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多樣而分殊化全球城市之分析：以上海轉型為例
Analyzing a Diverse and Specialized Global City: The case of the Transformation of Shanghai

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Abstract

The examination of urbanization processes in China with the combination of global and world city research are expected to provide new insights to this neglected area. Global city idea had often emerged in contemporary city development plans, mainly indicating rapid modernization efforts via building a so-called global city. The wide-scale embeddedness of this idea suggests that it became the synonym of international competitiveness and prosperity. The best example of that is China with its massive network of cities. Until recently public datas were less accessible regarding the major Chinese cities, sith the reasons behind their growth and properity are still widely unexplored.

The goal of this thesis would be to collect data and examine the most relevant segments of a specific Chinese city, namely Shanghai in the context of global city formation and competition. In order to justify or deny the overall achievements of industrial and spatial restructuring, the thesis will rely on the latest datas, including the related theoretical aspects and two short case studies.

There are multiple layers of conducting city-related research from which, there are statistically less traceable ones. Thus, the intention of the thesis is to highlight two, internationally relevant and comparable areas, such as the financial industry and the newly upgraded free trade zone. According to the author's intentions the strengths and the weaknesses of Shanghai as a global city will be empirically tested, while at the same time there will be a strong emphasis on the introduction of world- and global cities' theoretical background as well. Within that the Chinese global city idea will be distinguished from its Western counterpart and the contraints of current political system will be pointed out in terms of operation or management. The main subject of inquiry would be to learn more about the extent of global city transformation in the city, compared to the general assumptions on an actual global city. Since this thesis has its own limitations both in size and data processing capability, thus it mainly analyzed and used second-hand sources to derive its conclusions.

The main purpose of this work would be to contest the aspects of Shanghai's global citiness.

Key words: global city, world city, urban geography, Shanghai, financial market, free-trade zone, urban economy

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Introduction

Cities in Asia-Pacific region tend to operate in a more dynamic environment. Unlike most of their European or North-American counterparts, major coastal cities almost exclusively achieved their globally renowned status from the last quarter of 20th century. After the Japanese and Korean transition, China has begun to follow the footsteps of the former two. Initially the most notable sign of development was the rapid transformation of urban landscapes in the newly modernizing cities. These metropolises were the first to build down their traditional economic structures. As a result of spatial restructuring, the core of local and provincial centers began to resemble to those in developed countries. (The spillover of the same phenomenon had similar effect on several landlocked provincial 'capitals' as well.)

In order to understand the unexpectedly quick and complex changes happened throughout most of the major Chinese cities, it is suggested to look behind their evolution. Many of these cities came down on different paths, yet were able to achieve a successful transformation. The existing East-Asian developmental model does not necessarily provide an ample coverage on specific cases induced by urbanization related changes. Moreover it doesn't provide enough input on how did these cities become the engines of their economies. World city or global city research helps to clarify the root of these changes and reflects on why some specific coastal centres performed so well in the concentration of knowledge, innovation and (high-tech) production of goods and services. Global city theory both measures the economic and social changes that could lead to a transition within a real/hypothetical network of cities.

"The world city network is an interlocking network but, [...] it is not an exact analog of other such networks. In particular this relates to the cities being nodes, but not

being primary actors. This specific feature of the world city network has important implications for both theory and practice [...]. (Taylor, 2001)

Nowadays, the two most advanced urban economies in China are Beijing and Shanghai. Beijing in many ways is different from the rest of its domestic rivals, mainly due to the role it fulfills as the centre of governance and decision-making. Shanghai – unlike the capital – was in a disadvantaged position with its lack of influence on central policies. There was only a short period around the millennia, when Shanghai could enjoy preferential treatment – almost comparable to Beijing's – however such a short period alone wouldn't explain its globally growing recognition as a *global city*.

This research is willing to examine Shanghai as a global city (= a city with advanced, competitive and diverse economy) and the role it fulfils as an East-Asian nodal point. Does Shanghai trully deserve her global city title? Does the city have solid enough fundaments to maintain its economic leading role under the increasing domestic competition? Before proceeding to the actual analysis, it is necessary to place Shanghai into the proper theoretical or political-economic background.

Due to the complexity of global and world city ideas, this reseach will select only certain attributes which are expected to illustrate either the advantages or the disadvantages the city bears.

Understanding the terms: global and world cities

World city and global city are two different terms that often appear in the discussions to describe cities with special characteristics and influence beyond their host states' national borders. Currently for the public they *quasi* became synonyms, despite that the two ideas were originally conceptualized along different perceptions of urbanization. Global city can be considered the newer one, (Sassen, The Global City: New York, London, Tokyo, 1991) while 'world city' can be dated back to 1915, although the term used nowadays should rather be linked to Friedmann's work: *The World City Hypothesis* (Friedmann, 1986). The two approaches applied by the authors indeed show some overlap, but these needed to be clarified in their details.[1]

[1] Interestingly Friedmann also mentioned the term "global city" on the first page of his work. It can be found right after the quotation below as he continued his explanation: "*It helps us to understand what happens in the major global cities of the world economy and what much political conflict in these cities is about.*"

Firstly, it is not negligible that the two prominent authors developed their ideas simultaneously and were aware of each others scientific results. Their intention was different though: Friedmann wanted to prepare a framework for the growing number of urbanization related works from the early 1980s, which often aimed to examine the direct ties of cities to the world economy. On the other hand Sassen could already reflect on the establishments of the previous decade and had narrowed down her research to 'archeotipical' global cities on three continents, using them as an example to demonstrate similarities and differences at the same time. World city hypothesis analyzed and ranked cities in a broader context, involving historical development and strategic importance. So to speak, world city formation had been presented as a long-term evolutionary process shaped by both domestic and world events. However, the idea itself is seemingly more complex than that – as it was summarized in the well-known seven points of Friedmann (Table 0).

Table 0: Friedmann's common origin of struggles within the global system of market relation[2]

The seven points of Friedmann's world city theory	
1. The form and extent of a city's integration with the world economy, and the functions assigned to the city in the new spatial division of labour, will be decisive for any structural changes occurring within it.	Friedmann unlike Sassen, considered historical development. The other two notable points are: national policies and social conditions.
2. Key cities throughout the world are used by global capital as 'basing points' in the spatial organization and articulation of production and markets. The resulting linkages make it possible to arrange world cities into a complex spatial hierarchy.	World cities are mostly located in "core" countries. This outdated categorization reflects on the bipolar world and shows major differences compared to the contemporary "network" of world cities. Based on the description world cities' network is fragmented and weak in Europe.
3. The global control functions of world cities are directly reflected in the structure and dynamics of their production sectors and employment.	Hosting high value-added services; concentrating business-support and informa-tion (media/news). High number of *blue collars* are working in service sector as well.
4. World cities are major sites for the concentration and accumulation of international capital. [*"Although this statement would seem to be axiomatic, there are significant exceptions."* (Friedmann, 1986)]	The case of Tokyo, and less developed world city hosts. (Seoul has become similar to Tokyo from early 1990s onward)
5. World cities are points of destination for large numbers of both domestic and/or	Domestic rural and/or international migrants are often strictly, but mostly inefficiently

[2] The description in Friedmann's original proposal to promote (world) city and city network research.

international migrants.	controlled.
6. World city formation brings into focus the major contradictions of industrial capitalism - among them spatial and class polarization.	One of the causes of early social polarization, however physically demanding jobs are transferring to low-paid service sector ones, including retail.
7. World city growth generates social costs at rates that tend to exceed the fiscal capacity of the state.	In later stage social polarization is even capable of affecting local middle-class. Furthermore deteorating amenities provided by state (transportation, education, etc…).

Thus before resuming the comparison, I would like to quote the original definition given by Friedmann as follows:

"The world city hypothesis is about the spatial organization of the new international division of labour. As such, it concerns the contradictory relations between production in the era of global management and the political determination of territorial interests." (Friedmann, 1986)

Both of the authors originally imagined world or global city operation in a *world capitalist system,* although Friedmann's views were clearly influenced by either structuralism or neo-marxism (Sassen several years later avoided the same 'mistakes', but was rightfully criticized about other aspects of her research).[3] They both realized that some cities had been undergoing a rapid quality change, which – in Friedmann's interpretation was externally induced and precipitated in functional reorganization of metropolitan level including the labour(-market). In his attempt of world city categorization the contemporary ideas of Wallerstein had considerable impact on him (core→←periphery, etc...). Perhaps as a result in "The World City Hypothesis" the role of labour and the (international) division of labour had been somewhat over-emphasized; also the social aspects and division of classes diminished the importance of other social changes related to world city formation.

"...world cities are characterized by a dichotomized labour force: on the one hand, a high percentage of professionals specialized in control functions and, on the other, a vast army of low-skilled workers engaged in manufacturing, personal services and the

[3] Sassen tried to describe various (economic-related) phenomenons without having indepth under-standing on the matter.

hotel, tourist and entertainment industries that cater to the privileged classes for whose sake the world city primarily exists." (Friedmann, 1986)

Despite its few shortcomings, the essay successfully indicated other main focal points as it was enumerated in the seven points mentioned above. Thirty years later some may have lost its relevance, but I would like to briefly introduce some of the ideas appeared.

According to Friedmann, labour and global capital are in interaction throughout the demand of spatial (re-)organization; moreover global capital shapes markets and production. In order to achieve or maintain an outstanding position (and be directly linked to world economy) cities usually have enjoyed support from the country's government via proper development policies (immigration rules, regulated spatial organization and the support of dynamic production). On the other hand world cities 'should' fulfil extra roles beyond competitive production or high-level of openness.

At this point, it is clear that Sassen used multiple elements of World City Hypothesis (or other previously published works of Friedmann) when she built up her own work. The difference is in the scale: Friedmann didn't limit his examples to the most obvious cases or types and tried to create a second and a third tier for world cities based on the specific contributions they make in finance; with transnational institutions or their headquarters; as manufacturing centres; or business services along with other specific service industries.

Global capital allocation also appears in both of the works and enjoys a distinguished attention as it is identified as one of the drivers of further development. What makes them 'unique' is that these cities are capable of significant capital accumulation by themselves as well. By having such an advantage, world cities make impact on broader regions – despite the fact that they often suffer from financial problems themselves.

Institutionally both global- and [first tier] world cities[4] must serve as corporate headquarters, financial service centres and hubs of (air-)transportation. All these should exist within a prosperous environment with sufficient amount of skilled- and

[4] It is important to note that only first tier world cities can be seen as global cities. Only these cities can fulfil multiple criterias of global citiness at once, while lower tier ones are usually highly specific and may have significantly smaller metropolitan area as well.

less skilled labour available. Last, but not least most of the global/world cities are considered to be centres of ’creative industries’ a new term used only in more recent literature (earlier these were divided into news/media, entertainment and cultural spheres).

To be qualified as a global/world city has seemingly no strict rules and only some of the criterias are needed to be met.[5] On the other hand to maintain successfulness it is necessary to cooperate on national level, especially with the policy-makers. Consequences of development such as urban transformation almost always appear as a challenge for global cities. As it was noted by several authors – quickly deteriorating non-advanced industries may almost certainly lead to social polarization. The phenomenon requires help from either the state or the local decision-makers, although for the sake of world/global city is almost certainly unavoidable in order to remain competitive (Friedmann, 1986) (Sassen, The Global City: New York, London, Tokyo, 1991) (Sassen, The global city: strategic site/new frontier, 2001) (Vogel, et al., 2010) (Timberlake, Wei, Ma, & Hao, 2014).

Immigration or migration is also a specific consequence of global city formation, however as it was pointed out by Friedmann – can be distinguished into two categories: interregional or international. Furthermore the stage of host state’s development clearly marks the differences between core and periphery (developed and developing). Understanding this relation is crucial and since the outbreak of Syrian civil war, it also enjoys special attention from scholarship as various perceptions of migration among the nation states of EU led to a consequent turmoil and debate about the integration of migrants with different cultural background. However in major global cities (including Paris and London) migration is rather considered as something positive, regardless of cultural background and being one of the drivers of development. This tendency is very similar to an initial developmental stage, when interregional migration generates demand for urban “remodelling”. Specifications exist though: migration policies of Singapore or Japan for instance are still relatively strict and change cannot be expected anytime soon. On the other hand for those workers with specific knowledge, relocation in general does not cause any problems. Along these double standards states are trying to optimize the benefits of migration, while also ’protecting’ their national borders.

[5] Sometimes top global cities are referred to as ’hyper’ global cities and concentrates all the functions at the same time.

On long term it can be perceived that global cities or global city aspirants once may have tried to control external (interregional) population inflow, but as Friedmann pointed out it generally remained unsuccessful and for many of these cities it was inevitable to grow very large.[6]

Although it is not directly linked to migration, but social changes are also the part of global city formation. In contemporary literature this perceptible polarization is mostly described as gentrification, a simple, but illustrative term for noticeably expanding middle-class. There is of course more behind this phenomenon that requires explaination. Friedmann stated that a division exist among core, semi-periphery and periphery in regards to the income disparity (world city contra other regions), wherein low-income regions of core territories have a roughly 1:3 ratio compared to high-income ones, while in semi-periphery these numbers can be as high as 1:10 and in the poorest regions of the periphery were only marked as "steep", but possibly reaching as high as 1:50 (or even higher).

What is behind this phenomenon? As it was summarized in *The world city hypothesis* it is firstly caused by the "huge income gaps between transnational elites and low-skilled workers", secondly the interregional "migration from rural to metropolitan areas", thirdly the "evolution of jobs" (Friedmann, 1986). The main problem with such a simple classification is related to its broadness. Unfortunately, the author didn't explain the exact meaning of "transnational elites" and their relation with global cities remained somewhat unclear. Meanwhile an other important term had been mentioned, the "evolution of jobs", which requires further explanation whether it is the shift from industrial to service sector, or it means more than just that? Will that entail modernization in any way? If it happened, where do/did these transformations lead exactly?

As it seems a more general pattern can be set up in this case, where the first generation of (im)migrants are very likely to end up in certain industries – sometimes in the informal/grey/black industry. For them the working environment won't be fortunate either way regardless where they had engaged into work. Later, however these tendencies may be affected by the raising developmental level. The overall situation in more developed states are somewhat better, either for those who arrived to

[6] Friendmann mentioned eight cities with population between 10-20 million (megacities), which within the last thirty years has already grown to at least thirty and some of them are potential global city candidates, although as the author pointed out, mere size is not a decisive factor of global/world citiness. (Friedmann, 1986)

the city as a result of transnational migration or relocated via immigration. In the case of developed states, the inflow of external masses may cause noticeable changes in the cost of labour, especially in three sectors: personal and consumer services (catering, retail, entertainment), low-wage manufacturing, and surprisingly in finance and business (Friedmann, 1986). But what does that mean?

In a more mature state of global city status, (work)shops or other manufacturing capacities will eventually decline sharply – if not disappear – (at least from the core parts of the city), however the cheap labour will be continually employed in the now-fancy neighbourhood's boutiques or similar kind of new stores. This cheap labour is also suitable for filling up jobs in higher value-added sectors, such as the administration section of finance (clerks) to help to reduce the overall costs.

In the seventh point, Friedmann reflected on social injustice as:

"World city growth generates social costs at rates that tend to exceed the fiscal capacity of the state." (Friedmann, 1986).

Speedy growth of population may lead to certain kind of problems beyond the well-known housing problem. In this case perhaps the two most relevant one are transportation and education, which can visibly affect the quality of life for both 'locals' and 'new-comers'. Beyond that, Friedmann also raises attention about how political elite often ignore the need of the disadvantaged segment(s) of society, and how this problem may cause struggle among people with limited rights and/or immigrants and corporate or political interest.

Following the introduction of the main ideas in Friedmann's work, it is possible to have a better understanding about the evolution of global city research, and how the initial concerns of world/global city debates looked like in this early stage. By introducing a broad spectrum of possible analyses on the field, some of these points could fuel debates (or affect researches) until today. However, some critics are necessary to be made. Starting with Sassen's work *The Global City: New York, London, Tokyo,* which has emerged from mainly sociological perspectives of the 1980s.

Globalization related discussions had deep impact on global city research as well. Geographical location in the second half of the 20th century started to break down being an obstacle of transnational trade and global integration of cities has become more apparent. As Sassen claims:

"*... global integration has created a new strategic role for major cities.*" (Sassen, The Global City: New York, London, Tokyo, 1991).

These cities also started to fulfil four specific roles such as: *highly concentrated command points in the organization of the world economy, key locations for finance and specialized service firms, producers of innovation* and last, but not least *market for the self-produced innovation products*.

Related to that, Sassen comes to the following conclusion:

"Cities concentrate control over vast resources, while finance and specialized service industries have restructured the urban social and economic order." (Sassen, The Global City: New York, London, Tokyo, 1991).

This phenomenon and type of city had been named global city. The author however acknowledges that tendencies and dynamics do vary. Globalization does bring forward the agglomeration of central functions, but capital cities usually cannot easily been overthrown in that process (that is something that Sassen didn't highlight in her work). Moreover Sassen aimed to examine the fairly abstract indicator of "*production*", which enables global cities to reproduce their so-called global control. In her work Sassen also claimed that global cities constitute a system beyond being mere competitors of one another. However, this is a statement that is almost impossible to justify or traverse, while it poses further questions about the actual definition of global city itself.
Although it is not the topic of this thesis, but controversies do appear in other cases of her theory regarding the social aspects of global city formation. Sassen's attempt to forecast the evolution of social aspects of labour in a rapidly changing environment (e.g.: dissolution of Eastern Block, Asian financial crisis, rise of China and the 'recent' crisis) couldn't possibly be accurate, hence the current framework – wherein the 'global city idea' is being explained – will purposedly neglect the unnecessary

social factors, instead it chooses to focus on matters of globalization or local development via economically visible results.

The order in the quotation above is not quite right either. In early stage of global city formation, services required for high(er) investment returns are the ones starting to develop first, then it is followed by finance-related industries. [My arguement is valid only, if the city didn't fulfil a financial role at an earlier stage or the growth of the sector was not centrally supported].

Regardless of global city status, the specification of services create demand for high-level coordination and integration; skills that can primarily be found in 'specific areas' such as global cities, where the highest number of skilled labour-force is available.

Sassen claims that the service sector (or advanced services) of global cities can be divided into two categories: producer services and others. The former service type should be placed in the centre of explanation, sith it provides more additional value for the host city or state.

"Advanced services are mostly producer services; unlike other type of services, they are not dependant on proximity to the consumers served. Rather, such specialized firms benefit from and need to locate close to other firms who produce key inputs or whose proximity makes possible joint production of certain service offerings." (Sassen, The Global City: New York, London, Tokyo, 1991)

The author derived the conclusion that "*major corporate transactions"* simultaneously rely on these advanced services (legal, accounting, financial, public relation, IT, management consulting, etc.). As it appears twenty-five years later, Sassen described a transitional state of global cities (or capitalist economies) wherein, according to her observation the knowledge required for growth-support was in the hand of multiple smaller firms. This 'interdependent' relationship is not an impossible scenario, albeit such a strong dependancy is rather fishy (guarantees of secrecy, lack of professional management at MNCs[?]). Therefore it is hard to imagine that a 'model' like that ever had a determining role in the afformentioned transitional period. Less intertwined connections are justifiable though, firms with special knowledge has been present around business sector for a long time. The phenomenon that Sassen recognized does exist, but it should rather be linked to newly forming CBDs or its in connection with developing states.

Notwithstanding Sassen's leading arguement about global cities says that:

"... spatial dispersion of economic activities and the reorganization of financial industry are two processes that have contributed to new forms of centralization insofar as they have occurred under conditions of continued concentration in ownership or control. The spatial dispersion of economic activity has brought about an expansion in central functions and in the growing stratum of specialized firms servicing such functions." (Sassen, The Global City: New York, London, Tokyo, 1991).

Some of these ideas are still worthy for a second thought: forming base of financial centres in newly emerging countries may support and serve as references in the justification of correspondence between development caused structural changes and the boom in financial industry. However, the second part will remain object of critics unless it is throughly indicated.

Research difficulties

There are several key issues about global cities to be mentioned. Firstly, they are hard to distinguish. As it was mentioned earlier in the introduction, there is no clear boundary between a global city and a regionally important metropolis (global versus glocal paradigm). Secondly, the criterias to be applied during their selection are also difficult to set. What does it take to be a 'global' city exactly? Unlike in the case of world cities, there isn't enough hint to tell so.[7] Thirdly, how to establish a general measurement system to compare or extract information from them? There are many individual approaches, yet no real comprehension except for GCA (Global Cities Analysis) or the less-influential GaWC.

Most of the remaining research related problems were summarized as follows:

[7] It was the best explained in Global City Challenges: "[...] in emerging markets' with a what might appear at first sight as'natural' relocation of command-and-control functions to these places. Capital, culture, political connections and even literary accounts do not simply travel undisturbed across urban 'hubs'. Those very hubs are in fact loci of planning, financial practices or cultural hybridization that transform and shape the ebbs and flows of globalization, and that can actively respond to the regional, international and global contexts around them." (Acuto & Steele, 2013)

The Globalization and World Cities project and its interlocking model,[8] *went to great length to devise complex depictions of the changing geography of city-to-city connectivity. Yet the wider public quickly got seduced by a search for rankings and hierarchies that represent only the surface of the iceberg of global city theory. This cookie-cutter application of globalist discourses and competitive views of the 'global' city as a 'better' or more 'highly ranked' city than many other 'ordinary cities'.* (Acuto & Steele, 2013)

The 'founder' Saskia Sassen tried to combine her sociological knowledge with economics in order to describe global citiness. Without having indepth understanding of the latter, her ideas were subject to immediate critics, regardless she was right or not. It perhaps contributed to the – seemingly present – split between social and economic researches about global cities. For most of these, the economic aspects have become more decisive, causing a slight downgrade on socio-cultural findings. Observation of multiplying urban clusters across the globe is being considered as a more a economic-originated phenomenon.

Although there has been numerous authors who attempted to contribute the cause, in fact it cannot be categorized as a 'disciple' whatsoever. It does have a paradigm, however it didn't manage to set up its own methodology/approach, instead it remained a sub-category within urban studies or urban geography respectively. (Acuto and Steele named it cross-disciplinary).

"The contested identity of the 'global city'and its conceptual (non-identical) twin, the 'world city', have thus manifested as both an idea and a material condition of local/global processes that stretch the interdisciplinary boundaries of the global city research agenda." (Acuto & Steele, 2013)

Such heterogeneity makes it almost impossible to syntetize it on common ground. Therefore global city research can be seen as a loose theoretical and practical approach (only), that tends to be more economic oriented in its nature. The notion itself had not been contested for a while, however it is subject to bias or one-sided

[8] GaWC focuses its research on the external relations of world cities, unlike most of the mainstream world/global city literature, which became involved in the studying of internal structures of individual cities.

views, even when its properly used [for instance the introduction of new categories in (Parilla & Trujillo, 2016)].

Among all aspects of global city research, the economicist approach was the least contested and the most resourceful, sith the analysis of Shanghai's global city outlooks follows this path either.

The intention of the thesis is to follow this line throughout a logically apt structure, wherein two selected segments of the economy will be examined after the general introduction of global city evolution in East-Asia and China. During the research the thesis will aim to find answer to the intriguing question: what makes a global city global? Moreover, if it can be stated, what are their roles exactly – aside from being command and control centres? Is it really possible for a city to dispone over "vast amount resources" as Sassen claims?

In the next section I will move from theoretical to a more practical approach and will introduce a more mature (and recent) understanding of 'global city' term before beginning to place Shanghai into this context.

Global city formation in East-Asia

Contemporary debates of the literature are originating from the abandoned holistic view on global cities, where the constant rise of exceptions defied either the "Tokyo/Seoul-model" or the otherwise Western-dominated development scheme.

Firstly in order to understand the different evolutions, it is necessary to look at the historical path of global city formation in East-Asia. Essence of successfulness in the region was mainly based on two policies: the developmentalism on national level and the supportive international environment [through opened markets on the other side of the Pacific Ocean]. Changes in world economy made it necessary to re-examine the region and apply new approaches beside the liberal one (or review its assumptions on 'East-Asian model') and learn more about the differences on national and metropolitan level (Hill & Kim, 2001).[9] As it was mentioned above, the East-Asian model is not a coherent one, the case of Seoul and Tokyo do differ. In Korea's case the resemblance in pattern is in fact the final outcome of a diverse political-business

[9] As the authors referred to that as follows:
"*Given the differences between Anglo-American liberalism and East Asian developmentalism - in history, ideology and political economy, and especially the relationship between industrial policy and the organization of finance, it seems reasonable to expect related contrasts in the role each sphere's major cities play in the world economy.*"

relation, which had reflected on the colonial past and, – in the post-war period started off from a more liberal authoritarian system(sic!) that had been abrupted by a *coup d'etat* (led to a strict authoritarian and non-market-conform system for nearly two decades) – before showing signs of remission once again following the events of 1979, and eventually transforming into semi-liberal system. Regardless of the historical turmoils that affected South Korea's rise, the role of state appears to be crucial, not just in resource allocation, but in protectionism and guidance for desired economic catch-up through supportive policies (Eckert, 1993) (Hill & Kim, 2001).[10] In order to achieve that, business and government relations remained intertwinned behind the scenes, but not entirely concealed. The case of Japan (and contemporary China) is fairly similar at this point – although China's one party system nurtures a dual system, with state owned and private sectors. Her private sector is dominated by some national champions, just like several decades earlier in Japan or South Korea.

Following the quick historical wrap-up, it is also advised to look at the selected highlights of world city attributes applied by Hill & Kim in their detailed analysis about Seoul. It may help us to distinguish raw economic power from quality of service(s), or reflect on equally important aspects of world/global citiness.

As it was stated by the authors: developmental states such as South Korea always had to go through structural changes before their economies were acknowledged as advanced (in this particular case valid from 1990s onwards). Seoul, the capital is the best example of this gradual transition.

What happened in Seoul and what can be learnt from its success?

South Korea's capital, just like many cities in contemporary China, went through an urban boom beginning from the 1960s. Urbanization combined with the rapid population growth resulted in an Asian mega-city with more than 10 million inhabitants by the early 1990s. On the other hand, forces helped the country's emergence were unique and reflected indigeneous characteristics; economic policies were combining socialist-like elements (five year plan under the military regime)

[10] *"The state used various incentives, including coercion, to tailor business interests to national goals"* – besides, originating from the special circumstances:
"Capital for business investment came from state-controlled domestic banks or from foreign lenders supplied with state guarantees. Korean businessmen could also count on state assistance when they got into financial trouble, considerably reducing their personal risk (Eckert 1993: 126)."

along with strongly protectionist, but capitalist management of the scarce domestic capital – where success was awarded and failure to meet expectations was sanctioned. National needs had high priority and it was strenghtened by the regimes' perception that South Korea had been competing in a 'hostile' environment of other rival states.

Despite these notions the economy could soar for decades and in general the capitalist way of doing business did prevail. It was clearly backed up by the state as well, via providing a proper legal background (protection of private ownership).

However, certain drawbacks of the model remained long unchanged, such as the labour right issues or direct (sometimes indirect) supervision of the banking system. There were further anomalies in Korea regarding the necessary presence in Seoul for export oriented companies. Later it emerged to a problem of chaebol headquaters' overconcentration and the abundance of MNC branches in the capital.

As a result – despite the high urbanization rate (more than 90% of the total population lives in cities) – overall 95% of the important companies remains located in the capital.

It has been an unusual tendency, a South Korean specialty. Moreover it defied world city theory at several points as well. Hill & Kim in their description said that Seoul initially was not home for significant "finance or producer service companies" – as world city theory suggests (Hill & Kim, 2001). Rather this financial command ability of the city only started to develop relatively late – unlike in most cases of China, where it is a centrally emphasized role, and not only the mere outcome of the development.

An other, but not exclusively Korean attribute is Seoul's status as "national basing point for the global operation of domestic MNCs" (instead of being a 'true' global city with borderless MNCs). During its earlier stage of development, diversification of industries with the help of the government greatly contributed to the country's successfulness. Local entrepreneurs enjoyed a stable environment with accessible loans, that could further enhance their operation abroad.

Following the city's transformation to a 'developed' location, the manufacturing and industrial output remained concentrated within the city limits or its agglomeration. Instead of relocation, local decision-makers gradually introduced stricter environmental measures and discouraged the usage of outdated technologies. This case is similar to that in contemporary Shanghai, where the large number of manufactury workers didn't lose their job or intergrated into the service sector (yet) as theory would suggest. On the other hand, proposed technological upgrades may not be happening fast enough and can be partially blamed for slower convergence. Despite its highlighted role within Chinese economy, innovation among Shanghainese SMEs is not as wide-spread as in the case of Seoul. Current datas show that Shanghai marks only 1651 scientific patents, while Seoul for instance has 4048 (OECD, 2016). There are no seperate datas on SMEs, however the difference in numbers seems reassuring. The overall scientific expeditures – based on the nominal GDP – shows similar pattern: China's 2,09 percent [2014] stands against South Korea's 3,74 percent [2010] (Shanghai Daily, 2015) (Yonhap News Agency, 2011).

There is at least one more irregularity with Seoul's global/world citiness, namely the unusual fact that income disparity permanently remained very low, compared to the rest of the country or as other international examples would suggest – even on the same developmental level.

Application of global city theory in East-Asian context

Introducing the case of Seoul was informative, but also contradicting: findings suggest that global cities – even from a nearby region – may differ greatly. Assumptions cannot be derived without examining global cities on a case by case basis. East-Asian global/world cities only exist as a loose geographical (and an even more loose functional) network, wherein some developmental patterns were more alike than in Western global cities. Therefore, in order to explain the emerging differences, researches should always consider the domestic context first, (e.g.: who has the power to allocate resources or capital; to what extent the *rule of law* may prevail; how did the city reply to globalization and growing competition on international level).

Social transformation induced changes are also sensitive parts of global city debates and highly country-specific. In many ways the interaction of citizens with 'their' global city is marginal; what really matters is how the 'elite' can foreplan and achieve a greater vision that brings forward the development.

In order to examine global cities and Chinese cities within this context, it is necessary to rely on various datas, databases, which can be either direct or indirect sources published by government institutions (statistics bureaus) or reflecting the finding [or opinions] of various independent research institutions and business organizations.

Besides, an external consensus must exist that acknowledges the existence of a global city either in literature or in 'real life'. Cities by now are highly measurable, although still subjects of individual preferences. In Shanghai's (or China's) case size probably matters more, if one consider's the capital accumulation ability or regional weight in a competition seeking milleu. Nonetheless mere size among global cities is not determining.

There is an expected behaviour, that can actually confirm the existence of a global city. Besides the earlier mentioned advanced science, technology and social structure, a world city must have the willingness to compete, a strategy on how to compete; the capital to compete with and the sufficient amount of locally available and (inter-)nationally competetive human resource. There can be further factors too, especially among 'specialized global cities' or under the special circumstances of Chinese economy.

Following the initial theory-making process of Friedmann, Sassen, Hall, [11] and others, global city research evolved further as it was pointed out in *"Global cities with Chinese characteristic"* by (Timberlake, Wei, Ma, & Hao, 2014), who once again summarized the current standing of global city research. Currently scholars both rely on earlier theories and their own empirical findings, including a bulk of various statistics that may lead to constant fragmentation of the topic and the methods it applies.

Nevertheless there is a collective name of the literature which sometimes referred to as "global cities' analysis" (GCA) and it covers a broad area of all related researches. It has some general findings – being highlighted by Timberlake – that may be helpful to visualize the context wherein these researches are being carried out lately.

Firstly: *"the world's cities are, to varying degrees, integrated into the global city network"*, although most of them had never become visible, because of their marginal presence.

Secondly: *"this global network of cities is hierarchical, with some cities serving more central roles"*, however ranking them without steep differences is fairly difficult. Some rankings can be biased/misleading according to personal or corporate interests. Usually what common in them is their are categorization of sources used for the introduction of local economy, education and society.

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[11] Peter Hall (1966): *The world cities.* It was one of the first books that described world city theory, mentioning the importance of political power and centrality of (inter)national business operations.

Thirdly: *"over time, particular cities may change their positions in these networks, with some cities becoming more central and others become less central"*. Related to this research: some Chinese mega-cities suddenly became not just 'big', but influential as well, while some of their American counterparts are no-longer prosperous enough to be recognized as a first class world city due to the shift in competitive industries. Moreover, the newly introduced criterias (individuals or institutions) are also capable of altering rankings and producing unusual results such as the highly ranked Los Angeles among global cities.

Fourthly: *"many of the social and political contradictions arising from globalization are starkly drawn in the world's most globally central cities"* – relevant in many ways and marks the importance of global city research as these locations usually have more advanced social structures (Timberlake, Wei, Ma, & Hao, 2014).

Competitiveness is essential and sensitive part of global city management. Leadership must find its way to quickly respond to globally occuring changes. The notion 'competitiveness' has been going through changes as well and there are multiple ways to maintain it via adaptation or planning.

Initially, the traditional centres of global economy weren't designed, but were the outcome of a long-term historical development without carrying strategic incentive(s) to become centre(s) of the world economy. There is however a necessary correspondence between the global city and its host state. Size of local economy (and to a lower extent population or geography) can boost or restrict the potential of global city formation. But, interestingly the penetration of globalization into a city is less influential than its domestic environments (political, legal, institutional, infrastructural). It can explain tendencies in the Far-East, why and how did the Pacific Coastline manage to catch up.

East-Asian developmentalism along with the pretension of market governance resulted quick emergence of global cities in the region. (Mainly these cities are located in China and have begun their transformation in the 21st century with no obvious results yet.)

One thing is certain though: despite global cities' economically or technologically influential stance, alone none of them can be considered as an individual actor. Their strenght/command ability is originating from the city elites' interest, including local politians. In a broader context: concentration of human activities is what indicates the best the true status of a global city. Certain states may try to reach or reinforce their status by providing additional sources according to their contingencies.

In other cases direct choice of specification can also be observed. It still remains related to Friedmann's categorization of second and third tier world cities, however it may less likely to suggest a 'quality' difference.

Examining the Chinese context

Many aspects are needed to be taken into account in order to describe the complexity of Chinese global city development. Cause and effect varies greatly, while the high population and continent size area makes the network of cities the most compound on Earth. In this specific case of global city research, economic weight is perhaps the most suitable way to mark the development related differences. On the other hand highly centralized apparatus tend to contain local efforts; decisions often require a final consent by Beijing instead of being directly made on provincial or municipality level.

How and why do some Chinese global cities stand out among regional centres?

The question is in correlation with the role expected to be fulfilled by a global city within its host economy. Normally it would require a long introduction of variables, which is perhaps unnecessary at this point, – a simple division will indicate the main differences. Based on the location (resource/labour availability, the size of nearby markets) and political traditions, global city formation is the mixture of natural selection and concious planning, while a geographically advantageous position may help to boost this process. Preferences of the local elite – throughout their initially set goals in city development plans among global city 'candidates' – may lead to lower international command ability, although domestically they bare with strong local resource and capital concentration capacities (similar to global cities).

Some other places recognized that they may not be able to go that far, hence they deliberately transformed into a local centre, instead of aiming for a global status. It is/was mostly an option for either developed middle size cities or Chinese and other developing cities with higher population in a less capitalized environment.

Remaining metropolises of the world are also affected by globalization and still respond to the challenges, although they tend to remain reserved in a competition-seeking environment. Their goal is to locally maximize their potential before engaging in world-class financial or other, advanced service related expansion (if they choose to do so). It means that, in theorem they have the potential to grow beyond just middle-weight cities or local hubs, but their urban transformation have just begun, while some privileged cities in their region are expected to secure and maintain their leading position in the urban hierarchy.

Until recently the scarcity of local literature and the domination of Western point of view also affected our understanding about the ongoing urbanization in China and elsewhere in the developing world. Changes can be perceived by the increasing number of publications that consider emerging-international or specifically the Chinese context. Meanwhile, authors are trying to emphasize that global city formation is possible through multiple ways. Thus there is no exact trajectory that a city has to follow. It also means that the definition of global city is getting more inclusive. Emerging critics about methodology or indicators are subjects of further reconsiderations within the topic. In general, global cities are the results of extensive planning and the application of multiple practises worldwide.

Analizing 'Chinese global cities' under this general term would be misleading. Runner-ups behind regional leaders (Beijing, Shanghai, Guanzhou, Hong-Kong and maybe Shenzhen or Chongqing) are following their own paths with a great diversity. The number of those cities being considered as a global/world city does vary: contemporary lists mention at least fifty – from which only a few has been acknowledged internationally. It is subject to further changes sith many cities engaged in pursuing strategic expansion in order to achieve a global city vision. The outcome of these tendencies is not visible yet.

Anyhow, in spite of the local/provincial intentions or policy agenda, it is unlikely that too many of the other large cities will fit into (or challenge) the already established 'system'. Top Chinese cities (Beijing and other leading cities of Pearl River Delta (PRD), Yangtze River Delta (YRD) or Bohai area concentrate the greatest amount of capital and R&D. Their superior position is backed up by their casual access to sea. In addition the already fierce competition for qualified labourforce bounds short-term technological catch-up. Without being attractive to high-value added industries, cities are not competitive internationally. Notwithstanding a transformation to third or second tier world city is undeniably possible.

Chinese cities approach globalization in various ways based on the elite's interest, however, it eventually remains influenced by the CCP's concerns in Beijing.

In this unique system the so-called *transnational capital class*[12] has no open access to Chinese cities, although they are unlikely to get completely rejected either. It is part of the central planning and affects pathways of global city formation.

Further issues of one-party system (e.g.: *invisible hand*, freedom of speech or censorship) renders China to a less favourable location for international organizations. Compared to the economic weight of the country it is clearly lack of international NGOs and intergovernmental organizations (IGOs) that disregard global city endeavours as well.

To indicate the difference, Chubarov called them "state-centered world cities" and pointed out that these cities require distinct approach from their Western counterparts (Chubarov & Brooker, 2013). Meanwhile, Chinese uniqueness is getting more widely recognized throughout Western literature, while in parallel, growing interest about key aspects of world/global city researches can also be observed in China. Local scholars in the past twenty years, first translated, then adjusted Western perceptions to the domestic context.[13] In the following period Chinese publications covered topics of internationalization or the impacts of related socio-economic changes. Despite the growing interest, it is still uncommon to see Western and East-Asian scholars working together, while the dynamic changes in the network of (Chinese) global cities causing uncertainities about proper categorization.

In a very recent publication of (Parilla & Trujillo, 2016), the two authors tried to re-approach global city notion via introducing new terms for sub-categories such as: the area specific Asian Anchors located nearby the Pacific coastline or Knowledge Capitals with competitive education and R&D (Hangzhou). The rest of the division

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[12] Investors and strategists either dependent or independent from MNCs.

[13] It is not embedded that well in academic circles yet: "*Much research in China has been characterised by indeterminacy in naming and a lack of unified vocabulary for describing the articulation of Chinese cities with globalisation. Such a problem is ongoing and in Chinese language literature a number of terms are mentioned including 'international city', 'internationalised city', 'internationalised metropolis' or 'global city'. Of course [...] the term 'world city' has been [...] adopted in government reports and more commonly used in Chinese academic literature*" (Chubarov & Brooker, 2013)

Besides there is an author, who promotes the term: *'internationalised metropolis'* which he thinks is more concomitant with Chinese conditions.

(China Factory, American/International Middleweights, etc.) is less relevant for this research.[14]

The Asian Anchors in Chinese context are those five cities that have been mentioned above. These cities either national basing points for domestic companies or financial service providers, and mainly dealing with RMB-related transactions (except for Hong Kong). Government support of capital market has clearly raised the importance of Shenzen and Shanghai. Apart from Beijing, these two cities control now the highest percentage of international transactions.[15]

"All five are characterised by the growing presence and influence of financial services industry. [...] Shanghai has been identified by government to become a global financial centre and hub for transaction, pricing and clearing of RMB-denominated financial products. There were 1049 financial institutions in Shanghai as of the end of 2010, 439 more than five years earlier." (Chubarov & Brooker, 2013)

The situation is quite similar to Beijing, where recent statistics shows that 15% of the city's GDP is coming from financial related services (Chubarov & Brooker, 2013). It is controversial that despite the government agenda to further increase the importance of Shanghai in global financial industries, Beijing still concentrates a higher portion of assets.

Nonetheless in several other aspects Chinese cities are not showing real signs of catching-up. Although most of the coastal global cities were capable of attracting major international events, average living conditions are still behind other global cities. It does not only mean recreational facilities or housing, but the low level of foreigners' cultural and physical presence. Tourism is an other segment that remained weak with the only two exception of Beijing and Shanghai (Hong Kong excluded).

Beijing as the nation's capital overperforms other regional centres and dominates service industry, R&D and a significant portion of creative industries. Its comparison with other major cities would be misleading. The city already overtops its rivals in many global city indicators, although it derives from its centralization efforts, but not

[14] I came across only once with the similar distinction of global cities, hence it is safe to say that this sort of categorization is still fresh within the literature.

[15] Functioning of Chinese Stock Exchanges will be explained in a later section. International transactions are limited within China, originating from the non-convertibility of the currency.

exclusively. Beijing perhaps been more carefully designed in order to serve as a representative capital for a strenghtening China.

Thus, the development of coastal area should be examined without further comparisons with Beijing. Instead a more neutral way of ’measurement’ should be applied from the next paragraph.

What appears to be very important in the topic of Chinese global cities is the term ‘zones’, sith these are the cornerstones of later unfolding development. Zones are limited geographical units in designated regions and offer better supervision (and control) for party elite over local economy. As the part of the opening up process variously named zones were created and remained important until today. Existence of them contributed to the rise of cities like Shanghai as regional and global centre.

“Development zones are the focus of China’s efforts towards globalization and modernization. They enjoy preferential tax treatment, improved urban infrastructure, easier access to international markets, and professional government services.” (Wei & Leung, 2005)

Central efforts along with the exceptional abilities of Chinese state compared to other developing countries, enabled several coastal cities – including Shanghai – to carry out economically/administratively favourable reforms with ’functional extension’. The state together with the local government actively participate(d) in global city formation wherein previously set up developmental zones had a substantial role. Besides the states’ overview of the process, apperance and integration of MNCs was also a very important step. Inflowing FDI greatly contributed to Shanghai and her kins’ global city transformation.

Despite the above mentioned complexity there is at least one more thing in common among all the notable globalized cities, namely the real-estate industry, which was capable of transforming urban space into a modern business and living environment. As part of this development sooner or later Central Business Districts (CBDs) emerged all over the country’s major cities, projecting the presence of capital and knowledge. It is, however often a result of one-sided view, wherein one certain aspect may dominates as follows:

"*Political and economic actors based in the emerging global cities appear to be keenly aware of how the context of "globalization" justifies putting public resources into making their cities more internationally competitive.*" (Timberlake, Wei, Ma, & Hao, 2014).

Except for Timberlake, the correspondence of global city making and 'human factor' was hardly mentioned by others, although it is clear that local elites put a lot of effort into global city building (almost exclusively led by personal interests not by altruism). Outcome does vary though, reaching and maintaining global city status is both very demanding and much depends on city leaders, national policy or the firms located in the proposed city. Considering that, Shanghai, Beijing and Guangzhou will be always dependant on 'external' factors, and must find their ways to utilize resources in a successful way.

Aside from the resources provided by the state, it is also important to have a good FDI attraction ability on site with the effective support of R&D sector.

Shanghai in that understanding proved to be the best performer. Its special rights (free trade zones, extensive space waiting to be developed) guaranteed the city's outstanding growth. There are multiple programs running simultaneously from which Shanghai can benefit.[16] It established the basis for her to become a major (global) city for Chinese and world economy. The recreation of Shanghai's urban places were likely the best example of modernized China outside of Beijing. However, it doesn't mean that Shanghai has become a better place in all respects. Instead, as a side-effect of its development now facing multiple problems originating from its status.

Outlook on the social aspects of Chinese transition

International competition and expansion came along with the transformation of local societies. China is no exception here, but seemingly has an advantage by having a 'strong state', which in fact couldn't be as well realized as one would expect; housing problems remained a main issue all over the country's major cities, while social polarization has increased. 'Floating population' such as migrants without

[16] The broadest and most extensive among them is "High and new technology enterprise" program and "Technology advanced service enterprise" program (Marro, 2015).

registration or *hukuo*[17] are constantly facing hardships (Timberlake, Wei, Ma, & Hao, 2014). Overcrowded cities may not be interested in improving certain conditions either, while there is an ongoing struggle with the population inflow and the mitigation of it. Local governments have the right and the power to relocate people, although sometimes they act against themselves by creating large satellites outside of the core city. The low-income labour being driven away nowadays may later emerge into a new type of problem (e.g: in infrastructure, services). However the discussion of this matter is not an intended topic for this thesis.

An other aspect is related to the polarization of ’indigeneous’ population, whom sometimes fall under the same negative discrimination as *hukou*s or illegal migrants, not to mention the problem of unaffordable housing.

Notwithstanding law enforcement on mitigation of migration still remains weak as the example of Shanghai suggests, where official and inofficial population have huge odds in numbers.

Shanghai’s global citiness

Historically Shanghai can be seen as China’s first international(ized) city. Following the Opium Wars, foreign powers set up their bases to access local market. This forcefully internationalized environment – based on local and Western manufacturing – existed until 1950s, by when CCP completed the nationalization of companies.

In the next thirty-some years, there was literally no foreign presence in the city until Deng Xiao-ping’s reforms and opening were proclaimed. Shanghai, despite the long restrictions on non-indigeneous companies, shortly became a ’transitional economy’ in a sense that its manufacturing capacities considerably increased. However reappearing FDI didn’t entail a real technological progress. Low value-added industries (light industry, assembly-like activities) couldn’t fuel changes. More advanced manufacturing appeared only a decade later and its investments topped in 1990s-2000s with the parallel expansion of service sector (from 40 to 50 percent).

Shanghai unlike Beijing, didn’t go through a rapid transformation in her economic structure, instead the city favoured to strenghten her local industry and service sector both at once. This model later was followed by several other major cities throughout

[17] People who possess household registration, therefore staying in a certain town legally. A household registration includes identifying information such as name, parents, spouse, and date of birth, but also binds its owner to a certain geographical location.

the country. Besides keeping alive the industrial traditions, it was very likely to be in accordance with local interests and aimed to mitigate social strains generated by the otherwise encumbering social transformation.

Fundaments and economic structure of the re-designed Shanghai

Beginning from 1990s, the market-socialist approach of China has begun to dominate local investments. The system relied on both market (land leasing – alienable land use rights, capital market) and non-market mechanisms (state-directed investments or loans from state-owned banks) (Wei & Leung, 2005). There were further preferences including the removal of impediments on investment in certain industries, although the goal was to direct investors towards joint-ventures. Notwithstanding early datas show that many foreign originated companies (roughly 60%) which settled down in Shanghai didn't form joint ventures and remained purely foreign owned (Wei & Leung, 2005). In accordance with the central government's plan – FDI inflow remained uneven for long: many projects were concentrating in Pudong area only. This was however an unusually complex 'zone' wherein different kind of utilization was foreplanned, based on the areas' location. Lujiazui was designed for financial and trade purposes, Waigaoqiao as a free trade zone, Jinqiao as an export processing zone and Zhangjiang for corporate R&D activities. All areas were set up within Pudong without being adjoining to each other. Lujiazui located the closest to the core of the city and can be seen as an extention of CBD. Zhangjiang following its integration into public infrastructure has begun to grow, and now serves as an important research base for either local or foreign companies. In the other two zones local companies in all size appeared (export zone), but in Jinjiao (free trade zone) primarily Japanese and Western MNCs dominate(d) the production.

The other, more traditional development zone is concentrated in Puxi-Hongqiao area. This location has/had some advantages compared to the distant export processing zone, especially before the expansion of Shanghai metro or road system. Hongqiao used to be Shanghai's main airport and provided better access to the downtown area (only 11 kilometers vs. Pudong Int'l Airport's 30 kilometers). Part of the city's innovation capacity was located near Hongqiao, which remained a relatively cheap location compared to the after-development Pudong. Although certain districts of Puxi were attractive for FDI or local companies, it remained less integrated in the 1990s or early 2000s. Quality changes in Hongqiao area only began in the last decade as a response for growing domestic need for a business hub in/near Shanghai. Its recent incorporation as a logistic, innovation and commercial centre seems comparably successful to that in Pudong.

Policy advantages of non-central areas contributed to their growth of importance – like in the case of Xuhui's manufacturing – however their value-added production to the economy is rather questionable. Persistently strong presence of peripherial manufacturing in an advanced economic structure (such as global cities) may be subject to further concerns related to its development and competitiveness. Consideration of non-market elements such as the obstruction of service sector's takeover in – otherwise preferred districts – will spoil the chance of a real transition towards a more advanced state of the economy.

At this point the expansion of urban space has been problematic as well, – in some districts the available land for (re-)development has shrunk considerably and raises concerns about future growth in a local context. FDI's apperance and its relationship with suburban zones shows similar correspondence; there is no clear sign of proper utilization of land. On the other hand as it was stated by Wei and Leung, the example of Hongqiao or a few other districts makes outer metropolitan projects justifiable (Wei & Leung, 2005).

From global city related point of view, Shanghai has gone through a dynamic change. Within a short period of time, the city has begun to build its international connections via its strong export capacities. Foreign firms (MNCs) had a major part in that achievement, while the role of indigeneous companies had been constantly growing. Thanks to the significant amount of FDI inflow, (with supportive local government) Shanghai could facilitate and strenghten her service (primarily its banking) sector. The city's initial role as the host of multiple banks or banking services was a kickstarter of other sectoral expansions within the service industry. The transition was completed by the mid-2010s, where a second wave of expansion (driven by consumption) upset the overall share of services within the economy, decreasing industrial share below 33 percent.

Comparative advantages of the city

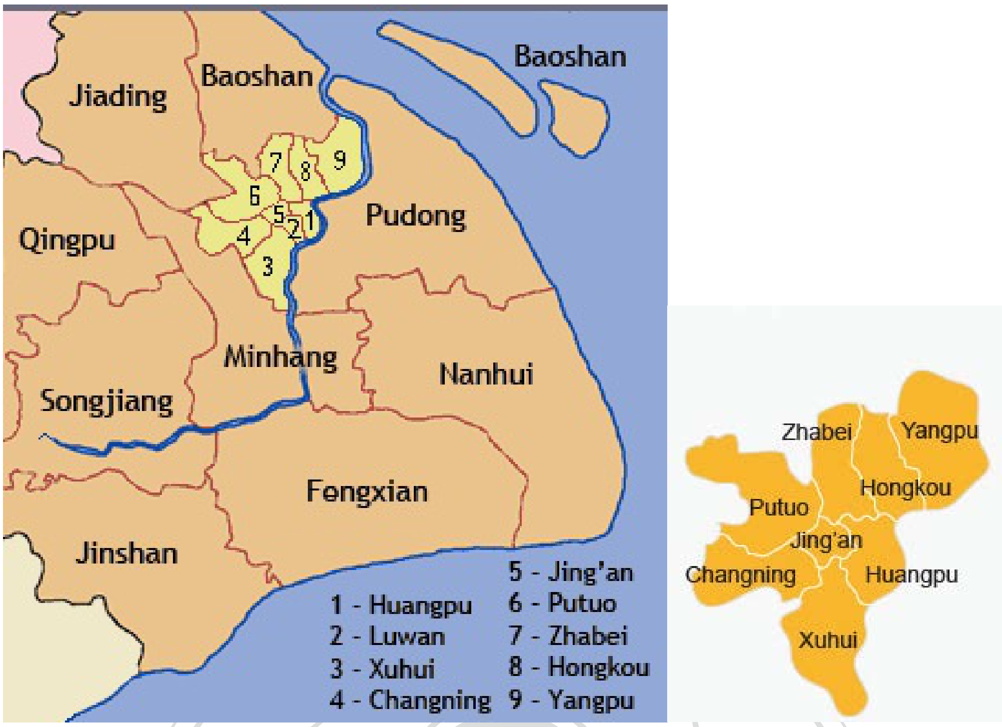
In recent years Shanghai has appeared on the maps indicating the most important hubs for business and services (including its stock exchange). If we exclude Tokyo and Osaka from the enumeration, there are five other major cities which now dominate the

Asia-Pacific: Beijing, Seoul, Hong-Kong, Singapore and Shanghai. These five cities have reached high level of standards and are only slightly behind (if they are behind) of their Western/Japanese counterparts. They usually serve as gateways to their home economies, (except Singapore) therefore all of them are potentially important for investment. Seoul, Hong Kong and Singapore were the first three to enjoy the benefits of globalization, then they were slowly followed by Beijing and Shanghai after their gradual steps towards liberalization. At this point success was unquestionable: a high percentage of FDI flowed into the more advanced industries and began to contribute to a stable growth in many sectors, helping the city in its catch-up process to become a world-class economy like its global city rivals. The two regions in China (excluding Hong Kong) enjoyed exceptional support, especially in the establishment of knowledge-related industries. By now, despite the very high metro population, a significant percentage of jobs belong to business and financial service industries that give backbone to the cities' rich.

Fundaments of Shanghai's good performance on global level comes from its good quality of education (second best after Beijing).[18] Moreover its efforts in establishing a strong basis for R&D within its science parks. The city was also able to attract some MNC branches, although most of these companies rather chose to operate in/from Beijing.

Figure 1: The map of Shanghai without Chongqing

[18] p. 126 (Breznitz & Murphee, 2011)



Source: Urban Shanghai; China Highlights

Implications of city development plans

According to the recent publication 'Shanghai Development Strategy' (SDS) there are five expected functions that Shanghai should fulfill as a global city (Wang, Shibusawa, Leman, & Mao, 2013). Firstly it should serve as a global financial centre. Secondly, to become a global trade and logistics centre. Thirdly to be the centre of innovation-based manufacturing. Fourthly and fifthly to achieve the goal of a "creative" and "well-functioning" metropolis. (The fourth and fifth pillars are the mixtures of generally measured global city attributes and miscallenous elements that may directly or indirectly contribute to the economy.)

The metropolitan area of Shanghai is seen as the leader of YRD region which is inevitably connected to the Chinese economy. Its financial centre is considered the second most competitive within China.[19] Shanghai also has a geographically advantageous location as the *head of the dragon*. Furthermore, existing fundaments enable the city to secure its position against domestic rivals (Tianjin, Shenzen or others). Last, but not least its market-capitalization and trading volume has already exceeded all other cities in East-Asia, except Tokyo, however as for now, it remains bound by the policies of central government.

[19] Hong Kong is not taken into account since it has its own (convertible) currency, while Beijing is the centre of financial supervision.

Leadership achieved high percentage of SDS mentioned goals in infrastructure expansion, both in air and sea logistics. The first step in that process was the relocation of the main airport from Hongqiao to Pudong area. Although it was completed by 1999, frequent upgrades and the establishment of airport services are still ongoing.

The rest of the major projects were mainly commenced between 2000-2010 and aimed to exploit the relative advantages that Shanghai has. Targets of these investments were the port development (with an enhanced container handling capacity) and highway-system construction around the city.

Local strategy was double-edged; it served directly the interests of Shanghai to become the leader in the region, while it simultaneously supported its economic hinterland by providing access to the world market. Thus beginning from the millennia, ties were strenghtened by other provinces in manufacturing and production. Cooperation with YRD proved to be successful. By early 2010s the city together with its neighbours became the number one exporter of domestic goods within China, while it could also gain an international recognition. Concentration of logistical activities contributed to the growth of other industries such as ship-building, and increased foreign presence (Chubarov & Brooker, 2013). As a result YRD's share in Chinese export increased to 25 percent from which foreign companies' share topped around 33 percent in total (Wang, Shibusawa, Leman, & Mao, 2013).

Shanghai's 'advanced' manufacturing consists of: microelectronics, automotive, chemical industry, iron and steel, modern equipment manufacturing and ship building. It covers a broad array, including some traditional industries, which are otherwise unusual in a service dominated economic structure.[20] It is even more controversial, if one considers that the city is expected to undergo a rapid, 13 percent industrial downgrade by 2020 (Wang, Shibusawa, Leman, & Mao, 2013). Challenges are ahead – establishment of a diverse (advanced) service based economy seems comparably difficult to manufacture related innovation. As suggested above some of the industries

[20] According to the latest [28th December 2016] market evaluation on HKTDC Research site, the composition of Shanghai's industrial output was listed as follows:
- Computer, communications and other electronic equipment | 17%
- Automotive manufacturing | 16,8%
- General equipment | 8%
- Raw chemical material and chemical products | 7,9%
- Electrical machinery equipment | 6,9%
[Source: (HKTDC Research, 2016)]

will eventually be overtaken by service elements. Somewhat surprising that latest charts indicate that service sector has already completed its 2020 goal by standing at 67,8 percent as of December 2015. Industrial output hasn't been shrinking considerably, changes are rather caused by the greater overall expansion of service sector (Ran, Tertiary sector growth gives the right impetus for Shanghai's economic future, 2016).

A main financial centre of an opening economy

Financial sector within Chinese economy reflects on both the advantages and constraints of the current system. This complicated relationship (among domestic/foreign entrepreneurs and their operation with limited rights) requires further explaination. Finance related advanced services are considered as one of the most important pillars and/or major contributors to the tertiary industries with their fifteen percent share from local GDP (in the case of Shanghai and Beijing).

As it seems, central government in Beijing prefers to split the banking headquater and main stock exchanges roles between the capital and Shanghai (and to some extent with Shenzen or several other second tier cities).

Meanwhile, Hong Kong's gateway role is also important in many ways in this division. Firstly for the entire Chinese economy Hong Kong has a mediator role, while the joint cooperation with Shanghai's and Shenzen's Stock Exchanges help these two domestic cities to establish connections with foreign businesses and investors. At the same time Hong Kong's expertise in financial services may serve as an example of a successfully operated stock exchange with all the related knowledge.

Being barely influenced by the 2007/08 crisis, the growth rate of finance-related industries soared in China. For instance Beijing with its nine percent year-on-year growth surpassed the national average and approached the level of more mature global cities (Csomós & Derudder, Ranking Asia-Pacific cities: Economic performance of multinational corporations and the regional urban hierarchy, 2014). Shanghai most likely didn't fall back either and could achieve similar or an even higher growth. Such a significant expansion entails a shift in global command and control ability as well. According to the comparisons of 2006 and 2011, Beijing managed to surpass Tokyo in its "financial command and control ability", while Shanghai Stock Exchange (SSE) became number two in the volume of trades.

(Csomós & Derudder, Ranking Asia-Pacific cities: Economic performance of multinational corporations and the regional urban hierarchy, 2014) (Desjardins, 2016). Based on the tendencies Chinese financial centres [Shanghai, Beijing and Shenzen[21]] are expected to grow further to become leaders within Asia-Pacific region. On the other hand recent uncertainities about banking system (mainly the high-level of non-performing loans) can disrupt this growth and force financial sector into correction. As for now, the expansion goes on, while skepticism remains present either about the GDP figures or the structural problems. Nonetheless no major problems have emerged so far.

Global citiness and the Shanghai Stock Exchange

The examination of Shanghai's financial industry is almost inevitable in a global city research and originating from the criterias set up by Sassen, with additional insights into local economy. Furthermore it gives an overall idea about the command and control ability or concentration of advanced (financial) services within domestic or regional context.

As regards the SSE, it was re-founded in 1990, however in the first six years of its operation foreigners weren't allowed to conduct business, although non-Chinese financial institutions could be present from the beginning. 'Real access' to the market was possible after the WTO accession in 1999.[22] Early protectionist measures didn't allow foreign capital to intervene too much. For instance non-Chinese banks could obtain a maximum of twenty percent of any domestic banks' shares.[23]

First steps towards an effective liberalization – along domestic preferences – started from 2005. Originally only 33 percent of the shares were tradeable, while the rest

[21] Shenzen's weight is likely to be exaggerated, sith its operation is full of with turmoils. Blue-chip trading for instance was suspended for years and was only recently re-introduced with reduced number of shares available (40). Importance of Shenzen lies in its lower-priced stocks (red-chips), sith its second market is blooming, and may soon overtake the poorly performing Shanghai. It mostly affects SMEs' stocks, which are being traded there (Bloomberg News, 2016).

[22] *"The B-share market became open to domestic investors in March 2001, and its previous function was largely replaced by the Qualified Foreign Institutional Investor scheme (QFII) in 2002. QFII has allowed foreign investors to invest in A-share market directly, but under a fixed quota and more strict supervision."* (Luo, 2012)

[23] "A *'share'* is the smallest unit into which the company's capital is divided, representing the ownership of the shareholders in the company. A *share* is defined as the smallest division of the share capital of the company which represents the proportion of ownership of the shareholders in the company. The shares are the bridge between the shareholders and the company."

"A *'stock'* is a collection of shares of a member that are fully paid up." (S, 2015)

The shares are offered in the stock market or markets for sale, to raise capital for the company. The shares are movable property which can be transferred in a manner specified in the Articles of Association of the company." (S, 2015) belonged to state owned companies (with no permission to trade). Differentiation was gradually built down between the two types, and by 2007, most of the shareholders (disposed over 98 percent of the capital) agreed to voluntarily release their shares to the ’market’. However, the majority of these companies were still exclusively owned by the state, while their buyers were state owned funds (mostly pension or insurance, but others as well). This structure covered 92,7 percent of all available shares, therefore the actual stock exchange was still very small (Loechel, 2010). [Analysis of Shanghai’s trading-sites will ignore the *bonds’ market* for the better understanding of the context.][24]

Despite its flaws and its short history, SSE achieved an impressive growth in turnouts. However at the same time it remains very turbulent, if not volatile.

Table 1/a: December 2009. Overview. Trading volume by shares

	Unit	A-share	B-share
No. of Listings		860	54
Issued Volume	100m/億	16536.42	123.54
Total Market Capitalization	100m CNY/億元	183799.87	855.35
Tradable Volume	100m/億	11455.02	123.54
Tradable Market Capitalization	100m CNY/億元	113949.64	855.35
Daily Average Trade Value	100m CNY/億元	1384.92	4.20

	Unit	A-share + B-share
Total Turnover of Stocks January-December, 2009	100m CNY/億元	346512

Table 1/b November 2016. Overview. Trading volume by shares

[24] “*Stocks*, or *shares*, are units of equity — or ownership stake — in a company. The value of a company is the total value of all outstanding stock of the company. The price of a share is simply the value of the company — also called market capitalization, or market cap — divided by the number of shares outstanding.” (Diffen, 2012)

“Bonds are simply loans made to an organization. They are a form of debt and appear as liabilities in the organization's balance sheet. While stocks are usually offered only in for-profit corporations, any organization can issue bonds. Governments are among the largest issuers of bonds. Bonds are also traded on exchanges, but often have a lower volume of transactions than stocks.” (Diffen, 2012)

	Unit	A-share	B-share
No. of Listings		1138	52
Issued Volume	100m/億	32250.87	155.01
Total Market Capitalization	100m CNY/億元	276990.51	1051.71
Tradable Volume	100m/億	28908.74	155.01
Tradable Market Capitalization	100m CNY/億元	233744.40	1051.71
Daily Average Trade Value	100m CNY/億元	1922.50	3.85

	Unit	A-share + B-share
Total Turnover of Stocks January-December, 2015	100m CNY/億元	1165617
Total Turnover of Stocks January-December, 2016	100m CNY/億元	501701*

*All of the SSE indexes (SSE 50; SSE 180; SSE 380) performed much worse in this year.

Source: Shanghai Stock Exchange website, turnover data of 2009, 2015, 2016.

Within ten (thirteen) years – by 2009 – Shanghai became the number one financial hub in China, hosting 133 banks, 307 insurance companies, 93 security firms and 254 other companies of which 170 had foreign origin (Luo, 2012). Numbers related to financial concentration are staggering, although the ’quality’, and the ’freedom’of operation remain influenced by the domestic and international environment.

First of all, if we accept Shanghai as a (major) global city, in that context, it is expected to provide high level of services, and somehow mitigate the effects of internal drags, such as the over-regulation of market. But, is that really possible?

Before proceeding to that, it is advised to place Shanghai’s recent position in a broader context. The Global Financial Center Index (GFCI) of Z/Yen Group had already granted a very high position (6th) to Shanghai in 2009/2010, although many other sources are more conservative about the international importance of SSE. Following the rebound of crisis-hit ecomies, Z/Yen Group in its frequently revised statistics, placed Shanghai at 16th position among top 20 cities (her rank was the highest in China as of 2015).

According to Luo's 2009 datas, only 21,6 percent of the companies were foreign by their origin. These figures considerably raised by 2015, by when the number of financial institutions nearly doubled (more than 1400) and from which there were 429 non-Chinese, accounting for 30-33% of the entire industry (Wu, 2016) (Ran, Shanghai ranks high in financial power, 2016). CCP's approval of Shanghai's leading role on Chinese capital markets greatly contributed to the globalization of her finances. Without the interest of centrally emphasized role of Beijing – as the centre of market operations – Shanghai could easily outperform her other rivals.

By the early 2010s, its 'soft' and 'hard' infrastructure has been completed, providing the expected high-tech business environment. Upgraded soft infrastructure (IT background development for real-time trading) was an indispensable need for a world-class trading platform. Shanghai Stock Exchange – in its technical and infrastructural abilities – came in pair with its 'major rivals' abroad and have the establishments to handle its dynamically growing operations.

Recent plans are also reassuring; local elite's vision is no less than obtaining world's leading position by 2020.

Overall trading at SSE(s) had undergone series of development. Initial quotas became more market-friendly, while conditions were significantly improved.

"Until the end of 2007, 52 foreign companies were registered, 49 of them with an investment quota of 9.995 billion USD. The pendants to the qualified foreign institutional investors are the qualified domestic institutional investors that, since 2006, have had the right to collect domestic funds and invest abroad. By the end of 2007, 15 fond-companies and five security companies got the qualified institutional domestic investor status. Their total investment quota is 24.5 billion USD." (Loechel, 2010).

These two other segments (funds and securities) have been constantly improving, allowing institutional investors to exploit a 50 billion USD quota from 2012, while the RMB denoted trading option remained capped at 50 billion yuan.

Other (outsider) perceptions of Chinese stock exchanges may still consider the market as something challenging. In fact doing business is getting less and less 'problematic'. Afformentioned channels (and the joint cooperation with Hong Kong) have already been established to overcome RMB-related problems in trading, although restrictions still apply. Compared to the initial 10 billion USD, the limit had been increased in various ways, [e.g: extended access for Qualified Foreign Institutional Investor(s) – QFII] which are granting special access for foreign stakeholders to A-shares (see below).

Table 2: Changes in foreign trading quotas on SSE

A-share trading quota until July 2013	USD 80 billion
A-share trading quota from July 2013	USD 150 billion

Source: PwC Zhong Tian LLP, 2013

Up-to-date datas indicate surprising results, if we compare SSE with London's Financial Times Stock Exchange (FTSE). According to the latest summary published on London Stock Exchange's website, the 1146 companies listed in Shanghai in October 2016, was roughly standing at 116% percent of FTSE's "main market" shares in London.[25]

However, even without Beijing's participation, a division exist among cities, where Shanghai hosts only two out of the four main commodity stock exchanges in China (officially they are called "future markets").[26] These two markets in the city both achieved double digit growth in the past few years and their combined trade volume is now among world's top 10.

The other, so-called 'blue-chip' segment is the second major element of Shanghai's complex/composite stock exchange system. The term blue-chip refers to the high-quality stocks traded on markets (lower valued ones are called 'red-chips'). Their importance is outstanding and – in theorem – capable of influencing floating currencies or the business environment. SSE's impressive statistics, however still rely mainly on internal trading, therefore present diversity (commodities + blue-chips + red-chips) can only partially raise Shanghai's prestige.

[25] Number of A- and B-shares listed was 1126 + 52 (September 2016 data).

[26] Shanghai's Future Markets consist of two different exchanges: Shanghai Futures Exchange (SHFE) and China Financial Futures Exchange (CFFEX). At present, there are ten main commodities being traded at SHFE: gold, silver, copper, aluminum, lead, steel rebar, steel wire rod, natural rubber, fuel oil and zinc, which are similar to that in CFFEX. Although Gold appears on both SHFE and CFFEX, it is further distinguished and has its own exchange, called Shanghai Gold Exchange (SGE) which is considered as one of the world's major gold exchanges.

Trading difficulties and challenges ahead

In order to indicate the underlying problems, it is necessary to briefly introduce capital trading options on markets. There are four types of financial centres' function that a stock exchange may fulfill.

Table 3: Introduction of common share types

Type A	Domestic to Domestic	Intermediaries between domestic providers of capital and domestic users of capital. A-shares - in local renminbi or yuan currency - are issued by Chinese companies and can be traded solely by institutional and private investors from Mainland China (barring Hong Kong and Macau).*(except QFII categories)
Type B	Domestic to Foreign	Issued by Chinese companies and, while formally quoted in renminbi, they are traded in US dollars. Foreigners - both persons and institutions - including Hong Kong, Macau and Taiwan residents, as well as Chinese citizens holding US dollar accounts abroad are allowed to trade in B-shares.
Type C	Foreign to Domestic	Intermediaries between domestic providers of capital and foreign users of capital, (non-relevant in comparison).
Type D	Foreign to Foreign	Intermediaries between foreign providers of capital and foreign users of capital, (non-relevant in comparison)

Source: By author

Shanghai's operations are dominantly belong to Type A and only low percentage of the trades are made in Type B (and D).

Current rules on A-share trading is restrictive and complicated. Among QFII only a handful of foreign companies are allowed to trade in real-time – the rest can only receive delayed informations.

Although most of the state owned companies agreed to enter the actual market, no real progress was made. Two years after the voluntarily proposed deadline, only 69,27 percent of these shares were tradable. Seven years later in November 2016, the same figures indicated 89,64 percent tradability (Table 1/b). Composition of A-share listed companies doesn't reflect Shanghai's strong service-based economy either. More than half of the stocks (599) belong to the manufacturing sector. High-tech industries such as: finance (36), IT (30) and business services (12) all have marginal presence.

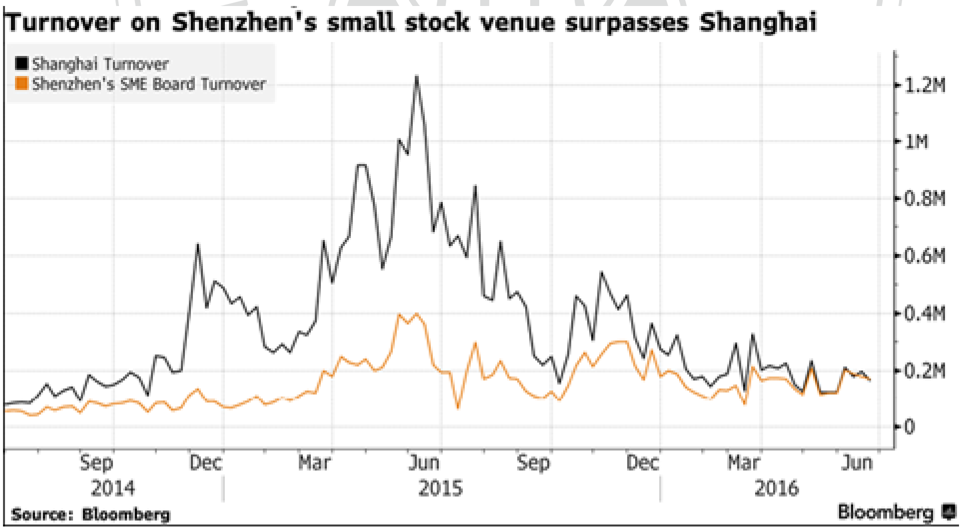
Wholesale & retail (94) is the only exception within service sector that can fair comparatively well.

SSE listed B-shares didn't grow in the 2010-2016 period, instead their number dropped from 54 to 52 and their absolute share within the composite index fell from 5,9 percent to 4,37 percent.

"By market capitalization, the largest stock companies listed in Shanghai are state-owned enterprises such as banks and energy and insurance companies. This means that the shareholders with the most voting rights are state institutions. The ten largest among them make up for 30 percent of the total stock exchange value." (Hao, 2015)

Strong presence of SoEs on the premier market and SSE's indirect links with CCP is not favourable either. Although there is no sign of constant intervention, CCP still closely monitors the market and it is ready to interfere whenever it is necessary – as it has happened in July 2015 or January 2016 (Yu, 2016) (Tsang, 2016). Both cases justified that the state has real-time control over what may happen on SSE, and in case of distrust, CCP may suspend trading.

Table 4: Comparison of Shenzhen's small stock venue with Shanghai's



Source: Bloomberg News, 2016

Shanghai's unusually rapid downgrading as the main trading site of Chinese and foreign SMEs' stocks was also disillusioning, yet it didn't hurt its first (premier) market. Signs like that are concerning though. If SMEs cannot rely on Shanghai's small stock venue after their initial public offerings (IPOs)[27], it means no good either for the innovation or the local economy. Bad performance was the result of quick investment restructuring in a less optimistic environment, wherein traditional industries – without further growth potential – were abandoned by many (individual) investors. (Bloomberg News, 2016). These turmoils are the signs of missing fundaments or controversial market control/intervention by the state. The short history of IPOs on SSE may serve as a good example in that, and shows us how difficult is to rely on the actual market, when it comes to the capitalization of a local company.[28]

Even as recently as 2014, SSE and its Shenzen counterpart was lack of satisfactory investor protection regulations against frauds originating from the poor monitoring. The state had to change its approval method as well, which enabled its regulators to handpick companies that they found qualified enough to finance their operation with the likelihood of making profit (Matacic, 2013). The chart above does not support an immediate success, although it should have easened mainly the SME-expansion.[29]

Meanwhile the almost fixed exchange rate in USD-RMB correlation appeared to be as problematic as the non-convertibility of renminbi.[30] Luo considers this a weakness and a long-term disadvantage along with the already mentioned capital control. In order to achieve its 2020 goals, Shanghai should seriously strenghten its Type C-based trades, by further reducing its trading barriers (Luo, 2012).

Constant patchworking on QFII system and A-shares' trading is not a straightforward solution, while nothing has been done about C-shares 'legitimacy'. Proposed changes aren't getting through well. Quotas granted for foreigners are still relatively low compared to the daily turnovers of the exchanges. Despite the many legal updates and partial liberalization, Shanghai is still taking too small steps towards its 2020 goals. As it is indicated below:

[27] An (IPO) is the first time that the stock of a private company is offered to the public. IPOs are often issued by smaller, younger companies seeking capital to expand, but they can also be done by large privately owned companies looking to become publicly traded.

[28] *"Nearly 50 companies are expected to list on China's stock markets in January 2014, bringing to an end a 13-month moratorium on initial public offerings (IPOs) on the Shanghai and Shenzhen exchanges."* (Matacic, 2013)

[29] *"For foreign companies doing business in China, the IPO freeze has meant fewer opportunities to invest in small to medium-sized Chinese businesses that need to list in order to raise much-needed capital."* (Matacic, 2013)

[30] Luo's arguement doesn't stand that strong anymore. In the past two-three years gradual easening was made, while CNY/CNH depreciated considerably against USD.

“Shanghai, however, has amended 22 laws and regulations since 1998 and enjoys a certain level of political and economic autonomy.” (Luo, 2012)

The hybrid H-shares [31] were good initiatives before 2010, however since then Shanghai’s exchange became one of the major exchanges of the world, hosting about 1100-1300 companies from which less than one hundred is connected to the international market via Hong Kong Exchange (HKEx). On the other hand these shares are more transparent and adapted the regulations of HKEx. It confirms that liberalization is not an impossible scenario, however at current stage this option is not yet viable. Shanghai’s more recent efforts to internationalize its exchange, resulted in an agreement with Hong Kong. Despite these efforts, the now two years old cooperation couldn’t significantly boost the worldwide presence of Chinese companies.

There are other problems as well, such as the human resource issue. Shanghai’s financial sector grew at an incredible pace. Local education couldn’t possibly keep up with it, while other centres (mainly Shenzen, Guangdong, Tianjin, Dalian and Beijing) are also competing for qualified labour.

Controversy of the policies: internationalization of renminbi

According to the original theory, global cities are operating in a world-capitalist system. In contrast to that, the Chinese market is still bond by protectionist and restricting measures, despite the fact that in general it is opened enough to provide ‘fair’ business opportunities for outsiders. Certain level of systematic risk exist though: direct or indirect state intervention is sensible throughout the centralized and planned economy which may affect/distort the natural ways of local or regional development. The overall impact is not necessarily bad, however may generate extra costs or contribute to the lower level of internationalization.

The question of RMB’s internationalization falls under the afformentioned dispute. The role and status of the Chinese currency has been attracting the attention of

[31] H-shares are shares of a company incorporated in the Chinese mainland that are listed on the Hong Kong Stock Exchange or other foreign exchange. Although H-shares are regulated by Chinese law, they are denominated in Hong Kong dollars and trade the same as other equities on the Hong Kong exchange. H-shares are available for more than 90 Chinese companies, ensuring investors to have at least a marginal access to most of the major economic sectors, such as financials, industrials and utilities.

different agents and can be approached in various ways, including the historical context wherein export-led economic model required strict capital control in order to modernize production (technology spillover). Artifically devalued currency helped local companies to increase their ’competitiveness’ via augmented export possibilities. These measures – ’fixed’ exchange rate of USD-RMB – remained effective between 1994-2005 (2008). In the years of financial crisis (2008-2013) adjustments were made, but the principles remained alike – RMB was kept tight against USD (volatility was ±2–2,5%). Parallel concerns existed though, regardless of the conservative appreciation that CNY had been going through. Changes of US monetary policy along with a better economic performance had affected the USD-RMB rate in an unfavoured way, causing the appreciation of yuan to an unwanted level. Nonetheless the proposed shift – from previously export-led model – was necessary in order to stabilize economy and switch to an inner consumption led model.

On the other hand, capital and financial control has long been the best tool for CCP to ensure a ’safe’ environment for indigeneous companies and institutions. (The example of SSE also underpinned the vulnerability of financial sector.)

“[C]apital control may well have been beneficial for China during the past years of its initial economic development. International capital flows can be harmful for a country’s development when its financial system is weak. Thus, the prevention of capital mobility across its border protects China’s financial system as it has been underdeveloped due to historical and political reasons.” (Luo, 2012)

It is clear that both of the policies contributed to Shanghai’s growing influence, although by now some of the former initiatives are rather seen as containment for the economic expansion. The state tried to address this issue on its own cautious way by revising the status of yuan. Following the completion of legal framework in 2010, RMB could more widely appear in cross-border transactions both onshore and offshore (Hong Kong, Macau and later Taiwan). The goals were to introduce the yuan in cross-border trading first, then gradually expand transactions in local currency.

Foreign institutions (governments) could optionally release RMB denominated bonds indicating the presence (or recognition...?) of RMB in international environment, however there was no direct benefit of RMB denominated issues.

Despite its onshore preparations, China still had to rely on Hong Kong as the mediator, sith the recognition of mainland Chinese centers' were going slow (with the only probable exception of Shanghai). Therefore Luo's earlier (2011/2012) optimism seems premature:

"[T]he long awaited move to RMB internationalization may proceed far more quickly than expected. The consequent alleviation of capital control and increased international capital flows will impact enormously China's financial system, as well as Shanghai's IFC status." (Luo, 2012)

By the end of 2014 there were only 11 offshore RMB clearing hubs. Shanghai was 'pioneer' within this initiative by introducing this option within its free trade zone as early as 2013. Trade-based internationalization of Chinese currency soon developed to country specific, bilateral agreements with 'partner states' (France, South-Korea, Germany and Great-Britain) granting them individual quotas to access market. Banking operations have improved, cross-border yuan denominated loaning was enabled to a certain extent. In this early stage, RMB mainly appeared in Singapore, Taiwan and of course, between on and offshore banks.

One of the latest developments – in order to internationalize CNY – was introduced by the People's Bank of China (PBoC) in 2015. China International Payment System (CIPS) is an initiative that appears to be a major step ahead, in case the Chinese side continues its efforts to harmonize CIPS with the internationally standardized platform of SWIFT and Business Identifier Codes (BIC). [32] Being relatively new, direct involvement of banks are still low, with only nineteen participators of which nine is foreign (Golden, 2016). Experts interviewed in Golden's article were generally optimistic about CIPS, although its too early to declare, whether it has a future or not.

As it appears, international status of RMB has multiple implications to global city formation. Besides the financial services, it has correlation with FDI and export-import of goods or services. The immature state of CNY in international trade is an

[32] Society for Worldwide Interbank Financial Telecommunication (SWIFT) manages BIC. Cooperation with SWIFT enable partners to quickly gain informations about banks via their 8-11 character long codes.It also helps to keep international transaction costs lower.

apparent constraint, but as it has been stated above, it is not among the main obstacles of globalization/internationalization.[33]

Adaptation challenges in the post-crisis era

Rapid changes in major countries' – including the EU – economic policies left their marks on the Chinese attempt of liberalization as well. Within a short period of time, US Federal Reserve first announced quantitative easing – in order to depreciate USD – that soon became overwritten by the monetary policy changes in European Union, resulting the sudden appreciation of dollar. (It is an intentionally simplified argument, excluding other externalities).

Slow transition of Chinese economy is also related to internal constraints such as: the shadow banking system, the high level of foreign reserves in USD and low level of trust in Chinese institutions. These together contributed to a complex situation, wherein normal fiscal consolidation methods may not work. In a planned-economy, addressing these unforeseen issues may take longer. (That would partially explain the more cautious stance of Beijing towards reform introduction.)

Besides there is also a possible correspondence between the role of RMB abroad and the liberalization/structural adjustments proposed by the PBoC. PBoC is not independent from CCP, sith its actions may reflect the party's interest.

Despite the hardships, certain degree of liberalization is taking effect. Changes with positive outcome can be observed, though their scale remains moderate. RMB's role in foreign trade is still far below 2 percent; yet Chinese yuan managed to increase its presence in international trading five to eight fold within just a few years (Zhang M. , 2015).

Summary

In general there has been a positive outlook on Chinese financial market and within that on Shanghai Stock Exchange. It achieved an impressive growth, being one of the most dynamic exchanges of the world.

On the other hand, the outstanding performance of SSE was fueled by the apperance of many, but mostly state owned companies that were responsible for a great amount of internal trade.

[33] See on p.17.

Last year's downturn on second markets may indicate deeper structural problems (Table 4). State-directed financial expansion of Shanghai with SoEs on top, will definitely challenge the system at one point.

"SSE is under stricter market control and has a relatively limited number of financial instruments. This makes it difficult for investors to raise funds more efficiently through multiple channels. Stock loans and short selling are largely prohibited on SSE, while day trading is not yet legalized. Most Asia-Pacific markets have authorized these two operations." (Luo, 2012)

So far CCP's intervention and communication about real-estate and lending bubbles could harness speculations, however stable operation on long term will be challenging for 'semi-profit oriented' companies like SoEs. The chance for these companies to be successful competitors on international level – once the market becomes further opened – is very low. Steps taken so far were overly cautious and self-contained. Shanghai's limited access to world market is not entirely wrong though; even in the current stage of development it can protect Chinese internal market from turmoils, originating from the volatility of SSE.

Table 5: Annual Share Turnover of Shanghai Stock Exchange

Source: Shanghai Stock Exchange website year on year datas

However, it also means that Shanghai as a financial centre – in international comparison – is still only low to medium developed, and at best it can be seen as a regional centre (Loechel, 2010).

State-led global city formation has further implications as well. Chinese example suggests that local goals may overlap with the country’s foreign policy initiatives. Internationalization of RMB does and will affect the performance of major global cities in China (those with strong financial industry), where the word “liberalization” means the adaptation of international practises; harmonization and increased transparency of PBoC’s operation. In international environment only under these criterias can financial centres function properly. In conclusion one may say that it’s too early to expect RMB among internationally used currencies (Zhang M. , 2015).

As regards Shanghai, it has an obvious potential, acknowledged by the market, however further progress within its FTZ remains dim (PwC, 2015).

Globalization and economic freedom within Shanghai’s Pilot Free Trade Zone

Shanghai’s Pilot Free Trade Zone (FTZ[34] or SPFTZ) was one of the most important contemporary initiaves that indicated the government’s efforts to support the opening up process. Reforms introduced in Shanghai’s FTZ were thus far unprecedented and intended to be milestones for the future transformation of China.[35] The goal of the experiment was to derive conclusions from the operation of a ‘small-scale’, ‘open’ market.[36] The time limit was three years; results of SPFTZ were evaluated and selected measures were introduced nationwide. This pragmatic approach indicates how tight the actual control is over foreign penetration (or globalization).

“As a pilot zone for exploring policy, the main impacts of the SPFTZ are not the amount of its trade volume or foreign investment, but the institutional innovation it generates.” (Whalley, 2015)

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[34] FTZ refers to a geographic area where goods may be landed, handled, manufactured or reconfigured and re-exported without the intervention of customs authorities. (Whalley, 2015)

[35] *“Shanghai FTZ implements reform measures on government function transformation, financial systems, trade services, foreign investment, tax policy and so on, and vigorously promotes the development of Shanghai transit and offshore trade. The process of project approval has once encountered resistance. However, Premier Li Keqiang “Against All Odds” efforts finally made the project through.”* (Guan, Fu, & Li, 2014)

[36] Negative listing still widely influenced the freedom of the later unified zones.

The zone itself was launched on September 29, 2013 and as Whalley pointed out, it aimed to address the otherwise problematic areas of foreign [and perhaps joint domestic-foreign] business (co-)operation.

Four special segments were marked – from which the following three deserves a highlight. Probably the most important of all is the financial reform. Within the SPFTZ, the actual realization of capital account convertibility is getting underway, along with extended availability of elsewhere non-present financial services. Moreover, it entails wide-scale bureaucratic reform in order to reduce the administrational burdens, while the zone's supervision is being strenghtened (Whalley, 2015). Third main role of Shanghai's FTZ would be to establish external connections in trade, services or investment and to expand overseas operation.

Structural reforms under the current macroeconomic environment were no longer avoidable. Chinese economy has been shifting towards a more sophisticated pattern, where past decade's structure (reliance on export and FDI) can no longer be uphold. Shanghai's FTZ was created for the cause to test a more market comform environment, both for foreign and local firms.[37]

Appointing Shanghai as the centre of these 'reforms' was not coincidental. The city has the highest metro population and a relative openness – being one of the major targets of FDI. Compared to other coastal centers, Shanghai has a long(er) tradition of nurturing special zones, beginning from 1990. It isn't a unique attribute, however in its complexity, SPFTZ is indeed outstanding (Table 6).

Although the SPFTZ is intending to promote new, barrier-free business environment, it is still built on the legacy of China's post-Mao developmental pattern, sith certain degree of protectionism remains in force.

"The traditional development model of China has three economic pillars: an investment policy promoting FDI in the assembling industry to absorb labour surpluses, a trade policy encouraging exports to sell excess products and a financial policy aimed at stabilizing an undervalued RMB exchange rate. The SPFTZ is designed to accommodate these policy directions." (Whalley, 2015)

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[37] According to the enumeration of Xiao: "*SPFTZ is to be pioneer in adapting to international laws, regulations, governmental service and operational modes, and provides applicable and replicable modes of system reform for deepening China's reform and opening-up.*" (Xiao, 2016)

One of the key concerns is the practise of negative-listing which involves substantial amount of business restrictions. Some only requires bureaucratic approval by local authorities, while certain activities are initially prohibited to engage in.[38]

Expectations about fast-paced elimination of barriers and distinction/discrimination between domestic and foreign entrepreneurs were proved to be wrong (full transition is unlikely to happen anyway). What seems more reasonable is that a wide spectre of industries will be operating under ’real market’ conditions, where companies are allowed to draw in ’unlimited’ external financial sources, beyond Hong Kong, Singapore, Macau or Taiwan (a possible achievement on middle-long term).

At the same time the zone is expected back up the RMB internationalization project via providing capital account convertibility, interest rate liberalization and the cross-border use of RMB (Whalley, 2015). As a step ahead, PBoC granted special rights for *free trade accounts* to freely settle international transactions (using RMB) within the FTZ. Free trade accounts may have broader impacts throughout cross-zone financial movements, which can be useful for investment support outside of the free trade zone.[39] These reforms were approved and overseen by the National Development and Reform Commission (NDRC). Their main task was to considerably reduce the lenght of authorization from the initial six months to about a week providing a more business-friendly environment.

“After 7 days, enterprises can get “Overseas Investment Certificate” and settle exchange through bank records directly, so that time cost, money cost and psychological burden are alleviated significantly; cross-border investment and financing facilitation are more convenient.” (Wang J. , 2016)

Although the entry of foreign companies had been easened, they are expected to remain under tight supervision regarding the operation.

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[38] Following the revision in July 2014, there were 139 regulations left, including 29 banned business activities (Whalley, 2015). With the third revision as of March 2015, only 122 regulations left, however in specific industries their number increased.

[39] There are several aspects had been pointed out by Wang in his work. According to his explanation, FTZ helps to build a financial environment, that integrates onshore and offshore business together with domestic and foreign currencies into a ’system’ that highly resembles to the normal operation of international financial market.

Beyond the general discussions, some of the negative matters weren't equally apparent (mainly the practical ones). Following the two years anniversary, Financial Times publicist hit a critical tone in his article, giving readers a brief idea about how far did the (liberalization) project actually get. It is beyond question that 2015 was a turbulent year for business, resulting a bad macroeconomic environment and capital outflow. It is questionable whether it was indeed so influental that it could significantly set back the initial reform dynamism. Nevertheless, in his summary Wildau highlighted that the administration did become more effective and number of prohibited industries dropped to 122. On the contrary interview subjects – whom were affiliated with certain companies operating within the limits of FTZ – found their business opportunities much less preferential (Wildau, 2015).

Statistically speaking, regardless of the several disadvantages, the general reception of SPFTZ was exceptionally good. Compared to the small size of the area (<30km^2 in 2014), more than ten thousand new companies appeared in the first year – of which foreign enterprises accounted for roughly 20 to 25 percent. The city's commitment to unify its special zones further contributed to this 'success'. The reform-supporting agenda contributed to the innovation dispersion via distributing achievements beyond the border of FTZ. (IDE-JETRO, SASS, 2015). Under such conditions Chinese companies were able to gain first hand experience about international competition, where higher level of adaptation is necessary. In fact, those companies attracted by the newly commenced FTZ, their contribution to local economy remains unclear. The most crucial problem of contemporary onshore business operation lies in the extra costs they generate, both direct and indirect ways. Special economic zones or FTZs – in theorem – help to lower these costs by providing a legal environment comparable to international standards and providing better access to the onshore market. In addition, they grant local companies with offshore business opportunities.

Table 6: Free trade zones by size and function

Existing Free Trade Zones in Shanghai		
	Description	Area (km^2)
Shanghai Waigaoqiao FTZ	Shanghai's "traditional" FTZ, an economic area under special administration.The goods can be imported and exported to other countries without any limitations. Free of tariffs, import linkage tax, license examination, and other regular formalities under customs supervision	10
Waigaoqiao Free Trade Logistics Park	China's first "bonded logistics park". It is connected to the Waigaoqiao port, which is located 3 kms from the Waigaoqiao	1,03

	FTLP. Its name indicates its main function as being the centre of thousands of logistics companies	
Yangshan Free Trade Port Area	It includes a deep-water port and an experimental land area to run international shipping business from there	14,16
Pudong Airport Comprehensive Free Trade Zone	Its main function is to do international transition, distribution, procurement, entrepot trade, and export processing	3,59
Lujiazui Financial and Trade Zone	Lujiazui Finance and Trade Zone is the only state-level development zone in China that takes finance, insurance and securities, and trade as its main industries. The zone is divided into several key development areas: central financial district, Zhuyuan business district, administrative and cultural center, Longyang residential area, etc.	28* (or 34,26)
Shanghai Jinqiao Economic and Technological Development Zone (former Jinqiao Export Processing Zone)	It consists of the northern and southern zones. The northern part develops advanced manufacturing industry, producer services, residence and comprehensive supporting services, while the southern one excels in high-tech industry clusters; featuring electronic information, automobile and spare parts, modern electrical home appliances and biomedicine	27,38* (or 20,48)
Zhangjiang Hi-Tech Park	It cultivates six types of enterprises/projects: high-end industrial core technology; high value added core products; overall controlling capacity in the industrial chain; (business?) integration solutions; domestic or overseas intellectual rights in the investment structure low carbon and clean industry	25* (or 37,2)
Sources: China (Shanghai) Pilot Free Trade Zone website, Shanghai.gov, Pudong Business		*Total: 109,16 (or 120,72)

Conflicts of interests between the state and Shanghai

From the perspective of a global city (aspirant) – in order to become a leading global city and to maintain this status, Shanghai – independently from the state – has to do whatever it takes to promote innovation and remove as much barriers as it can. Despite the often coincident goals of the state and Shanghai, the lenght of this transitional period differs; a regional centre with growing importance cannot postpone its 'globalization' or its adaptation to the new economic structures. On the other hand, the state has to consider national preferences as well, mainly the protection (the rest) of its inner market.

According to the Chinese point of view, the growing number of free trade agreements are externalities that justify the endeavours of Shanghai (and other cities) to emphasize the expansion of their own FTZs. Although it is a simplified arguement, it intends to demonstrate the complexity of local-national and international interactions.

Besides, Shanghai is undoubtedly an international business hub with growing influence. Local elite is interested in achieving a so-called *headquarter economy* that is expected to help the city to compete on international level and it also increases its internal and external prestige. It is a well-established, economically also beneficial reasoning. Present state of Hong Kong's economy can be a role-model in this shift.[40] Headquarter economies wish to attract R&D centres on site – the knowledge intensive part of production – together with the realms of management and investment (Li, 2012). Although under normal circumstances striving for headquarter economy in 'secondary position' is seemingly in vain – with Beijing's undeniable supremacy, however FTZs provide a special environment, wherein extra benefits of business and regulatory freedom can be decisive factors.[41] Considering that even Shanghai's CBD has now become part of the FTZ, the overall territorial expansion had been momentous (see Table 6).

Free trade zones within the territory of Shanghai have helped the city to maintain its leading role in specific industries and most importantly in providing offshore (business, financial) services (Xiao, 2016). Trade (including import-export, onshore-offshore or trade-related services) of Shanghai are all reasonably competitive, not just domestically, but also on international level. In this 'dual' economic structure,[42] R&D activities may choose to concentrate in a more favourable environment (from foreign MNCs' point of view) wherein Shanghai excels. Anyhow, FTZs usually come with a preferential treatment for those, whom are willing to set up/relocate their operation to centrally recommended locations or business types.

The role of the state should be to mitigate the negative socio-economic impacts of globalization and if possible consent to the adaptation of progressive measures necessary for local economy.

Outlook and Summary

The case of Shanghai proves that finances are strong enough to influence central policies.[43] Financial industries and SPFTZ are in close connection with each other; mutual interests of domestic – and the much less influential international – lobby against CCP's regulations are having notable impacts on pushing forward

[40] Hong Kong is managing and promoting trade in services, moreover the foreign investment is much less regulated compared to the mainland. Besides, Hong Kong's port is free from many regulations still present in Shanghai. Capital flow and availibility of financial services are still much broader, foreign (currency) transactions are not controlled (Xiao, 2016).

[41] China is among the very few countries that can afford to sustain multiple urban clusters with attributes measure up to 'local' HQ economies. Apart from Beijing and Shanghai cities like Shenzen, Chongqing or Guangzhou all can coexist and achieve their goals to concentrate high-value added segments of production.

[42] It only means that a decisive part of Shanghai's economy have been migrating (or had been included) into its FTZ. (By author)

[43] It is an indirect influence that coincides with the local elite's interest. Apparently, this elite poses no threat to the gradual liberalization.

countrywide changes, encouraged by the pilot project of Shanghai. Retrospectively, SPFTZ's rapid expansion and growth in economic weight was rather unexpected, however based on the first-year's overperformance of SPFTZ, the Japanese-Chinese co-edited IDE-JETRO forecasted the city to eventually serve as a "second Hong Kong" [in case, if the current level of barriers can be reduced by fifty percent by 2025 (IDE-JETRO, SASS, 2015)]. This optimism was further backed up by the consensus among authors that Shanghai is currently on the frontier of free trade initiatives of China.
On the contrary a recent work by Haacke pointed it out that:

"The FTZ liberalizations are only incremental in the context of broader economic reforms that companies hope to see from China's leadership. On its own, the overall impact of these specific liberalizations on company operations is likely to be muted" (Haacke, 2016)

As it appears, the general picture is based on certain level of bias; either in domestic or in international context, Chinese media (and researchers too) may use this case to promote a better overall imagine of Chinese economy abroad.
In trade, Shanghai has begun to accept and follow greater number of international practises in order to maintain its competitiveness. Customs clearance and the shortened time of investment permit issue were two major steps ahead. Unification of special (free) trade zones, was an other major step ahead in boosting trade with the real Chinese market beyond the FTZ. Continuation of these efforts are necessary in order to build international connections and to enhance globalization, a key aspect for the establishment of a headquarter economy. Current optimism is not groundless, but based on the available information, Shanghai should not be overpositioned too early.

As Xiao suggested: *"We need to follow new rules of international investment, lead the initiative of nationwide opening-up, and explore new channels of management mechanisms featuring trade convenience and liberalization."* (Xiao, 2016)

A simultaneous upgrade of the system is vital, otherwise an imbalanced expansion of the highlighted sectors will obstruct one another. Meanwhile, conflicts of interest between the global city and its host state are likely to persist. A well-managed FTZ helps to mitigate the effects of sluggish governmental adaptation and provides

Shanghai enough space to experiment with a more liberal approach (in accordance with business interests). It includes the otherwise sensitive question about the recognition of onshore RMB, which has been among the top preferences of FTZs, however there are still many requirements to meet. Contemporary tools to ensure fiscal stability, regarding the exchange rates of CNH and CNY, is still insufficient, yet it has been growingly decided by the market.[44]

It is hard to estimate the balance of results, or what possibilities do SPFTZ have within the current framework on the long-run. It is undoubtedly one of the most relevant things happening in Yangtze River Delta region and would require further research.

Limitations of SPFTZ and its research

The main problem with Shanghai Pilot Free Trade Zone lies in its novelty and constantly increasing complexity. Although the foregoing preparations were tracked by multiple (foreign) actors, resulting in sufficient amount of publications, it mainly summarized visions or plans, instead of looking at the actual operation, which was seldom discussed in English. The topic (except for some concluding/comparison type of works) drawing its conclusions mainly from its first full year of operation, hence available/processed data is still few.

Considering the importance of the case, it is somewhat unusual. In the 2014/15 period numerous major events occured, such as the unifications of FTZ with 'other' zones, or the twice updated negative listing; which are all worthy for further exploration. Published articles are relatively few, mostly devoting a chapter or less to the introduction of SPFTZ. And unfortunately, thus far there wasn't any comprehensive essays published by foreign authors in the topic. The only exception is the detailed work of Xiao (Chinese author) in 2016.

The limited insight of this work suggest that the establishment of the free trade zone is 'just' satisfactory, instead of being outstanding. It indeed answered the timely need of business interest, however the true benefits such as the contribution to the forming headquarter economy is still ahead. Moreover, the regulations and limits set by the negative listing, leave their mark on foreign presence within SPFTZ. In Chinese context central policies cannot be defied, albeit a long-lasting pressure may reach its

[44] The exchange rate of offshore RMB was in correlation with its onshore pair. The gap between the two was only marginal, showing no real signs of fluctuation.

goal. Lastly, the nonobvious, though present concerns about economic performance; occasional state intervention on irresolute stock exchanges; and problems of onshore banking sector are all present and capable of casting shadows on the overall performance of Shanghai as a global and her FTZ.

Other remarks on Shanghai's transition to a global city

Shanghai's overall performance has been above the average. Regarding the speed of her growth, it is even more remarkable. However, was that really enough to qualify her as a global city?

The question has no clear answer. In comparison with historic capitalist cities, Shanghai is still lack of multiple 'requirements' of a mature global city.[45] On the other hand, in terms of economically viable (structural) changes, the city faired well. Pursuing the desired status was incorporated in the urban design and city development plans, yet in multiple details, the convergence towards the desired global city status has been only sluggishly getting closer. Some other critics have already been mentioned within the two case studies, regarding the financial and regulatory problems of the city. These are originating from the regime type and the principles that China follows: protectionism, tariffs, bureaucracy, and more (these are systematic problems). If we ignore the presence of state owned enterprises, the current economic structure of Shanghai highly resembles to any other Western cities. Expansion of service sector brought along the diversification and sophistication of industries. This new, consumption driven model is sensible throughout the city.[46]

Changing mindset with educational and technological catch-up

Global cities are expected to utilize high-tech solutions more. Among them IT services deserve special attention. Unlike Beijing's Zhongguancun, Shanghai didn't set up similar capacities in research, renderring the city to a big consumer, but a small producer of these goods.[47] It is an unfavourable tendency that is likely to be disadvantageous for the city in case if it remains unsolved. The acceleration of

[45] For instance the policies, lifestyle, skilled individuals or true MNCs and perhaps extra-regional command and control ability.

[46] There is a gap between inner and outer parts of Shanghai. Broader variety of services appeared in more developed districts, though it doesn't mean that the rest of the city would necessarily backward.

[47] In the past few years, Shanghai(nese) companies somewhat addressed the issue and smart services became wide-spread among younger generations.

innovation is not just the prerequisite of a successful competition, but it also contributes to the raising living standards.

On the other hand, external policy constraints of Shanghai, affects the natural expansion of both domestic and foreign originated companies.[48] A considerable percentage of production sectors are bond by the government involvement (via state ownership) that can negatively impinge on either the development itself or managerial effectiveness in an international(izing) environment. The political influence together with low-risk operation via cheap bank loans will likely to lead to a *pleasing attitude* instead of promoting true competition (Breznitz & Murphee, 2011).

Brenitz also claims that this seemingly flawed model still enjoys support from local elites and the perception of central planning is not taken as wrong (at least not in IT industry as his example suggested). Instead state owned enterprises (SoEs) along with MNCs are being cheerished (Breznitz & Murphee, 2011).

The plan-based operation of the local economy shows further asymmetries: some private companies indeed found a way to run their business successfully, while others are only affloat because the government agenda keeps them alive. Despite the impressive growth in numbers and centrality cooperation between institutions (either universities or R&D centres) are still not well-established.

Changes can be perceived though. For instance methods applied by those foreign companies which decided to settle down mainly in Shanghai's Special Economic Zone (SEZ – now FTZ) did differ. Graduates without foreign experience often needed further trainings to be suited for a more diverse environment offered by international companies. Initially, getting through the knowledge or different working culture somewhat set back the operation, however adaptation endeavours could be perceived shortly. Beginning with the more prominent universities, the English language courses and temporary (exchange-based) foreign education gradually became rooted. At last, the economic-led incentives of "internationalization" contributed the most to educational improvements.

In a short period of time, quality of local workforce raised significantly and met the required standards, making Shanghai a more attractive place for business (compared to the majority of other Chinese cities). Notwithstanding, the interval period of educational modernization generated problems about workforce allocation. Prospects

[48] CCP's decisions are sometimes not in accordance with the interests of Shanghai.

of inexperienced graduates (released from less prominent schools) weren't that bright in a strongly manufacture oriented local economy.[49] Until very recently, depending on the research area, the same problem emerged among highly qualified research personnel too.

Shanghai's research capacities could not keep up with the economic and population growth. Therefore the targeted technology transfer is seemingly not happening in a desired pace, despite the wide-scale efforts for modernization. The extent and quality of services are still not always comparable to those in other global cities. Numerous companies dealing with difficulties to expand beyond the border.

Entrepreneurship beyond SPFTZ

Shanghai nowadays facing the same problem on a bigger scale, like Korean cities (did) outside of Seoul. It is almost impossible for her to rely on either foreign MNCs headquarters or major domestic enterprises to increase worldwide prestige of the city (and her command and control ability).

In SPFTZ the distinction of economic mechanisms to "offshore" category may not grew up to the expectations and can be observed through the moderate number of internationalized Shanghainese/domestic companies. The latest re-examination of negative listing made it clear, that the state is unwilling to allow real competition between local and foreign companies. Number of industries require approval has increased. Even within the FTZ, one of the key service industries, finance is moderately restricted from foreign access, while some, otherwise commonly used tools are banned as well.[50] Besides, the constraints of China's political system also precipitates on the composition of her financial, accounting and law firms (Wei & Leung, 2005).

In non-preferential parts of Shanghai the nature of problems is different. From high-tech industries' perspective (not exclusively) the city became an unfriendly place for start-up incubation. Soaring retail and office prices made it difficult to operate in a central location, not to mention the challenging business environment wherein the newly found companies should be running.

Firms (including SoEs) of all kind located in the city tend to compete for skilled workers country-wide by offering them certain benefits or even *hukou*. The

[49] These assumptions are based on datas collected before 2010-2012. Since then service sector underwent a quick expansion, achieving dominant role in Shanghai's economy.

[50] The instruments weren't specified by the author, p. 37. (Wei & Leung, 2005).

circumstances are already disadvantageous for private SMEs since key industries are dominated by huge state owned enterprises with enough power to grant generous worker packages, including the desired *hukou* status for the outsiders.

Apparently not much can be done – SoEs enjoy governmental support, despite the fact that they otherwise stifle entrepreneurial initiatives. There aren't many options for smaller companies as working for large companies (SoEs, MNCs) remain much more attractive for both locals and farther recruited migrants/outsiders.

Limited possibilities of local entrepreneurship will however hurt Shanghai's overall interest on a longer term. The city ought to revise its pillars in knowledge/innovation segments within her economy to be able to maintain its current position as a first class global city (or Asian Anchor) and train more experts. In comparison with Beijing's also fragmented, but universally centralized R&D basis – concenrated in Zhongguancun, – Shanghai has to deal with different ownership of multiple smaller entities spread all over within its administration.

Currently, the lack of coordination and fierce competition for human resource creates parallel capacities which further reduce effectiveness (Zhang L. Y., 2016).[51] It was only partially resolved by the recently incorporated districts into the FTZ. On a bigger scale, the number of available workforce has been declining and not just among the manager 'class', but on a much broader scale. It is expected to have further impacts on the labour costs as well. It is a small, but important gain, that in multinational corporate environment, China-born leadership has considerably advanced, filling up more than fifty percent of managerial positions as of 2016 (Zhang L. Y., 2016).

Initial plans for technology transfer via joint ventures are stalling as well. Earlier examples of Breznitz showed that in multiple cases (Alcatel, SMIC, etc.) involvement of both state and private ownership resulted in a non-efficient business model, where comfortable access to loans/funds (and to the market itself) mitigated entrepreneurialism on Chinese side (Breznitz & Murphee, 2011).[52] As a result, domestication of technology became less concerning for SoEs, in case if their profit

[51] Zhang describes the circumstances as follows: *"Leaders of multinational corporations (MNCs) in China consistently cite talent among their top concerns due to a shortage of skilled workers and high attrition rates."* (Zhang L. Y., 2016)

[52] *"This process of hybridization has connected ostensibly profit-oriented foreign investment with the soft-budget constraints of a state-owned economy, leading to a decrease in the effectiveness of technology transfer, potential spin-offs, and the growth impact of foreign investment in Shanghai"* (Breznitz & Murphee, 2011).

This phenomenon occured widely in Shanghai, mainly at large companies with foreign investment (including locally initiated firms, [semi-]government owned or publicly traded companies).

kept rising. (Despite its apparent flaws some non-market elements were needed to be considered as well, including the already mentioned local employment as part of the national strategy.)

The situation remained unchanged until 2015, when a new law was enacted allowing temporary full-foreign ownership in selected industries (Haacke, 2016).[53]

These non-conventional practises somewhat explain the preference of bilateral investment treaties (BITs) in SPFTZ, which are restrictive and subject to uneven treatments, the contrary of other multilateral agreements like WTO or TPP. (Sticking to these measures remain questionable though.)

Internally, the small number of sustainable SMEs in the system may reduce local competitiveness and/or set back the employment rate as well. Improving circumstances may ameliorate the main problem of SMEs, namely the recruitment of the now-missing intellectual staff. (Although based on local perceptions, these professionals tend to migrate among companies, creating an unstable environment for long-term planning.) Such an acute fluctuation of labourforce undermines mid-term development scheme of any companies.

Beijing located (headquartered) companies supremacy in foreign acquisitions may also negatively affect technology transfer and international networking of Shanghai, however there isn't enough evidence to justify that.

On the other hand some other segments of service industry will not be equally affected by labour related problems. Creative answers to non-main stream service sector needs (online shopping or services) will almost certainly increase the number of successful businesses, although their contribution to the economy will likely to remain lower. As for now, examples of high-return industries suggests that only very few companies with Shanghainese origin could become internationally competitive.

Lastly, creative industries in Shanghai (advertising agencies, television and film studios or other media companies) are widely present with moderate contribution to the local economy. These 'miscellaneous' industries could further increase Shanghai's international presence. However, first they would require better public and political appreciation together with culture and arts. (Wang, Shibusawa, Leman, & Mao, 2013).

[53] These were mainly: oil, bio-fuels, edible oil, rail equipment, automobile electronics and energy storage – including vehicles.

Conclusions

The attempt to verify Shanghai's global city status led to a complex network of problem-analysis. It proved to be challenging to gain indepth understanding about all the influential aspects in the city research, even with the initially proposed limitations of research area(s). Shanghai has a unique position among global cities with its special East-Asian way of resource allocation that is partially state-directed.

Nonetheless, it takes longer to better oversee what is trully happening in China nowadays. Global cities are constantly changing, adapting and striving for various purposes (to concentrate transportation, knowledge, innovation) and to become well-known around the world. In China, global cities have not created their 'brands' yet, however in terms of economic performance (including the concentration of air-transportation) and adaptation of modern technology they have been reflecting to their achievements.

Sassen's definition of global citiness, namely the spatial and technical reorganization of the economy has largely succeeded. It can also be stated that services specialized greatly, although not in the way that Sassen was suggesting it in her model (demand-created reliance on fragmented service providers either by the government or the firms).

Besides, the financial industry did not always work as a "key producer service" either, while its deregulation in China is rather conservative (Sassen, The Global City: New York, London, Tokyo, 2001). Moreover the attempt of examining archetypal global cities by her, does vary from recently emerged newcomers' such as Chinese cities. Historically perceived changes made it clear that there are many ways to transform into a global city. Hosting the most complex city-network in the world, research approaches applied on contemporary Chinese pathfinding efforts ought to include thus far non-considered elements of state-directed market socialism. Socio-economic changes may also precipitate in a different way in China. The lower level of internationalization – due to the internal constraints – resulted in the absence of major NGOs, IGOs or other important cross-border (civil) organizations.

On the other hand concentration of economic power was outstanding. It entails the concentration of capital and to a lower extent command abilities, while the more capital-intensive service sector or advanced-manufacturing could also firmly grow.

In my understanding concentration of services (service production) is not merely the result of internationalization. Companies do ponder all kind of costs previous to their capital allocation and they are unlikely to be aiming for global coverage, instead they prefer to optimize their “cost-benefit”. When economic activities are concentrating in a small area near or within the boundary of a highly urbanized place, it usually develops to a self-amplifying process. (In the case of China, state-led incentives are more heavily present). It is not entirely independent from the performance of local economy; an initially advantegous position is necessary in this transition, otherwise competing on national (or international) level may not be sustainable. It has been suggested that multiple Chinese cities are willing to achieve global city status and investing heavily in infrastructure, education or spatial restructuring without being trully aware of the complexity of the term.

The case of Shanghai can be seen as one of the few positive outcomes in comparison with the example above: the early and robust development helped the city to undergo modernization earlier than its rivals, allowing her to extend its regional influence without concurrency. At the same time due to her leading position, the city was appointed with centrally emphasized roles. Shanghai as an *Asian Anchor* is expected to become more central and more important in the region, however with its slow transition it may not overtake others as fast as it was previously expected. Even the optimistic views about the city forecast only a fifty percent reduction of its current barriers by 2025, compared to Hong Kong’s.

Shanghai’s economy and its role in the East-Asian region remains controversial. It has the fundaments to maintain the desired headquarter economy (with internal support), however the environment only recently begun to turn into ’attractive’ in an international sense (in terms of legal background or policywise). Neither the city nor the scholarship had enough time to properly oversee and evaluate the results of this transition. Despite their importance both of the highlighted thesis sub-topics bore with less international significance until very recently.

Beyond the generalization – numbers of Shanghai’s stock exchange indicated many of the underlying problems: state intervention and control is still present, although under normal circumstances the state would allow its (financial) market to operate ’freely’. Notwithstanding in the past two years the Chinese economy experienced various turmoils and couldn’t perform according to the expectations; Shanghai through its financial centre role has become affected as well (poor performance of SSE). The stock exchange underwent serious corrections and remained under state supervision in crucial times, renderring the status of Shanghai's financial market 'unsettled' in the eye of foreign investors.

The seemingly successful pilot FTZ project with local and central involvement (NDRC), strenghtened investors' trust and helped Shanghai to prematurely reach its 2020 targets towards a service-sector dominated economy. Expansion and unification of special zones was undoubtedly beneficial for the local economy. Approaching the level of international standards may open new perspective for local and domestic entrepreneurs. This initiative supposed to be a main contributor in the ongoing internatinalization and globalization efforts, yet, according to recent reports, the pilot FTZ project is not performing that well: following the initial zest, companies that had set up their businesses on site reported none or slight difference between operating within or outside of the FTZ.

Despite all the constraints Shanghai has been rightfully named as a global city. The current research could not challenge this statement. What it could do was to underline its immature status, even in the leading sectors of the economy. Findings in general suggest that Shanghai has barely met the conditions required to be reassuringly named as a global city, and without intervention, it would still be vulnerable. The relative isolation can be partly blaimed for that, although the anticipated defencelessness of the city is less and less concerning.

What this work could and aimed to do was to tinge the overly positive picture that is commonly present in the literature via pointing out performance related issues on multiple fields. At this point I would like to point out that Shanghai during its transitional period managed to solve many of the challenges it faced – liberalization, even under a less supportive leadership from early 2000s, was never reversed. This is the main reason why Shanghai deserves its title.

NOTES

1. Naming and distribution of Shanghai Pilot Free Trade Zone subdivisions may vary by source. Officially it covers 120,72 km^2 .

Appendix

Abbreviations

BIC = Business Identifier Codes
CBD = Central Business District
CCP = Chinese Communist Party
CFFEX = China Financial Futures Exchange
CIPS = China International Payment System
CNH = Off-shore Chinese Yuan (in trading)
EU = European Union
FTSE = Financial Times Stock Exchange
FTZ = Free-trade Zone
GaWC = Globalization and World Cities (project)
GCA = Global Cities Analysis
GDP = Gross Domestic Product
GFCI= Global Financial Center Index
IFC = International Financial Center
IGO = Intergovernmental Organization
IPO = Initial Public Offering
IT = Information Technology (industry)
MNC = Multinational Companies
NDRC = National Development and Reform Commission
NGO = Non-governmental Organization
OECD = Organization for Economic Cooperation and Development
PBoC = People's Bank of China
PRD = Pearl River Delta
QFII = Qualified Foreign Institutional Investor
R&D = Research and Development
SDS = Shanghai Development Strategy
SGE = Shanghai Gold Exchange
SHFE = Shanghai Futures Exchange
SME = Small-Medium Enterprises
SoE = State-owned Enterprise
SPFTZ = Shanghai Pilot Free Trade Zone
SSE = Shanghai Stock Exchange
SWIFT = Society for Worldwide Interbank Financial Telecommunication
TPP = Trans-Pacific Partnership
YRD = Yangze River Delta
WTO = World Trade Organization

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