.⁵⁸ Chapter Five will tie these issues together with the issues of "software" discussed in Chapter Two and draw some conclusions regarding their connections and what they mean for the future of the CCP and Shanghai.

⁵⁸ See Andrew J. Nathan's "Chinese Democracy" (1985), and "Authoritarian Resilience" (2002)

Chapter 5: “It’s Governance, Jim – but not as we know it.”

There is little doubt that the CCP has, since the late 1970s, demonstrated a unique method of governance in which a “communist” regime has managed to incorporate capitalist markets into both its national economic and local growth programs. Among communist regimes particularly, the CCP model has demonstrated itself to be one of the most resilient in terms of its ability to survive drastic social and economic changes throughout its existence. Shanghai’s reemergence in particular, beginning in the mid-1980s, can be seen as a testament to the city leadership’s ability to obtain special status from the central government and as an indication that the CCP, despite its “communist” namesake, has been willing to completely overlook principles of communism central to Mao Zedong’s philosophy in order to maintain regime legitimacy and central power. This idea is the central theme of chapter five and the core finding of this study.

This fifth and final chapter will demonstrate this study’s findings, evaluate the hypotheses presented in chapter one, and make some forecasts for the future of Shanghai and China.

The Shanghai Forecast: Hypothesis Evaluation

In Chapter One, I outlined several hypotheses to be examined by this study. First, I hypothesized that the idea of “software” – which includes “free-flowing economic and business information, increased transparency and accountability, intellectual and artistic freedom, greater political responsiveness to local constituents, and decision-making

autonomy from the central government – plays a prominent role in Shanghai and its leaderships’ ability to achieve the city’s goals with regard to growth (Yatsko, 2001, p. 294). Furthermore, I hypothesized that analysis of a number of factors described by Richard Florida’s theories regarding “cultural capital” and “creative classes,” specifically examination of Shanghai’s real estate, financial, and technological sectors (called Shanghai’s “priority industries” by the author) from the 1990s through the late 2000s, as well as government policies toward gay and lesbian individuals, would be particularly revealing with regard to evaluating Shanghai’s ability to integrate “software” into its growth plans since the reforms of the 1980s.

Analysis of this hypothesis involved the detailed process tracing and policy examination of the reform period in China beginning in the mid-1980s, through the economic explosion of the 1990s, and ending in the mid-2000s. While there were many potential factors to examine relating to “software,” the two factors most likely to yield meaningful data for analysis were efforts to combat corruption, commonly referred to as “transparency and accountability,” and efforts to create or attract “creative classes” via “software.”

With regard to transparency and accountability, this study found that China’s endemic corruption problems are very likely an unintended consequence of China’s experience of economic liberalization throughout the 1990s. Furthermore, this study’s analysis found that indeed efforts to curb corruption via anti-corruption campaigns were both priorities for and pursued by China’s leaders as far back as Deng Xiaoping, as well as the leaders in Shanghai since the 1990s. However, noticeably lacking have been efforts to combat corruption via political (especially judicial) reform and, particularly at

the national level, this makes sense. This study asserts that the process of economic liberalization without appropriate political reforms – characterized as software – fostered the spread of corruption while also undermining the legitimacy of the CCP. Simultaneously however, for the CCP, any reform considerations must take into account regime maintenance and stability, both of which would be undermined by political reforms. This study found that the CCP, while viewing anti-corruption efforts as crucial for growth of the Chinese economy to continue, remains hesitant to implement “rule of law” reforms throughout China due to the threat that such reforms would present to the CCP’s continuing unquestioned “rule by law” method of governing. This study asserts that this kind of reform would undermine the CCP’s power and reasserts what many authors have found previously: that this must be taken into consideration when considering Chinese democratic reforms. If regime maintenance is the central goal of the CCP – and the author believes there is sufficient evidence to accept this to be the case – then this factor must also be central to future considerations of both Chinese political and economic reform theory.

Conversely, at the local level in China, this study found that the emphasis is quite different. For the city of Shanghai, this study found that the calculation of whether or not to push for software reforms was largely an economic and social one. For example, establishing the city’s economic reputation as a “safe investment” was absolutely critical in attracting FDI to the city during the rapid growth period of the 1990s. Furthermore, the steady changing of social norms and subsequent relaxation of laws against homosexuality since the early 2000s has been far more positively accepted in Shanghai than almost anywhere else throughout China. If Richard Florida’s theory regarding the

Bohemian Index is a good indicator of a city's ability to build creative communities – and again, the author believes it is – then Shanghai's attempts to establish its reputation in both of these economic and social aspects, while putting it somewhat at odds with the central government's policies, places Shanghai on the forefront of making itself into a creative city. The only political calculation for Shanghai became finding out how far the city could push before being corrected by the central government. As this study shows, during Jiang Zemin's tenure, Shanghai was largely able to do what it pleased due to the influence of the Shanghai Faction and Jiang in Beijing. However, once Hu Jintao's power was established and the Shanghai Faction's power gradually reduced throughout the first decade of the 2000s, it became clear that Shanghai's desires and the CCP's desires were not always congruent or compatible. Furthermore, this study demonstrated (particularly in chapter four) that once the Shanghai Faction's power was diminished, the city began losing many of benefits the simple status of being known as China's crown economic jewel had brought during the 1990s.

In short, this divergence of policy between the Shanghai government and the national CCP is clear evidence of national CCP interests in regime maintenance restraining the ability of local governments to implement some of the software reforms necessary to continue growth locally, nationwide.

Second, I hypothesized that an analysis of the competition Shanghai faces from other cities in terms of attracting investment and establishing cultural prominence would demonstrate a challenge that may be too difficult for Shanghai and its leaders to overcome in order to achieve their goals. Given the trends shown in chapter three, there are a few conclusions the study can make. First, Shanghai's position from the 2008,

2010, and 2012 GCIs has remained consistent at around 20th each year. This seems to indicate Shanghai's resilience, despite the global economic turmoil of this period.

Secondly, the data from the 2012 ECO indicates that Shanghai is likely to improve in future GCIs, lending credence to idea that Shanghai's importance as an influential global city will continue to grow in the coming years. Thirdly, Shanghai's consistent strength in the "business activity" measure, a category that carries significant weight in the GCI's methodology, gives Shanghai an edge over most of its Chinese competitor cities. Thus, for Shanghai, primary competition comes from Beijing and Hong Kong domestically; Seoul, Singapore, and Tokyo regionally; and New York, London, Paris, and Chicago globally. For Shanghai, the goal of becoming a global city superpower on par with New York or Tokyo seems unlikely; however, based on this study's analysis of the GCI, it is reasonable to assert that by 2020, Shanghai will likely be a powerful regional city and significant player in the global financial and technological industries.

Thirdly, this study hypothesized that the political rivalry between Shanghai and Beijing and the occasional rifts in the CCP leadership that rivalry has produced would be particularly revealing as to the degree of political influence Shanghai has lost within the central party leadership since 2002, and thus, the degree to which the city's autonomy may have been reduced. As chapter four clearly illustrates, this has been the case since Jiang Zemin's exit from power and the 17th Party Congress. Without the significant political advantage the city once held, it seems likely Shanghai will see more cases like that of the PPRDZ vs YRDR, where Shanghai is not given the exclusive consideration for funds and special treatment it once received, and when forced to compete for those considerations, loses.

The Forecast for China: Mostly Cloudy with a Chance of Xi

The data in chapter three indicates Shanghai is likely to maintain its rise as one of China's most successful cities and, as chapter four indicates, the reins of power in China are likely to remain either steady or "neutral" toward Shanghai during the tenure of Xi Jinping. Thus, in terms of forecasting, this study argues Shanghai is likely to continue making strides upward on the GCI through approximately 2022, which, assuming nothing unexpected occurs, will be approaching the end of Xi's tenure. If the CCP intends to ensure China's continued prosperity beyond that point, it must take steps on a national level to respond to China's festering corruption problem in a way that is meaningful; not just talk. The legal and societal software described by this study in chapter two must be central to reforms. The CCP's ability to integrate these software reforms or something very close to them while maintaining regime legitimacy will ultimately decide Shanghai and China's long-term fate. Xi's comments during his speech at the 18th Party Congress seem to indicate he is aware of the monumental task ahead of him in terms of "reform," or as Xi says "renewal":

In recent years, some countries have stored up problems over time leading to seething public anger, civil unrest and government collapse -- corruption has been an important factor in all this...A great deal of facts tell us that the worse corruption becomes the only outcome will be the end of the party and the end of the state!
(Blanchard, 2012)

This seems to indicate the leadership of the CCP is well aware of the challenge corruption presents to the CCP's legitimacy; however, the question remains: at what point does the threat to the CCP's regime legitimacy presented by corruption become greater than the threat to the CCP's regime legitimacy presented by implementing software reforms?

“A Tiger at the Front Door and a Wolf at the Back:” The CCP’s Dilemma

Perhaps the CCP’s dilemma with regard to reform can be understood by the proverb “while keeping the tiger from the front door, the wolf comes in the back.” Since the events of 1989 and Tiananmen Square, the CCP’s response toward mass public protest, political opposition movements, and anything that might empower or encourage them, has been to jail the offenders on fictitious or unfounded charges and engage in a media campaign to identify and vilify the offenders as radicals, anti-Chinese, or separatists that must be stopped due to the danger they pose to Chinese society. This bears clear similarities to the Soviet Union’s approach to maintaining internal regime legitimacy in the face of dissidents and human rights activists like Andrei Sakharov and Aleksandr Solzhenitsyn. This method of detention and media vilification has been employed by the CCP to maintain its image and legitimacy against dissidents like Ai Weiwei, Chen Guangcheng, Wei Jingsheng, and Hu Jia (among others). The issue now facing the CCP becomes how to confront the issue of regime legitimacy in light of software reforms that are necessary for the future of China’s and Shanghai’s economies (the so-called “tiger at the front door”), while simultaneously maintaining the regime’s legitimacy in light of political and social movements, human rights activists, and other dissidents like Ai, Chen, Wei, and Hu (the so-called “wolf at the back”). The CCP is well aware of the final outcome that befell the Soviet Union, and it knows that both the “tiger” and the “wolf” pose a danger to the regime’s legitimacy. The question is, can the CCP balance these dangers and prevail?

Reform Locally, Nationwide: “Installing Software from Below”

In chapter two, this study laid out what Shanghai is and is not doing to promote the growth of software and a creative class to sustain its economic growth. This study also discussed the dangers these moves posed to the CCP. Yet, as we see from the data in chapter three, for now Shanghai seems to have found a way to implement limited judicial software reforms in order to maintain high levels of FDI, and begin fostering the growth of a creative class as shown by Shanghai’s increasing tolerance of homosexuals. Thus, there is evidence, all be it limited, of judicial and societal software reforms being implemented in China locally. The CCP is likely to follow this example of “installing software from below,” wherein the CCP will push software reforms at the local level the hardest, thus keeping the process of reform slow and localized while employing state media and Xi’s reputation as a “man of the people” to very carefully orchestrate this “software reform transition.” As this process becomes more “norm-bound” locally, as it is currently in cities like Shanghai, the CCP could conceivably make the transition from “rule by law” to “rule of law” while maintaining legitimacy at the national level. This would not be a new approach for the CCP; as this study discussed in chapter two, the CCP tends to handle political and social unrest by localizing and isolating it, then building barriers to prevent its spread. This process of “installing software from below,” uses largely the same governance and political tools the CCP has used in the past; but this time, instead of squashing political and social unrest, it would be gradually removing barriers in localities, thus preventing undesirable negative fallout. Although this potential strategy is no guarantee that the CCP will be successful in maintaining legitimacy and

power while reforming itself, it should be monitored closely for at least one very important reason...

The Unanswered Question

If the CCP can successfully implement legal and social software reforms over the course of Xi's tenure while simultaneously maintaining its power and legitimacy, it will have accomplished a feat that few studying authoritarian regimes thought possible. As this study noted in chapter two, the CCP has been remarkably successful at regime maintenance; thus, at this point it would be a mistake to discount the ability of the CCP to orchestrate a peaceful transition through a period of software reform while maintaining power and legitimacy in China.

This study theorizes that by combining elements of Andrew Nathan's authoritarian resilience theories with Richard Florida's creative class theories, a blueprint of authoritarian prosperity using the "software from below" approach could be conceived. Future researchers may find useful data points among comparative parallels of India's decentralization transition and China's current transition. Additionally, future research building on the China case in particular should focus on the transitional methods employed by the CCP over the next ten years, particularly software reforms focused at the local level. The GCI, particularly the "information exchange" data as an indicator of censorship, and the rankings of Chinese cities like Shanghai, which are likely to be on the leading edge of any new "experimental" CCP policies, should be carefully monitored for indications software reforms are being implemented. These data points are likely to be

the first indicators of the methods the CCP has chosen to employ to make this grand transition.

Of course, if the CCP is unsuccessful at reform over the course of the next ten years, or China's transition turns violent, then the tenants of the international theories supporting economic liberalization and democratization will be strengthened and the case of China will be looked at alongside that of Egypt and many of the former Soviet Republics during the late 1980s and early 1990s. But if China is successful, it will become the strongest case study in support of the authoritarian resilience theory. Finally, and perhaps most disturbingly for advocates of democratization, if China is successful in building a prosperous and politically stable society under an authoritarian regime, where else could its approach be duplicated?

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