

Socioeconomic transformations in Shanghai, 1990-2000

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Abstract

The thesis of social polarization in the global city has been debated for decades. However, there are few studies about cities playing major global roles in developing countries in general and cities in transitional economies in particular. This paper investigates the socioeconomic transformation of Shanghai, an emerging global city in China. From 1990 to 2000, the tertiary sector outgrew the secondary sector to become the largest sector. A big loss of occupation occurred within manufacturing, especially in State Owned Enterprises (SOEs). Occupation mainly increased in the producer service sectors. Nevertheless, no polarization or professionalization, as in cities in the West, is identified. It is attributed to the unique status of Shanghai as a global manufacturing centre rather than command centers such as New York, London and Tokyo. Social stratification, however, is not only impacted by economic globalization, but is driven by the state. Income disparity is increasing, human capital is seen to be increasingly important, while the state is inextricably involved with the market in determining the outcomes. As a result, two groups are expanding in the social structure: the globally-oriented skilled labors at the one extreme and rural migrants at the other. The unique socioeconomic outcome of Shanghai underscores the complicated interactions between globalization and local governance. It highlights differences between globalizing cities with different functions as well as the political and economic legacy.

Introduction

Questions of increasing socioeconomic inequality and social polarization in cities are under debate in the central field of contemporary urban studies. The rise of ‘global city’ and ‘world city’ discourse has stimulated fresh insight into the broader

investigation around this issue. Friedmann's (1986) world city hypothesis argued that the major contradictions of industrial capitalism, social and spatial polarization, appear in these cities. Sassen argues that the extraordinary role of global cities like New York, London and Tokyo in the global economy and financial sectors has stimulated a disproportionate growth of professional and managerial jobs, concomitant with a decline in manufacturing industries. Growth also appears in segments of low-skilled/low-paid service sectors that serve those elites. At the expense of the middle, the division between the top and bottom ends of the social structure is greatly widened (2001). Sassen thus also argues that the outcome of such economic restructuring is social polarization (2001). It is argued that such developments in global cities are paradigmatic for those in other cities. Polarization is even taken as an inevitable feature of global cities (e.g. Forrest et al., 2004).

This polarization thesis has been debated for decades. It is argued that anomalies from the global city paradigm exist in different social and cultural contexts. The difference between the Atlantics, i.e. the difference between the United States and the European welfare state, especially the Netherlands, has been highlighted. First, the extent and scale of social polarization is critically examined. Hamnett argues that Sassen's data and interpretations reflect solely the experience of New York or the cities of North America with particularities such as a large number of immigrants (Hamnett, 1994; 1996). He argues that socioeconomic transformation in the global cities of Europe such as London and Randstad is characterized by professionalization, rather than polarization, accompanied by a growth in the unemployed population supported by the state. These cities are characterized by an increase in the number of highly skilled/highly paid professional jobs concurrent with a decline in those less skilled

(Hamnett, 2003). Countering Hamnett's view, however, Burgers rejects the professionalization thesis and argues that the national welfare system and specific histories are mediating variables for social polarization (1996). Through economic redistribution and welfare services such as housing, education, and health, welfare states are able to offset such polarization (Burgers, 1996; Hamnett, 1994; Kloosterman, 1996; Murie and Musterd, 1996).

There is also debate regarding the extent to which the polarization thesis is paradigmatic, i.e. to what extent the transformation in the global cities will be manifested in cities at the lower levels of the global urban hierarchy (e.g. Baum, 1997; Norgaard, 2003; Vaattovaara and Kortteinen, 2003; Wessel, 2000). With the rising significance of East Asia in the global economy, cities such as Singapore, Seoul, Taipei and Hong Kong comprehend new interests (Baum, 1999; Forrest et al., 2004; Hill and Kim, 2000; Wang, 2003). For instance, the socioeconomic restructuring of Singapore is found to manifest professionalization but not polarization, as the upper-middle class is enlarging rather than declining (Baum, 1999). Thus, the focus of research is largely on East Asian cities as anomalous to the polarization paradigm. Hill and Kim develop a binary conceptual framework to demonstrate such differences. Global cities are divided into 'market-centered' and 'state-centered': New York is categorized as the former; Tokyo and Seoul are termed the latter (2000). They argue that Seoul, like Tokyo, has experienced neither severe manufacturing decline, nor rapid expansion in the producer service sector, nor extensive foreign immigration. Although class segregation has long existed, there is no trend of income polarization. They assert that:

‘Tokyo and Seoul differ from New York in so many salient respects because these cities are lodged within a non-hegemonic and interdependent world political economy divided among differently organized national systems and regional alliances’ (Hill and Kim, 2000, p. 2188).

Not only driven by capital globalization, the socioeconomic structure of global cities is also molded by national development models. In this respect, Friedmann admits that the world city paradigm neglects institutional and historical forces; the hypothesis was originally set to examine the structural effects of cities in the global order (2001). Alternatively, Sassen emphasizes the peculiarities of Tokyo, which partly come from local institutions and administrative frameworks (Sassen, 2001). She criticizes the quantitative method of Hill and Kim and insists that Tokyo and Seoul are like other global cities.

The socioeconomic transformation of the global city is determined by both market forces and the development contexts of states. This argument, however, clashes with the central assumption of the global city paradigm: globalization impacts cities to such an extent that they can bypass political and institutional power of the nation-state. Nevertheless, since global cities are embedded in the specific ideological and political contexts of different nations, they are not only passive recipients of global forces, but also active facilitators of impacts (Olds and Yeung, 2004). This therefore implies that different development strategies of diverse states, under globalization, will bring about different social outcomes, or even produce diverse categories of global cities. The essence and scale of cities’ transformation will be diverse rather than singular. In this vein, studies of both welfare states in Europe and cities in developing states

further direct the polarization hypothesis towards understanding the interactive dynamics between globalization and states (Wang, 2003). In a recent study on the 'partition' of urban space, Marcuse and Kempen (2002, p. 260) conclude that the state is affecting the process to an unprecedented extent. They argue that there are two extreme possibilities:

'On the one hand, state power in the control of complex urban development can, under cover of efficiency, in fact exacerbate hierarchical divisions and inequalities and implement their reflection in urban space. On the other hand state action can recognize the likely impact of 'normal' efficiency-oriented actions on such divisions, and attempt to counter or ameliorate their impact. Experience in the United States suggests the first pattern—reinforcement of division; experience in the Netherlands the second—amelioration.'

Cities under transitional economies, in this sense, represent the extreme case of state intervention against social division. As post-socialist cities are progressively integrated into the global economy, the proliferation of globalization and internationalization has been noticed in the cities of Prague in Eastern Europe (Sykora, 1994), Moscow in Russia (Alden et al., 1998; Brade and Rudolph, 2004), and Shanghai (Wu, 2001; Wu, 1999) and Beijing (Gaubatz, 1999) in China. Although there is an avalanche of research on the resurgent disparities of such cities (Logan and Bian, 1993; Logan et al., 1999; Nee, 1989; 1996), few studies have ever been done from the point of view of the global city. This is partly because such cities were conventionally viewed as outside the capitalist system, and partly because their global roles have shrunk considerably, so that they are now on the lower level of the global

city hierarchy. This paper examines the restructuring of socioeconomic structure in Shanghai, the most internationalized city of mainland China, during the last ten years. During this period, it has been the fastest growing city under the market-oriented reform. As such, it provides an appropriate case to study the extreme impact of both globalization and the state. Since Shanghai is not a global city at the core-of course it is not when compared such cities as New York, London and Tokyo-in the sense of its status on the world city hierarchy, it also introduces an opportunity to test whether the polarization hypothesis is paradigmatic for cities on lower levels.

From the 1980s, China began a piecemeal reform under market orientation. The government started to follow the successful development strategy of the Asian tiger economies in pursuing global economic linkage. Shanghai's unprecedented development echoes this strategic transition. With China's rising market economy, Shanghai embraces the best prospect of becoming a global city in East Asia (Yusuf and Wu, 2002). In the following sections, we will first look at the characteristics of Shanghai's new development as a globalizing city, as the 'dragon head' of contemporary urban China. In the light of the historical and institutional contexts, a framework is drafted to guide the following sections. Then the focus will be on the economic transformation and social stratification of the city. The restructuring of employment and other socioeconomic attributes such as education and income, from 1990 to 2000, are examined. The extent of such socioeconomic differentiation is also analyzed. After that, we will further discuss the impacts of globalization and state in molding the socioeconomic structure of the city. Findings are interpreted in the light of the diverse social outcomes of globalizing cities, the function of the city on the world city hierarchy, the developmental stage of the city, and its development

strategies.

Shanghai: a globalizing city

The most attractive issue in relation to urban China is the competition between Shanghai, Beijing and Hong Kong for the role of a premier gateway to the global economy. Although according to conventional literature Shanghai is on the third tier of the global city network, rather than a truly global city (Beaverstock, 2000; Friedmann, 1998), its rise has already attracted widespread attention (e.g. Sassen, 2002; Shi and Hamnett, 2002; Yusuf and Wu, 2002). For instance, in a recent book titled 'World cities beyond the West', Shanghai is presented as the first among those twelve cities including Seoul, Cairo, Hong Kong, Sao Paulo, and etc. (Gugler, 2004). Shanghai is expected to attain a leading position on the world city hierarchy in the future.

The process of globalization is noticeable in the origination, development and culture of the city. As a world city in history and as a globalizing city to date, Shanghai exhibits the legendary story of a Chinese city interacting with the outside. It became a modern city as late as 1843, when China was forced to open to the West by the Treaty of Nanjing. Amazingly, Shanghai, titled 'the Paris of the East', 'the bright pearl of the Orient', 'the paradise for adventures' (Lu, 1999), was in the earlier 20th century transformed from a fishing village to one of the leading cities of the world. Its population increased to one million in 1900, two million in 1915 and three million in 1930 (Cheng, 1999). Shanghai even rose to be the 7th largest city in the world in 1936 (Yusuf and Wu, 2002). During that period, Shanghai grew to be an economic center: its industrial production accounted for half of the total value of production of China

(Felicity and Tang, 2002). It became a main financial center of the Far East, concentrating 90 per cent of China's banks and over half of China's foreign trade (Gu and Chen, 1999). By 1942, around 150,000 foreign migrants lived in the city (Cheng, 1999). By 1947, Shanghai had fourteen foreign banks, thirteen trust companies and seventy-nine money exchanges (Felicity and Tang, 2002). Like other semi-colonial cities, however, under the 'treaty-port system' established in 1893, it was divided into a Chinese municipality and two foreign-run districts (Wasserstrom, 2003), namely, the International Concession and the French Concession.

Its prospect as a world city, however, was lost when China closed the door to the West in the Cold War. From 1949, Shanghai's financial function largely declined as a new economic base – industry, was built up through four decades of industrialization. Under the socialist ideology, Shanghai was developed for production, not consumption. As a result, between 1949 and 1983, 87% of Shanghai's revenue, of 350 billion yuan, was remitted to the central government, accounting for one sixth of the whole state revenue. Although Shanghai was kept a major industrial city of China, its economic structure was mainly domestically oriented.

The implementation of market reform and the Open Door policy in the late 1970s re-connected Shanghai to the world. Before the 1990s, however, because of its preponderant status in China's economy, Shanghai was untouched and hence was bypassed by the first wave of economic take-off, which was embraced by cities in South China. Subsequently, the Pearl River delta became China's strongest economic center, characterized by an export-oriented economy. Nevertheless, a decisive change in the national development strategy provided opportunities to propel Shanghai

forwards. In 1992, when the central government announced its intention to develop the Pudong New Area of Shanghai, a new way to reclaim Shanghai's global status appeared. While the development of cities in southern China adopted a regional focus (although with reference to Hong Kong, Macao, Taiwan and nearby overseas Chinese dimensions), development of Shanghai was largely arose from a national developmental strategy featured with an aspiration of global focus. The government of Shanghai declared that it would make Shanghai China's national financial center by 2000, Asia's regional financial hub by 2005, and a global financial center by 2010.

Shanghai has thus entered a new era. Its GDP grew from 75.645 billion yuan in 1990 to 455.115 billion yuan in 2000. The average annual GDP growth rate reached as high as 20.8%, which is far beyond the high-speed national growth of 8%. More than 2600 financial institutions, including 51 foreign banks and financial companies, and 163 representative offices, have opened for business there (Shi and Hamnett, 2002). In just a decade, Shanghai attracted more than half of the world's 500 top transnational corporations to open branches. From 1990 to 2000, a total of USD 45.423 billion, from 22,270 projects, was invested in Shanghai (SSB, 2002). Of the 100 largest industrial enterprises in the world, 57 have invested in 147 projects in Shanghai, including IBM, Ford, Hitachi, Siemens, and Philips (Kang, 2002). Dramatic changes are immediately visible in the new Shanghai. Mushrooming skyscrapers such as Oriental Pearl Tower (486m) and Jin Mao Tower (421m) have reshaped the skyline. Numerous new luxury apartments have been built. Hundreds of manufacturing bases have been constructed for transnational corporations such as General Motors, Ford, and Samsung. Advertisements for McDonalds and KFC are dominant symbols of the city. A typical example is the *Lujiazui* Finance and Trade Zone: within a ring of

high-rise, fifty to sixty-storey buildings, four million sq. m. of luxury housing and 500,000 sq.m. of hotel space have been constructed (Olds, 1995).

Shanghai has gone beyond merely restoring its international economic status; it is also a rising locus with regard to political and cultural events. In 1999, the first Fortune Global Forum of China was hosted in the Shanghai International Convention Center in Pudong. Around 300 chairmen, presidents and CEOs of multinational companies including Microsoft, General Motors, Ford, and the Royal Dutch/Shell Group were present. In 2001, it also hosted the first Asia-Pacific Economic Cooperation (APEC) meeting in China. The success of APEC was taken as a demonstration and exhibition of China's international status (PDO, 1999). The first Formula One racetrack, a 5.3 kilometer circuit, reputed to be Asia's most advanced Grand Prix Circuit, has also been constructed in Shanghai. The city is the only Chinese city to host such sports (PDO, 2002a). Moreover, Shanghai beat Moscow, Queretaro, Wroclaw and Yeosu in the competition for hosting the World Expo 2010, the world's third largest event after the Olympics and the World Cup. Themed 'A Better City, A Better Life', it will bring 70 million visitors to the city (PDO, 2002b).

From once a global city to be closed, and then embrace the world again, Shanghai presents a unique legacy. Although it has never achieved the status of those core global cities such as New York, London and Tokyo, it is always a dominant regional centre. It is on the base of this status that contemporary globalization and market reform in China pave a way for Shanghai to upgrade to be a truly global city. Beyond the booming economy and restructured physical landscapes, it is phenomenal that tremendous transformation also appeared in the social structure of the city. Our

question is: with its rising global functions, will Shanghai's social transformation present the same trend of those happened in the core global cities? As we have argued, there is no such thing as globalization outside the economy, society and spaces of nations, therefore we further ask: what are the roles of the national and local government in shaping current socioeconomic structure?

From global to local: three dimensions in the process of restructuring

Along this line, we will inspect the restructuring of Shanghai's social structure from three levels spatial of global, national and local. We argued that there are three new dimensions appear in the city that interacted with the transformation of social structure. All the processes are driven by the state (Figure 1). It is from 1990 to 2000 that Shanghai experienced striking restructuring. During the decade, three new factors, influx of FDI, millions of domestic migrants, and reform of SOEs, have newly appeared.

First, FDI, mainly from South East Asia and the West, is stimulating the development of manufacturing sectors in China. In September 2002, China was listed by the internationally known consulting company, A.T. Kearney, as the world's number one, surpassing the US, in attracting FDI. As the second largest economy in the world, with the fastest rate of growth, with its 1.3 billion potential consumers, rich natural resources, and cheap labor costs, China has grown be a new economic powerhouse of the world (PDO, 2002c). By 2002, a total of 424,196 projects had been invested in, involving USD 447, 9 billion, in China. Investment in industry accounts for 63.32% of the total amount. As such, FDI accumulates mainly in manufacturing sectors. In Shanghai, by 2002, 83% of FDI, involving USD 21.2 billion, had been invested in

industries (SSB, 2003). These cover 16,875 projects and amount to 62% of the total FDI program. All the 14 largest manufacturing firms of the world, as identified by *Fortune*, have invested in Shanghai: GM, Siemens, Nescafe, Unilever, IBM, Hitachi, Sony, Panasonic, HP, Samsung, Toshiba, NEC, Fujitsu, etc. (Wang, 2004). They have introduced advanced production methods as well as new management approaches to the locals. Hundreds of industrial establishments erected by joint ventures have appeared in suburban Shanghai and neighboring provinces.

Subsequently, FDI has also created a new social group, i.e. foreigners, employees of foreign companies and joint ventures. Shanghai appears to serve as a command center for these global elites. Between 1991 and 1996, to help the city become a modern metropolis, the central and municipal governments spent 10 billion dollars on urban improvements of Shanghai. With upgraded landscape, infrastructure and transportation, Shanghai is now able to provide the highest quality of urban life in China. In 2000, a total of 60,000 foreign residents, mainly from Japan, China Taiwan, Australia and the U.S., resided in Shanghai; 68% of them were working as employees in joint ventures or transnational companies (Table 2). Moreover, the government introduced a series of preferential policies for them. For example, 74 local economic measures have been adopted in Pudong New Area, including concessions on the income tax of foreign investors, custom duties, and taxes on equipment, vehicles and building materials related to FDI. The People's Bank of China even granted permission to qualified foreign banks based in Shanghai to conduct Renminbi business and to other foreign firms to enter the domestic insurance market, whilst such policies were just implemented towards well-qualified firms, personnel, and big enterprises.

Second, on the national level, market reform and the loosening of the *hukou* policy have resulted in large numbers of rural migrants. They provide the labor force needed for industry, urban reconstruction and the service sectors. According to the Fifth Survey of Floating Population in 1993, 2.12 million migrants were working in Shanghai. They accounted for 21.3% of the total labor force and 75% of them were from Zhejiang, Jiangsu and An'hui, provinces around Shanghai (Board, 1997). The growth of manufacturing industry provides employment opportunities for migrants. The 2000 Population Census, for example, reveals that 25.9% of migrants work in manufacturing. In the earlier 1990s, to build the Metro and thousands of buildings in Pudong, migrants were extensively employed as construction workers. During that period, the number of migrants greatly increased (Figure 2). By 2000, rural migrants composed 39.5% of the labor force of Shanghai. However, they were excluded from most of the amenities of permanent residents, such as housing welfare, medical facilities, and pensions. Since 1994, control on migration has tightened as the crisis of lay-offs and unemployment among the local labor force has become severe. As a result, most rural migrants are restricted to jobs undesirable to local residents, such as in domestic service, sweatshops, restaurants and retail services. They are normally discriminated against, as 'outsiders'. For example, it is reported that 74% of local residents in Shanghai perceive migrants as creating problems in the area of crime, transport, employment and the environment (Solinger, 1999). Under globalization, however, migrants comprise the fundamental base of the socioeconomic structure.

Third, on the local level, the hallmark of economic restructuring in Shanghai is the reform of SOEs. In the pre-reform era, most employment was in SOEs and COEs

(collective-owned enterprises), mainly involved in manufacturing such as textiles. In the face of new challenges from joint ventures, SOEs were forced to improve their efficiency. Meanwhile, the state had to prevent SOEs from becoming an impediment to the fledgling market. In the early 1990s, most SOEs suffered a large-scale retrenchment (Liu, 2001). In Shanghai, the proportion of SOEs within the total industrial population decreased from 98.76% in 1990 to 81.91% in 2000, while joint ventures increased from 1.49% to 17.74% (SSB, 2002). Although the total occupation of Shanghai has increased, the contribution of SOEs and COEs has significantly decreased, while that of both 'self-employed' and 'others' has markedly increased (Table 3). The ownership right of enterprises in Shanghai is increasingly market-oriented, however, the dominant labor force is still within SOEs.

Meanwhile, a marked structural transition of sectors has appeared. During the past decade, the tertiary sector increased substantially and has overtaken the industry and construction sectors to become the largest sector. The contribution of the former to GDP rose from 31.51% in 1990 to 50.63% in 2000, while that of the latter dropped from 58.38% to 42.99% (Table 1). Accordingly, a new structure of sector ownership has appeared: SOEs mainly work in the tertiary sector, while FDI-related enterprises are mostly involved in manufacturing. In 2000, 1.34 million workers, that is, 59% of the SOEs, worked in the tertiary sectors. On the other hand, 0.49 million employees, i.e. 85% of employees in transnational corporations or joint ventures, worked in manufacturing. Infilling of FDI thus raised the status of Shanghai towards a global centre of manufacturing industries. On the other hand, globalization provides a good opportunity for the state to adjust its function to suit to the new command of marketization, that is, the SOEs could successfully transfer to the growing field of

service sectors, while the left vacuum of manufacturing is filled by transnational corporations or joint ventures.

Thus, from global to local levels, three new dimensions are appearing in the social structure (Figure 1). The new international division of labor has brought the growth of FDI and the rise of a class of globally-oriented skilled labors. Being as employ expatriates, they compose a growing part of the top of social hierarchy. Loosening of the *hukou* system and new occupational opportunities further brought about waves of migrants. Because of their marginalized status, they are largely added into the growing low status hierarchy. Marketization, along with competition from joint ventures, has accelerated SOE reform. A great deal of laid off workers further enlarged the lower end of social hierarchy. These three dimensions are shaping the new social structure: globally-oriented skilled labors, rural migrants and SOE reform. As Figure 1 shows, it is the state that heavily shaping current socioeconomic structure. For those elites, the state initially implemented a series of strategies to enlarge their amount. As to those laid off workers from local SOEs, although there were laid off under new reform of the state enterprises, they are still under the welfare system. Although they were excluded from job markets, the state still assist them to survive. The third, rural migrants, however, were extremely territorized, thus they are competitively fight against their disadvantaged policies initiated by the state. In this sense, different from other studies on global cities which highlight the decreased significance of the state, the state in Shanghai still dominantly impacts socioeconomic structure of the city. Three principal questions are raised: what is the current socioeconomic structure of Shanghai? Is it new? Or, is there a trend of polarization? Especially, to what extent does the state impact the process of restructuring? What is

the direction of the impact? How does the state interact with globalization cooperatively, or negatively, to mould such a new structure?

Changing occupation structure

In the following sections, we will use 1990 and 2000 census data to show a panorama of socioeconomic changes. The 1990 census dataset contains total population; however, the 2000 data is just a 10% sample. Nonetheless, they both represent characteristics of the population composition.

Above all, Shanghai's population has greatly increased, however, the labor market is restructured mainly in terms of structure and quality, rather than quantity. Shanghai Statistics Bureau classifies occupations into seven major categories, each containing a number of sub-categories, namely, technical related staffs, administrators, staff and related people, sales and service people, workers in manufacturing-related sectors, workers in farming-related sectors, and others¹. As Table 4 shows, comparing 1990 with 2000, the most discernable changes lie in 'workers in manufacturing-related sectors' (-12.3%), 'sales and service people' (+7.3%), and 'staff and related people' (+6%), while the number of both 'technical related staffs' (-0.3%) and 'administrators' (-0.3%) have changed only slightly (Table 4). Clearly, employment in manufacturing decreased when the service sectors enlarged. However, the proportions of technical and administrative occupations remained unchanged. This presents a structure at an early stage of post-Fordist transition, characterized by substantially declining manufacturing and enlarging service sectors. This restructuring (Figure 3), however, shows no signals of either polarization or professionalization, as is the pattern of cities

¹ The employment categories of the 1990 and 2000 data are slightly different. For the sake of comparison, we have regrouped the categories of 'trade persons' and 'service persons' into one category.

in the USA or Europe.

In detail, the most evident increase appears at both the higher and lower ends of the tertiary sectors, i.e. real estate and service sectors. Figure 4 shows a bimodal pattern of change: the contribution of 'Real estate' employment to GDP increased more than 10%, those of 'Service' and 'Banks and insurance' increased by 4%, while those of 'Other sectors' decreased, the greatest drop being in 'Transport and communication'. Second, industry has been upgraded. In particular, industries with advanced technology, such as 'telecommunications equipment', 'integrated circuits and computers' and 'bio-medical technologies and new materials', increased, while traditional light industries such as 'textiles' decreased (Figure 5). Accordingly, the total employment in manufacturing decreased by 1,227,596², or 30.4%, compared with 1990. Changes are especially pronounced in four sectors, textiles (-7.12%), garments (+6.28%), machines (-6.57%), and telecommunication sectors (+2.52%) (Figure 5).

Third, this restructuring brought about severe unemployment. According to the census, there has been an increase in Shanghai's unemployment ratio, from 1.5% in 1990 to 3.5% in 2000 (SSB, 2002). This, however, is an underestimate. Government statistics are often murky and understated, as the actual unemployment situation is complicated, involving a wide range of categories such as registered unemployed, laid-off and unregistered unemployed workers (Solinger, 2001). Hu Angang, an economist, estimated that the actual unemployment rate in Chinese cities was above 7.9% (Hu, 1998). In 2000, the ratio was reported to be around 7% in Shanghai (Lee and Warner,

² This figure is calculated as the difference between the numbers of the 1990 data and the 2000 census data.

2004). Although it is hard to obtain an accurate unemployment ratio from official reports, the 2000 census shows original sectors of unemployment. It is clear that around 57% of unemployment is in 'manufacturing and related sectors' and 28% of unemployment appear in 'sales and service related people' (Figure 6). On the other hand, much less unemployment appears in 'administrators', at just 0.57%. Moreover, above 90% of such unemployment occurred in SOEs and COEs. These laid-off workers were mainly low-skilled and middle-aged workers with poor education (Lee and Warner, 2004).

Above all, on the one hand, the impact of the influx of the international elites is not evident. During the decade, the proportion of technical related staffs and administrators is relatively unchanged while the elite group is still small within the occupational structure. Under market transition, Shanghai's employment restructuring is characterized by the reform of the ownership of SOEs. Unemployment is mainly found in small and medium size SOEs, mainly in manufacturing (Hu, 1998). In 1996, those from the textile industry accounted for 30.2% of laid-off workers in Shanghai; those from the meter/measuring instrument manufacturing industry accounted for 28.6%; light industry accounted for 19.9% and the metallurgical industry accounted for 14%. Third, concerning rural migrants, although considered as outsiders, their numbers still increased greatly. In 2000, a total of 3,870,000 migrants took up 35% of total occupations³. Migrants had a high ratio of employment. According to the 2000 census, 73.4% of them are working, while the number of local residents in employment is only 42%. Clearly, the length of time migrants stayed in Shanghai increased: 48% of them stayed for more than a year. They worked in all kinds of

³ This figure does not cover foreign migrants and those from Hong Kong, Taiwan and Macao.

SOEs, COEs, Joint ventures and Township and Village Enterprises (TVEs) (Roberts, 2001). Most migrants, however, worked in manufacturing (25.84%), construction (19.53%) and services (27.36%), including business services (13.88%), catering (6.62%) and community service (6.86%). Only a few of them were administrators (0.54%) (Table 5). With continuously rising numbers, migrants have constituted a challenge to the local workforce. For example, in the Shanghai No.9 Textile Mill, only migrants were used in the spinning workshop, as locals demanded more pay (Roberts, 2001). This will be further discussed in the following sections.

As a global manufacturing center, Shanghai's manufacturing has been upgraded, while service sectors are increasing. The growth of producer services such as FIRE (Finance, Insurance and Real Estate), in advanced nations, constitutes the leading edge of a shift from manufacturing to a service economy (Sassen, 1991). As such, New York, London and Tokyo, the global cities, contain the greatest concentration of producer services. With its rising role as an economic control center for China, the service sectors are also rapidly growing in Shanghai. This process, however, is accompanied by a transition of ownership rights from SOEs. The ownership of manufacturing has been transferred to joint ventures at the expense of SOEs, while the latter mainly appeared in the tertiary sectors. Moreover, mass unemployment of SOE workers is apparent as a result of the streamlining of manufacturing for market efficiency. Increasing numbers of migrants further exacerbate the problem. Competing for work in services and manufacturing, laid-off local workers and migrants compose the new base of the occupational structure.

Changing educational attainment

Shanghai is progressively improving in educational attainment (Table 6). Although the census data provide limited information and lack details on such matters as gender, the overall trend can be portrayed. From 1990 to 2000, there was an increase in the attainment of 'University and above' education, in terms of both absolute numbers (+371,388) and relative percentage (+14.6%). While the number of those with 'Secondary school' level education decreased (-1,810,609), their percentage within the population still increased (5.1%). The median education level of the labor force remains at this level. Numbers at the two levels of educational attainment, 'Semi-illiterate and below' and 'Primary school', both decreased.

It is not possible to compare the distribution of educational attainment among different occupational groups, as the 1990 data did not cover this issue. The 2000 census data, however, provide such information. We can examine the current attributes of the workforce in different fields (Table 7). With 52.18% being educated to 'University and above', 'Technical related staffs' have the highest educational level. On the other hand, most 'Laborers and related workers', 82.45%, are 'Secondary school' educated, while few (1.89%) have university degrees. This group has a much lower educational level. Overall, the better educated become 'Technical related staffs', 'Administrators' and 'Staffs', while those in related-related occupations are mainly of low education.

The upgrading in educational attainment is an outcome of the development strategy of the government. To meet rising market demand, Shanghai is to build a so-called 'intellectual highland' (*Zineng gaodi*). Shanghai municipality offers favorable terms such as tax concessions to attract high-skilled elites. This echoes the state's

developmental strategy of improving the quality of the labor force, under the slogan, ‘developing a knowledge-based society’ (*jianse xuexixing shehui*), proclaimed by former President Jiang during the APEC meeting in 2001. The essential idea of this policy is to encourage study throughout society, to profoundly raise educational attainment and hence to improve labor quality. Under this strategy, a series of policies has been promulgated. An extreme case is the policy of household registration granting named Blue Print registration and a ‘residential card’. Shanghai’s registered population is strictly controlled with the ‘invisible wall’ of the household registration system (Chan, 1994). Since 1994, however, migrants have been authorized to access a Blue Print registered permanent residence, if they either invest, purchase a commercial house, or are formally employed by enterprises. This is intended to encourage investment and to attract high-level elites. Subsequently, however, it has been found that only 2% of Blue Print registers were needed intellectuals. In 2002, the Blue Print system was replaced by a new ‘residential card’ registration system, which explicitly requires migrants, in order to be eligible for registration, to hold a degree above undergraduate or possess a special talent (Bao, 2002). This scheme has deliberately reshaped the requirements threshold in order to pursue higher-level elites. Furthermore, even for students graduating from colleges outside Shanghai, the official criteria for the grant of an employment permit⁴ are strict:

‘To work in Shanghai, the graduate should hold a degree above or equal to a Master’s degree, or a Bachelor’s degree from colleges/universities located in Shanghai, or from colleges/universities developed by the State Council, or from those local colleges

⁴ All outsiders who stay for more than three days need to get registration, which can be extended to a two-year permit issued by an enterprise or local police office. Permits are granted only upon proof of legal accommodation or employment. On top of this, migrants need to apply for an urban employment permit.

within '211 projects'⁵...otherwise you will not be eligible' (SCGCG, 2001).

Rural migrants, on the other hand, have to go through a long process to remain legally in Shanghai. To stay for more than three days, migrants are required to get a three-month residence registration. Only after obtaining legal accommodation or employment, can they extend the permit to two years. The final step is to apply for a permanent employment permit, renewable at a charge of \$8.40 every year. After going through these checkpoints, migrants are legally allowed to stay permanently. All these endeavors are intended to achieve an improvement in workforce quality. It is estimated that a total of 25,000 repatriates from overseas, around one fifth of such population in China, are working in Shanghai, and 80% of them hold Master's degrees (Kang, 2002). Nevertheless, migrants are largely excluded from formal employment. Moreover, with limited human capitals, i.e. low education level, migrants are unable to comport with the high demand of labor market. The average educational level of migrants, 85% in the 2000 census, is below 'junior high school', while only 3% of them are educated to college level or equivalent. Because of these reasons, it is no wonder that their jobs are generally '3D', i.e. dirty, dangerous and demeaning (Solinger, 1999).

Income inequality

Before market reform, there was much less inequality in urban China. A strong element of equality appeared among employees within SOEs. The income gap between manual workers and intellectuals was small, as human capital such as education was insignificant in determining the scales of income. Nevertheless, in a

⁵ 211 universities/colleges are evaluated and chosen to enjoy the most supportive policies from the State Council.

so-called 'redistributive economy' (Szelenyi, 1983), political elites were awarded welfare privileges such as housing. Inequalities were found between Communist officials and powerless workers (Logan and Bian, 1993). Before the 1990s, in the earlier years of marketization, it was even found that inequality substantially decreased (Nee, 1991). For instance, a survey in Tianjin found that from 1976 to 1986, monthly income increased by 91 percent, while income inequality declined by 30 percent (Bian and Logan, 1996).

However, under a more marketized environment, a profound shift occurred during the 1990s (Bian and Logan, 1996). On the one hand, according to the so-called 'power conversion' thesis, it is found that the official class still retains its advantages, as it continues to control resources (Rona-Tas, 1994). On the other hand, the fledgling market brought about new changes. First, joint ventures pay much higher salaries than SOEs. In consequence, the incomes of employees in enterprises within new industries grew faster than elsewhere. Competition by joint ventures to attract well-educated workers led to improved terms and conditions in other enterprises. Second, the pressure of market competition and the pro-efficiency policy resulted in rising differentials of income within SOEs. Staff in SOEs with monopoly power, such as telecommunications, earn more than others. Moreover, the relationship between education and income has become stronger. Human capital and entrepreneurial activity has become increasingly significant (Bian and Logan, 1996). On the other extreme, migrants are much less privileged. Generally they earn the lowest wages. Consequently, China is now believed to be among the most unequal countries. Its Gini in urban areas has risen from 0.15 in 1980, to 0.24 in 1990 and to 0.32 in 2000 (Chang, 2002).

According to a survey by the Shanghai Social Science Academy, the Gini of Shanghai residents has also risen, from 0.16 in 1991 to 0.27 in 1995 (Lu, 1997). Although income has risen in all groups, according to the census data, inequalities are increasing. The income of the tenth decile increased from 3468 yuan in 1990 to 24111 yuan in 2000, while that of the first decile grew only slightly, from 1404 yuan to 5681 yuan. Consequently, in 2000, the income level of the tenth decile is five times of that of the first decile (Figure7). Household income, displayed in Figure8, also shows a tendency towards increasing disparity. The proportion of higher income families is increasing, exacerbating inequalities between groups. The trend of polarization, however, is by no means obvious. Instead, higher income groups increase along with a decrement in low-income groups. For instance, in 1990, no households earned above 5000 yuan, and the median income was only 2000-3000 yuan; however, in 1995, most households earned more than 5000 yuan and the median income had increased to 6000-7000 yuan, and in 1999, only 1% of households earned less than 5000 yuan, and the median had increased to more than 8000 yuan.

Income disparities among occupational groups enlarged even evidently (Table 8). In the 1980s, wages were similar in all occupations. A decade later, incomes in 'Banking and insurance', 'Real estate and social services', and 'Education, culture, art, broadcasting, film and television' had increased far in excess of incomes in other groups. For instance, incomes in 'Banking and insurance' (3346) rose to become about twice of those in 'Wholesale, retail and catering' (1856). Moreover, there are manifest differences in the extent of change. The most striking change is in 'Banking and insurance', with an increase of 3026! The increase in 'Education, culture, art,

broadcasting, film and television' is also striking. On the other hand, much smaller increases appear in 'Geological prospecting, water conservancy administration', and 'Wholesale, retail and catering'. This confirms that human capital and entrepreneurial activity are increasingly influential on earnings. Nevertheless, it should be emphasized that these official statistics only cover registered permanent residents; neither higher income foreign elites nor badly paid rural migrants are counted. Therefore the actual inequalities will be far greater.

A report by Cao and Nee (2002) found that employees in hybrid sectors of Shanghai earn more than those in SOEs. Staff in foreign companies receive 132% higher income than their state firm counterparts. Data from the Statistics Yearbook present the trend (Figure 9, 10). From 1990 to 2000, the proportion of wages from non-public enterprises ('others') increased from 2% to 30%. By comparison, a substantial decline occurred in SOEs and COEs (Figure 9). Moreover, per capita annual wages in the hybrid economies increased much more than those in the public ownership sectors, especially the COEs (Figure 10). The more an enterprise is involved in marketization and globalization, the higher the income of its employees. Laid-off workers and migrants earn the least. It is reported that 65% of laid-off workers received less than 200 yuan per month in 1995 (Lee and Warner, 2004). Over the decade, income disparities have increased and a new stratified system is emerging.

Discussion and conclusions

The literature reports that global cities experience a socioeconomic polarization as a result of the changes in industrial and occupational structure. This study shows that Shanghai has witnessed a massive change in manufacturing and service sectors. A

detailed analysis of sectors further shows a pronounced growth in producer services such as FIRE (Financial, Insurance and Real Estate). To a certain extent, this is similar to what has happened in global cities, although on a smaller scale. Under the state developmental policy, the educational attainment of the workforce has soared. Under a hybrid system of both state redistribution and market (Bian and Logan, 1996), income disparity is enlarged, however, not polarized. Human capital is an important determinant of income.

In this sense, although the current extent of social stratification does not show any signals of polarization, neither occupation, education nor income, there are trends towards the direction.

In a recent study, Vaattovaara and Kortteinen (2003) interpreted both polarization and professionalization as outcomes of a shift in the labor market. They argue it is a result of a fundamental structural shift in demand in the labor market, i.e. the mismatch between an oversupply of less-skilled labor as well as an over-demand for highly skilled labor. This comment applies well to Shanghai. It is the mismatch between supply and demand in the labor market that has brought about the high status of joint ventures, protected although low status of SOE laid-off, and marginalized low status of migrant workers. Globalizing Shanghai is dominantly driven by the aggressive manipulation by the state, which, in return, accelerates the stratification of society. Therefore, to a certain extent, these findings conform to the paradigmatic trend of global cities; however, in terms of the underlying mechanisms, the case of Shanghai is different from those global cities in the core of the world city hierarchy.

The global city hypothesis is mainly built on the assumption that the global economy

drives the socioeconomic restructuring of these cities, transforming localities by disconnecting them from ties to nation-states (Abu- Lughod, 1999; Cox, 1997; Smith, 2001; Ward, 1995). In contrast, Shanghai shows no decrease in the impact and control of both national and local governments over its development. To engage in rigorous inter-urban competition for inflowing investment, Shanghai is governed by an entrepreneurial developmental strategy. Both central and local states strive to promote the city to be conducive to globalization. Policies to attract well educated elites, to reform SOEs and to use and control migrants can be understood in the light of this rationale.

The promotion, however, is localized. Local SOE laid-off workers are under the protective umbrella of the local government, while rural migrants are treated as outsiders. It is reported that in 1997 260,000 laid off workers were in need of help in employment (Lee and Warner, 2004). In response, in 1996, Shanghai municipality developed a Redevelopment Project to establish so-called Reemployment Service Centers (RSCs) in all SOEs. Laid-off workers are assisted by the center to seek jobs, receive a basic living allowance and maintain premiums on pension and health insurance premiums. Various forms of reemployment assistance are provided: job search assistance, job training, wage subsidies, labor information, etc. In 1996, a total of 100,000 laid-off workers from telecommunications and textiles registered in RSCs. The yearly expenditure of RSCs increased to 420 million yuan. In 1997, a total of 250,000 laid-off workers registered, while spending for the year exceeded 1 billion yuan. The number of RSCs reached 452 (Lee and Warner, 2004). From 1998 to 2000, a total of 17.5 million, 37% of the total laid-off, were reemployed (Lee and Warner, 2004), typically as cashiers, computer technicians, cooks, domestic helpers and

electrical technicians.

On the other hand, from 1994, the municipality promulgated systemic obstacles to handle migrants. First, a special labor management office was set up especially for migrants. To get a work opportunity, individual migrants first had to obtain permission from their local government or institution to work away from their area of origin. In 1995, the Shanghai Labor Bureau further divided occupations into three types: those that can freely employ migrants, those can employ a limited number of migrants, and those cannot employ migrants. The control upon migrants is further enhanced in diversity. However, the central strategy of all policies is to protect local workers. Accordingly, a two-tier labor market has developed in Shanghai, with significant differences in occupation and income between migrants and local residents (Meng and Zhang, 2001).

In this sense, globalization and the state, jointly impacting the socioeconomic structure, are driving the emergence of a new trend of polarization. Three extreme groups can be identified within the new hierarchy in the coming global cities. At one end of the spectrum, there is a growing high-income group that benefits from the global economy. At the other end, there is a growing group that is only weakly attached to the global economy, and those who are excluded from the labor market. In the Shanghai model, elites working in joint ventures compose the higher end, while rural migrants and laid-off workers fall at the lower end.

To draw a conclusion, the new socioeconomic structure is heavily forged by the path-dependency of the socialist era, characterized by migrants and SOEs reform. To

build up a global city, a coalition of market and state is occurring, at the price of encountering increasing social disparities. As Douglass (1998: 11) argues:

‘In realizing that the status of their national economies will be increasingly determined by the positioning of their principal urban regions, governments in Pacific Asia are actively intervening in the physical restructuring of cities in the new competition for world city dominance’.

In a retrospective review of world city research, Friedmann argued that the global economy may be too volatile to allow a stable structure to be constructed (1995). He revised his original comments, accepting that the fall and rise of the global city will be flexible. Concomitant with the further marketization of China, Shanghai’s globalization underscores the rise of capital accumulation in China. Increasing disparities under globalization appear not only as a consequence of economic restructuring, they are a by-product of the developmental strategy of the state. Although Shanghai is not yet a truly so-called ‘global city’, it is in the pathway towards such a status. Nevertheless, different from other global cities, the increased of both skills labors in joint ventures and migrants in informal or low status occupations have not produced the same social polarization or professionalization as found elsewhere. The reason is attributed to the special status of Shanghai on the world city system: as a manufacturing centre rather than a command center (although surely it is a regional centre), Shanghai’s restructuring is more evidently presented on the transition of manufacturing sectors than producer service sectors. Such a status initiates an upgrading of manufacturing industries which hinges on well-educated labors, this in turn results in the huge amount of laid off workers.

Moreover, the problem of unemployment is exacerbated by massive amount of migrants from rural areas. Nevertheless, to accelerate the development of Shanghai to become a global city, the intentionally infill of high-level labor forces is necessary. Such a process therefore is accompanied by selectively assisting laid off workers and marginalizing migrants. The state is *de facto* initiating the new process of social polarization through varied strategies targeted on selected social strata. Beyond pure global impacts, Shanghai's prospects are determined by the preconditions of institutional resources and the political environment. Against rising disparities, the state not only plays the role of mediator but also acts synergistically with the market. Within a 'dual development state' (Xia, 2000), the socioeconomic restructuring of Shanghai shows similarities with that of Tokyo and Seoul. However, difference also appears between China and other developing states. Under a transitional economy, the socialist historical legacy of political power remains the pivotal factor of social restructuring. As a two-tier labor market is built up, elites and rural migrants are polarized with respect to occupation, income and educational attainments. In this sense, this paper points up the need to resolve and reconceptualize the articulation of global forces with 'top-down' state-led process to explain urban transformation. The major role played by the state in restructuring social structure is highlighted. Especially, for cities under transitional economies, the historical legacy against which political power still impacts economic development is emphasized.

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