Reclaiming the “Head of the Dragon”: Shanghai as China’s Center for International Finance and Shipping

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Throughout the 1990s, China’s official media referred to Shanghai as the “head of the dragon.” The metaphor symbolized Shanghai’s pivotal role in leading the Yangtze River Delta, the Yangtze River basin, and more broadly, China, into the 21st century through rapid economic growth and dynamic integration into the global economy. This official expression, however, has become less commonly used ever since Jiang Zemin, who advanced his career primarily in Shanghai, retired from his post as secretary-general of the Chinese Communist Party in 2002. Since then, a more balanced regional development strategy, favored by Hu Jintao and Wen Jiabao, has placed other major cities, especially Chongqing and Tianjin, on the fast track of economic development. Both the central government’s macroeconomic control policy for most of this decade and the purge of former Shanghai Party chief Chen Liangyu in 2006 seemed to undermine Shanghai’s predominance in the nation’s economic and political arenas. In March 2009, in the wake of the ongoing global financial crisis, the Chinese central government took another drastic turn and endorsed a blueprint to designate Shanghai as a “global financial and shipping center by 2020.” Once again, Shanghai has had a set of favorable policies bestowed upon it by those in power. This essay examines the economic motivations, policy initiatives, political backgrounds, and international implications of this new phase of development for China’s pace-setting metropolis.

The meteoric rise of dazzling skyscrapers in Pudong, an area on the east side of Shanghai, has been arguably the most visible testimony of China’s quest for power and prosperity in the 21st century.[1] In his speech to several hundred world business leaders and governmental officials at the Fortune Global Forum held in Pudong in 1999, President Jiang Zemin said, “[o]nly six years ago, in this Lujiazui District of Shanghai’s Pudong area, where we are gathered this evening, there were only run-down houses and farms.”[2] Today, with 140 skyscraper office buildings and over 500 foreign and Chinese banks, insurance companies, and other financial institutions, this new financial district has earned the nickname, “China’s Manhattan.”[3] As both Chinese and foreign scholars of urban development have observed, “It took Manhattan more than a century to achieve its dramatic form; new Shanghai has emerged in little more than a decade.”[4]

Far less noted, but equally significant, is the newly built Yangshan Deepwater Port, which will soon become the world’s largest container port. Located on a small island 27.5 kilometers (17 miles) from the mainland, the port is connected to Pudong by the East Sea

Grand Bridge (*Donghai daqiao*). This bridge, completed in 2005 with a length of 32.5 kilometers (20 miles), is the second longest cross-sea bridge and the sixth longest bridge in the world.[5] Construction on the Yangshan Deepwater Port began in 2002 and is expected to feature four distinct phases. Thus far, phases one and two have been completed, with the third under way. By 2012, the port will have a dock 10 kilometers (6 miles) long with several terminals, which can simultaneously handle 30 container ships and have an annual throughput of 15 million TEU, about 41,000 TEU per day. (A TEU—20-foot equivalent unit—represents the capacity of a standard 20-foot shipping container.) Shanghai is already the world's largest cargo port and its second largest container port.[6] With the addition of this gigantic deepwater port, the city will take a huge lead in the ongoing competition for world preeminence with other busy ports such as Singapore, Hong Kong, Pusan, and Dubai.[7]

Aerial view of the Yangshan Deepwater Port

The East Sea Grand Bridge

A New and Even More Ambitious Blueprint for Shanghai

In a 25 March 2009 State Council executive meeting presided over by Premier Wen Jiabao, the Chinese government approved a new blueprint to further underscore Shanghai's leading role in the country's economic development.[8] The central government did so by endorsing the Shanghai municipal government's request to build the city into an international financial and shipping center by 2020, giving Shanghai "dual center" status (*shuang zhongxin*). While the city's large financial industry will provide much-needed financial assets to the shipping industry, Shanghai's emergence as the leading international shipping hub will further contribute to the development of its financial industry.

This strategic decision, made with the next phase of China's rise in mind, has been accompanied by many specific policy initiatives, including tax incentives, market liberalization measures, and the gradual convertibility of the Chinese currency. All decisions are designed to promote the development of a modern service industry and advanced manufacturing industry in the city.[9] In addition, three major proposed projects, namely, the construction of the world's sixth Disneyland, the Beijing-Shanghai High-Speed Railway, and a large commercial aircraft factory, as well as the upcoming 2010 World Expo, will all place Shanghai at the core of the country's economic development.[10] Many industries in the city, including real estate, infrastructure, transportation, telecommunication, hospitality, tourism, and logistics, will greatly benefit from these projects.

In early April, the central government also authorized Shanghai and four cities in the Pearl River Delta (Guangzhou, Shenzhen, Dongguan, and Zhuhai) to use the renminbi

(RMB) in overseas trade settlements, aiming at "reducing the risk from exchange rate fluctuations and giving impetus to declining overseas trade."[11] In fact, early this year, the People's Bank of China signed bilateral currency swap agreements with Indonesia, Belarus, South Korea, Hong Kong, Malaysia, and Argentina, totaling 650 billion yuan (US$95.1 billion) over the course of the next three years.[12] In the long run, the use of RMB as the currency of choice for international trade is not only in line with China's expectation of full convertibility of the RMB by 2020, but also reflects the recent initiative by the governor of the People's Bank of China, Zhou Xiaochuan, to eventually replace the U.S. dollar with a new international reserve currency.[13]

Some Chinese public intellectuals believe that the central government's decision to designate Shanghai as a "dual center" is as important as Deng Xiaoping's historic decision to develop Pudong in 1990.[14] They believe that this strategic move signifies the new phase of a finance-driven approach to China's industrial restructuring (*chanye tiaozheng*). The ultimate goal, as one scholar in Shanghai notes, "is to challenge American financial hegemony."[15] From the Chinese perspective, at present and in the near future, nothing is more crucial than ensuring the security of China's large amounts of foreign reserves. As an emerging international financial center, Shanghai will likely play a crucial role in achieving this goal.

The central government has apparently decided to use Shanghai as a showcase for China's economic strength, the rising status of the Chinese currency, and the country's superior capability in allocating global shipping resources. For the first time in years, the Chinese official media used the term "head of the dragon" (*longtou*) to refer to Shanghai.[16] Some scholars and media commentators argue that Shanghai should be the head of the dragon, not only for the People's Republic of China (PRC), but also for the development of the entire region of northeast Asia, especially in terms of the shipping industry.[17] For the Shanghai municipal government, the central leadership's decision to promote Shanghai cannot be more timely, because the city's previous development model to attract foreign and domestic capital, largely based on land leases, has become increasingly less appealing.

Shanghai's gain, however, may come at the expense of some of its rival cities, both in China and abroad. For over a decade, Beijing and Tianjin competed vigorously with Shanghai for the status of China's financial center. As a result of this new decision by the central government, China's other major seaports—Shenzhen, Guangzhou, and Ningbo to the south of Shanghai, and Qingdao, Dalian, and Tianjin to the north—will be in a far less advantageous position as regards international shipping. Stronger pressure will also be exerted on other major seaport cities in the Asia Pacific region, such as Singapore, Hong Kong, Pusan, Kaohsiung, and Yokohama. In a recent interview with the Hong Kong media, Premier Wen Jiabao bluntly stated that in the wake of all these new developments, Hong Kong "should more vigorously enhance its competitiveness in international finance and shipping, otherwise it will fall behind."[18] Shanghai's reclamation of its status as China's head of the dragon, therefore, displays the redistribution of economic clout and political dynamics in China. Its implications go far beyond China's national borders.

The Global Financial Crisis: Jeopardy or Opportunity for China?

Make no mistake; the global financial tsunami has had an enormously detrimental impact on China's economy. The first-quarter economic data released by the Chinese government in mid-April of 2009 showed that the gross domestic product (GDP) expanded by only 6.1 percent—the lowest quarterly growth rate in 10 years. It was 4.5 percentage points lower than during the first quarter of 2008 and 0.7 percentage points lower than that of the fourth quarter of 2008.[19] Much of this slowdown in economic growth can be attributed to decreases in foreign trade that accompanied the fall of China's top three trading partners—the European Union, the United States, and Japan—into recession. Trade protectionism in many parts of the world and financial difficulties for Chinese small- and medium-sized enterprises have had negative impacts on the country's foreign trade. During the first quarter, foreign trade dropped 25 percent, exports were down 20 percent, and imports slumped by 31 percent.[20] Not surprisingly, Shanghai's port also suffered from the global financial crisis, its growth rate slowing. According to a recent report, Shanghai handled 2.2 million TEU in December 2008, a 5 percent decline from the corresponding month in 2007. In January 2009, Shanghai handled 1.9 million TEU, down 17 percent compared to last year, while February's throughput of 1.5 million TEU represented a 19 percent plunge.[21]

For an export-led and labor-intensive economy such as China's, drops in GDP growth and foreign trade have profoundly negative consequences. Thousands of factories and businesses, especially those located in the prosperous eastern and southern coastal regions, have recently closed. Since the fall of 2008, approximately 20 million migrant workers, along with one million new college graduates, have joined the country's already gigantic unemployed labor force. Over that same period of time, the Chinese stock market lost 65 percent of its value, an amount equivalent to US$3 trillion.[22] Such losses made China's Shanghai Exchange the world's worst-performing major stock market in 2008.

China's banks and financial institutions have also plunged in value as a result of the global financial crisis.[23] The Bank of China, for example, lost US$2 billion because it held stocks in the bankrupt Lehman Brothers, Fannie Mae, and Freddie Mac in addition to U.S. Treasury bonds. With a fund of US$200 billion, China Investment Corporation (CIC), the country's first sovereign wealth fund, made overseas investments in the Blackstone Group, Morgan Stanley, Lehman Brothers, JC Flowers, U.S. Treasury bonds and others. In each and every case, CIC saw huge losses. In the eyes of the Chinese public, CIC has become the symbol of the Chinese government's poor financial management.[24] Some firms, such as CITIC Pacific Group and China Life Insurance Group, lost huge amounts due to the fluctuation of the currency exchange rate. Meanwhile, actual foreign direct investment in China stood at US$21.8 billion in 2008, down US$5.6 billion from the same period of the previous year.[25] China may also witness a large-scale outflow of foreign capital in the near future as many foreign banks and firms need to reallocate their financial assets for more urgent purposes.

In the eyes of many overseas China analysts, the ongoing global financial crisis may jeopardize the continuation of China's three-decade-long economic boom. Yet, it is important to note that the Chinese word for "crisis" (*weiji*) is a compound of "jeopardy" and "opportunity." Now, perhaps more than any other period of crisis in contemporary China, both the Chinese leaders and the public see a great opportunity rather than a devastating jeopardy. For the Chinese, it seems clearer today than at any time before that the world is in the midst of a major geopolitical and economic power shift. Over the past three decades, China has been transformed from a country known for its economic backwardness and international isolation into the world's foremost frontier of rapid economic development. This shift is perhaps comparable to the rise of Europe in the 17th century and the rise of America in the late 19th and early 20th century.

The Chinese people certainly have good reason to be optimistic about their country's economic future. China has the world's largest foreign reserve and is the U.S. government's largest creditor. China's foreign exchange reserves amounted to US$1.95 trillion by the end of March of 2009, up 16 percent from a year earlier.[26] For years, the U.S. government has pressed China to change the way it runs its economy. But now the Chinese government has been increasingly vocal about what it sees as economic mismanagement by the United States.[27]

Only a few years ago, many overseas China analysts believed that China's accession to the World Trade Organization would inevitably cause major upheaval in China's state-owned enterprises and especially the Chinese commercial banks. This cynical view was understandable because in 1998, bad bank loans accounted for 40 percent of the capital of China's state-owned commercial banks. In 2008, however, the percentage of the bad loans among these banks was reduced to 2 to 3 percent.[28] The total wholesale profit of China's state-owned enterprises also increased from 2 percent in 1998 to 7 percent in 2008, a more than threefold increase.[29]

Most interestingly, in February 2009, four of the top 10 banks in the world in terms of market capitalization were Chinese banks. The Industrial and Commercial Bank of China (ICBC), China Construction Bank, and the Bank of China occupied the top three spots on the list (see table 1, next page). A decade ago, US banks dominated the top-10 list and no PRC-based bank was even close to being on it. Today, giant American banks such as Citibank and Bank of America do not even make the top-10 list at all. It should also be noted that while many of the top 10 banks in developed countries sustained significant hits in the wake of the financial crisis, with several falling more than 20 percent in the past few months, the Chinese banks have been relatively stable.

Furthermore, at a time when the middle class is shrinking in many developed countries due to the financial crisis, the Chinese middle class is rapidly expanding. Just 15 to 20 years ago, a distinct socioeconomic middle class was virtually nonexistent in China. But today there are a growing number of Chinese citizens, especially in the major coastal cities, with private property, personal automobiles, growing financial assets, and money to spend, including on domestic and international travel. One indicator of the middle class's recent growth is the number of credit cards issued. In 2003, 3 million credit cards were issued; by 2008, that number had reached 150 million, with 50 million given out in 2008 alone.[30]

Table 1
The Top 10 Banks in the World by Market Capitalization (February 2009)

Rank	*Bank*	*Country*	*Mkt. cap. 26 Feb '09*	*Mkt. cap. 31 Dec '08*	*Change*
1	ICBC	China	169.6	173.9	-2.5%
2	China Construction Bank	China	118.4	128.3	-7.7%
3	Bank of China	China	103.2	98.2	5.1%
4	HSBC	UK	91.4	115.2	-20.7%
5	JP Morgan Chase	U.S.	90.0	117.7	-23.6%
6	Wells Fargo	U.S.	62.6	98.0	-36.1%
7	Banco Santander	Spain	53.6	75.0	-28.6%
8	Mitsubishi UFJ Financial	Japan	52.5	70.1	-25.2%
9	Bank of Communications	China	34.6	34.6	0.1%
10	Intesa Sanpaolo	Italy	31.8	44.1	-28.0%

NOTES & SOURCES: Mkt. cap. = Market capitalization. Red text indicates Chinese banks; http://finmanac.blogspot.com/2009/02/top-10-banks-in-world-by-market.html.

Bank credit also rose rapidly in the country during the past few months, at least partially through being extended to small- and medium-sized companies. According to a Chinese official source, credit extended by banks hit 4.58 trillion yuan in the first quarter of 2009, representing about 90 percent of the annual target.[31] Medium- and long-term loans accounted for more than half of the new bank credit. Meanwhile, the Chinese central bank has cut interest rates five times and reduced the banks' required reserve ratio four times since September 2008. The Chinese central government has also increased social spending, and urged local governments to initiate various social welfare programs to deal with the daunting pressure of unemployment. All these measures are designed to aid the real economy in recovery rather than provide only short-term remedies. The central government's decision to designate Shanghai as a "dual center" for international finance and shipping is one of its most ambitious initiatives. It aims to enhance China's overall competitiveness and to allow its city on the economic forefront to achieve a leadership role in global finance and trade.

"Dual Center" for International Finance and Shipping: An Assessment

The central government's new policy initiatives will allow Shanghai to immediately increase export tax rebate rates for about 4,000 types of products in textile, garment, and other light industries, as well as in the steel, nonferrous metals, petrochemical, and electronic information industries. Although more-comprehensive policy details have yet to be announced, it is believed that the city will benefit from many stimulus measures, favorable policies to attract talent, and deregulation in finance, shipping, and related sectors.[32] In the area of finance, the city will permit foreign enterprises to issue RMB bonds and stocks in the Shanghai exchanges. In the shipping sector, the Shanghai municipal government seeks to increase oil shipments and to encourage foreign investment in shipping by reducing investment fees.

Without a doubt, Shanghai is well positioned to play a leadership role in China's international finance and shipping. By 2008, it had a total of 730 financial institutions, including 360 foreign or jointly owned financial organizations.[33] The Shanghai Stock Exchange is currently ranked number six in the world and number two in the Asia-Pacific region in terms of turnover value.[34] In 2008, the turnover of the Shanghai Stock Exchange accounted for two-thirds of the national total, as did the futures market in the city. Approximately 50 percent of fund management companies and over 60 percent of insurance companies in China were located in Shanghai. These Shanghai-based insurance companies currently manage about half of the country's insurance assets.[35] In addition, over 90 percent of the direct financing in the country came from Shanghai.[36] By early 2009, 17 foreign banks had established their Chinese headquarters in Shanghai, most in Pudong's Lujiazui district. A total of 64 branches, 107 representative offices of foreign banks, and 20 foreign insurance companies have opened in the city.[37] In early 2009, Shanghai-based foreign banks accounted for 63 percent of assets, 61 percent of loans, 78 percent of deposits, and 63 percent of profits of all foreign banks in China.[38]

Shanghai's financial sector, however, still has a long way to go before it's truly comparable with the world's other financial hubs. In 2008, it accounted for only 10 percent of the city's GDP, several percentage points less than that of London (13 percent). While London had over 500 foreign banks as of 2005, Shanghai hosted fewer than 100 foreign banks in 2008.[39] In international shipping finance, Shanghai's role remains quite marginal. For example, among the total of US$300 billion ship loans, US$70 billion ship leasing transactions, and US$15 billion equity and bond financing in shipping in the world, London, Hamburg, and New York dominate, with Shanghai accounting for less than 1 percent in each of these areas.[40]

The decision to build Shanghai into an international financial center represents a concerted effort by the Chinese government to put the city on par with such global financial centers as London, New York, and Tokyo. Professor Sun Lijian, associate dean of the Institute of Economics at Fudan University, recently argued that Shanghai should strive to promote several commercial sectors, among them shipping finance, marine insurance, international settlements, fund management, foreign exchange transactions, and intermediary services. The development of these service-oriented businesses will help complete the transition of the industrial structures of the city to more high-value-added industries.[41] In light of the central government's recent decision regarding Shanghai, the city is expected to become a major player in areas such as commodity futures, bond trading business, and finance leases in the next decade and beyond.

Paralleling Shanghai's remarkable development in the financial sector, the city is also well positioned in its quest to become an international shipping hub. In 1996, the Port of Shanghai had an annual throughput of 1.53 million TEU. Thirteen years later, in early 2009, the figure had jumped to 28 million, an increase of 18 times.[42] Shanghai has a number of large container terminals. The Jungonglu, Zhanghuabang, and Baoshan terminals, for example, currently account for 35 percent of the Port of Shanghai's total throughput. At the end of 2008, Shanghai began to build a large international terminal in Wusongkou, which will be able to accommodate several 80,000-ton cruise ships when it is completed. Even before the use of the Yangshan deepwater terminals, in 2005 the Port of Shanghai already had an annual throughput of 18 million TEU, which placed it as the number three container port in the world, behind only Singapore and Hong Kong.[43] According to foreign analysts, with the newly built Yangshan deepwater terminals, the Port of Shanghai is expected to be able to handle 30 million TEU annually within five years, putting its throughput well ahead of those of its international competitors.[44]

A recent study of the Yangshan port completed by the South Korean Consulate-General in Shanghai indicates that Shanghai's new container port will have throughput that is three times more than that of Pusan, one of the top 10 container ports in the world and the largest in South Korea.[45] Because of its scale and its proximity to the vast hinterland of China, the logistics costs associated with operating the Yangshan port will be 40 percent less than many other major ports, such as Pusan. Consequently, the cargo-handling volume of Pusan is expected to drop by 30 percent. The other major container ports in the Asia Pacific region, including Singapore and Hong Kong, will also be significantly affected by the growing shipping capacity of Shanghai. The study concludes that the construction of the Yangshan port will cause an "earthshaking change" (*diqiao bianhua*) in the international shipping industry.[46]

No. 2 Terminal of the Yangshan port

Shanghai in general, and the Yangshan port in particular, has the advantage of strong economic resources. There are four ways in which containers can be transported to China's vast inland areas from the Yangshan port: railway, highway, river, and sea. The first phase of railway construction in Pudong was already completed in 2006, connecting the Yangshan terminals to the East China railway networks. It has an annual throughput of 1.8 million

TEU.[47] Currently, approximately 85 percent of Shanghai's export containers come from the other cities of the Yangtze River Delta, and most of them are transported via highway. Such an emphasis on highway transportation has led to significant traffic jams and a volume of about 5,000 container trucks passing over the East Sea Grand Bridge daily.

To reduce the overburden on the highways in the area, the central government has recently adopted "the Yangtze Strategy" (*changjiang zhanlue*), aiming to increase the number of container ships that the Yangtze River cities can accommodate.[48] According to this plan, Nanjing, Wuhan, and Chongqing will soon have 1,000, 500, and 200 container ships, respectively. Other cities in the Yangtze River Delta will transport their containers first to the Waigaoqiao port in Pudong and then have them transferred to the Yangshan port via waterbus.[49] As part of the Yangtze Strategy, several cities on the river, including Jiujiang and Chongqing, have recently built new container ports.[50] Jiujiang has invested 470 million yuan on its container port striving to hit an annual throughput of 300,000 TEU. The global financial crisis might have slowed down the number of container ships in the last two months of 2008 and the first two months of 2009, but the number that went through during the first quarter of this year as a whole increased. According to the Yangshan Port Authority, the number of container ships en route to the port from international destinations was 1,590 in the first quarter of 2009, compared with 1,350 in the first quarter of 2008. This constituted an increase of 17.8 percent.[51]

Shanghai's growing role as an international shipping hub may serve the interest of other cities in the country, especially those in the Yangtze River Delta. At the same time, though, the central government's favorable policies toward Shanghai and the new investment and resources granted to the city may undermine the economic competitiveness of some other Chinese metropolises and intensify political tensions among rivaling regions, interest groups, and leadership factions. In a recent article published by a leading Chinese magazine, *Caijing* (Finance and Economics), an expert observed that some central government decision makers initially objected to Shanghai's proposal for dual center status because they thought it was "going too far."[52] Shanghai leaders, especially Party Secretary Yu Zhengsheng, had lobbied aggressively in Beijing and made concerted efforts to ask the "State Council and related state offices to give their support."[53] Indeed, the Shanghai municipal leadership began to request the status of China's international financial and shipping center as early as in 1996. It took 13 years, as the Chinese media often emphasize, for Shanghai to finally be granted this status.[54] Shanghai's economic status is indicative of political dynamics, policy orientation, and elite rivalry in China.

Shanghai: China's Economic and Political Barometer

Throughout the 20th century, Shanghai held an important position in China's economic life. During the first four decades of the PRC, however, the central government placed heavy fiscal burdens on the city. In 1980, for example, Shanghai ranked first in the nation in terms of industrial output (accounting for one-eighth of the national total), exports (one-quarter), and revenue sent to the central government (one-sixth).[55] But at the same time, it received the lowest average share in the nation of allocations for housing, roads, and transportation. In 1980, a widely publicized article entitled "Shanghai's Ten Tops and Five Bottoms in the Country" shed light on the city's leading role in the country with respect to industrial output and revenue, and its astonishingly poor record as regards infrastructure and residents' living conditions.[56] The physical appearance of the city in the 1980s differed little from that of the 1930s or the 1940s. According to one study, between 1949 and 1985 the central government received 350 billion yuan in revenue from Shanghai, while investing only 3.5 billion yuan for municipal infrastructure development.[57] From 1949 to 1988, Shanghai paid 83.5 percent of its fiscal revenues to the central government, retaining only 16.5 percent for services and the development of the city.[58]

During the 1980s, central government policies favored other cities such as Beijing, Guangzhou, and the newly built Shenzhen. The decision in 1990 to develop Pudong as China's largest economic zone was a major strategic shift in resource allocation in the country. During his tour of Shanghai in early 1992, paramount leader Deng Xiaoping recognized the great potential of the city and allowed the municipal government to take more initiative in developing its local economy and attracting foreign investment. During the four years between 1992 and 1996, the city completed more municipal construction projects than it had over the previous four decades.[59]

After consolidating his power in Beijing in 1995, Jiang Zemin was even more conscientious about turning Shanghai into the "head of the dragon." For example, Shanghai's total investment in fixed assets in 1998 was 196.6 billion yuan, which was much higher than that of the three other municipalities directly under central government authority—Beijing (112.4 billion yuan), Tianjin (57.1 billion yuan), and Chongqing (49.2 billion yuan).[60] Shanghai received a large number of grants and loans from the central government between 1990 and 2002, when Jiang served as general secretary of the CCP. As a result, Shanghai's investment in urban infrastructure increased from 4.7 billion yuan in 1990 to 45.1 billion yuan in 2000. The amount of revenue dedicated to capital construction projects increased from 1.4 billion yuan to 13.2 billion yuan over the same period.[61]

The high influx of state grants and loans, in turn, stimulated foreign direct investment (FDI) in the city. In 1993 alone, for instance, Shanghai attracted more foreign investment than it had during the previous 10 years combined.[62] Buoyed by the growing presence of foreign banks and multinational companies, Shanghai has experienced the largest boom in real estate development the world has ever seen. According to official statistics kept by the Shanghai municipal government, annual investment in the real estate sector was less than US$120 million in the early 1990s. By 2001 that figure had reached US$7.6 billion, "implying a compound annual growth rate of over 50 percent" in a decade.[63]

While growing economic disparity has become a serious sociopolitical problem in the city, a large number of Shanghai families now own apartments and other kinds of housing in the outskirts of the city. In 2003, approximately 75 percent of Shanghai families owned the housing units in which they lived.[64] Two years later, according to a study conducted by Gallup Polls of China, the percentage of Shanghai's population that owned homes reached 82 percent, with 22 percent of respondents saying they own a second home.[65]

The central government's decade-long favorable policies toward Shanghai, however, began to change soon after the transition of power in 2002–2003. In these two years, the third generation of the Chinese leadership headed by Jiang Zemin and Zhu Rongji (both from Shanghai) transferred power to the fourth generation led by Hu Jintao and Wen Jiabao. In early 2004, Hu and Wen adopted a macroeconomic control policy to limit bank lending, land use, and fixed-asset investment.[66] They explicitly stated that this policy would not treat all sectors and regions the same way. While allocating resources to support the agriculture, energy, transportation, and social welfare sectors, especially in the less-developed western and northeastern regions, Hu and Wen strove to cool off the construction fever in Shanghai and the Yangtze River Delta. It came as no surprise when, during a Politburo meeting held in June 2004, Chen Liangyu, the party secretary of Shanghai and a protégé of Jiang, voiced strong dissent against the macroeconomic control policy.[67] Chen accused Premier Wen of harming the interests of the Yangtze River Delta in particular. Chen stated bluntly that Wen should take "political responsibility" for the damaging consequences of his macroeconomic control policy and administrative regulations.[68] Chen's real target was not Wen, but Hu Jintao, whose macroeconomic control policy is a key component of his much broader plan to strategically shift China's socioeconomic development toward growth that is more regionally balanced.

The political contention between Hu and Wen on one side, and the so-called Shanghai Gang led by Jiang Zemin and former vice president Zeng Qinghong on the other, lasted for two more years. The result was the purge of Chen Liangyu, a most outspoken representative of the Shanghai Gang, on charges of corruption in the fall of 2006.[69] Chinese leaders' tactics to defeat their political opponents by indicting them on grounds of corruption is, of course, nothing new. But the rules and norms of the game of Chinese elite politics nevertheless seem to be changing in some important ways. Factional politics is becoming less a zero-sum game in which the winner takes all, and more a deal-making process in which Chinese politicians are constantly engaged in coalition-building, political negotiation, and compromise to ensure that their faction maintains its relative position. While the fall of Chen Liangyu was a major blow for the Shanghai Gang, this political faction has nonetheless survived, with almost all of its prominent members remaining in positions of power. The top leadership posts of the Shanghai municipal government have remained in the control of Jiang's and Zeng's confidants.[70] The three successive Shanghai Party secretaries after Chen's fall, Han Zheng, Xi Jinping, and Yu Zhengsheng, were all protégés of Jiang and Zeng. Their appointments to be the Party bosses of Jiang's turf, instead of promotion of Hu Jintao's allies from somewhere else, were parts of a compromise.

Table 2 shows the backgrounds of the top leaders in the city—deputy Party secretaries and vice mayors. For the past two years, no outsider except Party Secretary Yu Zhengsheng has been transferred to these two highest levels of leadership in the city.

A majority of the top leaders (73 percent) were born in neighboring Zhejiang and Jiangsu provinces. Five, including Mayor Han Zheng, Deputy Party Secretary Yin Yicui, and Executive Vice Mayor Yang Xiong, worked directly under Chen Liangyu for years. With the exception of Vice Mayor Tu Guangshao, who had previously worked in the financial sector in Beijing, all of the other top leaders in the city have advanced their careers exclusively in Shanghai.

Vice Mayor Tu studied economics at Beijing University from 1978 to 1985 as both an undergraduate and graduate student. After completing his degrees, he worked first in the People's Bank of China and then the China Securities Regulatory Commission, where he served as director of the Trade Department, and secretary general and vice chairman of the commission.[71] In 1997, Tu moved to Shanghai and served concurrently as general manager and Party secretary of the Shanghai Stock Exchange before being promoted to vice mayor in 2007. Tu has been the key figure in Shanghai's bid for the status of China's center of international finance. Meanwhile, Vice Mayor Shen Jun has been in charge of the construction of the Yangshan Deepwater Port and the development of Shanghai's shipping industry. Before being promoted to vice mayor, Shen was executive deputy director and Party secretary of the Yangshan Deepwater Port.

Table 2
Backgrounds of Current Top Leaders in Shanghai (as of May 2009)

Name	*Current position*	*Tenure began*	*Born*	*Birthplace*	*Previous position*	*Experience outside Shanghai*
Yu Zhengsheng	Party secretary	2007	1945	Zhejiang	Hubei Party secretary	Hubei Party sec., Min. of Construction
Han Zheng	Mayor & dep. Party secretary	2003	1954	Zhejiang	Vice mayor	None
Yin Yicui	Deputy Party secretary	2002	1955	Zhejiang	Director, Propaganda Department	None
Yang Xiong	Executive vice mayor	2003	1953	Zhejiang	Deputy chief of staff	None
Tu Guangshao	Vice mayor	2007	1959	Hubei	GM, Shanghai Stock Exchange	People's Bank of China
Tang Dengjie	Vice mayor	2003	1964	Jiangsu	Dir., Economic Comm.	None
Hu Yanzhao	Vice mayor	2004	1951	Zhejiang	Deputy chief of staff	None
Ai Baojun	Vice mayor	2007	1960	Liaoning	Chairman, the Bao Steel Company	None
Shen Jun	Vice mayor	2008	1954	Zhejiang	Deputy chief of staff	None
Shen Xiaoming	Vice mayor	2008	1963	Zhejiang	Director, Shanghai Dept. of Education	None
Zhao Wen	Vice mayor	2008	1956	Anhui	Deputy chief of staff, City People's Congress	None

NOTES: Comm. = Committee; dep.= deputy, Dir. = Director; GM = General manager; Min.= Minister; sec. = secretary.

Equally significant, the removal of Chen Liangyu has consolidated Hu Jintao's power in the national leadership and has led the political establishment to endorse his populist policy agenda. According to Hu and Wen, at a time when China faces serious challenges such as environmental degradation, energy scarcity, employment pressure, and economic disparity, the government should pay much greater attention to the issue of social fairness and social harmony. During the past few years, China's western, northeastern and central provinces, especially major cities such as Chongqing and Tianjin, have received more financial support and policy incentives from the central government than in the Jiang era.

In the past five years, for example, the central government allocated 280 billion yuan for the construction of major projects in the western region.[72] The 11th Five-Year Plan (2006–2010) placed Chongqing on the fast track to economic growth. The central government plans to invest 350 billion yuan (US$43.5 billion) in new industrial renovation projects in Chongqing during these five years. In 2010, the total GDP in the greater Chongqing region is expected to reach 1.4 trillion yuan (US$173.9 billion)—two times higher than its current GDP.[73] With favorable policies by the central government, Chongqing has witnessed the most dramatic economic development in its history. The city claims to have more construction cranes than Shanghai (in the late 1990s, Shanghai was widely believed to be the home of one-sixth of the cranes in the world).[74] In 2008, Chongqing had a 14.3 percent GDP growth, 4 percent higher than that of the national total.[75]

In 2006, the central government designated Tianjin's Binhai District as China's third state-level special economic zone (Shenzhen and Shanghai's Pudong District are the other two) with five sets of favorable policies in the areas of tariffs, income taxes, and technological innovation. With the completion of major projects such as the Beijing-Tianjin High-speed Rail and the Airbus 320 assembly line, Tianjin has accelerated its economic growth. In the first quarter of 2009, Tianjin had a 16 percent GDP growth, ranking highest in the country.[76] In the same period, the Tianjin municipal government had a total revenue of 36 billion yuan, about 12 percent higher than the increase of the growth rate of the national total.[77] In contrast, Shanghai's GDP growth in the first quarter of 2009 was only 3.1 percent, which was the lowest growth rate among China's 31 province-level administrative areas and much lower than the national average of 6 percent.[78] In 2008, the GDP growth of Tianjin's Binhai District was 23 percent while Shanghai's Pudong District was only 10 percent.[79] In fact, Shanghai's economic growth slowed down a few years before the outbreak of the global financial crisis. In 2005, for example, Shanghai's foreign direct investment increased by only 2 to 3 percent, and the GDP growth dropped to 9 percent, breaking a 13-year-long stretch of two-digit growth for the city.[80] Shanghai used to account for 70 percent of the commodity futures market in the country in the late 1990s; now it accounts for about 50 percent.[81]

According to Chinese analysts, Shanghai's lowest GDP growth rate in the country in the most recent quarter was a result of two factors. First, Shanghai's economic growth has heavily relied on foreign trade, and the ongoing global financial tsunami has hit the city severely. Second, the central government's policy for more balanced regional development has had a strong negative impact on Shanghai. For example, the growth rate of the national investment on fixed assets increased by 28.8 percent in the first quarter of 2009 compared with the previous year, but Shanghai saw an increase of only 1.7 percent during the same period.[82]

Over the past year and a half, the municipal leaders of Shanghai have been aggressively engaged in "political lobbying for more favorable policies in the national leadership" (*xiang zhongyang yao zhengce*). This began in a municipal government meeting chaired by the newly arrived Party secretary Yu Zhengsheng at the end of 2007. In the meeting, Yu highlighted the fact that Shanghai was below the national average in eight major economic indexes.[83] Yu called for a structural transformation of Shanghai's economy with the objective of building new service-centered and advanced manufacturing industries in the city. To achieve this objective, Shanghai needs favorable policies from the central government in the aspects of financing, revenues, and taxes. According to Zhou Zhenhua, director of the Development Research Center of the Shanghai Municipal Government, who helped draft the development plan for Shanghai as a "dual center," Shanghai leaders, especially Vice Mayor Tu Guangshao, lobbied various relevant departments of the central government.

Not surprisingly, Shanghai's request was endorsed by some top leaders in Beijing who have strong ties to Shanghai, most noticeably the two former Party secretaries of Shanghai, Wu Bangguo and Xi Jinping. Presently, Wu is the chairman of the National People's Congress (NPC) and Xi Jinping is the vice president of the PRC. Wu reportedly said to his colleagues in Shanghai in early 2008 that "Shanghai should be bold enough to rush" for the new phase of economic development.[84] In the spring of 2008, the Policy Research Office of the CPC Central Committee, headed by Wang Huning, another prominent member of the Shanghai Gang, also sent a team to Shanghai to evaluate the construction of the Yangshan port and the prospects for Shanghai as an international shipping center. The team's conclusion resulted in a very favorable assessment.[85] Although several important organizations of the central government initially blocked the approval of the Shanghai proposal to become the dual center, it was eventually settled through "many rounds of negotiation and consultation," according to the Chinese official media.[86]

Final Thoughts

In a best-selling Chinese book entitled *City Monsoon*, author Yang Dongping analyzes the constant changes in the relative economic weight, political power, and cultural influence of China's major cities during the nation's development. The theme of the book is well illustrated by the author's intriguing question: "In which direction is the city monsoon blowing?"[87] This metaphor may be particularly relevant for China analysts who are interested in the relationship between the prospects of prominent politicians in power contention and the regions and cities they represent in economic competition.

Since 2002, Hu Jintao's populist policy platform has drastically changed China's course of development in favor of the inland region. Yet there may be a swing in the opposite direction, as Xi Jinping, who is often seen as a leader representing the interests of coastal cities, is expected to succeed Hu beginning in 2012. Such a swing occurred after the transition from Jiang to Hu. These shifts during transitions at the top can create a healthy political dynamic that prevents one leader or one faction from wielding excessive power. This political dynamic also has profound impact on economic policies and regional development. In a broader perspective, the central government's recent decision to designate Shanghai as the dual center of international finance and shipping will not only help Shanghai regain its foremost role in the country's economic transformation, but will also make China far more competitive globally in these two crucial areas.

Notes

[1] The author is indebted to Yinsheng Li for research assistance. The author also thanks Sally Carman, Henry Fung, Robert O'Brien, and Callie Wang for suggesting ways in which to clarify the article.

[2] Tsung-Yi Michelle Huang, *Walking Between Slums and Skyscrapers: Illusions of Open Space in Hong Kong, Tokyo and Shanghai*. Hong Kong: Hong Kong University Press, 2004, p. 103.

[3] The numbers are based on *Jiefang ribao* (Liberation Daily), 26 March 2009; http://jfdaily.eastday .com/j/20090326/u1a552585.html.

[4] Alan Balfour and Zheng Shiling, eds., *World Cities: Shanghai*. West Sussex, England: Wiley-Academy, 2002, p. 110.

[5] The longest cross-sea bridge in the world is Hangzhou Bay Bridge near Ningbo, which was opened in May 2008. See http://www.topnews.in/kaohsiung-harbours-world-ranking-has-dropped-further-2120970.

[6] *Dongfang Zaobao* (Oriental Morning News), 26 March 2009; http://dfdaily.eastday.com/d/20 090326/u1a552656.html.

[7] In 2008, the world's top-10 busiest container ports were Singapore, Shanghai, Hong Kong, Shenzhen, Pusan, Dubai, Guangzhou, Ningbo, Zhoushan, and Qingdao.

[8] http://www.gov.cn/ldhd/2009-03/25/content_1268570.htm.

[9] Some Chinese economists asserted that "Nothing less than the full convertibility of the renminbi could lift Shanghai's status from a domestic financial centre to a global one." Daniel Ren, "Tax reform is key for Shanghai hub plans," *South China Morning Post*, 26 March 2009.

[10] For detailed information of the Beijing Shanghai High-Speed Railway and the large commercial aircraft factory, see http://www.bhi.com.cn/specialtopic/Subway_Railway/index.asp and http://news.xinhuanet.com/mil/2007-03/19/content_5865847.htm.

[11] Wang Xu, "Yuan trade settlement to start in five Chinese cities," *China Daily*, 9 April 2009; http://www.chinadaily.com.cn/china/2009-04/09/content_7660006.htm.

[12] Tina Wang, "China Touts Yuan To Emerging Economies." *Forbes*, 31 March 2009; http://www.forbes.com/2009/03/31/china-argentina-yuan-markets-currency-dollar.html.

[13] For Governor Zhou's statement, see http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178.

[14] Ji Shuoming and Liu Ying, "Zhongguo tiaozhan meiyuan baquan" [China challenges the U.S. dollar hegemony], *Yazhou zhoukan* (Asia Weekly), 2 April 2009; http://www.dwnews.com/gb/MainNews/ Forums/BackStage/2009_4_2_4_12_17_308.html.

[15] Ibid.

[16] For example, Liu Shijin, deputy director of the Development Research Center of the State Council, repeatedly used the term "head of the dragon" in his comments on the State Council's decision to promote Shanghai. *Jiefang ribao* (Liberation Daily), 31 March 2009; http://www.simic.net.cn/news/detail.jsp?id= 36414. For more references on Shanghai's renewed claim as the head of the dragon, see Xinhua News Agency, http://www.sh.xinhua.org/2009-03/27/content_16075722.htm.

[17] For example, Zhen Hong, deputy director of the Shanghai International Shipping Research Center, recently made this point to the Chinese media. *Shanghai Zhengquan Bao* (Shanghai Security Daily), 26 March 2009, p. 1.

[18] http://www.dwnews.com/gb/MainNews/SinoNews/Mainland/cna_2009_04_11_5_30_7_461.html.

[19] http://news.xinhuanet.com/english/2009-04/16/content_11196039.htm.

[20] Xinhua News Agency; http://news.xinhuanet.com/english/2009-04/10/content_11163646.htm; 10 April 2009.
[21] See "China Leader Falls Short" *Lloyd's List*, 19 March 2009; http://www.lloydslist.com/ll/news/chinese-leader-falls-short/1237300210061.htm;jsessionid=6099652C9903BAAA1BA278171891A06D.
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[23] For a list of the names of China's banks and financial institutions that had huge losses and the causes for these losses, see http://money.163.com/08/1030/17/4PH4VK3B00251LJJ.html.
[24] Wang, "Once bitten, twice not shy."
[25] http://news.xinhuanet.com/english/2009-04/16/content_11196039.htm.
[26] http://www.chinaknowledge.com/Newswires/News_Detail.aspx?type=1&NewsID=22690.
[27] Andrew Batson and Andrew Browne, "Wen Voices Concern Over China's U.S. Treasuries," *Wall Street Journal,* 13 March 2009. Also http://online.wsj.com/article/SB123692233477317069.html.
[28] Hu Angang, *Zhongguo 2020: Yige xinxing de chaoji daguo* [China in 2020: A New Superpower]. Manuscript for publication by the Brookings Institution Press, p. 33.
[29] Ibid.
[30] http://www.alacrastore.com/storecontent/RNCOS-China_Credit_Card_Market_Outlook_to_2013-2054-140.
[31] http://news.xinhuanet.com/english/2009-04/16/content_11196039.htm.
[32] Chen Zhong and Xiao Lu, "The State Council is expected to approve Shanghai's proposal to turn itself into global economic hub," http://www.caijing.com.cn/2009-03-18/110123902.html.
[33] http://app2.dwnews.com/view-article.php?url=/big5/Consumer/finance/xhw_2008_05_11_18_31_02_788.html.
[34] *Jiefang ribao* (Liberation Daily), 26 March 2009.
[35] *Jinrong shibao* (Financial Times), 30 March 2009; http://news.xinhuanet.com/fortune//2009-03/30/content_11098400.htm.
[36] *Jiefang ribao* (Liberation Daily), 26 March 2009.
[37] http://www.shanghai.gov.cn/shanghai/node17256/node18151/userobject22ai27149.html; 21 April 2009. Also http://www.dwnews.com/gb/Consumer/finance/ifeng_2008_09_26_20_1_12_28.html.
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[39] http://www.dwnews.com/gb/Consumer/finance/ifeng_2008_09_26_20_1_12_28.html.
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[41] *Dongfang Zaobao* (Oriental Morning News), 26 March 2009; http://www.dwnews.com/gb/MainNews/Opinion/ifeng_2009_03_26_3_31_23_890.html.
[42] http://dfdaily.eastday.com/d/20090326/u1a552656.html.
[43] http://www.chinanews.com.cn//news/2006/2006-04-20/8/719895.shtml.
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[45] http://tech.it168.com/erp/2008-01-16/200801162026125.shtml.
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[47] http://news.jschina.com.cn.
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[50] http://www.jschina.com.cn/gb/jschina/news/zt200602/node21263/node21276/userobject1ai1293825.html.
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[68] *Shijie ribao* (World journal), 11 July 2004, sec. A, p. 1.
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[70] Ibid.
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[78] http://economy.enorth.com.cn/system/2009/04/24/003980260.shtml and http://www.jxnews.com.cn/jxcomment/system/2009/05/04/011095702.shtml.
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[84] Ibid.
[85] Ibid.
[86] Ibid. In late 2008, both Premier Wen Jiabao and Executive Vice Premier Li Keqiang also visited Shanghai to discuss the Shanghai proposal with leaders in the city.
[87] Yang, *Chengshi jifeng*, p. 1.