Shanghai: Re-emergence of a World Metropolis

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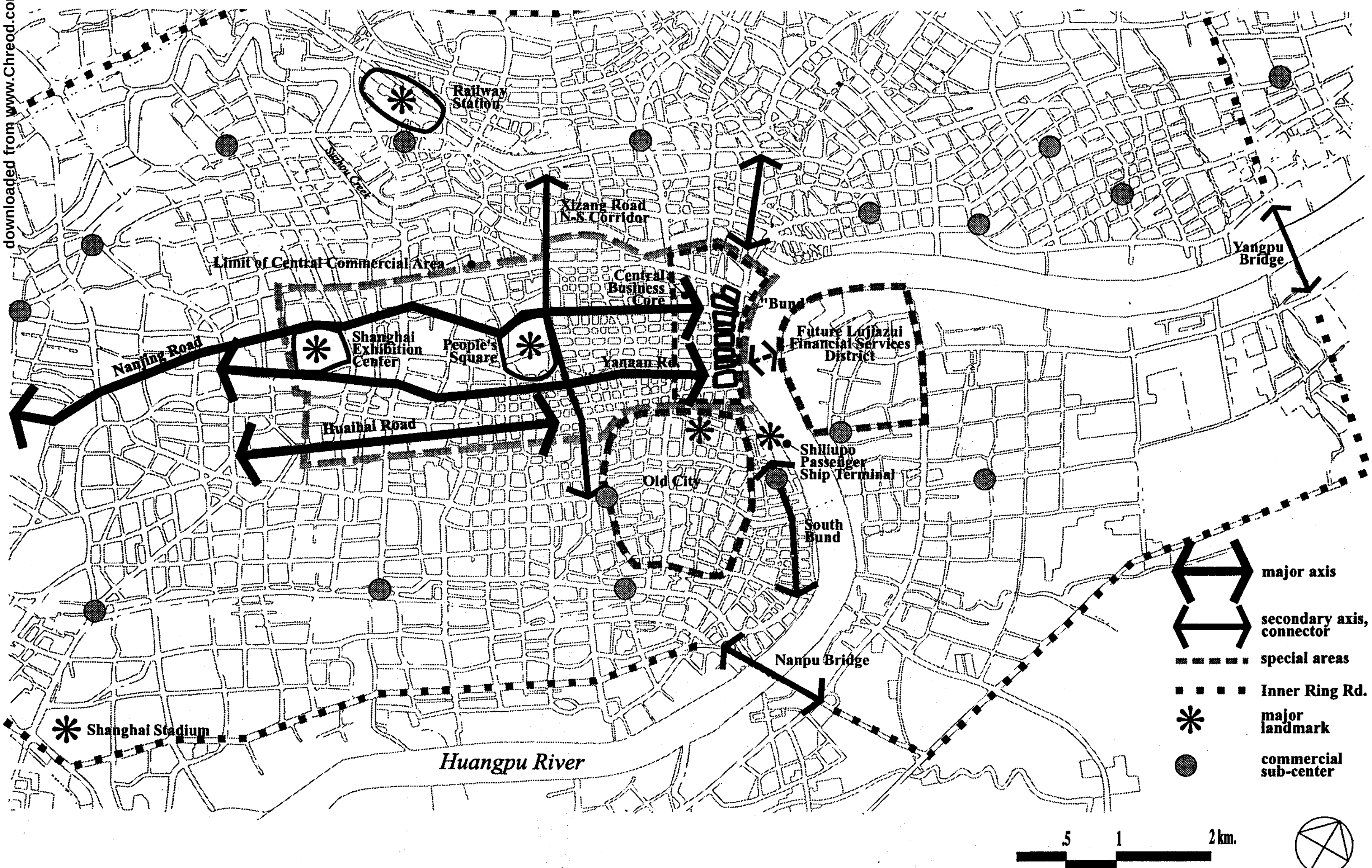
The first article in this series [see the January-February 1994 issue] addressed the need for foreign investors to approach the China market as 12 major regional urban systems – each with its own unique characteristics and demands – in which most of the country's buying power is to be found. The second article [see the March-April 1994 issue] described the Yangtze River Basin, the key economic powerhouse in which three of these regional urban systems are located. This article addresses Shanghai, which is often described, only partly rhetorically, as the "dragon's head" of the Yangtze Basin. With a population in 1993 of slightly over **15** million, its population has grown by 22% since 1985.

Shanghai is now undergoing changes that are probably unprecedented in urban history. The principal entrepot city in all of Asia in the early part of this century, Shanghai suffered greatly during the Japanese occupation and civil war. After Liberation it was allowed to atrophy both because of its symbolic role as the pre-Communist hub of foreign business and because of its strategic exposure to attack by "foreign imperialists." As China's economy began to develop, Shanghai slowly began to re-attain its role as the country's principal industrial city, but it had lost its international role as the country's financial and trade centre.

Shanghai's re-emergence as an international city has only taken off in the last four years. While southern coastal areas began to benefit from economic reforms in the early 1980s, because of Shanghai's critical importance as China's principal industrial centre and major revenue generator for the State, the city was tightly controlled by Beijing until the late 1980s. It was only in 1990 that major reforms began to be introduced; this, coupled with a marked increase in autonomy for Shanghai, including a much higher revenue retention rate, enabled major municipal investments to be made in refurbishing antiquated industrial and municipal infrastructure (much of which dates back to the 1930s and 1940s). The Shanghai Municipal Government (SMG) is targeting annual GNP growth at an average 10% until the year 2000.

Of principal importance in Shanghai's long-term economic outlook is the recent recognition by State authorities that the city must take on three principal economic roles by the turn of the century:

- as China's major transactional city providing access to what is expected to become the world's tenth-largest trading nation by the end of this decade
- as the principal economic powerhouse, or "dragon's head," of the country's largest integrated economic region now emerging in the Yangtze River Basin (in which one-



Urban Structure 1993: Central Puxi and Pudong

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third of the national population produces more than 50% of the country's industrial and agricultural outputs)
- as the major economic anchor in the Yangtze Delta Region in which 160 million people (13% of the national population) account for more than 27% of China's industrial output

An indication that Shanghai is beginning to fulfill these roles is the qualitative change in economic outputs since 1985.

There has been a considerable shift from secondary outputs (industry) to tertiary production (services, including finance insurance, trade, information management, retail, and tourism). Given that much of Shanghai's industry is controlled by loss-making State-owned enterprises, this shift to tertiary activity — which is often much more informal and oriented towards the more profitable private sector — augurs well for the economy's long-term growth, particularly if the service sector continues to expand.

The municipal government has targeted 55% of its fixed investment over the past two years into the development of the services sector; it is expected to grow by at least 15% this year, and account for 35% of GNP by the end of 1995 and 45% of GNP by the year 2000. Accompanying this economic shift has been a signifigant increase in per capita incomes in Shanghai, which have more than doubled since 1985. Incomes increased by 10.7% in real terms in 1992 to RMB 2,842/person. This has had a significant impact on the cumulative savings of Shanghai's urban residents. Officially reported savings rose by 30% between 1990 and 1991, and by 42% in 1992 to reach 41.38 billion yuan (we emphasize "officially reported" since we understand that there is a huge — and impossible to accurately estimate — amount of personal savings that have not been officially declared, and that are not lodged in formal banking institutions).

Foreign direct investment (FDI) has surged in Shanghai since 1985. Shanghai approved US$3.3 billion in 2,012 FDI projects in 1992, an amount equal to total FDI in the city throughout the previous decade (and 6% of nationwide FDI in 1992). By the end of 1992, there were more than 3,000 foreign-funded enterprises in Shanghai from 37 countries; over 10,000 foreign business people visited the city that year. There are now 20 foreign-funded financial institutions in Shanghai, including one from Canada (The Royal Bank of Canada).

These demographic and economic shifts have precipitated major urban development changes that will have significant impacts on locational decisions being made by foreign investors. Shanghai essentially occupies the west bank of the Huangpu River, which terminates in the Yangtze River upstream from the city. Population densities are among the highest in the world, reaching 5 1,000 persons/km2 in the central area. A basic tenet of Shanghai's planning since 1983 has been the de-densification of the existing central area from an average of 40,000 persons/km2 to 22,000 persons/km2. This has led to the recognition that the virtually undeveloped east bank of the Huangpu River is an ideal location to direct new urban development in order to release some of the pressures on the west bank.

The east bank is called "Pudong" and is today home to only 1 million people. Premier Li Peng announced the State Council's decision to develop the "Pudong New Area" in April of 1990. The project is a State-level initiative led by the Shanghai Municipal Govemment, and seeks to transform the coastal industrial backwater and inland rural area into a major economic zone that will incorporate all of the key reforms already tested in the Special Economic Zones in coastal China,

Pudong is planned to accommodate 2 million people by the end of this decade in five principal districts: the Lujiazui Financial and Services District across from the existing central core: the Waigaoqiao free trade zone and harbour near where the Huangpu and Yangtze Rivers intersect; the Jingqiao Export Processing Zone; the LiuLi industrial development zone; and the Zhangjiang R+D zone. The municipal government is channelling huge sums into the New Area, and most of the transport and infrastructure required to sustain Pudong's first major stage of redevelopment-are already in place or under construction.

Despite all this attention to Pudong, foreign investors are still focusing their attention to a large degree on the existing built-up portion of Shanghai, known as Puxi (west bank). The map accompanying this article shows the overall urban structure of central Puxi. The city has generally developed since its quasi-colonial international settlement along an east-west corridor anchored on the historic "Bund" on the Huangpu River front. The central business core and the larger central commercial area generally correspond to the French, British, and International areas of Shanghai prior to Liberation in 1949. There are three principal east-west axes: Nanjing Road (the major one), stretching from the Huangpu River as far as the international airport in Hongqiao to the west; Yanaan Road, which veers off from Nanjing Road in the west and now empties out into the planned Lujiazui Financial Services District in Pudong through a cross-harbour tunnel near the southern portion of the Bund; and Huaihai Road, which is primarily a retail street. North-south axes are few: the Bund itself, including its southern portion, which has been widened to 10 lanes, and Xizang (or Tibet) Road, which flanks the central People's Square/Park along Nanjing Road. The circular Old City south of the central core is an area that will undergo extensive rehabilitation and redevelopment over the next decade.

As in the case of Bangkok, Shanghai's most intractable urban problem is its poor and antiquated transport system. Only 5% of Shanghai's land area is covered by roads. The road surface averages 2.3 m2/person, among the lowest rates of major cities in the world. More than 6 million bicycles are matched against 200,000 motorized vehicles (expected to grow to 420,000 by the end of this decade). Shanghai's traffic accident rate is 10 times that of Tokyo. Thirty million person-trips per day are expected to be accommodated by buses in the year 2000. Today's buses are old and overcrowded: passenger loads of 9 persons/m2 are average, and increase to 12 persons/m2 during peak hours. Even though buses generally move at an operating speed of 8 km/hour in the city proper, peak-hour bus flows along some routes exceed peak-hour metro system flows in some major Asian cities.

The government is responding to this problem in a number of ways. Major transport system improvements either recently completed or planned for central Shanghai by the end of this decade include:

- recently-completed Nanpu and Yangpu Bridges linking Puxi to Pudong, both constructed with co-financing from the Asian Development Bank
- "Bund Widening": Recently completed major redevelopment of the Bund into 10 lanes with dedicated bus lanes
- Sluice Bridge: Recently. completed bridge across Suzhou Creek that links the Bund and Zhongshan Road East to Hongkou District
- Zhongshan Road East and Inner Ring Road: Currently under construction, widening to 8-10 lanes, much of the Inner Ring-Road will be elevated
- Traffic Management Plan: World Bank-sponsored initiative in central core; will consist of computerized traffic lights system, lay-byes, non-motorized vehicle roads, and one-way bus routes; expected to significantly relieve central core congestion when completed
- Chengdu Road North-South corridor: Major vehicular route that will consist of 8-10 lanes at grade, and six lanes elevated; considerable resettlement has been required (under construction)
- Subway Line # 1: Now under construction; six southern stations completed and operational
- Future 16-station Subway Line # 2: Currently in planning stage; construction expected to commence in 1995
- Cross-Harbour Tunnel: Two-lane tunnel parallel to existing Yanaan Road tunnel (also two lanes); a Build-Operate-Transfer (BOT) project being led by CITIC Pacific from Hong Kong

Shanghai's rapid economic and spatial re-structuring represents numerous opportunities for our country's investors and firms, many of whom have helped to finance, build, and service urban environments in Canadian cities that are the envy of many.

Based on our experience in Shanghai, we suggest that major opportunities exist at least in:

- high value-added manufacturing that requires skilled technical and professional personnel and comparatively good access to both domestic and foreign distribution channels at lower cost than in Southern China
- tertiary subsectors of finance, insurance, and law; tourism; retail; and real estate development (particularly in rehabilitation of historic structures along the Bund and in central Puxi; lower-cost domestic housing — which will increasingly become untied from the "iron rice bowl" of state-owned enterprises; and good quality high-tech industrial developments built and operated to international standards)
- and municipal infrastructure, particularly inner- and inter-urban transportation systems, and municipal services related to water, sewage, solid waste, gas, and electrical power, all on a BOT or similar commercial basis. ■