INDUSTRIAL RESTRUCTURING AND THE FORMATION OF CREATIVE INDUSTRY CLUSTERS: THE CASE OF SHANGHAI’S INNER CITY

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ABSTRACT

In the past two decades, Shanghai has seen a wrenching decline of its traditional industrial sector and then a proliferation of new economy spaces on its derelict industrial sites, the most notable of which are over seventy “Creative Industry Clusters” (CICs) accredited by the Municipal Government. Based on a combination of qualitative and quantitative methods, including case studies, semi-structured in-depth interviews, questionnaire surveys, literature review, site visits and observation, photography and mapping, this research found that the vacant spaces resulting from state-triggered industrial restructuring initially accommodated the spontaneous concentration of avant-garde artists and creative workers, a process that was later superseded by the local state’s deliberate planning of creative clusters with the cooperative efforts of both property interests and restructured state-owned enterprises.

The processes of inner city changes in Shanghai suggest that the city’s urban restructuring followed a post-socialist rather than post-Fordist trajectory, with the local state exerting significant influence on the outcomes of urban transformations. And in the whole process, the local state was not just dominating, but also remained flexible at certain point in time so that social learning could take place to help it guide future transformations. In addition, the formation of CICs in Shanghai also reveals major differences of China’s “pro-growth coalitions” from its western counterparts. In particular, the Chinese state plays a stronger role while local communities are largely absent from the scene or only temporarily visible. In addition, the dissertation also provides policy recommendations on four inter-woven aspects of Shanghai’s CIC formation, namely social justice, industrial agglomerations, land-use planning and the support for the arts and culture. These four aspects represent the social, economic, physical and cultural dimensions of Shanghai’s CICs respectively.
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LIST OF ABBREVIATIONS

ADC: Artists/Designers’ Confederation
CIC: Creative Industry Cluster
CSCS: City Sculpture Committee of Shanghai
DCMS: (The British) Department of Culture, Media and Sport
DCSLM: Department of City Sculpture and Landscape Management
EHB: Excellent Historic Buildings
EID: Eastern Industrial District
OCSCS: Office of City Sculpture Committee of Shanghai
PTCSS: Planning Team for City Sculpture of Shanghai
RCNHC: Research Center for National Historic Cities
SASS: Shanghai Academy of Social Sciences
SCIC: Shanghai Creative Industry Center
SCSC: Shanghai Chunming Slub Corporation
SID: Sothern Industrial District
SMDRC: Shanghai Municipal Development and Reform Commission
SOE: State-Owned Enterprise
SSS: Shanghai Sculpture Space
SUPAB: Shanghai Urban Planning Administration Bureau
WID: Western Industrial District
50MGS: 50 Moganshan Road (the site of M50)
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DEDICATION

TO NICOLE
1 INTRODUCTION

“Ten years ago, we were looking for new office towers; but now we are interested in office spaces with history and taste (weidao).”

– Partner in an architectural firm

Shanghai City has undergone waves of tremendous change over the past one and a half centuries. From a feudal regional commercial center to an adventurer’s paradise in a semi-colonial setting, it transformed into a socialist citadel focusing on industrial production. At present, it is categorized as a post-socialist international metropolis. The trajectory of the city has been characterized as one of constant restructuring and transformation. Brenner speaks of urban restructuring as “a process in which the very nature of cities—as sites of production, consumption, settlement, regulation and contestation—is reorganized and transformed,” and it is through such processes that “the ‘city-ness’ of those spatial units… is continually remade.” (2009, p. 37). Hence, this dissertation delves into Shanghai and its latest urban restructuring with a view to uncover the city’s unique development trajectory.

While urban restructuring has many dimensions and involves multiple narrative forms, this research focuses on the economic and social transformations of a central spatial unit that is officially termed “creative industry clusters” (CICs). CICs are reconfigured spaces of production and consumption, a phenomenon by which the city has witnessed its proliferation over the past several years. By the end of 2009, there were a total of 75 CICs in Shanghai. This research

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1 Anonymous Interview, June 8, 2009.
2 There are far more new economy spaces in the city than in the 75 clusters recognized by the Municipal Government. However, my research only looks at the officially designated creative industry clusters because these CICs can help shed light on these clusters without official titles, while providing insights into the roles of the state. In addition, official titles can always generate bandwagon effects, and examining these official CICs can help explain the fast proliferation of new economy spaces within the
explains why such spaces suddenly appear appealing to firms (usually in the creative industries), middle-class consumers as well as the local state and how they came into being under China’s unique institutional context. In this chapter, I will first give a brief introduction on the phenomenon of Shanghai CICs, and then followed by explanations for the research questions. The methodologies used in the research are also discussed. Finally, I will briefly discuss how this dissertation has been organized.

1.1 The Origin of CICs

Since Shanghai was forced open by Western powers in 1843, it has rapidly accumulated industrial capital under the influence of both foreign and domestic interests. By the early 20th century, the city was known as the country’s most important industrial and financial center. Following the establishment of the People’s Republic of China in 1949, national development policies imbued with a heavy industry orientation reinforced the position of Shanghai as the leading industrial city in China. Many of the old industrial sites were transformed into industrial bases for the new socialist economy.

Shanghai’s postwar industrialization, however, has been compromised by a combination of forces, including obsolescence and policy factors. The latter include industrial restructuring programs implemented by the Shanghai Municipal Government since the mid-1980s and the new emphasis on finance, trade, advanced services, and other global city functions. In the 1990s, more than 1,000 industrial firms were either closed down or relocated to the suburbs (Shanghai Economic Commission and Shanghai Communist Party History Research Office, 2002, p. 96). Old industrial areas became marked by employment losses, deteriorating landscapes, and lackluster economies.

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city in general. In this dissertation, CICs means creative industry clusters designated by Shanghai Municipal Government.
This change presented a stark contrast to the financial and commercial center of the city that had been enjoying an unprecedented economic boom and a heightened global image, largely resulting from foreign investment and international influences.

Amidst this post-industrial decline, a number of freelance artists helped revalorize the old industrial spaces in Shanghai. Initial sporadic actions were later followed by concerted and deliberate efforts in the “making” of such new economy spaces that involved parties with diverse interests. Presently, there are many of such sites, most of which are located at the old industrial sites in the inner city. The most notable of these are over 70 so-called CICs accredited by the Municipal Government, who view these centers as a solution to the woes of bankrupt companies and a means to invigorate derelict inner city industrial spaces.

1.2 Research Questions

1.2.1 Research Questions

The latest post-industrial transformation of the inner city of Shanghai poses important theoretical and policy questions. The development trajectory of the inner city in advanced economies has been well documented by Zukin (1982, 1995), Hamnett (2003), Ley, (1996), Hutton (2004a, 2008), Indergaard (2004), Lloyd (2005), and Fujita and Hill (1993). Shanghai seems to have repeated the phenomena observed in many cities; however, the distinctiveness and the complexity of Shanghai’s experience are also quite striking. Many scholars involved with urban-study of Chinese cities have stressed the uniqueness of China’s urbanization processes, particularly

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3 The concept of “inner city,” understood as part of the metropolitan core of former industrial cities, is based on a city prototype in the “Atlantic Core” (Hutton 2004b, 2008). For lack of an equivalent theoretical term for Chinese industrial cities, I use the term “inner city” here to refer to the old industrial sites and their surrounding areas (e.g., residential areas for old industrial workers) in the central city of Shanghai, although it must be noted that there is substantial difference between the Chinese and Western urban forms.
because of the transformation from state to market socialism (e.g., Ma, 2002; Lin, 2007; Shen, 2007). Shanghai is a city with an entrenched socialist legacy. Not only are the CICs in Shanghai mostly controlled by state-owned enterprises (SOEs), it is also here that the industrial land in the inner city has been fully administrated in the socialist period. The unique land ownership arrangements in Shanghai (as well as in other Chinese cities) determine the different usage of urban spaces and the path of transformation. Moreover, compared to its Western counterparts, the Chinese state generally plays a completely different approach in urban development because it has an interventionist tradition and works within a fundamentally different political economic system. These institutional differences imply that urban processes in Shanghai have their own causes and trajectories. Therefore, there is an urgent need to interrogate existing Euro-American-centric theories of urban restructuring and transformations in the study of Shanghai.

Furthermore, the examination of Shanghai’s CICs not only affords insights into the ongoing urban processes in China, it can also shed light on the relationships among government institutions, firms, and people in contemporary Chinese society. This theoretical domain has drawn much attention from scholars who focus on broader disciplines of China studies. The significance of studying CICs outweighs the mere understanding of Chinese cities or their restructuring because it can enrich our knowledge on Chinese society in general.

From a normative perspective, creative industries and CICs have both penetrated Shanghai’s policy discourse in recent years. Examining the social-economic impacts of the latest transformations in Shanghai can aid in policymaking, particularly in the areas of local economic development and inner city planning. In addition, as Shanghai is the oldest and the largest

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4 For example, the Shanghai Municipal Government had initiated policy studies of creative industries and creative industry clusters, resulting in the publication of several books. See Shanghai Economic Commission an Shanghai Creative Industry Center (2005), Shanghai Creative Industry Center (2006a, 2006b). An in the city’s “Eleventh Five-Year Plan” passed in 2006, creative industries were listed as high growth sectors. In 2008, the Economic Commission of the Municipal Government passed “Regulations Regarding the Designation of Creative Industry Clusters (Trial Implementation)” (http://www.shec.gov.cn/shec/jsp/zfxxgk/zfxxgkml-1.jsp?id=27908, accessed June 8, 2009).
industrial city in China, its restructuring experience can provide lessons for other industrial cities in China.

An emergent urban phenomenon, CICs have caught the attention of many researchers. Numerous exploratory studies have been conducted by researchers from various disciplines. A critical review of these studies suggests that most researchers have approached the issue from the perspectives of architectural design and conservation (Dong, 2004; Song, 2007), urban historic conservation (Gu, 2003; Lü, 2006), property development and management (Geng, 2007), and local economic development (Yu, 2007; Xiang, 2005; Tao Zhang, 2006; He, 2006). Despite the rich information provided by existing research, data gaps need to be addressed. First, virtually no attention has been paid to urban processes. Most research has focused on cross-sectional analysis, while neglecting the temporal dimension of CIC development. Second, most studies fail to address the institutional complexities of CIC formation. Very few studies have analyzed the roles of major players and their interplays in the formation of CICs. Discussion on restructuring SOEs, a major institutional player, is virtually non-existent. Third, academic attention has been mostly devoted to physical and economic aspects, while the social dimension of CIC development has been neglected. No research has addressed the issue of social equity or social justice in space provision or space usage. Fourth, although a number of studies have focused on the agglomerative economy of CICs, most of the discussions have been provided from the abstract level, and have failed to provide sufficient details on tenant firms, such as space usage or business linkages. In fact, theories on industrial agglomeration have been mistaken by several researchers as empirical realities.

The gaps left by existing research on Shanghai CICs underlies Lin’s (2004) claim that there is a deficiency in the knowledge on the fundamental processes of urban transformation unfolding in China and their implications for planning and policymaking (2004, p. 143). Therefore, this present study frames the following research questions:
It must be added that the term “post-industrial” used for the research questions only refers to the present status of the old industrial land: the old manufacturing sector no longer exists. However, it does not suggest, in a larger sense, that the status of the society is post-industrial, as it has been observed in many advanced economies (Bell, 1973). Resolving whether the Shanghai has entered a post-industrial stage is a fundamentally different research question. The present study focuses on the transformation of individual industrial sites in the inner city rather than the industrial structure of the city as a whole, although the former may help shed light on the latter. As far as existing literature is concerned, based either on the study of the city’s labor force (Li and Wu, 2006) or on its economic structures (L. Zhang, 2003), there is no clear evidence to suggest that Shanghai has truly entered a post-industrial era.

1.2.2 Defining Creative Industry (Clusters)

Clarifying the definitions of “creative industry” and “cultural industry” are necessary because these determine the subject matter under investigation. In the following segments, I will first look at the sources of the two terms. Second, I will discuss a few definitions of the terms as used in Western literature. Finally, I define these terms in the context of the situation in Shanghai.

The term “culture industry” was first used by Adorno and Horkheimer of Frankfurt School to suggest the marriage of culture and commerce that, historically, had largely been separated
(Adorno, 1990; Garnham, 2005). Later, French sociologists (e.g., Miége, 1987) used the plural form, “cultural industries,” to suggest diversity and complexity in the sector (Hesmondhalgh, 2002). Unlike cultural industries, which is a conceptual construct, Pratt (2005) utilized creative industries as a political construct (i.e., a term referred to by the British New Labour Government since 1997 to distance themselves from the Old Labour). The change of term was in response to the ascendance of the knowledge economy and information society, as well as the marketization and managerial shift of cultural policies that stressed intellectual properties of cultural industries (Pratt, 2005; Garnham 2005). In the beginning, there was no intention to differentiate the scope of economic activities implied by the two terms, as the UK government simply “‘branded’ the cultural industries as the creative industries” (Jeffcutt and Pratt, 2002, p. 227). The term “creative industries” is merely a “slogan” and of little analytical value per se; thus, Pratt (2005) prefers to use cultural industries. However, some researchers use the two terms interchangeably (e.g., Drake, 2003; Hall, 2000; Hitters and Richards, 2002; Miles et al., 2004). In addition, scholars may also use the two terms for different conceptualizations. Garnham (2005) suggests that creative industries also incorporate information technology industries, which are not generally included in cultural industries. Meanwhile, Hesmondhalgh (2002) adds some craft-based industries to creative industries, but not to cultural industries. Overall, there is no consensus in existing literature on the accurate meanings of the two terms, and many scholars explicitly acknowledge the trickiness in their definitions, particularly at the margins of categories (Drake, 2003; Hesmondhalgh, 2002).

Although the origin of the term “culture industry” can be traced back to the Frankfurt School’s critique of the capitalist mode of culture production, this research is not wholly based on such a normative judgment. The focus of my research is the formation of creative/cultural industry clusters, rather than the nature of cultural industries per se. The theoretic critiques advanced by the Frankfurt School have been attacked by many scholars who see a more benign (though problematic) role by commerce in cultural production (Garnham, 1987; Hesmondhalgh, 2002; Scott, 2000a), particularly in the practical and empirical sense. In contrast, the current meaning of “cultural industries” has been expanded beyond the mass culture that was first conceptualized by Adorno and Horkheimer (see Scott, 1997, 2000a), incorporating a wide range of design-related industries that were traditionally in the commercial realm. In addition, historically, the local culture (haipai) of Shanghai has been highly commercialized and has, in reality, showed more vitality than the “art-for-art’s-sake” traditional Beijing culture (jingpai) (Cochran, 1999; Lu, 1999a, 1999b; Z. Zhang, 1990). Therefore, the critique of culture industry by the Frankfurt School, though theoretically and philosophically enlightening, does not in my opinion constitute a strong case for taking normative attitude against such industries in Shanghai’s context.

Garnham (2005) thinks that the term “creative industries,” together with related terms such as “copyright industries,” “intellectual property industries,” “knowledge industries,” or “information industries,” serves a rhetorical purpose within policy discourses.
Despite this ambiguity, the author will review a few proposed definitions\(^7\) that attempt to conceptualize various aspects of the shared properties of creative (or cultural) industries.

The British Department of Culture, Media, and Sports (DCMS) defines creative industries as “those activities which have their origin in individual creativity, skill, and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.” Key sectors include content, design, heritage and tourism, and performing arts (Hall, 2000; Jeffcutt and Pratt, 2002; UK Creative Industries Task Force website\(^8\)). While this definition stresses both the inputs (creativity, skills, and talents) and outputs (intellectual property) of the industries, it does not adequately conceptualize the exact products at hand. Meanwhile, the term “intellectual property” is too broad; therefore, DCMS’s definition is criticized by Drake (2003) as unclear from the perspective of research because most, if not all sectors, could be included in such a definition.

Garnham (1987) stresses both the organization of production and the nature of outputs. He defines cultural industries as “those institutions in our society which employ the characteristic modes of production and organization of industrial corporation to produce and disseminate symbols in the form of cultural goods and services, generally, although not exclusively, as commodities” (p. 25). Newspapers, publishing, record companies, music publishers, and commercial sports organizations are considered core cultural industries. These industries produce goods or services that require constant attention from consumers during consumption and are therefore time-consuming.

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\(^7\) There are many more definitions than can be reviewed in this prospectus. Those mentioned here are widely quoted and deemed as representative. Some definitions not reviewed largely overlap with those discussed, such as the definitions offered by Hitters and Richards (2002), Pratt (quoted by Hall, 2000), Gospodini (2006).

Hesmondhalgh (2002) defines cultural industries as institutions mostly involved in the production of social meaning (p. 11). His focus is on a core of cultural industries that are involved in the making and circulating of texts that influence our understanding of the world (called “media industries”\(^9\)). The word “text” should be interpreted broadly, as it not only includes written texts, but also sound or visual images. According to Hesmondhalgh, cultural industries not only “report,” they also help constitute people’s inner selves (i.e., fantasies, emotions, and identities) (p. 3). The creativity of cultural industries lies in their manipulation of symbols for entertainment, information, or enlightenment (p. 4).

The definitions provided by Garnham (1987) and Hesmondhalgh (2002), although not identical, both focus on the format of products, and are quite narrow in scope. They only include a core of cultural industries that primarily produce mass culture. The definition of Scott (2005) is much more inclusive. His theorization stems from the perspective of the nature of products and, more importantly, their value for consumers. In Drake’s (2003) words, Scott’s definition focuses on the demand side. As Scott (2005) writes, “[t]he cultural economy can be broadly described as a group of sectors (equivalently, cultural products industries) that produce goods and services whose subjective meaning, or more narrowly, sign-value to the consumer, is high in comparison with their utilitarian purpose” (p. 3). With slight difference, Scott (2006b) also suggests that the creativity embodied within cultural industries is “not so much in the form of higher efficiency as in greater novelty.” Scott (2005) acknowledges that there exist no hard lines separating pure utilitarian or cultural products. Conceptually, it is more appropriate view industries in terms of a continuum of sectors with a different combination of symbolic and utilitarian purposes. This argument also points to the difficulty of obtaining an unequivocal list of cultural industries. In general, Scott (1997, 2000a) divides cultural industries into three groups: (1) design-intensive...

\(^9\) The core cultural industries identified by Hesmondhalgh (2002) include the advertising and marketing, broadcasting, film, the Internet and Web-based, music, print and electronic publishing, and video and computer game industries. He considers the sports, consumer electronics/cultural-industry, hardware, software, and fashion industries borderline cases.
manufacturing or neo-artisanal sector, such as clothing, furniture, and jewelry; (2) services involving personalized transaction or the information production or transmission, such as tourism, live theater, and advertising; and (3) a hybrid form, combining physical production with services, such as music recording, book publishing, and film production. These three groups represent a much broader spectrum of industries than what most other theorists conceptualize. According to Scott, cultural industries are highly heterogeneous; they have different technologies, transactional arrangements, employment profiles, products, and so on. However, what binds them together is that the products function, at least in part, as personal ornaments, modes of social display, forms of entertainment and distraction, or sources of information and self-awareness; therefore, the psychic value (i.e., aesthetic, semiotic, and symbolic) represents their very usefulness to the consumers (Scott, 2000a; Lash and Urry, 1994; Molotch, 1996). Lash and Urry (1994) also highlight a particular type of cultural production that tends to be neglected by many theorists. In certain industries, particularly those providing consumption-based services, what is offered on site is not simply the service per se, but also the physical and semiotic context (ambiance of a restaurant, a gallery, etc.) within which the services are offered. The production of such context can add to the cultural dimensions of the services offered. In this regard, the definitions offered by Garnham and Hesmondhalgh are clearly deficient.

Pratt (2005) raises both breadth and depth questions for cultural industries. The breadth issue deals with the included industries. There is high degree of agreement on a core of the cultural industries (e.g., fine arts, music, film, and others). In contrast, opinions on computer games, sports, or tourism could differ. This issue is quite clear when considering definitions offered by different scholars. The depth issue tends to be neglected by other scholars because each deals with different segments of the value chain. For example, should cultural industries only include the part that deals with creation or production of culture (e.g., content production), or should reproduction, distribution, or related education or critique services be included? None of these issues has been
explored by the existing literature.

There is still a lack of consensus on the definitions; thus, a few characteristics for creative industries can be summarized in order to distinguish them from traditional manufacturing industries or low-end services: (1) the production involves creating something new (new forms, new contents, new opinions, etc.); (2) the products (goods or services) are usually produced in small amounts (on many occasions, they are one-off products), non-standardized, and differentiated; and (3) knowledge and technology mediated by human creativity, rather than physical materials or labor, are usually the most important inputs for final products. For cultural industries specifically, they involve the commodification of symbols, signs, and meanings.

The absence of a clear-cut definition of creative or cultural industries in literature, however, should not be a major obstacle in conducting this research. As Bell (1973) writes, “A conceptual schema selects particular attributes from a complex reality and groups these under a common rubric in order to discern similarities and differences. A logical ordering device, a conceptual schema is not true or false but either useful or not” (p. 9). Attributes used in making definitions (i.e., inputs, outputs, or values to consumers) are selected differently by individual researchers; therefore, for them to arrive at different conceptual schemes is only natural. Debating which definition is more accurate is not useful for the present study; rather, considering the purpose of individual research, and scrutinizing whether a certain conceptualization is appropriate for that purpose, would be more rational. As argued by Pratt (2005) and Drake (2003), definitions should be situational and contextual. Based on such an understanding, I will turn next to the context of Shanghai and discuss how creative industries defined in specific contexts can be used in the proposed research.

Very little academic research has been done to theorize the emerging creative or cultural industries in China. Published academic papers in Chinese tend to use the term “creative industry” as if it
directly borrows the DCMS definition. Despite the limitations in scholastic research that focus on the local context, the Shanghai Economic Commission and Shanghai Statistical Bureau have officially designated five sectors as creative industries: (1) research, development, and design; (2) architectural and related design; (3) cultural activities, creation, and media; (4) consultancy and planning, and (5) fashion, leisure, and lifestyle services. This act was in response to the rise of creative clusters in the inner city (Shanghai Creative Industry Center, 2006a). The five sectors have been further subdivided into 38 categories and 55 segments (see Appendix I for list of categories and segments). According to the Shanghai Municipal Government, one of the criteria in choosing the five sectors is their high growth potential\(^{10}\). Clearly, the selection process is somewhat arbitrary. Such categorization does not provide for any theoretical conceptualization; rather, it is simply the result of strategic policymaking that puts into practice the “doing before thinking” approach.

However, it must be noted that Shanghai Municipal Government had referred to DCMS studies when designating the five sectors. Nearly all of the 55 segments fall within the DCMS definition. A large proportion of designated industries conform to Garnham, Gospodini, or Scott’s conceptualizations of cultural industries. Therefore, in many aspects, Western literature can provide useful insights into the nature of creative industries when focusing on the Shanghai context; however, although critiques and certain adaptations need to be incorporated into this research.

The focus of this research is on territorially based creative industry clusters, rather than economically defined creative industries; however, understanding the dynamics of the latter is the basis for studying the formation process of the former. In the Shanghai context, the clusters under

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\(^{10}\) The other two criteria are 1) the combination of the classification systems in the advanced economies and China’s and Shanghai’s conditions in order to advance industrialization, urbanization, and modernization; and 2) China’s national standards on industry classifications (2002) in order to facilitate obtaining statistical data (see Shanghai Creative Industry Center, 2006a, p.19). According to statistics provided by Shanghai Creative Industries Demonstration and Service Platform, a semi-government information platform to support creative industries in Shanghai, the total value creation of creative industries in the city increased from RMB49.3 billion to RMB114.8 billion from 2004 to 2009 (from 5.8% of GDP to 7.7% of GDP). The growth rate of creative industries in 2009 was 17.6% (see http://www.creativecity.sh.cn, accessed July 30, 2010).
study are all officially designated; the official classifications of creative industries were relied upon when the government made these designations. The official definition of creative industries is quite broad; hence, not all designated industries have been found in the studied clusters. Similarly, not all businesses/enterprises located in these clusters fall within the officially classified creative industries; some simply provide ancillary services to the creative industry businesses. Hence, the unit of study in this research is geographically defined as creative clusters, which comprise both creative industry firms and other spatially related businesses, with the former accounting for the majority of the firms. In a sense, as far as this study is concerned, defining what constitutes a cluster and how a cluster functions internally and externally is more important than defining what constitutes creative or cultural industries\textsuperscript{11}. It must also be noted that a cluster may expand beyond the “official” (and physical) boundaries in functional terms; this point was taken into consideration in the fieldwork.

1.2.3 Scope of the Research

Industrial restructuring and CIC formation are different urban processes; however, they largely overlap in the case of Shanghai’s inner city. Declining post-industrial sites have undergone different types of change. In addition to being occupied by creative enterprises\textsuperscript{12}, or simply having been lying idle, some of these sites were converted (or in some cases, redeveloped) into various types of commercial, residential, or low-externality industrial sites. However, CICs in Shanghai are not only confined to few post-industrial sites; some are based in newly developed commercial buildings or old non-industrial buildings. This research focuses on CICs located in post-industrial sites. Figure 1.1 illustrates this focus more clearly. The dotted ellipse (Areas A and B) denotes industrial sites undergoing restructuring, while the solid ellipse (Areas A and C) denotes officially designated CICs. The overlapping area of industrial restructuring and creative cluster formation

\textsuperscript{11} This aspect will be explored in the chapter on questionnaire surveys.
\textsuperscript{12} When discussing the Shanghai situation, the meaning of creative industries is based on the Shanghai context.
(Area A) constitutes the focus of this research. Not only can such CICs on post-industrial sites reveal the interplays of the dual processes of the industrial restructuring and the new economy space formation of Shanghai, they also offer deeper insights into the planning discourse on the inner city.

Figure 1.1: Illustration of Scope of Research

<table>
<thead>
<tr>
<th>A: CICs on old industrial sites (focus of the research)</th>
</tr>
</thead>
<tbody>
<tr>
<td>B: Old industrial spaces lying vacant or converted to uses other than CICs</td>
</tr>
</tbody>
</table>

Source: the Author.

Note: The figure is for illustration only. The actual size of the ellipses does not denote the scale of the issue under investigation. It must be noted that the number of CICs are far smaller than the number of industrial firms that had undergone restructuring in the past two decades in Shanghai.
1.3 Methodology

This research utilizes a combination of qualitative and quantitative methods. It involves the conduct of case studies, in-depth and short interviews, questionnaire surveys, a literature review, site visits and observation, photography, and mapping.

1.3.1 Case Studies

Examining each of the 75 CICs in detail would be impossible; therefore, case studies were carried out to conceptualize the development processes of CICs in general. Two questions are deemed pertinent for the method of case study in this research: how many cases are included and which cases are selected.

Faced with time constraint, the number of cases was initially restricted to three. The initial consideration was to select cases that can represent different types of development trajectory of CICs. Anecdotal information from mass media and literature led me to hypothesize that some developments were spontaneous, while others involved participation of the state and commercial developers. Therefore, I initially decided to investigate three cases that represent the leading roles of these three different players. However, after completing two case studies (M50 and Red Town), I realized that when CICs are developed, the state and developers are usually organized as an informal coalition and it would be difficult to separate their roles for individual cases. Preliminary fieldwork on the third case (Tianzifang) suggested that information gathered in the first two cases was nearly saturated. Additional details were being uncovered; however, new information about the third case was not leading to significant new insights. In addition, preliminary information on
the other CICs also supported this claim. Therefore, I finally included only two detailed case studies in this dissertation. Based on subsequent research, the two cases of M50 and Red Town represented two successive stages of transformation of inner city industrial spaces.

The selection of individual cases considered the purpose of this research (i.e., to problematize Shanghai’s CIC policy). My starting point was another hypothesis: in recent years, Shanghai CICs have been heading in the wrong direction because of the overemphasis of policymaking on the economic dimensions of urban development. To allow for generalization, very successful cases should be selected; if such cases would encounter problems, other cases might have fared little better (Flyvbjerg, 2004; Yin, 2003). Furthermore, these successful cases have been designated by the government as models for others to emulate. From the normative perspective, identifying the range of problems encountered by “successful” cases would broaden the policy interest of this study. In addition, based on my overall understanding of Shanghai CICs, the two selected cases exhibit more complexity than others (e.g. more intense conflict between development interest and conservation forces for M50 case and more comprehensive state support for the Red Town case, see Chapter 5 and 6 for details). Therefore, M50 and Red Town, though not necessarily “typical” among Shanghai CICs, can nevertheless reveal the complexities of the city’s inner city transformations.

1.3.2 Interviews

Conducting interviews was the most important method used in the case studies. Altogether, 34 in-depth interviews were carried out, including with 6 government officials, 6 scholars, 4 SOE managers, 3 property developers, 11 creative workers, and 3 laid-off workers. The interviews ranged from one to three hours. Approximately 1,780 minutes of interviews were taped, while
notes were taken for the unrecorded interviews. In addition, over 20 short interviews, each lasting 5–20 minutes, were conducted with creative workers, security guards, and visitors of CICs.

1.3.3 Questionnaire Surveys

Space provision and space usage are two aspects of the formation process of CICs. Questionnaire surveys were used to obtain information on the space usage because of the large number of tenants in Shanghai CICs. Due to difficulty in obtaining a complete list of tenants in the 75 Shanghai CICs, in addition to the inaccessibility of some clusters, a non-random selection method was used when choosing clusters for the surveys. For the same reason, relatively successful clusters were selected to identify common problems among the Shanghai CICs. More details concerning these surveys are discussed in Chapter 7.

1.3.4 Other Methods

Literature review was used to collect general information about CICs, as well as to identify research gaps. Site visits and site observations were used to gather information on CICs that were not investigated in detail. I personally visited 70 of the 75 Shanghai CICs. These visits were very useful for the mapping exercise and for detecting the inaccuracies in the reports of other researchers. Based on my site visit, I was able to map the Shanghai CICs in the central part of the city. In addition, I also made photographic records of the physical appearance of the CICs. Photos taken at different times during the research period were important in charting the physical

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13 My site visits suggested that some information provided by other researchers were not quite accurate. For example, the address of a CIC that was copied by many researches from the Internet proved to be non-existent. I later discovered the true location of that CIC from another source (the government-sponsored 2008 Shanghai Creative Industry Week).
transformation of the sites, particularly in the Red Town case study (see Chapter 6).

1.4 Organization of the Dissertation

The dissertation is organized into nine chapters. The introduction is followed by two chapters on theoretical discussions. Shanghai is a hybrid city; it not only combines elements of the East and West, it blends the legacies of *laissez faire* economy, state capitalism, central-planning communism, and today’s market socialism. To understand urban transformations from the context of such complexity, understanding both Chinese and Western perspectives are necessary. Chapter 2 focuses on the discussion of urban restructuring (post-industrial and post-Fordist transformations), and its causes and consequences. Most of these theories are developed based on experience of the West. Chapter 3 focuses on the Chinese context, the most notable aspect of which is the discussion on the role of the state. The theories discussed in Chapters 2 and 3 are complementary and are revisited in the synoptic discussion of the CIC phenomenon, as well as in identifying theoretical and policy implications.

The next four chapters are devoted to the presentation of empirical data. Chapter 4 offers a brief historic review of the industrial development of Shanghai in the past 150 years. This chapter provides historical and institutional context for understanding the current state of CIC phenomenon and its related policies. Chapters 5 and 6 focus on the two principal case studies (i.e., M50 and Red Town). In these chapters, I will focus on the processes of space provision and the roles played by different players, as well as their respective interactions. The two case studies offer perspectives from space providers. Chapter 7 presents the empirical data on space users, in particular, their business profiles, location choices, cluster ecology, and opinions on the planning of CICs.
Chapters 8 and 9 attempt to synthesize the overall research. Chapter 8 provides a deeper analysis of CICs based on a comparison and summary of the two cases. Some generalizations on Shanghai CICs, both in terms of urban process and socioeconomic consequences, are offered by incorporating the results of the questionnaire survey. The dissertation concludes with Chapter 9, where the theoretical and policy implications of the development of the Shanghai CIC are discussed. Arguably, the changes undergone by Shanghai’s inner city changes follows a post-socialist, rather than a post-Fordist, trajectory, with the state exerting significant influence on the urban transformations in China. In addition, in response to the problems identified in the empirical part of the dissertation, I will also provide some policy suggestions on the four inter-woven aspects of CIC formation and policy (i.e., social justice, industrial agglomerations, land-use planning, and the support for the arts and culture). These four aspects represent the social, economic, physical, and cultural dimensions of the Shanghai CICs. They are also suggestive of the complexities regarding the urban transformations in China and other stress points that need to be approached comprehensively when dealing with contemporary urban problems in China.
THEORETICAL DEBATES ON URBAN RESTRUCTURING:
WESTERN PERSPECTIVES

The theme of this dissertation is Shanghai’s industrial restructuring and formation of new economy spaces. In this chapter, literature on urban restructuring is reviewed, with focus on “inner city,” because this term is more commonly understood by Western scholars. I will first discuss the sweeping economic, social, and physical urban processes that have taken place in many cities around the world. To delve further into the investigation, I will single out the rise of the urban cultural economy, the latest phase of post-industrial transformation.

2.1 Urban Restructuring in the Inner City

According to Hutton (2004b, 2008), for much of the 20th century, the metropolitan core of former industrial cities is comprised generally of three parts: (1) central business district (CBD) dominated by a high-density corporate office complex (but may also involve some mixed-uses); (2) the CBD fringe or “frame,” a zone characterized by diverse low-value services and quasi-industrial activities; and (3) the inner city, incorporating both industries and housing, notably working class neighborhoods. Though based on the prototypes of the “Atlantic Core,” such structures also have some relevance in other parts of the world, including many Asia Pacific cities that have undergone industrialization. In the following segments, I will review a number of studies that have contributed to the understanding of the tri-processes of inner city transformation: industrial restructuring, social reconstruction, and physical changes.
2.1.1 Industrial Restructuring

During the first half of the 20th century, the inner cities of the advanced capitalist countries were the epicenters of manufacturing industries; this is due largely to their locational advantage as transportation nodes (Shaw, 2001). Many of these industries, though not all, were organized based on Fordist mass production principles. A notable process of change was the decentralization of production capacities to the suburbs and offshore locations. This change generally began in the 1960s because of the improvement in communication and transportation technologies, as well as the advancements in business management practices. The influential work of Bell (1973) on post-industrialism provides a general and illuminating portrayal of the coming post-industrial society by identifying five transformation dimensions: (1) from goods production to service provision; (2) the rise of professional and technical classes; (3) the importance of theoretical knowledge (as opposed to empirical knowledge) in innovation and policy formulation; (4) future orientation determined by technology and technological assessment; and (5) scientific decision-making as a new “intellectual technology” (p. 14). An interesting argument made by Bell is the absence of a great divide between socialist and capitalist economies. In particular, he sees similar trends toward post-industrial transformation in both socioeconomic systems.

Theories on post-Fordism offer insights into the transformation of the capitalist political-economic system (Amin, 1994). The Fordist system was a mode of regulation regime that served to maintain the equilibrium between mass consumption and mass production, as well as the balance between capitalist class and organized labor (Jessop, 2002). However, the change of consumption preferences toward individualized products and the development of the new flexible production system transformed the economic landscapes of the industrialized world. Accompanying changes in the regime of accumulation was the breakdown of the old mode of regulation centered on the welfare state and the organized labor. According to Lash and Urry (1987), the capitalist economy
has become increasingly “disorganized.”

Post-industrial transformation indicates the ascendance of control and management relative to production functions of cities (Sassen, 1991). Most notably, perhaps, is the hegemonic role of central business districts (CBDs), which serve as the nerve centers of a decentralized production system. Such transformations are best explained by the global city literature, such as the works of Hall (1966), Friedmann and Wolff (1982), Friedmann (1986), and Sassen (1991, 1995). Many cities function primarily as national or regional, rather than global, centers; however, the spatial logic of exercising centralized control and management over decentralized production facilities is quite similar. Unlike the Fordist organization of manufacturing, the financial and advanced producer service firms concentrated in CBD zones are more likely to be organized in a post-Fordist flexible form of production (Ley, 1996). (The review of post-Fordist system literature is carried out in the next section.) In contrast to the central core, the inner city has experienced a wrenching disinvestment and decline in this post-industrial transformation, including the downsizing and closure of traditional industrial firms, the generation of a newly unemployed urban underclass, and the deterioration of physical landscapes. Since most global cities were once old industrial giants, industrial restructuring could aggravate the duality produced by the tendencies of polarization within the service sectors, which have been well documented in global city literature (Fainstein, 2001).

As Hutton (2008) points out, the economic and social restructuring in the inner city, continuing into the early 1990s, has not created an “end-state”; rather, it has helped trigger a new round of industrial innovation and restructuring. This new stage is characterized by the reassertion of the inner city as the locus of new production that combines arts, knowledge, and technology, and in some cases, finance, which together result in high value-added outputs (Hutton, 2004a; 2008; Indergaard, 2004). This is “new economy” (mostly referring to high-technology industries) and
hosts of creative/cultural industries generally organize themselves in a post-Fordist flexible manner within newly formed “industrial districts” that mainly serve individualized or niche markets. Depending on the degree of geographic expansion, land-use mixes, social synergies among firms and the degree of maturity, Hutton (2004a) has developed a typology of these new economy spaces in the inner city that divide the localized production systems as follows: (1) extensive new production districts, such as “Multimedia Gulch” (South of Market) in San Francisco; (2) compact new economy clusters (either spontaneous, such as Victoria Square-Gastown in Vancouver or induced, such as False Creek South in Vancouver); (3) new economy precincts, such as Telok Ayer in Singapore; and (4) incipient new industry districts and sites, such as Stratford (Newham) in London.

The new economy of the inner city is directly linked to the CBD core, not only in terms of downward linkages to the market place (e.g., corporate clients or middle/upper class individuals) (Ley, 1996; Indergarrd, 2004; Lloyd, 2005; Sassen, 1991), but also, in some cases, in terms of upward linkages to finance. The latter case is demonstrated by the interwoven networks and synergies, such as those among Silicon Alley’s new media firms and the venturing capitalists, major financial institutions, and other business services in Wall Street in the 1990s (Indergaard, 2004).

Several factors contribute to the revalorization of the inner city as new production sites in this latest stage of post-industrial development. The inner city represents the kind of ambiance that is conducive to the birth of new industries, whether economic (e.g., low rent, closeness to market, access to specialized labor), environmental (e.g., heritage buildings, visual stimuli, amenity, “hipness”), or socio-cultural (e.g., social institutions, cultural diversity, social mix). Alternatively, borrowing one of Florida’s (2002c, 2005) terms, inner cities have the kind of “people climate” that helps attract talents and, hence, creative firms. The new economy firms in the inner city are
particularly shaped by agglomeration economies, whether in terms of transaction cost reduction, untraded interdependencies, or creative milieux, and so on (these concepts are discussed in succeeding sections). Once new industry firms reach certain critical densities, cluster dynamics can put them on track by self-reinforcing growth; and this is what economists call “increasing returns to scale” (Scott, 2000a). In addition to spontaneous growth, the roles played by a boosterist state and related public policies that enable or promote “re-industrialization” of the inner city are by no means insignificant in this new round of urban regeneration (Ley, 1996; also see Zukin, 1982; Hutton, 2004b). These issues are discussed in more detail in the next section.

The growth potential of the new industries in the inner city is not limitless. Similar to the previous rounds of transformations, internal or external factors can easily set the processes on a downward spiral. Volatility, which is related to a number of factors, is an intrinsic characteristic of new inner city industries (Hutton, 2008). First, the rent hikes resulting from continued gentrification and competition for spaces among new firms can seriously dampen the growth momentum. Such tendencies are well documented for the inner cities of New York (Zukin, 1982; Indergaard 2004), Chicago (Lloyd, 2005), London (Hamnett, 2003), Toronto (Caulfield, 1994), Vancouver, and other Canadian cities (Ley, 1996). Second, the proliferation of new industrial spaces and the heavy involvement by real estate capital and the government can reduce the very distinctiveness (or authenticity) that initially attracted pioneering individuals and firms, most notably artists and their enterprises (Ley, 1996, 2003; Lloyd, 2005; Peck, 2005). Third, certain external factors, ranging from the change of strategies by investors to the switching of tastes of consumers or corporate clients, can easily lead new industrial firms into problematic situation. While the upward growth of clusters can be self-reinforcing, downward deterioration can also set in once the “social ecology” of the inner city has been disrupted. Perhaps, nothing demonstrates this point better than the dramatic rise of the new media firms in Silicon Alley in the 1990s and their subsequent free-fall when the overheated financial and technological bubbles finally burst at the beginning of
the new millennium (Indergaard, 2004). The vulnerabilities and volatilities of the new industries also pose theoretical questions as to whether the reassertion of production in the inner city is a permanent phenomenon with periodical adjustments, or if it is simply an ephemeral phenomenon in the history of urban development. Answers to this question are yet to be answered. However, one thing seems to be clear: the contemporary inner city is a salient site for post-industrial experimentation, creativity, and innovation (Hutton, 2008).

2.1.2 Social Reconstruction

Accompanying the processes of economic restructuring are changing social landscapes. With the deepening of globalization, post-industrial, and post-Fordist transformations, the urban underclass (the unemployed, sweatshop workers, and low-end service employees) that concentrate in the inner cities are gradually being displaced by groups higher in the social hierarchy. In today’s “cognitive-cultural economy” (Scott, 2007), we see a proliferation of terms that try to define the new privileged social stratum: “transnational capitalist class” (Sklair, 2001), the professional “service class” (Lash and Urry, 1987), the “new middle class” (Ley, 1996; Hamnett, 2003), the “creative class” (Florida, 2002c, 2005), the “symbolic-analysts” (Reich, 1992), the “educated class” and the “Bobos” (bourgeois bohemians) (Brooks, 2000), the “hip consumers” (Frank, 1997), and so on. Many nuances exist among these denominations, but all refer to people that are the beneficiaries of today’s knowledge economy. These people share many characteristics; they generally have high levels of education, hold professional jobs, earn enormous discretionary income, enjoy high levels of mobility, and are high propensity consumers. They are the mainstay of consumers of firstly, the low-end personalized services that are provided largely by the urban

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14 The latest round of financial turmoil triggered by the subprime crisis in US and its impact on the creative/cultural industries is an empirical demonstration of the volatility and vulnerability of the new economy sector.

15 This point was made by Prof. Allen Scott at the 20th Conference of the Pacific Regional Science Conference Organization, May 6-9, 2007, Vancouver.
underclass at the other end of the social spectrum; and secondly, of the high-end consumer services that sustain many new industries in the inner cities and other localities; and thirdly, of various amenities in or close to the inner cities that draw many of them to the city in the first place (Ley, 1996). However, despite the new economy and creative/cultural economy of the inner city that adds diversity to the monolithic corporate sector in the urban core, its social landscape, in a sense, has become more homogeneous.

In addition to occupational change, another important mechanism of social and class reformation in the inner city is “gentrification”, a term coined by British sociologist Ruth Glass (1964) and is related to residential choices. Occupational change and gentrification are closely correlated urban processes (Ley, 1996). Here, I want to stress the dynamics of gentrification processes as a characteristic of change, leaving temporarily the discussion on the role of artists. Caulfield (1994) and Ley (1996, 2003), in studying Canadian cities, suggest that gentrification is not a single process of one group displacing another; rather, it is a more dynamic process of continued displacement, succession, and diffusion. According to Ley (1996), the pioneers are usually the marginal middle class members and those more willing to take risks in “blighted” neighborhoods, particularly artists. These pioneers may include those most likely to identify with the values of artists, the “cultural new class” in the field of design, advertising, journalism, the media, professionals in government services, health, education, and welfare, as well as students and intellectuals. In fact, choosing a marginal neighborhood is similar to choosing other “positional goods” that underscores the growing demand for cultural industry products (e.g., for social distinction, for articulating self-identity such as urban identity in the case of gentrification, for manifesting personal values, and so on). At the beginning of the transition, physical change is usually limited to small-scale and usually unnoticeable housing renovations. There is very little involvement of real estate interest, and housing upgrades are sporadic and largely reliant on small private investment or sweat equity. Once the first wave of gentrifiers had successfully “tested the
waters,” and had gradually and unintentionally changed the nature of the neighborhoods, future waves followed. The next wave included more established professionals (e.g., doctors and lawyers). The final wave was more conservative groups (e.g., private-sector managers and professionals). Roughly speaking, earlier gentrifiers have higher cultural capital relative to economic capital, and the followers tend to have increasing economic wealth and more conservative social values. Similarly, in the later stages of gentrification, physical changes are usually characterized by large-scale redevelopments and heavy involvement in the property interests. In fact, even among artists, Lloyd (2005) observes that there are different waves of Bohemian aspirants in Wicker Park, Chicago’s new chic area. Artists in the later waves tend to be wealthier and more interested in making the scene, rather than making art; however, Lloyd argues that these latecomers have no less influence in helping forging the creative milieu of Wicker Park. These observations from artists seem to suggest a similar logic underpinning the stage theories of gentrification. The stage model of gentrification is a generalization and runs the risk of oversimplification, yet it has heuristic value for our understanding of the social reconstruction of the inner cities (Ley, 1996).

The classic study of Ley (1996) on gentrification in Canadian cities is valuable not only in the sense of registering the diachronic changes in the inner cities, but also in helping reveal a more comprehensive picture of the agents of change. Real estate interests and the state are clearly important players, as have been documented by other authors as well (e.g., Zukin, 1982; Hutton, 2008). Ley draws our attention to the agencies of the public and non-profit sector workers, as well as women in directing inner city changes. However, his focus on Canadian cities with relatively large non-corporate sector may pose questions on the applicability of his arguments in other contexts. Literature, particularly concerning global cities, tends to overemphasize private sector professionals in remaking the social landscape of cities. In the meantime, these studies neglect other, possibly more important sections of the middle class that have very different value systems.
from those of private-sector professionals. Ley’s thesis is clearly a supplement to this deficiency as it reveals that the “new middle class” is not a monolithic group; he interprets waves of middle class moving into the inner city as “a self-production of a social identity in an ever more plural society” (p. 362). However, the fact that the construction of social identity always has to submit to the power of wealth demonstrates the limit of such practices, particularly for the earlier gentrifiers and their aspirations.

The dual processes of gentrification and industrial restructuring are not only interwoven, they mutually reinforce each other in producing a polarized or unequal social order. Therefore, being the major locus of these two urban processes, the inner city is evidently also the major site for social dislocation and intensified class conflicts (Hutton, 2008).

2.1.3 Physical Changes

The reassertion of production and gentrification helps transform the physical landscapes of inner cities. New industrial firms and waves of gentrifiers have identified latent values in buildings that bear the marks of history and yet had been largely deserted or underutilized during the post-industrial era. Enticed by rent gaps (Smith, 1987), property developers, landlords and other vested interests in land development made new reinvestment in the blighted areas, not only converting many old buildings into new uses, but also adding new amenities as well as new commercial developments, particularly high-end condominiums, into the new landscape. The combined efforts on individual home owners, space users, real estate developers, and the state have turned an unwanted “piece of junk” into something that is highly desirable (Ley, 1996). In the context of post-modern shift in aesthetics, urban design and urban planning paradigms, urban renewal based on historic preservation has become the new theme in the inner cities. On the one
hand, these strategies create spaces for new localized production and consumption practices. On the other, they help revive the cultural identities of the inner cities. However, these transformations should not be interpreted too optimistically as revival may simply be a harbinger of future decline, not only in the economic sense (e.g., pricing out the dynamic and creative firms, mostly small- and medium-sized), but in social and cultural terms as well (e.g., homogenizing new developments and eradication of social history). Perhaps, the only enduring element in the development trajectory of inner cities is “change” itself.

Changes that have taken place in the inner cities expose the contradictions, as well as the resilience, of the capitalist system. Contempt and resistance to the logic of capital accumulation have always existed in capitalist societies. The histories of Bohemians and the stories of neo-Bohemians (Lloyd, 2005), the hippies, and youth countercultures of the 1960s (Ley, 1996; Frank, 1997) are some good examples. The capitalist system has shown remarkable resilience in co-opting these counter-forces by cashing in on the self-sacrifice of the neo-Bohemians (Lloyd, 2005) or by commodifying resistance, repackaging them as “lifestyles” or “cool,” and then selling them back to the marketplace for further accumulation (Ley, 1996; Frank, 1997). The seemingly oxymoronic terms of “Bobos” (or bourgeois bohemians) (Brooks, 2000) or “culture industry” a là Frankfurt School capture these contradictions in the capitalist system.

2.2 Cultural Economy of Cities

As has been shown in the previous section, the formation of a corporate economy and the rise of the cultural economy are the two themes of post-industrial transformations. In this section, I will further focus on the theoretical debate on the cultural economy of cities, as it is more directly related to the development of Shanghai CICs. This section is divided into two parts. In the first part,
I will review literature on agglomeration economies and clustering theories. These studies have been mainly, though not exclusively, developed based on studies of the manufacturing and high-technology sector, and largely have been applied to cultural industries and business services. This is important for understanding how industrial agglomerations are formed. In the second half, I will discuss peculiarities of the urban cultural economy and its formation, as well as other related issues.

2.2.1 Understanding Agglomerations and Clustering

Agglomeration economies, which benefit from the spatial concentration of economic activities within confined geographic areas, can be divided into two types: localization economies and urbanization economies. The former refers to externalities within a given sector, while the latter defines externalities between firms in all sectors, usually at the urban scale (Feldman, 2000; Scott, 2006b). The latter perspective has been illustrated by Jacobs (1969), an advocate of diversified urban economic structures. Most of the reviewed literature in the following paragraphs focuses on localization economies.

Early economic geographers have attempted to explain a firm’s location choice and its agglomeration tendency from the perspectives of factor endowment, market proximity, and the associated transportation costs and scale/scope economies (e.g. Feldman, 2000; Moses, 1958; Moses and Williamson, 1967; Scott, 1980). As physical resources have increasingly become ubiquitous in recent decades due to advancement in transportation and communication technologies (Maskell and Melmberg, 1999), these early theories have become incapacitated when explaining the persistence of economic agglomerations observed throughout the developed and some parts of the developing world, even despite of globalization and decentralization (Scott and
Some new theories have also been developed, and old theories have been modified in response to the latest changes in industrial technology and organizations. I will review some of these new insights in the following segments.

2.2.1.1 Thesis of Flexible Specialization

In their seminal book, Piore and Sabel (1984) argue that flexible specialization provides an alternative solution to the rigid Fordist mass production system that has been in crisis since the 1970s\textsuperscript{16}. Unlike Fordist production systems, flexible production systems are characterized by flexible and multi-use equipment, skilled workers, and a cooperative industrial community that is largely comprised of small- and medium-sized firms. Rather than making de-skilled people perform short-cycle execution tasks and subordinating them to special-purpose machines (Taylorism) in Fordist factories, workers with flexible skills and performing long-cycle job tasks can regain their agency in the flexible system. Such a “reflexive” production system (Lash and Urry, 1994) can adjust quickly to external changes; it is also conductive to innovation, particularly on the shop floor.

Coffey (1992) summarizes three dimensions of the flexible production system: (1) programmable forms of production automation; (2) socially fragmented but inter-connected units of economic activity; and (3) fluid labor market structures. Flexibility is not new; it has been exploited by numerous large and traditional artisanal firms. The new feature in the contemporary version of flexible production is that it has opened opportunities “for small firms to engage in diversified quality production where high degrees of flexibility and efficiency in the production of specialized

\textsuperscript{16} The term “flexible accumulation” used by David Harvey (e.g., 1987) is different from “flexible specialization” as the former characterizes the mode of accumulation of the wider capitalist system instead of the specific means of production pertinent to individual firms.
(semi-customized or customized) quality-competitive products are attained through a small firm’s new ability to change promptly from one product or process configuration to another” (Asheim, 1992, p. 50, emphasis in original). Flexible production helps enhance the competitiveness and vitality of independent small firms embedded in a regional system of production vis-à-vis large corporations in the modern economy.

The hallmark of flexible production is vertical disintegration and external social division of labor, rather than internal technical division of labor (Coffey, 1992; Scott, 1988, 2006b; Scott and Storper, 1992). The flexible specialization system is organized similarly to a community, taking the form of industrial district/regional conglomerations, federated enterprises, “solar” firms, or workshop factories (Piore and Sabel, 1984). Four interrelated theses further illuminate how the “community” structure helps firms remain competitive in the long run without having to descend into a downward spiral of wage and cost reduction (Storper, 1995): (1) transaction costs and external economies, (2) untraded interdependencies, (3) learning, and innovation and (4) industrial districts.

2.2.1.2 Thesis of Transaction Costs and External Economies

This perspective is represented by the California school of external economies, which stresses the economic rationales of spatial agglomeration. To cope with uncertain and unstable market conditions, as well as fierce competition, firms vertically disintegrate themselves while converging together through input-output linkages. This arrangement helps firms fine-tune their production activities based on price signals. The benefits are particular patent when production linkages among firms are intensive, or linkage costs account for a high proportion of overall operating expenses. Meanwhile, co-location also helps firms tap economies of scale and scope in
inputs (materials or labor pool) and infrastructure services. Therefore, the tendency for agglomeration is not only determined by nature of production of individual firms (reduction of transaction cost), but also by the size and diversity of existing agglomerations (reduction of input cost). The two effects combine to produce increasing returns and self-reinforce logic of growth for many regional economies once they are set in motion, although diseconomies may set in at a certain period for certain cases (Scott, 2002, 2006b).

The thesis of transaction costs and external economies can be applied to both manufacturing and service firms. For the former, input-output linkages deal largely with physical inputs; for the latter, soft inputs such as knowledge and information are more important. Scott (1988, 2006b) maintains that the transaction-intensive flexible accumulation regime is particularly relevant to “new industrial spaces,” including in (1) revived craft- and design-intensive industries, which produce largely, but not exclusively, consumer goods; (2) high-technology industries with their associated input suppliers and subcontractors; and (3) high-end producer and personal services. However, the California school of external economies over-stresses the effects of agglomeration on a firm’s choice of location, while downplaying pre-given locational factors underlying the rise of agglomerations. Scott (1988, p. 41) writes, “these factors [locational attributes] do occasionally help pinpoint particular locational outcomes, but their theoretical interest is frequently of minor importance,” as compared with “the evolutionary logic of the industrial system and its associated local labor market, and the endogenous dynamic of growth and development that this logic sets in motion.” Such an argument implies that, at early stages, firms are more flexible in their location choices. However, once agglomerations are in place, the cost-reduction imperatives push firms to choose existing agglomerations. However, in providing privileges to external economies over locational specificities, the California school of external economies can only explain why a regional economy continues to grow; it does not offer any explanation regarding how urban processes actually begin. This weakness is intrinsic to all theories that try to explain the location
rationale of firms in terms of their relation to other firms.

In addition, the transaction cost perspective places too much emphasis on formal business transactions, or “traded interdependencies.” Therefore, a number of informal interactions among firms are missed in the discussion. This becomes another weakness of the theory, especially when explaining innovation and creativity that do not usually arise from formal business dealings. In fact, empirical evidence shows that, in many agglomerations, firms do not necessarily have multiple input-output linkages with other firms (Bathelt et al., 2004; Maskell et al., 2006). These exceptions have to be explained by another important thesis: untraded interdependencies.

2.2.1.3 Thesis of Untraded Interdependencies

Drawing on theories on evolutionary economics, Storper (1995, 2000) argues that non-traded connections among firms usually overlap with traded input-output relations, and that the former can be critical for regional economy. These, according to Storper, are called “untraded interdependencies,” and may include the labor market, public institutions, trust, rules, customs, conventions, common language, values, and ways to communicate and interpret information. These factors are more social and cultural than economic. According to Storper, the “soft” and indirect features related to propinquity seem to be particularly important for industries in certain kinds of technological regimes. These include (1) industries with non-standardized products; (2) industries that produce complex goods or services with much customized and negotiated content; and (3) industries where technology changes quickly. To a large extent, this echoes the industries more susceptible to transaction cost reductions and external economies initially singled out by Scott (1988, 2006b).
The thesis of untraded interdependencies does not deny inter-firm transactions. Its focus is non-market-based and non-cost-based, and, quite often, informal transactions. Unlike the thesis of the California school on external economies that is oriented toward input-output structures and cost-minimizations, the thesis of untraded interdependencies places more emphasis on value creation, capacity-building, and soft human relations. At a higher conceptual level, regions could be understood as part of the “supply architecture” for learning and innovation rather than simply as a web bound together by material flows (Storper, 1995, p. 210).

Storper’s thesis has much in common with what Granovetter (1985) considers as the “embeddedness” of economic actions. However, while Storper tends to take a “structural view,” Granovetter sees interdependencies more from an “action” perspective by stressing on the ongoing and continuous social and cultural influences on the decisions of firms. In this line of thinking, economic agents are not atomic players that mechanically make decisions according to rational economic principals or predetermined and internalized social values, norms, or morality. Rather, agents rely on details of social structures and contingencies when identifying particularistic decisions.

Storper’s idea of untraded interdependencies is illuminating; however, his discussion stays at the broad theoretical level. Many other studies, particularly those on learning, provide further insights into the specific mechanism by which untraded interdependencies contribute to competitiveness, as well as the relationships between geographic propinquity and social-economic interdependencies.
2.2.1.4 Thesis of Knowledge Creation, Learning, and Innovation

Firms today have become increasingly dependent on the capacities of knowledge generation, learning, and innovation in order to maintain competitiveness, particularly for those in high-cost localities because knowledge, compared with physical materials, has a weaker degree of “ubiquity” (Audrestsch, 1998, 2000; Lawson and Lorenz 1999; Maskell and Malmberg, 1999). Innovation is closely related to knowledge creation and learning. Feldman defines innovation, whether on product, process, or organizations, and whether radical or incremental, as “the novel application of economically valuable knowledge” (2000, p373). Meanwhile, Lawson and Lorenz (1999, p. 307) define “learning” as “the generation of knowledge concerning the methods that can be used to improve existing competences, or to develop new ones.” In the following, I will review literature that helps shed light on the interplays between knowledge, learning, innovations, and location dynamics.

2.2.1.4.1 The Tacitness of Knowledge

Innovation involves frequent exchanges of information and knowledge among suppliers, customers, and rivals, as well as other forms of social ties (Hotz-Hart, 2000; Maskell and Malmberg, 1999). Knowledge can be explicit/codified or tacit/implicit (Malmberg and Maskell, 1999; Feldman, 1994, 2000; Bathelt and Blückler, 2005). According to Gertler (2003), tacit knowledge may exist without its possessor being aware of it; even if the possessor is aware of the situation, the codes of language may not be well developed for its explication. While knowledge with a low degree of tacitness can be easily coded and transmitted through mediums over long distances, tacit knowledge (“know-how”), which is usually uncertain, interpretive, reflexive, and fluid, can sometimes only be acquired through experience or direct social interactions (e.g.,
face-to-face communications or practical demonstrations). An implicit spatial argument following this line of thinking is that geographic proximity, which facilitates direct social contact, also helps ease the difficulty of transmitting tacit knowledge. Tacit knowledge, owing to its transmission problems, is less susceptible to distance-decaying effects in the presence of modern communication technology, and can help reinforce the competitiveness of certain regional production systems (Audretsch, 2000). In general, Storper and Vanables (2004) identify culture, politics, arts, academia, new technologies, and advanced finance as among the industries that are most dependent on tacit knowledge and “buzz” effect (combined effects of face-to-face contacts).

2.2.1.4.2 The Imperatives of Knowledge Sharing

To become and remain competitive, firms today must depend on knowledge created elsewhere. Knowledge appropriation from external sources such as universities or public institutions is particularly crucial for innovative small- and medium-sized firms without in-house research and development (R&D) facilities (Audretsch, 1998). Asheim et al. (2006) suggest that in an increasingly complex world, even large companies must rely heavily on ideas and expertise from external sources. Feldmen (1994, 2000) thinks that knowledge sharing is particularly important for industries with a high rate of knowledge obsolescence, such as in software development. This claim is supported by the comparative study of Saxenian (1994) on Silicon Valley and Route 128 in Boston. In terms of sources of knowledge and information, Granovetter (1973, 1983) stresses the usefulness of information from unfamiliar sources (“weak ties”). Jacobs (1969), Porter (1990), and Yusuf and Nabeshima (2005) see the roles of knowledge diversity in sparking innovations. Empirical studies by Audretsch and Feldman (1996) in US and Liefner et al. (2006) in Beijing lend further support to the aforementioned perspectives.
Knowledge sharing and spillover is important; however, how does geographic proximity influence knowledge sharing? In addition to the argument that tacit knowledge cannot travel far, co-locations of economic agents helps thicken the linkages or enhance the channels of knowledge spillover. Knowledge spillover can happen in many dimensions. Major channels of spillovers include inter-firm labor mobility, spin-offs and supplier-customer interactions, formal or informal inter-firm networking, and project collaborations (Capello, 1999; Capello and Faggian, 2005; Lawson and Lorenz, 1999, Scott, 2006b; Keeble et al., 1999; Owen-Smith and Powell, 2004). Formal and informal knowledge sharing always happens simultaneously. Owen-Smith and Powell (2004) suggest that gaining formal membership in a local community enables firms to exploit the informal ties within it. In addition to formal or informal linkages among firms, knowledge appropriation can also happen without direct interactions among firms. Firms can learn simply through imitation, emulation, or reverse engineering (Camagni, 1991; Knudsen et al., 2005). These kinds of learning are more likely to happen when firms can interact socially (Gertler, 1995).

2.2.1.4.3 Cooperation, Trust, and Social Cohesion

Knowledge sharing and mutual learning are built on cooperation and trust. Co-location facilitates social contact and network building that can help check moral hazards and untrustworthy behavior (Feldman, 2000; Hotz-Hart, 2000). Maskell and Malmberg (1999) differentiate “built trust” from “shared trust.” In the former, distrust is the default and trust must be purposefully cultivated among the parties involved in formal or informal interactions. In the case of “shared trust,” the default is trust, obviating the need for formal institutions (sometimes, this is quite costly) to check unilateral rent-seeking and opportunistic behavior. As Granovetter (1985) points out, an institutional mechanism is a functional substitute for trust; it does not produce trust. Social relations, rather than institutional arrangements or generalized morality, is the true source of trust.
in economic activities. Hanson (1992) notes that trust and reciprocity not only have high significance in the development of the capitalist system, but also are a crucial part of an innovative regional milieu. In some cases, for example, in what has been called the Third Italy, trust among the producers is built on the dense and geographically anchored webs of social relations revolving around family members and other kinds of social ties. How is the trust-based culture initially nurtured? Maskell and Malmberg (1999) suggest that over a certain period, an area characterized by built trust can be transformed into one with shared trust. Therefore, the more frequently social interactions and “digestion of experience” take place, the more likely are the seeds of trust sowed into the local soil. Geographic proximity clearly plays a role in this aspect. Here the chain of action is from proximity to experience, then trust and collaboration, and finally, economic growth (Harrison, 1992).

2.2.1.4.4 Concentration of Talents and Human Capital

A dynamic cluster usually attracts a large number of talents and skilled human labor (Feldman, 2000; Hansen, 1992; Storper and Venables, 2004). In turn, this can attract other firms to locate in the area. Audretsch (1998) argues that it is not merely critical mass that makes the difference, but the fluid environment, characterized by frequent planned or serendipitous encounters of key workers; however, undoubtedly, density can increase the chances of such meetings, both formal and informal. Knudsen et al. (2005) use “creative density” to measure the concentration of what Florida (2002c, 2005) refers to as the “creative class,” arguing that talents are usually attracted to places where learning can easily occur and where their skills and creativity can be highly rewarded. In addition, high creative density of an area can further enhance the chances of knowledge spillovers and innovation. Built on the studies conducted in the developed world, Li and Florida (2006) demonstrate that talents, technological innovation, and agglomeration usually go
2.2.1.4.5 Supportive Institutions

Innovation is a complex and sometimes risky endeavor. The presence of well-developed business services helps reduce the complexity and risks and hence business costs. Therefore, innovative firms or start-ups tend to establish themselves in areas where supportive services concentrate (Feldman, 1994; Florida and Kenney, 1988; Porter, 2000). In addition to supplementary business services, other various kinds of private or public institutions, such as trade associations, development agencies, and research or training facilities, among others, are also important for nurturing innovative firms. This is what Amin and Thrift (1995) call “institutional thickness.” Numerous works viewing large research institutes or universities as anchors of innovative activities can also be interpreted as underscoring the roles of institutions. Empirical studies on this aspect include Lawson and Lorenz’s (1999) paper on Minneapolis and Cambridge, Keeble et al.’s study on Cambridge, UK (1999); Saxenian’s book on Silicon Valley and Boston Route 128 (1994); and Liefner et al.’s paper on Beijing Zhongguancun Area (2006).

2.2.1.4.6 Milieu and Innovative Milieu

The combined effects of “localized factors” (Hotz-Hart, 2000) or “localized capacities” (Maskell and Malmberg, 1999) can produce a social milieu that is conducive to collective learning and innovation. Camagni (1991, p. 130) defines local milieux as “a set of territorial relationships encompassing in a coherent way a production system, different economic and social actors, a specific culture and a representation system, and generating a dynamic collective learning
According to Capello (1999), learning within a milieu can take two forms: conscious co-operation among agents and unconscious externalities. The latter is similar to the effects of Marshallian “industrial atmosphere” and has been much stressed by Capello, who regards it as a defining feature of “collectiveness” in learning. “Externality” means that the effect is automatic and non-rival. Similar to the concept of “milieu,” terms such as “noise” (Grabher, 2002), “buzz” (Storper and Venables, 2004; Bathelt et al., 2004), or “creative field” (Scott, 2006b) characterize the same kind of vibrant environment for innovation and creation.

2.2.1.4.7 A Critique of Geographical-based Local Learning and Innovation Systems

In a nutshell, creativity and innovation are social phenomena arising from production systems and their respective geographic milieu. The aforementioned literature stresses the importance of local assets (hard or soft) and geographic proximity. However, caution has been voiced regarding these established views. Granovetter (1973, 1983), Maskell et al. (2006), and Bathelt et al. (2004) argue that ideas or insights from weak ties or non-local sources can be very helpful in innovation processes in some cases. Audretsch (1998), Boschma (2005a, 2005b), Antonelli (2000), Asheim (2000), and Hotz-Hart (2000), among many others, suggest that proximity, tight networks, local culture, and conventions can also lead to institutional inertia or lock-in effects, acting as shackles on future innovative advances. They suggest that agglomeration economies (or agglomeration diseconomies) may dissipate because of rent hikes and increasing commuting times, congestion, and pollution. Bathelt et al. (2004) talks about “buzz congestion” or information overload, which could be as detrimental as information shortage. Torre and Rallet (2005), as well as Grabher (2001), mention conflicts, tensions, and rivalries among local actors, while Guiliani (2005) notes that not all firms or clusters succeed because being in the right innovative “milieu” does not automatically imply strong absorptive capacity for knowledge.
There are also challenges to the interpretation of “proximity.” Many scholars stress organizational, institutional, cognitive, social, and cultural affinity in addition to physical proximity on learning and innovation (Boschma, 2005a; Torre and Rallet, 2005; Gertler, 1995). Hence, if economic agents simply co-locate but share no other dimensions of similarities such as common languages, codes, or experience [i.e., they are not in the same “community of practice” (Wenger, 1998; Gertler, 2003; Bathelt et al., 2004)], ideas cannot be easily communicated. This is what Bathelt (2005) calls as the “distanced neighbor paradox.” Therefore, “relational space” (Capello and Faggian, 2005), “relational proximity” (Gertler, 2003), or “communities of practice” (Wenger, 1998; Asheim and Gertler, 2005), rather than physical space/proximity, are more deterministic in producing learning outcomes. Physical proximity is not the only important factor for effective learning. Beyond these, there are also arguments against an over-emphasis of local capacities. Bathelt (2005) and Bathelt et al. (2004) suggest that local processes are not sufficient for innovation. Rather, it is the combination and mutual reinforcement of local interactions (“buzz”) and extra-regional linkages (“pipelines,” which are usually constructed intentionally) that holds the key to success. Empirically, Bresnahan et al. (2001) have demonstrated that, during the early stages of Silicon Valley development, agglomeration factors and networking synergies did not play an important role. On the contrary, the ability to tap external market and labor resources explains the cluster’s rise. However, despite these critiques, overall, reservations and qualifications do not constitute a fundamental denial of the roles of agglomerations and localized processes.

Finally, there is an unresolved question in the direction of causality. As asked by Scott (2006b): “Is it the quest for enhanced innovative energy that induces firms to agglomerate together in geographic space; or is it the prior convergence of groups of firms around their own centre of gravity that gives rise to the high levels of knowledge creation and innovation so often observed in
dense agglomerations?” (p. 85). Scott’s answer is that individual industrial agglomerations should be analyzed in terms of their idiosyncratic pathways and creative field, and should not be understood as sets of independent or dependent variables. However, the existing literature does not provide sufficient studies on historic trajectories of individual agglomerations.

2.2.1.5 Thesis of Industrial District—A Synthesis

Industrial districts, originating from Marshall’s *Principles of Economics* (1920), are used extensively by Piore and Sabel (1984) to illustrate flexible specialization systems. However, while flexible specialization and industrial districts are closely connected concepts, they remain different. Flexible specialization can be understood as a paradigm of production organization (Piore and Sabel, 1984). Industrial district, with emphasis on the spatial dimension, is only one of the four faces of flexible specialization. This means that some flexible systems do not have clear geographic manifestations (Piore and Sabel, 1984, p. 265; van Dijk, 1995, p. 18). However, broadly defined industrial districts may include four types: Marshallian industrial districts (with its Italian ramifications), hub-and-spoke districts, satellite industrial platforms, and state-anchored industrial districts (Markusen17, 1996). Only the first type conforms to the prototypical flexible specialization system, although Markusen argues that most clusters tend to be a mix of the aforementioned types in practice.

Harrison (1992, p. 469) defines an industrial district as “spatially concentrated networks of mostly small- and medium-sized enterprises often using flexible production technology and characterized by extensive local inter-firm linkages” (p. 469). Asheim (1992) suggests that industrial districts are based on flexible production systems, with both external economies and local milieu playing

17 Markusen (1996, p. 296) broadly defines industrial district as “a sizable and spatially delimited area of trade-oriented economic activity which has a distinctive economic specialization, be it resource-related, manufacturing, or services.”
important roles. Therefore, the industrial district thesis can be regarded as a synthesis of the theories reviewed previously (e.g., California school of external economies, thesis of untraded interdependencies, innovative milieux, and others.). Asheim (2000) argues that the big contribution of industrial district thesis lies in its introduction of sociology into economic and spatial analysis. Production and innovation within an industrial district are essentially seen as a social process embedded within an institutional and cultural context (see also Harrison, 1992; Granovetter, 1985). Firms are not considered as atomic economic agents, guided only by price/cost signals (neo-classic view, or to a lesser extent, the transaction-cost view); rather, they are seen as enmeshed in a web of interrelationships or a dynamic “community” glued together by mutual trust. Therefore, social capital (institutions, trust, and so on), or what Asheim (2000) calls as “localized thickening,” has strong explanatory power for the economic success of a firm (Harrison, 1992). An industrial district, according to Harrison, is a “social-economic brew” (1992, p. 479). This aspect distinguishes the thesis of industrial district from Porter’s competitive cluster theories (1990, 2000), although the two share some similarities, such as on the emphasis on co-operation in the competition.

A contested issue in industrial district literature is on policy implications, particularly, in planning. Can a dynamic industrial district be replicated, or is it too historically and geographically embedded to be re-created on different soil? There are no easy answers to this question. In Harrison’s view (1992), industrial districts tend to prevail in localities where religion, local politics, and standards of friendship and kinship govern (p. 479). This suggests that successful districts are difficult to transplant into localities with different social and cultural norms. Similarly, Asheim (1992) suggests that it is easier to build external economies (a functional character) than the “soft” social-cultural structures that are usually deeply rooted in civil society. Meanwhile, many researchers also acknowledge the roles of public policy in building institutional capacities, passing regulations, providing infrastructure (including space), and facilitating cooperation within clusters.
These “enabling” policies can increase the chances of success for emergent industrial districts, even if the clusters have a spontaneous origin (Asheim, 1992; Audretsch, 1998; van Dijk, 1995; Scott, 2000b). Scott (2000a) argues that even if clusters are path-dependent, policies (e.g., those needed to help correct market failures) can nudge the system toward auspicious directions at critical branching points. Porter (2000), discussing clusters in general, suggests that, instead of attempting to create entirely new clusters from scratch, governments should try to reinforce established and emerging ones that have passed a market test. That is, industrial clusters should be cultivated rather than planned (Stern and Seifert, 2010). In reality, not all policy interventions produce good results. An empirical study of a high-technology agglomeration in Beijing (Wang and Wang, 1998) suggests that conscious public recreation of spontaneously formed new economic spaces poses significant constraints on the cluster’s innovation and growth potential due to the hierarchical control of both state institutions and global players.

Policy issues also concern the roles of different levels of government. At the national level, the policy should be focused on macroeconomic conditions; at the provincial level, it is about infrastructure, education, and training; and at the local (city) level, the role of the state lies in the provision of spaces and supporting services (van Dijk, 1995). Industrial district theses, as well as cluster theories in general, have elevated the relative importance of territorial-based policies to industrial policies (e.g., picking industrial winners) and correspondingly, the responsibilities of the local state over the national government.

2.2.1.6 Summary: A Relational Geography

The theses reviewed in this section provide a general analytical framework for understanding

18 See Porter (2000) for a useful comparison of industrial/sectoral and territory-based (cluster) economic development policies.
industrial clusters, although different theses may have different degrees of relevance for individual cases. The aforementioned literature demonstrates what can be termed an “associational economy” (Cooke and Morgan, 1998) or a “relational turn” in economic geography (Bathelt and Glückler, 2003; Yeung, 2005). Under this new paradigm, the economic and the social must always be considered in consonance. Economic actors are not only situated within networks of social and institutional relations, they are also constrained by a historical path. In addition, economic processes cannot be reduced to a few static explanatory variables, but must be understood as contingent on individual strategies and actions. Under this paradigmatic shift, spatial attributes (e.g., closeness to inputs, markets, etc.) are replaced by ongoing social processes as the major explanatory power for geographic processes. Interactions and inter-linkages are crucial, whether they be transaction-related or not, formal or informal, planned or serendipitous, or latent or active. In these interactions, humans show greater agencies in the unfolding of spatial processes. With this understanding in mind, I now turn to the discussion of the new cultural economy and examine how it is different from what has been discussed so far, and what the spatial dynamics of cultural industries are manifested in the process.

2.2.2 The Cultural Economy of Cities

“Cultural turn” in the economy (du Gay and Pryke, 2002) underpins the latest phase of post-industrial transformation for many cities around the world. The term “cultural economy” concerns two strands of thoughts. The first is the attempt to understand the economy or economic behavior by assigning social-cultural factors significant explanatory power. This aspect of “cultural economy” has been touched on in the previous section on cluster theories. The second strand of thought is related to the “economies of signs” or cultural industries (du Gay and Pryke, 2002; Lash and Urry, 1994; Law, 2002), which have gained currency in major cities in the West, as
well as in developing countries in East Asia (Scott, 2000a; Hall, 2000; Yusuf and Nabeshima, 2005). According to Thrift (2000), cultural turn in economic geography denotes “the rise of cultural dimension as a legitimate arena of economic concern and the economic dimension as a legitimate area of cultural concern” (p. 489). In this section, I will review literature mainly related to the second interpretation of cultural economy. I will first discuss culture in relation to commerce and modern consumption behaviors. Then, I will review characteristics of cultural industries and their spatial manifestations followed by a discussion on culture-led urban regeneration programs. Finally, I will provide a short discussion on Bohemian artists and global cultural industries, underpinning their important roles in the formation of new economy spaces, as well as cultural-led urban regeneration programs.

2.2.2.1 Debate on Culture and Commerce

The marriage between culture and commerce should not be taken for granted. The latest stage of capitalist development, with its tendency of commodifying human culture and aesthetizing the economy, has caused theoretical controversy. Adorno (1990) argues that cultural production should be governed by its inner logic of harmonious formation. Once profit motives are imposed on cultural production, a culture loses its independence and consciousness, and finally falls victim to vacuity, banality, and conformity. Human beings exposed to such commercialized cultural form become the “object of calculations,” they are “an appendage to the machinery,” and are seriously debased (p. 85). For Adorno, the culture industry is a means of mass deception. It imposes its will from above and serves the interests of those in power. Therefore, the cultural industry represents a form of oppression.

19 Thrift’s (2000) paper mostly deals with the first type of concern.
Bourdieu (1993) addresses the relation of culture and commerce from the perspective of cultural production. He believes that cultural production comprises two sub-fields: restricted and large-scale production. The former, mainly referring to so-called high art, has privileged clients or other cultural producers as its primary audience. The cultural workers in this sub-field compete among themselves primarily for prestige and celebrity, rather than for money. This sub-field is considered autonomous, innovative, and responsive to the internal demands of the cultural sphere. In contrast, large-scale production is intended for the mass public and cultural workers, who mainly compete for economic profits by submitting to the laws of the market. Implicitly, the artistic quality of the works in this sub-field is inferior to the first. Both Adorno and Bourdieu see an uneasy relationship between the economic and the cultural.

Frankfurt School has been attacked by many scholars, who see a more benign (albeit problematic) role of commerce on cultural production. Garnham (1987) maintains that substitution of patronage by the market neither leads to the destruction of high culture nor the suppression of marginal cultures, as experience has shown. More accurately, cultural industries should always be read as “a complex hegemonic dialectic of liberation and control” (p. 34), whether viewed historically or in the contemporary society. From a practical perspective, the alternatives to market is either to subsidize the taste of the economically better-off population, or create a public culture that has no audience other than bureaucrats. None of these alternatives serves the interest of culture or overall society. Similar views are expressed by Hesmondhalgh (2002), who sees the roles of cultural industries as ambiguous, rather than definitively negative. In fact, he mentions that symbol creators in cultural industries exercise relatively higher levels of autonomy compared to workers from other walks of life, although such autonomy has been eroded in recent years. He contends that, in reality, many cultural industries do not necessarily favor the dominant interests in the society. In reality, cynicism, anger, sarcasm, and questioning of authority are widely observed in contemporary cultural scenes.
Scott (2000a) is perhaps the most optimistic among the previously mentioned theorists. He notes that the capitalist system has both progressive and regressive tendencies, and is capable of producing cultural products with superior design and complex sensibilities (i.e., masterpieces) on the one hand and debased and numbing products (dross) on the other. This does not suggest that there are necessary internal contradictions between commerce and creativity. Unlike the Frankfurt school, which depicts consumers as passive takers of cultural products, Scott sees consumers as possessing a certain degree of resistance, critical capacity, and self-consciousness, or what Lash and Urry (1994) refer to as “reflexivity” in consumption. This makes it difficult, if not impossible, for the dominant interests to impose their will through cultural osmosis.

2.2.2.2 Consumption and Consumer Culture

The latest stage of capitalist accumulation is closely related to cultural consumption (Zukin, 1982). A critical question needs to be answered in order to understand the burgeoning cultural economy of cities: Why do people consume cultural goods or services, most of which are not essential to life sustenance?

Belk (2004) provides a thorough analysis of the meaning of consumer culture and its normative (mostly negative) implications. While there are many different definitions of consumer culture, the basic interpretation is that this culture does not simply imply an abundance of consumer goods. Most importantly, consumer culture involves “a personal orientation and a social sanction for desiring and acquiring these goods… a receptivity to satisfying an increasing variety of human needs and desires by acquiring commodities and purchasing experiences… [a]nd a social system of status competition through purchased possessions and services” (p. 68).
Baudrillard (2003) summarizes four logics of consumption: (1) a functional logic of use value (logic of utility); (2) an economic logic of exchange value (logic of the market); (3) a logic of symbolic exchange (logic of the gift); and (4) a logic of sign value (logic of status). Corresponding to the four logics of consumption, an object assumes the status of an instrument, a commodity, a symbol, or a sign. The last two aspects are particularly pertinent in the discussion of cultural goods or services.

The social system of status competition and the logic of status are of particular interest in the present research. While consumption, to a certain extent, serves to reinforce social hierarchy (Crompton, 2003), consumerism and its associated “lifestyles” also allow individuals to renegotiate their class identity (Bennet, 2003). Therefore, although consumption practices do not erase class boundaries, they can make such boundaries more blurry. As is argued by Bourdieu (2003), “[a] class is defined as much by its being-perceived as by its being, by its consumption—which need not be conspicuous in order to be symbolic—as much as by its position in the relations of production (even if it is true that the latter governs the former)” (p. 249, emphasis in original). The quest for social status and distinction through consumption leads to increasing emphasis on design and differentiation of consumer goods/services, giving rise to the so-called positional goods/services (Garnham, 1987; Ley, 1996), many of which are within the domain of cultural production.

However, if the ascendance of cultural industries is related to the quest for status, then why have cultural industries become prominent only in the recent decades considering that the quest for status is not a new phenomenon? Hesmondhalgh (2002), Scott (1997, 2000a), and Lash and Urry (1994) suggest factors, such as the rising income and availability of more discretionary time to the average families in the West, that have enabled these families to practice these non-essential forms
of consumption. In fact, the consumption of many cultural goods or services requires the manipulation of time (Garnham, 1987). The dependence on discretionary time for cultural consumption suggests the limits to such consumption (Bell, 1973). The rise of new social classes can also be a factor. Sassen (1991) argues that the influence of the transnational professionals in global cities does not lie in their ownership control of corporations, but rather in their consumption behavior. The wealth they command is not adequate for significant control of capital; however, it is quite sufficient to engage in various kinds of lifestyle, luxury, or cultural consumption (e.g., going to gallery openings).

Ho (2005) provides further insights into the surging consumerism, arguing that symbolic values gained in consumption can translate into economic values at work. This should be understood in a post-industrial context in which professional service jobs are mostly client-based rather than material-based; therefore, work is more about managing interpersonal relationships and selling images than about making or selling physical products. Under such circumstances, cultural capital, usually articulated through good taste from accumulated consumption behaviors (e.g., appealing body appearance) can enhance their chance of success in managing human relationships on the job.

Similarly, from the production side, Scott (1997) and Lash and Urry (1994) note that prevalent cultural consumption patterns are related the post-Fordist production technologies. The Fordist system serves the function-centered mass markets in which the consumers look for the lowest possible price. Post-Fordist flexible specialization makes the production of small-batch and high-quality goods both possible and affordable (though not necessarily cheap) to the average consumer. The shift of consumer taste for symbols and semiotic meanings (demand), combined with the flexible production technology (supply), gives rise to the burgeoning cultural industries that we see today.
2.2.2.3 Cultural Industries and Their Spatial Dynamics

2.2.2.3.1 Features of Cultural Industry Production

Certain features can help distinguish cultural industries from other industries, such as mass manufacturing or high-tech creative industries. Some, however, have a wider purchase compared with others; therefore, they should not be understood as strict generalizations.

*Unpredictable Market*

A distinctive, although probably not unique, feature of cultural industries is the volatility of markets for cultural products. Consumer taste is fickle. Inasmuch as the value of social markers or positional goods lies in their scarcity and distinctiveness, market conditions for cultural products are extremely hard to predict (Garnham, 1987, 2005; Hesmondhalgh, 1996). Geographic concentration of cultural industry firms seems to provide a spatial solution to the fickle demand for cultural products (Hitters and Richards, 2002; Scott, 1997, 2000a). Here, empirical work in diverse industries in cities of various sizes strongly supports the relevance of theories of agglomeration (Banks *et al*., 2000; Bassett *et al*., 2002; Bathelt, 2005; Christoperson and Storper, 1986; Crewe, 1996; Lash and Urry, 1994; Pratt, 2000; Scott, 1997, 2000a, 2005; and Shapiro *et al*., 1992).
**Audience Maximization**

Cultural industries must constantly provide novel products that rely heavily on human talent. In many cases (music, movies, TV programs, publishing, and others), their production logic is characterized by high cost of production (first copy costs) and low-to-zero marginal costs of reproduction. This may also manifest in distribution. Such logic suggests that the profit in these cultural industries depends on audience maximization (domestically, as well as globally), which gives further weight to the distribution and marketing functions of firms. This situation favors market concentration, and suggests that the key power and profit lies in distribution rather than production (Garnham, 1987, 2005; Hesmondhalgh, 2002).

**Semi-Public Goods**

Some cultural products bear the character of public goods because they are non-destroyable after consumption, non-excludable, and non-rivaled (Garnham, 2005; Hesmondhalgh 2002). In this connection, Pratt (2005) also speaks of cultural goods as “merit goods,” suggesting that goods with a benefit but insufficient demand. Public goods imply the need for public intervention of one sort or another, as well as special financial arrangements for specific industries, such as indirect financing through advertising in TV programs or the Internet (Garnham 2005; Hesmondhalgh, 2002). Therefore, the growth of cultural industries in general also contributes to a burgeoning advertising industry, which is a major player in the cultural industry sphere in its own right.

**Flexible Labor Market**

Cultural industries are increasingly being characterized by flexible labor. Freelancing based on short-term contracts has been common. In addition, the number of cultural workers paid by
commission or royalties based on negotiation (usually with unequal power) rather than fixed wages has increased. This has two implications. On the one hand, it increases the share of profits for successful cultural workers (particularly the “stars”). On the other hand, aspiring talents who are yet to achieve a certain degree of public popularity (“stars-to-be,” or what Hesmondalgh refers to as “reservoirs”) must face increasing insecurities, as a great number of them have to find a second job to subsidize their artistic pursuits (Garnham 2005; Hesmondhalgh, 2002). The cultural industries are “winner-takes-all” sectors. Therefore, highly unequal distribution of wealth usually accompanies the growth of cultural industries.

Project Ecology

An important, although not unique, feature of many cultural industries is project-based production, which is usually employed in the provision of customized or one-off products or services. In a project, people of diverse skills, either independent or from established firms, come together to accomplish a complex task within a specified period. Project-based production usually involves co-production on the part of the clients (user-producer interaction). Compared with formal firms, project organization is very fluid, interactive, free from redundancy, and flexible (i.e., without any programmable course of action) (Grabher, 2002). Personal ties (“know-who”), reputation, and social structures are crucial for the formation and operation of project teams. The importance of social infrastructure in project organizations implies that densely knit clusters (with advantages in transaction cost, ease of face-to-face contact, and “hanging-out,” local labor pool, local “noise,” and so on) can facilitate repeated project collaborations. Although proximity may not be the necessary condition, given the time-constraints in completing the projects, geographic proximity can help relieve the pressure on time (Grabher, 2001, 2002).
2.2.2.3.2 Cultural Industry Clusters and the Location Choices for Cultural Firms

Economic geographers and economists have noticed a high concentration of cultural industry firms in large metropolitan areas (Scott, 2000a, 2007; Heilbrun and Gray, 2001). Hall (2001) mentions that design-oriented producer services and cultural/creative industries tend to agglomerate in high-order global cities. Lloyd (2005) suggests that cultural production is quite often found in old central cities within metropolitan areas. Hutton (2004a) and Gospodini (2006) have pinpointed inner cities as the favored locations for cultural firms. Some rationales for such location choices are related to the cluster theories discussed earlier in considerable length; however, I will now discuss some additional factors that are pertinent in the present context. Two questions on locations pertaining to different scales exits. First, why are certain urban areas more favorable to cultural industries compared with the others? Next, why are certain locations better than others in the same city?

Urban Scale

Some studies have shown that creative firms follow creative talents to where physical and social amenities abound, and where the social milieu is open, diverse, and tolerant to differences (Clark et al., 2002; Florida, 2002a, 2002b, 2002c, 2005). Influenced by such ideas, attracting the so-called creative class (Florida, 2002c, 2005) has increasingly become incorporated into the policy discourses of local governments. The creative-class thesis has been criticized by Scott (2006a) as mechanistic, neglecting the complex synchronic and diachronic interplay among production systems, talents, urban spaces, and social life. An even more trenchant critique is advanced by Peck (2005).

Many scholars have discussed place monopoly in cultural production (Molotch, 2002; Mommaas,
For varying reasons, cities (or the names of cities) may acquire a certain symbolic value that serves as a name brand for local producers. Good examples are movies from Hollywood and fashion from Paris (Scott, 1997, 2000a, 2005). At the same time, products from certain places also vociferate a certain feel or “odor” (Iwabuchi, 1998) that are unique to these places because of the influence of local character or details (such as culture, urban life, and so on) on cultural production. Cited examples are apparel designs from Los Angeles (Molotch, 1996) and advertising from London (Grabher, 2001). The local cachet, or the mental association between the image of place and products, is part of the symbolic asset of a locality. This asset can not only can help its products command monopolistic prices in the world market, but also keeps competitors in other places at bay in the longer term.

Drake (2003) provides a more nuanced analysis on how place factors have become incorporated into the aesthetic and expressive elements of products. Drake believes that “places” should be viewed as subjective, imagined, and emotional phenomena, in addition to their objective and physical beings. Raw location attributes (history, locational characters such as architectural styles, natural environment, daily life, and others) affect the subjective emotions of creative workers. These emotions can be translated into stimuli, prompts, ideas, or “raw materials” in individualized aesthetic creation. This view is very different from the cluster-based view that stresses collective creativity based on social interactions and information flows. Drake’s thesis focuses on the relationships between place and individual creativity, and is more relevant to cultural workers than to creative workers in other industries who mostly rely on analytic or synthetic creativity, such as scientists or engineers (Asheim and Gertler, 2005). Drake (2003, p. 518) succinctly summarizes four types of relationships between place and creativity: (1) locality as a resource of visual raw material and stimuli; (2) locality as a brand based on reputation and tradition; (3) locality-based intensive social and cultural networks; and (4) locality-specific communities of creative workers. The boundaries between the four types may not be clear-cut, as networks, place brand, or worker
communities can all translate into emotive contents (Drake, 2003; Pratt, 2000).

*Cluster Scale*

Mommaas (2004) notes that cultural clusters can take many forms. Some are restricted to stand-alone buildings or larger complexes, while others may extend to occupy larger geographic areas. Interestingly, many of these clusters are housed in former industrial buildings, although newly built sites are also common. Some clusters are production-oriented, while others are more focused on consumption. Cluster theories are mostly developed based on the production-oriented type. For the consumption-based clusters, some are more restricted to artistic/cultural activities, while others focus on leisure and entertainment businesses. In terms of development trajectories, some clusters arise unconsciously and spontaneously; however, others may be initiated by private cultural managers aiming to strengthen their own market position, or by public efforts (such as urban planners) aiming to strengthen the urban economic base or boost urban images.

Hitters and Richards (2002) reveal that in many cultural clusters, formal inter-firm linkages are weak. For consumption-based agglomeration, the volume of new middle-class consumer traffic is a more important rationale for clustering than are firm linkages. Accessibility, therefore, becomes an important factor of cluster formation. In reality, even for production-oriented cultural industry clusters, as Mommaas (2004) suggests, intra-cluster exchange may not be strong.

Lloyd (2004) sheds light on the location of so-called bohemian artists. According to Lloyd, a big difference between a modern bohemian neighborhood and a technology R&D district results from the latter usually having an industrial beneficiary and financier, whereas the former is endowed with cost of creative production, largely borne by the aspiring artist himself/herself. However, both are characterized by high concentration of talents and creative activities. As many cultural
industries have a winner-take-all market, only the fortunate few can finally work themselves out of obscurity. Even then, they may still have to wait for extended periods before they can become successful. Under such circumstances, the supporting environment of the cluster in the form of material and symbolic resources is crucial. Critical material resources can be space (low-rent lofts or other kinds of spaces, space functionality, and display venues), visibility, as well as abundance of flexible jobs that fit the artists’ lifestyles, since many artists need to “moonlight” in order to subsidize their artistic pursuits. Here, public exposure and visibility are quite unique and important to cultural industry aspirants. Lloyd also mentions the presence of the internal status system in mature cultural industry clusters that not only helps artists become more visible, but also facilitates cultural industry gatekeepers in picking the “winners.” However, symbolic resources, referring to a bohemian milieu of creation, help poor creative workers maintain a certain identity, obtain spiritual support, and internal recognition, as well as sustain commitment to an artistic pursuit in the face of economic hardships and uncertainties.

2.2.2.4 Cultural Economy and Urban Regeneration

Over the past a few decades, in the context of deindustrialization and economic recession in Western cities, culture has increasingly been used as an instrument for revalorizing old urban areas (Jeffcutt and Pratt, 2002; Miles and Paddison, 2005). The overlap of cultural development and urban regeneration programs suggests that developers, investors and urban planners, among many others in the “growth coalitions,” have stepped into the old and relatively autonomous field of art. Mommaas (2004) has noted a recent shift of culture-centered urban regeneration strategies from providing venues for or organizing spectacular events or consumption to a more fine-tuned policy of creating spaces and milieus for cultural production. Mommaas identifies five major justifications for cluster-centered urban cultural strategy: (1) strengthening the identity, attraction
and market position of place; (2) stimulating a more entrepreneurial approach to the arts and culture; (3) stimulating innovation and creativity; (4) reusing old buildings and derelict sites; and (5) stimulating cultural diversity and cultural democracy. Mommaas views localities as always dependent on a combination of these justifications in a contingent manner, and the final outcomes are usually not the result of clear choices, but rather the “ad hoc blending of arguments and opportunities” (p. 530).

The critical analysis of Zukin (1982, 1995, 2003) of culture-led urban re-valorization processes suggests that the aesthetization/beautification of urban spaces, as well as many other culture-centered urban regeneration strategies, masks the asymmetrical power among social groups. According to Zukin, a culture-centered urban strategy (together with its implicit aesthetic judgments) is a powerful means of social control. Culture represents a “power of vision,” or to stress, “the ability to frame a work of art, a street, a building, or an image of the city in an aesthetically coherent way” (1995, p. 292). However, because of the “benign” face of culture, culture can be used by the dominant class to attenuate or more accurately conceal contentious issues around local economic development. Culture reproduces social and economic inequality with a more “lofty” justification. Zukin’s theses add another dimension: political power to the urban cultural economy.

Zukin’s influential work on loft living (1982) warrants special attention in this study because of its relevance to the formation of CICs in Shanghai. According to Zukin, the re-valorization of derelict loft spaces by artists in New York is not a simple market process, but rather a mix of market mechanisms and policy inducements. In the end, property developers reap economic profits. Meanwhile, affluent new middle-class residents obtain new consumption experiences and are also main beneficiaries of this process. The irony is that the inevitable gentrification, together with the hike of property prices, turns the pioneers of these urban processes into the victims of their own
success. However, given their roles in displacing old industrial users, these pioneers are not totally free from blame. The struggle for space, as argued by Zukin, represents a form of class conflict. This phenomenon is not unique to New York. Similar stories are told by Lloyd (2005) about the rise of Wicker Park in Chicago, a “neo-Bohemian” district, and by Ley (1996) about the gentrified districts in Canadian cities, in particular, Vancouver.

In comparison, Mommaas (2004) is less critical than Zukin about private-sector involvement in the culture-centered urban regeneration programs. His perspective is different from that of Zukin in that he is less concerned with the political economy of culture-led urban regeneration, and is more interested in the outcome of cultural production because of combining cultural and urban development strategies. Mommaas (2004) views the fact that support comes from the public or private sector as less important than maintaining cultural autonomy and standards. Mommaas believes that economic value is embedded in certain cultural values, and it can only be sustained to the extent that cultural values are not compromised. However, Mommaas acknowledges that external interests can sidetrack cultural values. As the combination of culture and urban development strategies can be conceived in both negative and positive terms, Mommaas concludes that a more reflexive urban cultural cluster strategy is needed.

2.2.2.5 A Closer Look at Bohemian Artists

Zukin (1982) draws attention to the catalytic roles that bohemian artists play in transforming marginal urban spaces into "chic spots.” This is supported by the work of Ley (1996, 2003), which shows that the presence of artists is the strongest statistical predictor of gentrification in four Canadian cities. Artists, as agents of urban change, warrant a closer look.
Lloyd’s (2005) review of the history and meaning of “Bohemian” suggest that, at least in their historic origin, Bohemians belong neither to the bourgeoisie nor to the proletariat. Their values represent an affront to the profit-oriented capitalist logic, to the “organization men” and to the mainstream of society; however, they cannot avoid participating in the commercial market and share with many urbanites a lust for sensual experience and pleasures. Their lives are characterized by great ambiguities and contradictions. As a group, they tend to give up economic benefits and certainty in exchange for the preservation of their creative energy and personal freedom. Cities, particularly central cities, though plagued by many social ills, provide a true sense of liberation and freedom for Bohemians.

Zukin’s (1982) seminal work has helped establish an association between artists and loft living. However, why do lofts have a special appeal to artists? Zukin argues that artists value loft spaces not just for their cheapness, but also for the attractiveness of these spaces. Loft spaces used for residence are paradoxical and ambiguous, they are open and malleable, and their “raw” quality offers a sense of both history and adventure (Zukin, 1982, p. 60, 65). Ley (2003) offers different arguments. Based on evidence from three Canadian cities, artists value the affordable, mundane, and off-center status of poverty neighborhoods. He suggests that highly marketed live-work loft spaces have not only become unaffordable to artists, but have increasingly lost their authenticity. In contrast, poverty neighborhoods with their diverse social composition and the absence of commodification have become more attractive.

2.2.2.6 Cultural Industries and Globalization

Western cultural hegemony and global cultural homogenization has been a hotly debated issue. Appadurai (1990) proposes a five-dimension analytical framework for conceptualizing global
cultural flows: ethnoscapes, mediascapes, technoscapes, finanscapes, and ideoscapes. The relationships between these dimensions are disjunctive, fluid, and unpredictable. As Appadurai elaborates, “[t]he critical point is that both sides of the coin of global cultural process today are products of the indefinitely varied mutual contest of sameness and difference on a stage characterized by radical disjunctures between different sorts of global flows and the uncertain landscapes created in and through these disjunctures” (p. 308).

Scott (1997, 2000a) argues that globalization does not lead to cultural uniformity across the world because cultural production is place-specific even though market tends to be worldwide and consumption has become placeless (see also Molotch, 2002). In reality, globalization and the extension of the market deepen the division of labor and help reinforce localized production agglomerations. These local production systems, built on dense social relationships, not only produce place-specific goods but also become part of the distinctive local culture.

On the other hand, Scott (2005) adds that not only consumers of cultural products are unique in having critical senses, but also that, at a larger scale, societies usually engage in active reinterpretation and hybridization of external cultural influences. In a similar vein, Tomlinson (2004) rejects the wholesale cultural Westernization thesis because it neglects the multitude of complexities and contradictions of cultural flows, as well as the resilience and dynamism of non-Western cultures. Empirically, from the cultural receiving end, the studies of Po (2006) and Muller (2005) on the China and Bangkok advertising industries, respectively, provide support to Scott and Tomlinson’s argument. At the country level, perhaps no case is more illustrating than Japan, whose indigenous culture is dubbed as “pure impurity” (Iwabuchi, 1998, 2002). Japan’s experience suggests that borrowing, appropriation, hybridization, and indigenization of transnational culture flows can help create a distinctive local culture. In contrast, cultural exports have to adapt to the taste of the receiving end. However, in reality, none of these scholars denies
the imbalances in the global cultural flows. What they stress is the dynamism and the on-going negotiations among cultures in their global encounters.

2.3 Summary

This chapter is divided into two sections. The first section focuses on the causes and processes of inner city changes, and the second part deals with the cultural economy of cities. In the second part, two bodies of literature are reviewed. The first discusses the mechanism of industrial agglomeration and the second deals with literature on the nature, characteristics, and controversies of cultural industries. Majority of the literature reviewed in this chapter is clearly by Western authors. In reality, the abundance of literature on Western societies poses a stark contrast to the paucity of studies in East Asia, or more specifically China. For example, the processes of Chinese inner city changes are rarely touched upon by China scholars. In addition, literature on cultural industries and, particularly, cultural industry clusters in the Chinese context, is quite limited, although some research has been done on high-tech clusters in big Chinese cities. Western-based theories can serve as a good reference for China studies; however, the unique institutional and historical context of Chinese society also makes such theories incomplete. In the next chapter, therefore, I will review works on Chinese cities with a particular focus on the role of the Chinese state and its relation to the economy and (civil) society. I believe that by combining theories based on Western experience with Chinese perspectives, it will be possible to build a solid foundation for understanding China's urban transformation.
3 THEORIES ON ROLES OF THE CHINESE STATE IN URBAN TRANSFORMATIONS

Pre-1949 Shanghai had a dynamic economy and a cosmopolitan culture. However, the socialist regime instituted in 1949 fundamentally transformed the Chinese urban landscape. Parish and Whyte (1984, p. 358) summarizes the Maoist model of urbanization as having the following distinctive features: (1) strict migration control and minimal urbanization; (2) a comprehensive residential work-unit (*danwei*) system; (3) a highly developed bureaucratic allocation system; (4) an emphasis on production rather than consumption; (5) a relatively egalitarian distribution system; (6) a rejection of schools as a basic mechanism for identifying talented people; (7) stress on citizen involvement in areas such as public health and social control; and (8) rigid restrictions on all forms of dress, expression, ritual life, and communication that did not conform to the official ideology. These structural changes helped produce a society with the following characteristics: high levels of stability in both employment and residence; uniformity in consumption patterns and lifestyles; excessive bureaucratization; and the widening of the urban-rural divide. Under these circumstances, cities such as Shanghai became “solidified” and “stuck in a frame” (Gamble, 2003, pp. 8, 189).

With no less drama, socialist economic reforms launched in the late 1970s led to another wave of urban transformation in China. Anti-urban development strategies were reversed, market forces gradually replaced central planning, the fiscal and governmental system were decentralized, migration controls became more relaxed, autarky gave way to interregional and international trade, and flourishing individualism and differentiation encroached on the collective identities. These urban transformations, as well as their imprint on the urban landscapes, are well documented in
literature (e.g., Wu, 2002; Lin, 2007; Yusuf and Wu, 1997; Zhu, 2005, etc.). I will not review the
details of these transformations here. Instead, I focus theoretically on the ever-changing
state-economy and state-society relationships that help explain and, in a sense, are themselves
explained by the sectoral urban reforms undertaken over the past 30 years. Similar to many other
East Asian countries with strong traditions of state intervention, the Chinese state has always been
present in various urban processes. This tradition is what Healey (2004) terms the “soft
infrastructure” of Chinese society. As argued by Lin (2007), the dynamics of China’s urban
transformation can be best understood from the angle of state-economy and state-society
relationships (p. 9).

State-economy relationships revolve around the interactions between state and the agents engaged
in production and consumption. In contrast, state-society relationships deal with the relationships
between the state and its citizens in the non-economic sphere. However, that the boundary between
economy and society is not clear-cut. Discussion of SOEs and consumer culture can shed light on
both state-economy and state-society relationships, even though I put both of them under the
section of “State and Economy.” The main reason I distinguish between them here is that the role
of the state is not quite the same in these two spheres.

3.1 State and Economy

This section is divided into the spheres of urban production and consumption, and discusses how
state-economy relationships are articulated in both.
3.1.1 Production Sphere

3.1.1.1 State-owned Enterprises: Enhanced Autonomy

SOEs organized as cellular and state-penetrated danwei were the basic production units in Maoist China\textsuperscript{20}. Under a central planning system, the central authority exercised direct control over SOEs as well as local production activities through three mechanisms: the physical planning of production, centralized allocation of materials and budgetary control of revenue and expenditures (Feltenstein and Iwata, 2005, p.483). Walder (1986) proposes a “communist neo-traditionalist” model to theorize state danwei. In the old danwei system, he argues, the mobility of workers was strictly controlled and their lives were completely dependent on the work unit for livelihood and welfare. Within the danwei, workers usually form clientelist ties with their superiors. Inasmuch as the factory was an embodiment of the party-state, the danwei system not only forced workers to be highly reliant on the state, but also rendered them politically vulnerable. Unlike the authoritarian tendency inherent in the “communist neo-traditionalism” model, the “work unit socialism” model developed by Womack (1991) suggests a relatively benign role of the state. Although this perspective does not deny the control function of the danwei, it also sees the enhancement of worker interests through generous welfare provisions. Here, the state is not perceived as a necessary enemy of the workers. Workers could acquire a certain degree of bargaining power within the danwei system, to the extent that they had job security and the danwei management was obliged to provide welfare services, even if workers were less than optimally productive. Decision-making therefore had to be based on achieving a certain degree of consensus within the danwei. In some circumstances, SOEs could even distort state directives to protect their own

\textsuperscript{20} SOEs involved in Shanghai’s CIC businesses were all organized in this way.
short-term interests (Shih, 1995). Based on a comparison of the two models, Ji (1998) argues that the pre-reform *danwei* system was more oppressive than emancipating. Nonetheless, welfare within *danwei* was not provided as a charity; housing, education, and health services were not offered unconditionally. Political cadres and managers of a *danwei* had to ensure not only that state economic plans were executed, but also that the workers, in their daily lives, conformed to state ideology. The provision of material welfare was simply used to create dependent relationships to prevent dissent and deviance. This very aspect demonstrates the strong state power in the pre-reform *danwei* systems.

In his study of the Chinese SOEs in the reform era, Ji (1998) summarizes three transformations of SOEs as components of a huge social engineering project: depoliticization, de-statization, and de-*danwei*-zation. Depoliticization is a process that restores the *danwei*’s economic function in the division of labor in society. In response, the party and state apparatus originally installed in the work units for forcing Marxist-Leninist ideology have increasingly turned to activities to enlist worker cooperation with the management for greater productive efficiency (Ji, 1998; Shih 1995). This process is by no means drastic, and the state maintains its control over its various aspects, although on a much reduced scale. Ji (1998) uses de-statization to describe the three crucial aspects of changing state-enterprise relations: property links, bureaucratic ties, and remunerative controls. All of these links can be understood as a way to separate businesses from the state apparatus and re-make these businesses as relatively autonomous social entities. In turn, de-*danwei*-zation describes the consequences of transformation for the individual: driving both managers and workers away from the arms of the state and turning them into agents that pursue self-interest in the expanding economic and social space. As the *danwei* system constitutes the basic infrastructure of the party state, de-*danwei*-zation implies “a significant redefinition of the boundaries between the state and society” (p. 225).
SOE studies research the changing state-economy relationships from the perspective of former state agents: the *danwei*. Another body of literature on the developmental state looks at the local government. Oi (1995) argues that the capitalist developmental state, such as that of Japan or Korea, is neither communist nor *laissez faire*. Rather, the state is actively involved in the economy (such as economic planning) to create a maximum competitive environment and comparative advantages for businesses. China’s post-Mao state-led economic development is both similar and different from such a model, and Oi calls this Chinese version the “developmental party-state,” or as it is more widely known, “local state corporatism.” In this perspective, local governments “treat enterprises within their administrative purview as one component of a larger corporate whole. Local officials act as the equivalent of a board of directors or, more directly, as its chief executive officers” (p. 1132). In the process of developing township and village industries, local governments, nominally the agents of the central state, become their own principals (p. 1144). This helps explain China’s economic success in post-Mao era. Such increased autonomy of the local state is similar to reformed SOEs. Moreover, heavy involvement from the local government in the day-to-day running of the businesses, as well as various forms of public-private co-operation (sometimes involving bending the rules to facilitate economic development), point to symbiotic state-business relationships in which the boundaries between enterprises and the state are not easily drawn.

Much like Oi, Walder (1995) sees local governments as industrial firms. Contrary to neo-classic economic theories that government intervention in the market is destructive for economic growth, he finds that at the local level, where governments are more directly involved in managing the economy than at higher levels, more buoyant and successful enterprises can be observed. His
explanation of this phenomenon is that enterprises at the local level, although placed under more direct state management, operate with harder budget constraints. This suggests that better market discipline is practiced. From Walder’s perspective, it is submission by the local governments to market rules that have led to successful local economic development.

L. Zhang (2003) deals with the issue of the local developmental state at the macroeconomic planning level. He observes different outcomes from the research of Walder. L. Zhang finds that over-involvement by municipal officials in Shanghai’s industrial development has failed to achieve desired development. This view echoes the thesis of the “dysfunctional state” that is reviewed later in this document. Taken at face value, L. Zhang might have arrived at different conclusions from Walder. Further analyzed, his argument actually confirms Walder’s respect for market discipline by the state to bring about industrial success. While Walder (1995) provides examples of the state submitting to market discipline, Zhang provides examples where the state violates or avoids market principles. In a similar vein, Xu and Yeh (2005) suggest that the supposed “entrepreneurial” behavior of the Chinese local state in fact runs counter to market discipline and that “entrepreneurialism” is a misnomer. These studies seem actually to underscore the power of market forces, although, superficially, the state appears to be exerting greater influence on outcomes.

Parallel to the concept of “developmental state”, many scholars also note that local governments and public institutions quite often set up and directly manage large number of profit-oriented enterprises (Duckett, 2001; Leaf, 2005b; Shih, 1995;) and Duckett (2001) calls this phenomenon “state entrepreneurialism”. According to Duckett, “state entrepreneurialism” is distinct from “developmental state” (or “state corporatism”) as the latter involves “the local government as a whole facilitating the development of the local economy by providing supportive infrastructure and conditions for enterprises, whether state, collective or private.” (p.30, emphasis mine) or
propping up certain industrial sectors with high potential of growth (p.31). Therefore, this type of
pro-market state involvement is supposed to bring about tax revenue and hence benefit certain
jurisdictions as a whole. In contrast, in the “state entrepreneurial” model, the direct investment and
involvement in risk-taking businesses by individual departments of the government tends to be
fragmented and is aimed at earning profit for the departments concerned and it exists only in a
semi-legitimate way (p.24). In addition, the motivations behind the developmental state at the
local level are usually government revenues under the new context of fiscal decentralization (Jin,
et al., 2005; Oi, 1992;) and the local carders’ political career (Li and Zhou, 2005) while “state
entrepreneurialism”, as argued by Duckett, can be interpreted as a strategy for the central state to
overcome political obstacles in the administrative reform (e.g. outrage redundant bureaucrats).
Therefore, the unorthodox (or semi-legitimate) activities of the state departments acquiesced by
the upper level of government is a result of economic-political negotiation and compromise
among different tiers of the government (2001)\textsuperscript{21}. This helps explain the pragmatic and
undisciplined nature of the Chinese state or what X. Lu (2000) calls “booty socialism.”\textsuperscript{22}

The “pro-growth coalition” and “urban regime” theories applied to Chinese circumstances has
shed light on the symbiotic relationships between state and economy. From an institutional
perspective, Zhu (2004, 2005) tries to explain the gradualism of China’s urban land reform as an
attempt to preserve the old system while mending problems of low productivity. Although the state
is authoritarian in nature, it needs political legitimacy. In a gradualist reform, the local state gains
greater autonomy. To pursue economic growth, it forms pro-growth coalitions with reformed
SOEs that have property interests, cashing in on ambiguous property rights and discretionary
land-use planning. Such a development model, though deemed transitional by Zhu, is reflective of

\textsuperscript{21} Some scholars do not actually make a clear distinction between the “state entrepreneurialism” and “developmental state”
model, for example, both Wu (2002, 2003)) and Xu and Yeh (2005) use the term “entrepreneurialism” to refer to the concept of
what Duckett (2001) means “developmental state”.

\textsuperscript{22} X. Lu (2000, p.289) proposes a typology of state roles in the economy. He categorizes state roles in terms of whether the
economy is state-centered or market centered and whether the state is disciplined or not. In this typological scheme, China
occupies the quadrant of state-centered economy and undisciplined state while US represent a market-centered economy and
disciplined state.
the heavy involvement of state power in the urban property market and the state’s strong links with the business sector.

Tingwei Zhang (2002b) has tried to apply Western regime theories in Shanghai’s urban development. Identifying both economic and political dimensions of coalition building in the original model, he argues that in terms of economic dimension, the local state in Shanghai takes the lead since it controls major resources. In contrast, in the American case, because of private ownership of property, business interests enjoy dominion. At the same time, Shanghai’s experience suggests a very weak political dimension, noting that communities have been largely excluded from state-business partnerships. Tingwei Zhang reveals a clear hierarchy of power structures in urban development processes that begin with the local state, processed downstream by the business sector, and then to the society. This mirrors well the discussion of Wu (2002) regarding the new governance structures in Chinese cities culminating in the “entrepreneurial state,” with society playing a relatively minor and passive role.

Looking beyond the concepts of “growth machines” and urban regimes, Lin (2002) questions the tendency of using single-factor economic rationales in interpreting state development policies. He argues that the state-engineered urban transformation is useful for both growth and non-growth purposes (such as maintaining political stability). This view portrays an even more powerful state than the Chinese version of the regime theory suggests. Lin believes that the state does not simply court market forces to achieve growth, it can also work against market principles to achieve certain non-growth goals.

Lin is not alone in stressing the stronger power of the state in its symbiotic relationships with businesses. Han (2000) argues that the state dominates in the decision on the timing, pace, and configuration of Shanghai’s development, although the locus of power has changed from the
central to the local state. However, it should be stressed that the heavy hand of the state in urban development has been accompanied by the changing source of power. Wu (2003) explains that when the role of the state as owner of production eroded, it sought legitimacy from local entrepreneurialism. Indeed, the determination of the state to hold on to power has never been shaken. What has changed is simply the means to achieve the maintenance goals of the regime, articulated in the changing state-economy relationship. In the reform era, the state power has not simply remained strong; it has even been strengthened because of the massive economic resources it has been able to muster.

To summarize, strong state power in the production sphere of local development is a lasting theme, although opinions differ in terms of the degree of dominance and effectiveness. Some tend to interpret the current state of affairs as reflecting the will of the state, while others would see a more interdependent and symbiotic relationship between the state and business. Notably, some macro-level studies (e.g., L. Zhang, 2005; Han, 2000, Walcott and Pannell, 2006) tend to treat the state as a monolithic entity, viewing the local state as simply an agent of the central state. This view exaggerates state power as the local state to certain degree represents local interests as well. This issue is further discussed later in the section about state-society relationships.

3.1.2 Consumption Sphere

The revival of consumer culture in Chinese cities, and especially in Shanghai, offers an important perspective to examine new dimensions of consumption experience; for example, appropriating symbolic values of goods and getting satisfaction from the very act of making a purchase (Gamble, 2003). In contemporary China, the burgeoning consumer culture has become another terrain where

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23 The power shifts from central to local states indicates the growing power of the society as Chinese local states are not fully agents of the central state. See discussions in section 3.2.2.
state-economy and state-society relationships are being articulated.

Gamble (2003) mentions that Maoist ideology, its socio-economic policies, as well as its strict surveillance and systems of coercion, precluded the emergence of popular consumerism in the pre-reform era. As the old state infrastructure collapsed and commercialization and commodification deepened, consumerism rebounded strongly. Whether this outcome was planned or unexpected is still open for debate. However, more importantly, the party state now sees the post-reform consumer boom as benign because it serves state purposes. Domestic consumption helps stimulate economic growth, reinforcing the legitimacy of the state; consumer satisfaction dissuades political engagement; and consumption patterns divide the society into discrete status groups, thereby deconstructing the collective identity and solidarity. In this regard, consumerism is seen as “an opium to the masses” (p. 163). However, in cities such as Shanghai, consumption is also practiced as a way to articulate independence, self-identity, and agency. These new forms of consumerism “undermine the state because they help fashion identities beyond or at least less amenable to its reach” (p. 164). The state may find individual consumers increasingly impervious to its control and manipulation (see also Davis, 2005).

3.2 State and Society

Thus far, I have covered literature focusing on the urban economic sphere. Next, I will turn to state-society relationships. I will discuss three views on state power relative to society.
3.2.1 Perspectives of State Domination

The state domination perspective is particularly relevant to Maoist China. The organs of the party-state penetrated and shaped society according to their ideological and organizational goals. The *danwei*, which was the building block of both the socialist production and welfare provision system, was the most widely used strategy for imposing state control. This perspective is well covered by literature on Maoist society (e.g., Gamble, 2003; Ji, 1998; Lin, 2007; Parish and Whyte, 1984; Walder, 1986).

Most literature on post-reform China sees state power retreating, allowing for growth in the autonomy of society. However, many authors tend to stress the continuing dominating role of the state. Rosenbaum (1992) writes that reform simply altered the balance between state and society, but eliminated neither the party-state hegemony nor restrictions on expression of grassroots opinions or the public media. He ascribes the imbalance between state and society power to the Chinese propensity to submit to authority and “the absence of a tradition of acknowledging the rights of individuals against the authority of the state” (p. 23). As for urban governance, Wu (2002) argues that while reform has changed state-market relationships, it has not affected the state-society relationship. Community development programs implemented in Chinese urban areas are driven by top-down directives and are accomplished by the penetration of state power to the grassroots level. As a result, no real civil society has been nurtured in this process. Meanwhile, many scholars look at social organizations. For example, both Rosenbaum (1992) and Whyte (1992) argue that the reform era in China saw a revival of autonomous associational life but most of these civil organizations were apolitical or even anti-political (against political mobilization) (Schwartz, 2004). Saich (2000) also acknowledges that Leninst strategies of control for social organizations are still largely in place in the post-reform China and the more autonomy a social
group has, the more vulnerable it is to state administrative interference and potential shutdown (p.126).

3.2.2 Perspectives of State Incapacitation

The state domination perspective would argue that the state’s attempts to impose its will at all levels are largely successful and societal power is minimal if not totally absent. This perspective is challenged by a body of literature that stresses the state’s incapacity to carry out its visions alone, without engaging its citizenry; therefore, so the argument goes, there exists a *de facto* power and agency in the society, despite the fact that the state intends to retain its hand on the levers of control and domination.

A number of scholars have questioned the state’s alleged ability of “social engineer” (Lin, 2002), and instead stress the unintended results of state policies in shaping social transformations. In this view, reform is understood not as a grand design, but as strategies that are *ad hoc*, relative, fragmented, and constantly responding to emerging contingencies (Gamble 2003; White, 1998a; Wu, 1997; Yusuf and Wu 1997). Even during the central planning period, decision making was not a strictly top-down process. Bargaining between governments and their subordinate *danwei* was rather common (Shih, 1995). In the post-reform era, local power has gained more influence, and the mounting off-budget resources /extra-budget resources or “small treasurers” are just some demonstrations of this influence (Wu, 1997; Jin, et al., 2005; Duckett, 2001).

In his two voluminous books, White (1998a, 1998b) strongly argues for the local and contextual causes of the reform. Instead of looking at what the state wants to do, he pays greater attention to what the state could actually accomplish. Even in the Maoist period, state visions could easily go
awry at the local level. In the post-reform period, the accumulative countermeasures widely practiced by localities are generally acquiesced to or legitimatized by central leaders at later time because of the state inability to force compliance. White (1998a) sees the central state as the only embodiment of the state will, and the various levels of the local state not as merely the passive agents of the center. He calls for the study of local networks in which mid-level leaders are portrayed as “hinge leaders,” neither longing to offend the regime at the top nor interested in instigating resurgence from below. Their role is to keep both local residents and superior authorities satisfied with the social conditions, while obtaining benefits from both (such as legitimacy and wealth). When state policies become too oppressive from the local point of view, hinge leaders do not openly challenge their official patrons. Instead, they simply do as they please while taking advantage of the central state’s inability to be aware of what is going on in a country of such immense size and complexity. These passive oppositions and rebellions, although unarticulated, are nevertheless strong enough to override central state intentions.

While White (1998a, 1998b) argues that top decisions are quite often made to legitimize de facto local circumstances, Breslin (1996) stresses that policies are mostly initiated from the top. However, both authors take the view that the state is ineffective in many respects. Breslin uses the term “dysfunctional state” to characterize the lack of coherence and effectiveness of central policies, and the growing localism and provincialism in the policy arena. Similar views are also found in Yusuf and Wu’s (1997) and Lam’s (1996) theses. Although the term “dysfunctional” may seem like an overstatement of the state’s incapacitation, given the state’s dominance in many aspects, it nevertheless stresses the agency of the Chinese society. In particular, if we examine the state’s willingness to make compromises in various aspects or the many counter-strategies and illegitimate/semi-legitimate practices commonly found in China but are sometimes acquiesced by the state (see “small treasuries” in Duckett, 2001; “informal social organizations” in Saich, 2000), it is not difficult to understand the weakness of state power under many circumstances.
White and Breslin’s general discussion about China can also be applied to Shanghai. Large cities such as Shanghai have several levels of local government and administrative powers. The central-local relationships can also be used to characterize relationships between the different tiers of the administrative hierarchy. Shanghai’s "two levels of government and three levels of administration" system in the urban area (Wu, 2002; Tingwei Zhang, 2002b) is simply a microcosm of the Chinese political system. It could be speculated that the lower the level of government, the more likely for it to represent the territory-based local interests and less likely to observe directives of upper echelons of the party state. Lam (1996) argues that the Shanghai municipal leadership represents both central and local interests. However, it is not a united group, and “most political figures in Shanghai should be viewed more as ‘central agents’ rather than ‘local representatives’” (p. 128). Although the political leanings of the Shanghai Municipal Government may change over time, it is reasonable to expect it to serve as a link between the central state and local interests.

The discussion by Leaf (1998) regarding master planning in China largely lends support to the state incapacitation thesis at the local level. In the reform era, master planning is reasserted to impose state control on the marketized urban development. However, master plans frequently turn out to be ineffective. Tingwei Zhang (2002a) mentions that urban spatial planning in China is quite frequently used to legitimize the development that has already taken place. In reality, planning is led by development, rather than the other way round. The weakness of planning control in Chinese cities points to the institutional incapacity of the Chinese local state to exercise its regulatory powers.
3.2.3 Perspectives of State-Society Inter-penetration and Ambiguity

The perspective of mutual influence between the state and society is implicit in the previous two views, as no scholar who argues for state incapacitation actually believes that the state is completely paralyzed, and no scholar who sees a dominating state believes that the state controls everything. However, unlike the two perspectives just discussed, the succeeding reviewed literature places more emphasis on whether and in what form civil society currently exists in China. These studies are less concerned with the relative strength of state or society, and more concerned with the conceptualization of China’s (civil) society, as well as where the boundaries between state and (civil) society lie.

Whyte (1992) points out that the essence of civil society is its institutionalized (rather than ad hoc or de facto) autonomy from the state. Likewise, Ding (1994) lists four defining features of a civil society: civility, association, autonomy, and openness (p. 296). In its purest theoretical form, civil society is a social realm untouched by state power. Although this pure form may not exist anywhere, Chinese society, to the extent that it can be said to exist at all, is far from the ideal or the current European and American realities.

What characterizes the reality in China is a clientelist model in which societal “demands and needs work through a rich network of informal relationships” (Lam, 1996, p. 125). Lam argues that as the party state severely prohibits political organization and collective political action, informal particularistic actions based on patron-client relations is the only and most effective means for ordinary Chinese citizens to obtain certain benefits. Under these circumstances, Chinese rarely try to make political demands by seeking peer support or by openly putting pressure on the state.
Two traditions influence the Chinese state-society relationships. First, under the Confucian tradition, Chinese people were “enmeshed in the hierarchies and networks of mutual networks of obligation and propriety” (Whyte, 1992, p. 80). Everyone had his/her place in the social hierarchy, guided by an unquestioned moral superiority at the top. Therefore, maintaining hierarchy and serving the state was equivalent to “fulfilling social obligations” (Lam, 1996, p. 158), while to discard orthodoxy and official values was seen as leading to unwanted social chaos (Whyte, 1992, p. 81). This interpretation of social existence for individuals was fundamentally different from the Western liberal tradition that saw citizens as independent agents who possess inalienable rights. Second, Marxist-Leninist ideology resonated with Confucianism in that society should be ruled by a superior morality, although the contents of the superior moral had changed. Spurred by its unparalleled organizational and institutional capacity, the Maoist system inculcated the Chinese people with a socialist mindset wherein the state represented society and no society could exist outside of the state (Lam, 1996). Both of these value systems were hostile to the rise of an autonomous civil society. In contemporary China as well as in Maoist era, “State-society relationship can be characterized not as state against society but as a kind of particular contract between the two” (Whyte, 1992, p. 164).

Given these views, does China have a civil society in some practical or de facto sense, irrespective of state control? Solinger (1992) argues that the reform did not lead to the emergence of a “civil society” among the business class; instead, it actually further blurred the borderline between the state and entrepreneurs. In the Maoist era, the exclusion of former “bourgeois” social forces from entering state institutions helped stress the boundaries between the two24. However, in the reform period, as suggested by the local state corporatism and state entrepreneurial models, both business people and officials became entrepreneurs, and mutually beneficial exchanges bound them together. Both sides were positioned to preserve such ambiguous and interdependent relations

24 Similar situation also applies to intellectuals or artists, as discussed by White (1998a, 1998b).
because “a return to the regime based purely on central planning and resource allocation would undermine newfound opportunities now enjoyed by cadres, whereas a leap to a fully open and unobstructed market would deprive the most successful merchants of their special inside channels” (p. 130). However, Solinger is not explicit on whether the current state of affairs represents an interim state moving toward an independent merchant class, or if it is a permanent feature. The reality in China today does not suggest the former. In another paper, Solinger (2003) suggests the fragmentation of the Chinese society. She interprets “Three Represents” of the Communist Party as signaling three disparate urban classes: upper class (entrepreneurs), middle class (intellectuals and professionals), and working class. Therefore, the state-society relationship is stratified into “three very dissimilar party-state strategies towards three distinct status groups” (p. 951). This stratification consolidates the symbiotic bond between the state and entrepreneurs; fine-tunes the middle class in order to both court them and prevent their resurgence as a coherent political force; and finally, controls the working class to avoid its emergence as an autonomous body.

Is “civil society” even a useful concept in China? White (1998a, 1998b) avoids using the term in his two volumes on China’s unstately power. He gives a critique of the concept of “civil society” and the related concept of a “public sphere” by saying that both these concept follow a premise that “the main or only way to know why things happen is to perceive the consciousness of the people being studied, and such an awareness is readily communicable” (1998b, p. 639). However, in reality, much unstately power in China exists outside of consciousness or without any articulation.

Instead of viewing society as a polar opposite of the state, a more useful framework for analyzing China’s political structure is probably the “institutional amphibiousness” of Ding (1994). This term characterizes the interpenetration of different forces within institutions as well as the indeterminacy of institutional functions. According to Ding, institutional amphibiousness can take
the form of both institutional parasitism and the institutional manipulation or conversion. The former are usually initiated by societal forces, but have to fall back on the state for support or protection, while the latter are often established by the state, but become co-opted by the critical forces of diverse purposes. According to Ding, these blended organizations stand as “both for and against” the state (p. 313, emphasis in original). The “state versus civil society” model only sees opposition forces from outside of the state; however, institutional amphibiousness framework assumes the possibility of erosion of state influence from inside the state as well (p. 315).

Saich (2000) also notes the symbiotic relationships between the Chinese state and social organizations. He points out that despite the formal control exerted by the state on social organizations, the latter are able to devise strategies to negotiate with the state “a relationship that maximizes their [social organizations’] members’ interests or that circumvents or deflects state intrusion.” (p.125) Therefore, China’s social organizations can be seen as “embedded” in the state system (p.139) and state-society relations, assuming multiple forms and always appearing fluid, ambiguous and messy, should be examined as a moving target.

While Ding and Saich focus on organizations, Solinger’s (1994) study is based on one of China’s urban underclass: urban migrant populations (sometimes called “floating population”). She finds the same kind of ambiguity and indeterminacy in this group of people, although she uses the term “civil society” to refer to them. As Solinger contends, on the one hand, floaters seek their freedom regardless of state control suggesting certain degree of state incapacitation. On the other hand, they unwittingly support the state, allowing its perpetuation by contributing to its cause of economic development. Roberts (2001) supports Solinger’s thesis by providing empirical evidence that migrant workers independently make rational migration decisions regardless of the restrictions imposed by certain state policies.
Another useful conceptualization that suits Chinese circumstances is “the third realm” proposed by Huang (1993). Similar to many scholars, Huang considers that the dichotomous opposition between the state and society inherent in the concepts of “public sphere” and “civil society” has not been true in China since the late Qing Dynasty. Therefore, he proposes a trinary conception integrating the third space between state and society. This “third realm” is not static. According to Huang, in Maoist China, “the third realm” underwent “state-ification,” while in the post-reform era, socialization or “de-state-ification” took place. However, despite these tugs of war between state and society, “the third realm” remained separate and distinct. This third realm represents the large fuzzy areas sandwiched between the realm of state and the realm of society, melding and blending the influences of both.

3.3 Summary

This chapter reviews literature on urban transformations in China and Shanghai. The purpose is not to describe detailed urban experiences, but rather the institutional foundations of transformations. In the economic realm, reform has forged a marriage between capital and the state, giving business firms much more autonomy and power to make decisions. However, in the non-economic sphere, although individuals have gained more independence in their private domain and the state has been incapacitated in many circumstances, institutionalized civil society has not appeared in the Chinese context. While symbiosis characterizes state-business relationships[^25^], characteristics on interpenetration, indeterminacy, and ambiguity provide for state-society relationships. Another difference of the role of state in the two spheres is that the state’s submission to market forces may be largely intentional (i.e., the state chooses to), while the

[^25^]: Also note that X. Lu (2000) has suggested predatory roles of the Chinese state in the economy as evidenced by the systematic corruption in the country. The seeming contradiction should be resolved by looking at the whole picture. While many businesses benefit from the state influence and support, others are disadvantaged because of their lack of connections with the bureaucrats.
state’s decreasing influence on society tends to be inadvertent (i.e. the state has to). In other words, market power is institutionalized, while societal power is *de facto*. In the reviewed literature, state-business relationships are most often seen from the “harmonious” perspective, stressing the shared interests between the state and business communities. However, for the state-society relationships, most studies approach the issue from “conflicting” perspectives, acknowledging the different goals pursued by the two entities, despite their interdependence and interpenetration. However, these subtle distinctions are not absolute and conflicts between the state and the business sectors or a shared destiny between the state and the society remain, even though both sides may act opportunistically.

Built on the theoretical understandings of post-industrial transformations and the institutional context of China, I will turn next on the historic context of Shanghai’s industrial development. Industrial activities on many Shanghai’s CIC sites may be traced back to the treaty port era. Therefore, in Chapter 4, I provide a historic overview of Shanghai’s (post-)industrial transformations in the past one and a half centuries. Special attention is paid to the spatial dynamics of the city’s industrial sector.
4 FROM CRADLE OF INDUSTRIALIZATION TO CREATIVE INDUSTRY CLUSTERS

“Study the past if you would define the future.”

—Confucius, the Analects

To understand Shanghai’s industrial restructuring today, it is important to look at its economic history, as this will help shed light on the institutional context of today’s transformation. The economic history of Shanghai covers several periods: the pre-1949 period (establishment of industrial base); Maoist period (industrial expansion); and post-Maoist period (industrial decline and restructuring). In this chapter, I examine the development trajectory of Shanghai’s industrial development, as well as its spatial character.

4.1 Background

Situated at the mid-point of China’s eastern seaboard and in the delta of the Yangtze River, Shanghai had established itself as a thriving regional trading center before it was forced open by foreign powers during the First Sino-British Opium War in 1840. Following China’s defeat in the war, the Nanjing Treaty was signed by the British and Chinese Qing Dynasty Government on August 29, 1842. The treaty not only ceded Hong Kong to Britain, but also allowed the opening of five Chinese seaport cities, including Shanghai, to international trade. On November 17, 1843, a British Consulate was opened in Shanghai, marking the official opening of the city to the world. A few subsequent unequal treaties further expanded the economic privileges enjoyed by foreign
As a result of these events, international trade in Shanghai increased almost 20-fold between 1844 and 1860 (Ding and Shen, 1997, pp. 5051). Thanks to its advantageous location, Shanghai soon overtook Guangzhou as China’s leading international trade and shipping center. The rise of these sectors also benefited insurance, finance, and warehousing, as well as the manufacturing sectors in ship repair and packaging. An important industry based on foreign technologies, ship repair nurtured the embryo of Shanghai’s modern machinery industries. In addition, Shanghai’s strategic location and transportation advantages also allowed the city to gain easy access to relatively low-cost raw materials, fuel, advanced machinery, and the domestic and international markets.

Shanghai’s industrial development was closely related to the city’s entrepôt role. As a trading center, Shanghai was flooded with goods from all over the world. The availability of new products from overseas not only satisfied the demand of an increasing number of foreign sojourners in the city, but also provided Shanghai citizens new consumption experiences. When local demand for certain imported products reached a critical level, import substitution was the natural outcome. The introduction and development of many Shanghai consumer industries (e.g., wheat flour, matches, cigarettes, soap, rubber, etc.) followed this trajectory (Ding and Shen, 1997; Huang and Lu, 2000).

The city accumulated large sums of capital, not only from trade-related activities (usually in the hands of foreign trading companies and Chinese so-called home front door comprador business people), but also from the wealth brought by rich migrants from outside the city. Refugees of peasant uprisings thronged to Shanghai from surrounding areas. Foreign concessions26 (Map 4.1),

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26 On November 29, 1845, the first foreign concession in Shanghai was established by the British based on the new “Shanghai Land Charter.” An American concession was also established initially but was merged in 1863 with the British Concession to form the International Settlement. In 1849, the French Concession was established (Ding and Shen, 1997, p. 290). Although foreigners did not have the right to own land in the concessions, they could lease the land in perpetuity. Being protected by
which enjoyed better security as well as the "rule of law" (another Western import), were favored locations for relatively well-off Chinese merchants and other affluent people. Some of the refugees, including Qing Dynasty bureaucrats, landlords, rural gentries, and so on, possessed great wealth. Some of this wealth was turned into industrial capital via the mediation of Shanghai’s fledging financial market. However, poor rural migrants also came to the city in droves, many of them finding jobs as unskilled workers for the thriving manufacturing sector. In addition, the increasing number of foreigners attracted to the city by its untapped economic potential brought with them production technologies and modern management expertise. In short, the huge stock of wealth and Shanghai's abundant labor resources created propitious conditions for the take-off of Shanghai’s manufacturing in the following years.
Map 4.1: Foreign Concessions and Industrial Areas in Shanghai (1932)


Note: Whangpoo River and Soochow Creek are the old transliterations of Huangpu River and Suzhou Creek respectively. The blue areas are industrial areas and the dotted line denotes the boundary of foreign concessions.

Over the next 50 years, foreign capital established a number of utility companies in the foreign concessions, including gas works, power plants, telephone companies, and water works, among others. Although many of them were initially built with an intention of serving affluent consumers, they also proved to be essential inputs for Shanghai’s fledgling modern industrial sector.
4.2 Shanghai’s Industrial Development before 1949

4.2.1 Industrial Development

Before 1949, Shanghai’s industrial capital came mainly from three sources that competed among themselves and benefited from one another.

1) *Foreign Capital*

Accompanying the large volume of international trade in Shanghai was the infiltration of foreign capital into the city’s fledgling manufacturing sector. Before the First Sino-Japanese War (Zhongri Jiawu Zhanzheng) broke out in 1894, foreign industrial investment was not legitimized by any of the treaties. This restriction, however, did not prevent Shanghai’s *de facto* foreign industrial establishments from proliferating to a total of 78.

China’s defeat in the First Sino-Japanese War in 1894 resulted in the signing of the Treaty of Shimonoseki (1895). The treaty granted Japanese nationals the rights to establish manufacturing facilities in the open trading ports. This right was soon extended to other foreign powers as well. The legitimization of foreign investment in manufacturing greatly stimulated industrial production in Shanghai. From 1895 to 1913, foreign investment in manufacturing grew more than fivefold, which translates into a 10.3% annual increase. During the First World War (1914-1919), although

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27 Before the first Sino-Japanese War, unequal treaties signed between China and foreign powers only allowed foreigners to engage in trading activities in Shanghai, therefore establishing manufacturing facilities was forbidden by the law. The existence of *de facto* foreign manufacturing sector was attributable to the fact that Qing government was weak in power and vague in its attitude toward foreign industrial investment. As long as foreign industrial interests did not constitute a competitive threat to government backed industries, to avoid political conflicts, the Qing government generally did not intervene. Therefore, large-scale foreign industrial interests existed in many sectors. This is a case of China’s institutional ambiguity in Qing Dynasty.
investment from European powers had slowed, Japanese and American companies increased their presence in Shanghai, particularly in tobacco and textile production (Ding and Xu, 1997, pp. 5-12). By 1928, foreign investment in manufacturing was nine times that of in 1894 (ibid, p. 13). Foreign companies controlled major industrial sectors in Shanghai, such as cotton/wool spinning and weaving, cigarettes, food and beverages, soap, shipbuilding, machinery, and many municipal utilities (e.g., power generation, gas, and fresh water). A good example was Unilever’s soap factory in Yangshupu along the Huangpu River, which at that time was boasted as the largest of its kind in the Far East. Today, its long-span shop floor is still kept intact as a heritage site.

2) *Domestic Private Capital*

Industries established by domestic private capital lagged behind those of foreigners (Huang and Lu, 2000). Before 1894, Chinese private companies were small in both number and scale. Although foreign companies were in competition with Chinese interests, many historians acknowledge the beneficial spillover effects from foreign firms to the Chinese establishments. The introduction of the newest business and managerial ideas in the city was credited to the adventurous new foreign companies. By holding stocks in foreign companies or forming partnerships with them, Chinese entrepreneurs had a chance to learn new skills in industrial and business management. According to Ding and Shen (1997, p. 280), in the 1880s, it was common for the Chinese to hold more than 40% of the stock in a foreign company, and many even held the majority. Aside from management and technological assistance, being a foreign company in name could also help Chinese industrialists avoid interference from corrupt bureaucrats who frequently milked Chinese private business establishments for personal gain. In addition, foreign companies also trained industrial workers who might eventually work for Chinese companies. By 1894, domestic private interests already had investments in many industries, such as ship and machinery repair, printing, paper, flour, silk thread, cotton textile, matchstick production, leather, and so on.
However, most Chinese companies were dwarfed by foreign establishments in scale. In 1894, the average capital investment of a domestic private establishment was only 6.6% that of a foreign company (Huang and Lu, 2000, p. 10). Nevertheless, compared with other cities in China, Shanghai not only had the largest concentration of foreign manufacturing companies, but also the largest number of Chinese private industrial establishments (Huang and Lu, 2000).

After 1895, there was also a dramatic increase in the number of private Chinese companies, although their growth was less prominent compared with that of foreign counterparts. This was attributable to new policies and the changing political environments. First, the supportive policies made by the Qing Government after 1895 helped promote the private sector. Second, the subsequent new capitalist regime of the Republic of China launched in January of 1912 stressed the importance of strengthening the manufacturing sector of China as a way of modernization, and provided a new impetus for the industrialization of Shanghai. Third, the political and economic conditions brought about by the First World War also greatly benefited Shanghai’s domestic private industries. While some foreign companies returned to their home countries, Chinese private interests cashed in on such opportunities. In addition, the wartime shortage of major industrial products (e.g., flour) in the international market gave additional boost to Shanghai’s industrial production. This period proved to be the “golden age” of Shanghai’s bourgeoisie (Bergère, 1989). Fourth, the resistance against foreign invasion in the country helped tilt Chinese consumers’ preferences in favor of domestic goods so that Chinese private companies were able to capture a greater market share. From 1928 to 1931, there was a peak in new factories using Chinese private capital, following major anti-Japanese demonstrations. Fifth, during the Anti-Japanese War (1937-1945), after the foreign concessions declared their “neutrality” in the War, many of the Chinese businesses moved to Shanghai’s foreign concessions to take advantage of the relatively peaceful environment. During this period, domestic private capital was widely seen in industries such as cotton spinning and weaving, silk filature, flour, cigarettes, machinery,
and power generation, among others.

Although Chinese private capital registered rapid increases after 1895, its disparity with respect to foreign companies in terms of equipment, production technology, and market share was enlarged. Between 1928 and 1933, foreign companies expanded 200%, while domestic private companies expanded by only 19% (Huang and Lu, 2000, p. 254). In addition, Chinese companies tended to be more labor-intensive, producing primarily low-end products. According to Ding and Xu (1997), in 1928, the average size of foreign companies was 24.2 times that of their Chinese counterparts (p. 13).

3) Bureaucratic/State Capital

The Chinese state had long had a hand in Shanghai’s industrial production. China’s long-held self-conception as a superpower had been destroyed by the country’s defeat in the two Opium Wars and the subsequent humiliation suffered in the unequal treaties signed with foreign powers. Enlightened officials in the Qing Dynasty began to realize that economic reform was the only way to save the Qing Regime. Hence, the “Westernization Movement” was launched to build up China’s modern industries, particularly, its heavy industrial sector. The Movement set out to establish China’s military industries, but civilian industries benefited from this state effort as well. In the early days, companies were mostly “government establishments” (guanban). In the later years, they usually took the form of “private establishments with government supervision” (guandushangban), reflecting a reduced role of the state in economic activities, in name at least if not in practice. Shanghai was the most important center of the “Westernization Movement,” and a

28 In the form of “government establishment,” the state was the owner of the company and management teams were comprised of state officials.
29 In the form of “private establishment with government supervision,” (1) the government organized the stock subscription by private capital; (2) the government could provide certain preferential policies and, in case of insufficient private capital, the government could lend capital to the establishment; (3) the management team was comprised of both government bureaucrats and private industrialists or only of government-assigned industrialists; and (4) The final say on management issues of the company lay with the Qing bureaucrats. (Ding and Shen, 1997, p. 475)
number of important companies were established there during the Movement because the city’s strategic location and trading function could facilitate the importation of western machinery and metal inputs badly needed in manufacturing.\(^{30}\)

Unlike the spontaneous development of Chinese private industries, the Westernization Movement was a state-led industrialization effort with enlightened Qing Dynasty bureaucrats, such as Li Hongzhang, serving as important agents of change. Although institutional ambiguity of these “bureaucratic companies” frequently plagued their day-to-day operations, these early state efforts helped inject huge amounts of capital into China’s heavy industries, which usually required resources that went beyond the means of private interests (Huang and Lu, 2000).

Before the First Sino-Japanese War, China’s industrialization was heavily reliant on government capital, both in military and civilian sectors. After 1895, private businesses grew in influence. Many large state-linked companies established under the Westernization Movement underwent transformation. The trend was toward greater commercialization and privatization. However, from the start of the Anti-Japanese War in 1937 until the 1940s, bureaucrats in the Nanjing Government (national government) tightened their control on private capital, preventing private companies in Shanghai from gaining greater influence (Coble, 1986).

In short, Shanghai occupied a prominent position in China’s early industrialization. The city not only saw the birth of many of the country’s new industries (particularly during World War I and the 1920s-1930s), it also built China’s most complete array of manufacturing industries. Before World War II, approximately 85% of all forms of the manufacturing activity established in China could be found in the city (Huang and Lu, 2000, p. 26). No other city in China could compete with

\(^{30}\) These companies included the biggest ammunition plant (Jiangnan Machinery Manufacturing Bureau) and the biggest textile company in China (Shanghai Machine Textile Bureau). The Chinese names of these companies all bore the term “bureau,” suggesting the state’s influence in these companies and the institutional ambiguity of bureaucratic industrial establishments.
Shanghai’s industrial might. In the 1930s, the city’s industrial products accounted for over half of 
China’s total (Jiang, 2002, p. 3). In 1947, Shanghai’s 7,738 factories accounted for 54.9% of the 
country’s total number (Huang and Lu, 2000, pp. 96-97). In addition, the city’s manufacturing 
sector also employed many technical and managerial talents, many of whom had received their 
education in the West or Japan. Managerial science was also popular among firms, including 
Chinese establishments. For example, F. W. Taylor’s books on scientific management were first 
translated and introduced to China by Shanghai industrialist Mu Ouchu, who had received his 
Master’s degree in the US and had been one of Taylor’s students\(^{31}\) (Huang and Lu, 2000).

The expansion of industries in Shanghai could also be observed in the city’s occupational trends. 
In 1895, Shanghai had approximately 37,000 industrial workers. By 1933, the number had risen to 
approximately 350,000, an 8.5-fold increase. In comparison, total population in the city increased 
from 900,000 to 3.4 million, a less than 3-fold rise (Huang and Lu, 2000, p. 224). These figures 
also underline the importance of industrialization in Shanghai’s early urbanization experience.

In the pre-Maoist period, the Shanghai industrial sector leaned heavily toward light industries, 
while heavy industries, together with their advanced technologies, were greatly underdeveloped. 
When the People’s Republic of China was established in 1949, Shanghai’s heavy industries 
produced only 11.8% of the city’s industrial products. And small firms (defined as those with less 
than 30 employees), most of which had few technological capabilities and could only produce 
low-end consumer products, accounted for 74.9% of the total firms (Huang and Lu, 2000, p. 212). 
The business turnover rate in Shanghai was extremely high. According to a survey conducted in 
1931, a textile firm at the time typically stayed operational for an average of only four years and 
three months (Huang and Lu, 2000, p. 232).

\(^{31}\) In this respect, Shanghai’s mature commercial publication sector must take the credit for spreading the knowledge widely used in the city’s industrial production.

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4.2.2 The Spatial Dimension

Accompanying Shanghai’s trade and industrial development was the growth of docks and warehouses along the Huangpu River and Suzhou Creek. In the 1860s, a large part of these warehouses and docks were owned by foreign trading companies, while others were leased out to smaller companies that lacked sufficient capital to build their own facilities. Later, due to lack of space and the dramatic rise in land prices in the central part of the city, new dock, and warehouse construction moved northward along Huangpu River, all the way up to Hongkou District and Yangshupu Area (now Yangpu District). This not only took advantage of the cheap land available in the new place, but also to allowed access to the relatively smooth riverbank and deep-water conditions. Suzhou Creek served mainly as a transportation route for domestic trade, particularly with areas in the Lower Yangtze Delta. Docks and warehouses built along the Creek were served by boats smaller than those on the Huangpu River. The building of docks and warehouses along Shanghai’s two major water transportation corridors was both a result and a cause of industrial investment in the surrounding areas.

By the 1930s, several industrial agglomerations had already been formed along the two rivers. Due to the high land prices in the center of concessionary areas, the majority of industrial facilities were located along the border of foreign concessions adjoining Chinese territories (See Map 4.1). In 1926, the Shanghai Transportation Commission identified Shanghai’s three industrial districts in the “Development Plan for Shanghai Region,” which were located in the Western, Eastern, and Southern sectors of the city (Shanghai Urban Planning and Research Institute, 2007) (Map 4.2). Compared with the other two districts, the Eastern Industrial District (EID) enjoyed from both transportation advantage (i.e., it was situated along the lower end of the Huangpu River, in close
proximity to the Yangtze River and the East China Sea) and the large number of docks and warehouses that had been built in both areas. The building by foreign powers of the Yangshupu Road, a transportation artery of the city, was an added advantage. The EID therefore grew into the largest of the three industrial districts in Shanghai. EID also had a larger concentration of companies established by both bureaucratic and foreign capital; hence, scales of companies in this area were much larger compared with those in the other two districts. Textile, shipbuilding, machinery, and big infrastructure companies, which usually rely on bulk material (such as coal or steel) shipped in from other parts of China or overseas, were concentrated in this area.

The Western Industrial District (WID), second in scale among the three major industrial districts, was situated on the banks of Suzhou Creek, a tributary of Huangpu River. This area was heavily invested by Chinese private interests and it concentrated production of consumer goods such as textile and flour. Before the 1920s, land price in this area was quite low; however, because of the continued investment and the area’s proximity to the centers of Foreign Concessions, land prices in WID began to exceed those in EID by 1907. In the 1930s, the average land price of WID in the south bank of Suzhou Creek was approximately twice that of EID (Dong, 2004, pp. 11-12). Years later, high land values turned out to be an obstacle to EID’s further expansion.

The Southern Industrial District (SID), located along the upper stream of Huangpu River and to the South of the French Concession, was the smallest in land area among the three major districts. With a less advantageous location, land prices in this area were the lowest of the three and the intensity of investment in this area was not as high as elsewhere. This area was dominated by shipbuilding and infrastructure companies. In addition, the Lujiazui area in Pudong (now Shanghai’s new financial center) was home to some foreign industrial companies; however, the municipal government did not identify it as a major industrial area, perhaps because of the obstacle of cross-river transportation (Dong, 2004).
Map 4.2: Industrial Land in Shanghai (1930)

Source: Shanghai Urban Planning Design and Research Institute, 2007, p.15. © Shanghai Urban Planning Design and Research Institute, by permission.

Note: The names of the two major rivers were added by the author. The marked areas indicate industrial land. The different colors denote different types of industries on the original map.

To some degree, the spatial distribution of shanty housing reflected the location of industrial facilities. Shanty housing was spontaneously developed to accommodate the influx of poor industrial workers and various kinds of coolie laborers. In 1925, most of the shanty housing of the International Settlement was located in Yangshupu and Pingliang Road in close proximity to the major industrial establishments in the EID. Two major areas of shanty housing in the Western part of the city were adjacent to the SID (Ding and Xu, 1997).
4.3 Shanghai’s Industrial Development between 1949 and 1978

4.3.1 Industrial Development

The launch of the communist regime in 1949 re-directed the economic trajectory of Shanghai. To turn a capitalist into a socialist system based on state ownership of industrial capital, the national government designed different strategies to transform the three types of business enterprise in existence at the time. First, semi-government industries established by bureaucrats in the former Nationalist government before 1949 were automatically nationalized. Second, for the 910 foreign companies still in operation, some occupying dominant positions in their respective sectors, the communist government tried to use administrative orders, taxation, and financial means to place them under control (Jiang, 2002, p. 7). Third, for the domestic private companies, the government first helped them recover from the devastation of the war. However, after 1952, the Communist Party began to introduce the so-called Gongsi Heying Program, which forced private companies to form partnerships with the state in the hope of expanding public ownership in commerce and manufacturing without disrupting production (Jiang, 2002).

In the early days of the People’s Republic, light industries dominated Shanghai’s industries. In 1949, the textile sector alone produced 58.6% of the city’s total industrial products (Jiang, 2002, p. 8). When the first Five-Year-Plan began to be implemented, emphasis was placed on heavy industries because they were regarded by the Party State as consumption-oriented and therefore ideologically oriented toward the decadent capitalist order. Over the next five years, Shanghai’s heavy industries increased nearly twofold, compared with a mere 71.1% increase in light industries. As a result, the proportion of heavy industries in manufacturing climbed from 11.8% in

32 Under the Nanjing Government, numerous industries were controlled by Kuomingtang bureaucrats.
1949 (Huang and Lu, 2000, p. 212) to 31.3% in 1958 (Huang and Lu, 2000, p. 8).

Between 1956 and 1965, Shanghai’s industrial system experienced further restructuring. To bring the system in line with the communist vision of a “modern” economy, many small-scale factories or proprietorships were either forced to close down or were merged with larger establishments, while others were relocated to areas outside Shanghai City. Selected small-scale repair shops were injected with state capital and transformed into key enterprises. In addition, a range of heavy industries was developed in accordance with the national economic plan.

To court the masses, which were the Communist Party’s alleged political base, the Party State also began to build the socialist welfare system, which was integrated with the industrial transformation of the country. *Danwei* was established to implement the state economic plan as well as provide basic welfare to workers, including housing, healthcare, and childcare.

4.3.2 The Spatial Dimension

Since 1949, following national industrial development strategies, many of Shanghai’s factories and industrial workers/technical personnel were relocated to the country’s inland areas as a strategy to narrow regional disparity. By 1956, Shanghai had sent 270,000 industrial workers, including over 28,000 technological personnel, to the country's western regions. In the following year, 195 factories were moved out of Shanghai. Beginning in 1966, the government sent more industrial enterprises and personnel inland to build the so-called Third Front in response to the perceived threats to national security (Jiang, 2002, pp. 10-11).

The exodus of Shanghai’s manufacturing facilities, however, did not result in the debilitation of
the city’s industrial muscle. With new investment, the city remained the country’s top industrial center. By the 1970s, Shanghai had contributed approximately 25% of the country’s revenue, much of which came from industrial production (Z. Lin, 1994, cited by W. Wu, 1999). In addition, the city also produced numerous national brand names. For many people, the name “Shanghai” conjured up the image of quality products, including many consumer goods.

A major characteristic of the central planning system was that the state not only determined the kind, amount and time of production, but also the spatial location of investments. As the leading industrial city in the country before 1949 and as a "cash cow" for the central state thereafter, Shanghai was the preferred location for many of the country’s key industrial projects. It needs to be noted that due to the central planning role of the state, a lot of manufacturing land allotted to powerful state-owned enterprises free of charge were located in the central part of the city. Like many other industrial cities in China, Shanghai had a larger proportion of industrial land in the central city than their peers in the West under the market system (Hsing, 2010, p.36). To accommodate large-scale industrial investment, the city not only expanded the size of the industrial districts that had been formed before 1949 and build new sites in the central city, but also planned many new suburban industrial zones. In addition, the Municipal Government planned five satellite towns (i.e., Minhang, Wujing, Jiading, Anting, and Songjiang) for further industrial expansion. In 1972 and 1978, the two industrial satellite towns of Jinshanwei Petro-Chemical Town and Baoshan Steel Town, respectively, were added (Shanghai Urban Planning Design and Research Institute, 2007, pp. 46-52). Map 4.3, which shows Shanghai’s industrial land in 1981, is suggestive of the city’s industrial might. Compared with Map 4.2, a dramatic increase in the city’s industrial land between 1930 and 1981 is evident. Spatially, new industrial facilities not only occupied more prime land, but also spread out more into the outlying areas (e.g. urban fringes). It is evident that new manufacturing facilities had turned less dependent on the two river corridors, suggesting the decline of the relative importance of water transportation in the city’s space.
economy.

Map 4.3: Industrial Land in the Central City of Shanghai (1981)

Source: Drawn by the Author based on information in Shanghai Atlas, 1984, pp.149-150.

Note: Industrial land and built-up area are marked by a dark brown and green color respectively. This map does not show industrial land in the distant suburban areas or the satellite towns/cities.
4.4 Shanghai’s Industrial Restructuring in the Economic Reform Era

4.4.1 Industrial Restructuring

After years of socialist industrialization, the limits to industrial expansion gradually became apparent. First, equipment owned by old establishments became outdated; according to one source, at the end of 1970s, 40% of the equipment used in the light industries in Shanghai had been purchased in the 1930s and 1940s (Jiang, 2002, p. 15). Second, poor infrastructure, owing to years of disinvestment and physical constraints in the central city, imposed further limit on the potential growth of Shanghai’s inner city industrial districts.

Economic and institutional reforms in price schemes, urban land uses, and business management all served to expedite the industrial decline of the city. First, in the central planning era, Shanghai’s manufacturing sector, had enjoyed special protection. The state price regulation system ensured that SOEs could obtain cheap and adequate raw material (usually agricultural products) while enjoying high sale prices for their final products. However, with the deepening of economic reforms, control in commodity prices was gradually lifted, thus eroding the price advantage long enjoyed by state-owned firms. Second, the commodification of urban land because of the urban land reform starting from the 1980s helped raise the opportunity costs of industrial production, particularly for firms occupying prime locations. For many firms, it became more profitable to engage in real estate than in manufacturing. Third, blaming the low efficiency of SOEs as a cause of China’s economic backwardness, the government was determined to push state-owned companies to become market-efficient. Although state subsidies for SOEs were never completely

33 Lands occupied by SOEs were acquired administratively free of charge under the central planning system.
eliminated, a series of enterprise reforms helped transform the fundamental functions of state-owned companies from the government’s administrative arms to economic entities, which viewed the pursuit of profit as their ultimate goal. In Shanghai, these enterprise reforms involved substituting profits for tax\textsuperscript{34}, experimenting with the responsibility system and stock system in the 1980s, and instituting the modern enterprise system\textsuperscript{35} in the 1990s (such as reorganizing the SOEs, establishing the state asset management system, relaxing the bureaucratic control on management issues, etc.). Enterprise reforms helped reduce state control on SOEs, granting SOEs more decision power in business operations, not only in terms of the kind and quantity of products produced, but also on the number and type of workers retained.

This modern enterprise reform warrants further explanation as it is important for understanding the restructuring of Shanghai’s SOEs in the 1990s, which produced vast amounts of vacant space in the inner city. Basically, modern enterprise reform transformed Shanghai’s old bureaucracies, which were responsible for sectoral management (such as the Textile Industry Bureau, Metallurgical Industry Bureau, Light Industry Bureau, Building Material Industry Bureau, and others), into several large state stock-holding or asset management companies to represent the state in exercising its ownership right over SOEs and their assets (such as industrial land occupied by SOEs). Therefore, after the reform, old bureaucracies became purely economic entities, at least in name. In the meantime, an upsurge of mergers and acquisitions among SOEs took place, resulting in the formation of many big conglomerates or industrial groups in the city. Such restructuring was intended to straighten out property rights, transform old SOEs into profit-seeking entities, reduce SOE liabilities, and safeguard the value of state assets. In the

\textsuperscript{34} In the old system, state-owned enterprises (SOEs) must remit all of their profits to the state, and the state was responsible for redistributing the revenue for new investment or social welfare. In the reformed system, SOEs paid taxes to the state and could retain certain part of their profit for their own uses. Under the new system, SOEs exert greater influence on various kinds of company expenditures.

\textsuperscript{35} Former state-owned enterprises used to operate on the basis of vaguely defined property rights. Profit was not necessarily their ultimate goal, because they had to assume a variety of social responsibilities and carry out administrative functions. The goals of establishing the modern enterprise system were to define property rights clearly, to improve corporate governance, and to make state-owned enterprises an efficient commercial entity in the market economy (Jiang, 2002).
process, many small companies that had been struggling to make ends meet were closed, acquired by other firms, or relocated. By the end of 1998, 80% of the SOEs in Shanghai had completed their ownership reform and restructuring, resulting in 915 mergers and 113 bankruptcies, reducing the total liabilities of SOEs from 80% to 55.5% of their total asset value (Jiang 2002, pp. 68-69).

Government industrial policies also contributed to the decline of many industrial sectors in Shanghai. In the 1980s, Shanghai began placing greater emphasis on tertiary activities. These activities had been despised during the central planning era but had increasingly been perceived as key sectors of a modern city in the reform period. In 1990, Pudong New Area was opened. By 1991, the municipal government voiced its ambition of building Shanghai (Pudong and Puxi combined) into an economic, trade, finance, and shipping center. The government wanted to replace the old image of the city as a big workshop with one of glittering office towers. However, the manufacturing sector was not completely forgotten because the government perceived manufacturing activities to be the foundation of the service sector. Therefore, internal restructuring of its industrial sector characterized the trajectory of Shanghai in the 1990s. With the decline of traditional manufacturing such as textiles and metallurgy, the municipal government began promoting industries with relatively low energy and material inputs, low transportation cost, low-waste discharge, high-technology components, and high value-addedness, or in the government's language, the “advanced manufacturing sector.” In 1992, Shanghai designated the following key industries for special attention and support: automobiles, electronic information products, steel, petrochemicals and fine chemical products, power station equipment, and consumer electronics and electric appliances.

Another characteristic of Shanghai’s latest industrial restructuring was the new range of ownership. The decline of SOEs was accompanied by the rise of foreign manufacturing firms or joint-stock companies and, more recently, the proliferation of private companies. These non-state types of
company helped fill the manufacturing deficit left by the restructured SOEs. From 1990 to 2000, the number of collectively owned companies remained largely constant, while SOEs decreased from 4,517 to 1,400, a 70% reduction. In contrast, the number of enterprises of other types of ownerships (e.g., private, foreign investment) increased from 1,581 to 10,990 (Jiang, 2002, pp. 65-66). Appendix III provides detailed statistical data of Shanghai industrial growth since the latest economic reform. Over the past three decades, Shanghai’s total industrial production has kept growing, even during the most difficult years of the 1990s. Prior to this, aggregate growth of light industry had been greater than that of heavy industries; however, since the 1990s, the aggregate growth of heavy industries, more capital-intensive on the whole, has taken the lead (Appendix III, Table A).

Table B of Appendix III shows Shanghai’s GDP growth in different sectors from 1978 to 2005. It is clear that while the primary sector only grew marginally (approximately 1.6-fold increase over 30 years), the manufacturing and tertiary sector both achieved dramatic gains. However, compared with the tertiary sector, the aggregate growth of manufacturing was less spectacular (17-fold as opposed to 30-fold), suggesting the relative decline of manufacturing in Shanghai’s economy.

Table C of Appendix III demonstrates more clearly the economic structure of the city. At the dawn of the economic reforms, Shanghai’s economy was dominated by manufacturing activities (76.1%), while the role of the tertiary sector was still quite limited (18.6%). In subsequent years, however, the importance of the tertiary sector kept increasing. This growth continued at least until the end of the nineties, when large-scale industrial restructuring ended, and the economic structure of the city became stabilized. In recent years, the tertiary sector has accounted for approximately half of the economy, with manufacturing serving as the second pillar (ranging from between 41% to 45%), suggesting an end to the continued relative decline of industries.
Another important consequence of industrial restructuring in Shanghai was that the SOE-centered socialist welfare system began to fall apart. To enhance the market “competitiveness” of SOEs by turning many workers into contract workers, the government was determined to relieve firms of the considerable “burden” of welfare provision and, at the same time, to terminate the practice of lifetime employment in SOEs. Therefore, Shanghai’s industrial restructuring in the 1990s had a huge attached social cost. By the end of 1998, 1.24 million workers had been laid off from Shanghai’s local industrial enterprises, and the total number of workers in Shanghai’s SOEs decreased from 1.35 million to 0.85 million (Jiang, 2002, p. 68-69). Although the government provided re-employment services to laid-off workers while simultaneously trying to build a comprehensive social security system, the mass layoffs still caused much public controversy over the city's industrial restructuring policy.

4.4.2 The Spatial Dimension

Faced with increasing production costs and constraints on expansion in the 1980s, many industrial companies in the inner city of Shanghai chose to sub-contract their production to the booming townships and rural industries in the Lower Yangtze Delta, spurring waves of rural industrialization in the region (Zhao et al., 1996). At the same time, eight industrial areas in inner suburbs and seven satellite cities registered tremendous growth in industrial production, thanks to new investments by both the decentralization of local firms and those from outside the city, including foreign companies. By the end of the 1980s, industrial firms in suburban locations and

36 SOEs in Shanghai may be subordinated to different levels of government, including central government and the Shanghai Municipal Government. Collectively owned companies may belong to the District Government or the Street Office (sub-district) level. Local enterprises do not include the SOEs controlled by the central government.

37 Given the sensitivity of the issue and the lack of credibility of many government statistics in China, the real impact could be greater.

38 The old welfare system had been provided by the old state companies (danwei). The reformed new systems, including annuities, medical insurance, employment insurance, and housing provident fund, were centralized by the municipal government. Such reforms aimed to help reduce the burden of both state and collectively owned companies. Note, however, that laid-off workers without local household registration (hukou) were not fully covered by the social security system.
satellite cities were producing approximately a quarter of Shanghai’s total industrial output (Jiang, 2002, p. 21).

At the beginning of the 1990s, a significant number of industries could still be found in the central part of the city. In 1992, within the area of the Inner Ring Road (approximately 106 square kilometers), there were 3,650 industrial production sites owned by 2,000 enterprises, occupying a total area of 14.5 square kilometers. Among them, the central government and the city controlled altogether 1,160 enterprises and 2,000 production sites with a total land area of 11.68 square kilometers. Most of the city-controlled enterprises were supervised by three major industrial bureaus in Shanghai: Textile Industry Bureau (fangzhi), Light Industry Bureau (qinggong), and Meters and Electronic Apparatus Industry Bureau (yidian) (Jiang, 2002, p. 73).

Before the urban land-use reforms, most of the old industrial land had been administratively assigned to individual companies, while SOEs could use state lands in perpetuity for free. However, under the old system, SOEs were not allowed to either sell or lease their land to another party. The urban land-use reform legitimized land-use-right transfers, turning administratively assigned land into an economic asset. Given the high land prices in Shanghai and the favorable location of many inner city industrial sites for alternate uses, industrial land became the most expedient tool for reducing SOE liabilities. Therefore, frequent urban land use changes accompanied large-scale SOE restructuring in Shanghai and other East Coast cities. During the eighth Five-Year-Plan period (1990-1995), over 700 industrial production sites owned by 450 companies in the central city (approximately 106 square kilometers), controlled either by the central government or by the municipal government, had changed their function from industrial to financial, commercial, residential or office uses, resulting in a decrease of approximately 3,000,000 square meters of factory space (Jiang, 2002, p. 73). While some old industrial sites were sold and converted to other uses, many others (usually in less advantageous locations, but
nevertheless still in the central part of the city) were simply abandoned whenever a firm ceased production or moved elsewhere. These sites, some of which were later turned into CICs, are the primary concern of this study.

As I will discuss the transformation of CICs in detail in the next three chapters, I want to discuss herein the spatial character of Shanghai’s industrial restructuring. Map 4.4 shows the central city's land-use in 1997. At that time, significant amounts of industrial land could still be found there, including some within the Inner Ring Road. Compared with Map 4.3, the outward expansion of industries during the economic reform era stands out clearly. By the end of that year, three industrial areas formed in the 1930s (Map 4.2) were still in existence; however, new agglomerations of industries had also been formed, dwarfing earlier ones, particularly along Suzhou Creek. Notably, Map 4.4 exaggerates the amount of Shanghai’s industrial land, particularly industrial land in the inner city. The map includes restructured industrial land not used for manufacturing activities in 1997, but was nevertheless kept in the hands of the old (parent) firms. Some industrial spaces had been leased to service firms or retail companies after industrial production was terminated at the site. Map 4.5 shows the blueprint of Shanghai’s planned land uses in 2020, and more clearly indicates the ongoing industrial decline of the inner city. Although the map is only indicative of plans, it is suggestive of Shanghai’s long-term trend in land use. Between 1997 and 2020, the area within the Outer Ring Road is projected to undergo a reduction in industrial land use and, at the end of the planning period, the area within the Inner Ring Road will be almost “industry-free,” while the old industrial land along Suzhou Creek will be completely converted to other uses.

39 The Central City (zhongxincheng) is defined geographically rather administratively. It is used in the planning document.
Map 4.4: Land-use in the Central City of Shanghai (1997)

Source: Shanghai Tongji Urban Planning and Design Institute. The map is part of Shanghai’s Master Plan made in 1999 and it is a public document.

Note: In the map, the brown color denotes industrial land.
Map 4.5: Master Plan of the Central City of Shanghai (2020)

Source: Shanghai Tongji Urban Planning and Design Institute. The map is part of Shanghai’s Master Plan made in 1999 and it is a public document.

Note: In the map, the brown color denotes industrial land. The map is part of Shanghai’s Master Plan made in 1999.
At present, some of Shanghai’s desolate industrial spaces in the inner city have been turned into CICs. Map 4.6 shows the location of these CICs in 2008. A total of 73 of the 75 designated CICs are marked, with the rest falling outside the area shown on this map. Except for the circled sites, all sites are located in old buildings, the majority of which are old industrial structures. The rest of the old buildings are mostly used to support manufacturing activities, such as warehouses or R&D for the industrial firms.

Map 4.6 is indicative of some spatial patterns of CICs. First, most CICs are located in Puxi (the part of the city on the west of Huangpu River), suggesting the economic dominance of Puxi in the city's history. As was shown in Map 4.4, the majority of Shanghai’s industrial land is located in Puxi. In fact, most industrial lands that we see today in Pudong accommodate new industrial facilities built in the reform era. Second, a large number of CICs are located along Suzhou Creek or within the vicinity of the river. As the next chapter will show, old warehouses along Suzhou Creek are where Shanghai CICs had their start. Not only could a large stock of desolate industrial spaces be found along Suzhou Creek in the restructuring years, the history and physical ambiance of the river added more attractive features to the vacant spaces. Third, many of the CICs are located close to the elevated roads (particularly the Inner Ring Road and North-South Elevated Way) or subway lines, suggesting the importance of transportation to the businesses at CICs. Fourth, many CICs are located close to universities. In the northeastern and southwestern parts of the city core (areas within the Inner Ring Road) are a high concentration of both CICs and universities. This suggests the possible role of educational institutions in incubating and spawning creative firms. The spatial character of Shanghai CICs will be discussed in detail in the later chapters.
Map 4.6: Creative Industry Clusters in Shanghai (till 2008)

Source: The Author. Locations of sites marked on the map are based on the author’s fieldwork.

Note: In the map, dots, squares, triangles and stars denote CICs awarded at the following dates respectively: April 28, 2005, November 30, 2005, May 20, 2006 and November 22, 2006. Circled sites are CICs based on new buildings. The Red dot and red triangle represent site of M50 (case study I, see Chapter 5) and Red Town (case study II, see Chapter 6) respectively. The purple square and purple dot represent Creative Factory and Tianzifang (names of two CICs)
respectively, both of which are included in the questionnaire survey in addition to the case of M50 and Red Town (see Chapter 7). The main campuses of Shanghai’s major universities are marked by letters as follows:

<table>
<thead>
<tr>
<th>A: Tongji University</th>
<th>B: Fudan University</th>
</tr>
</thead>
<tbody>
<tr>
<td>C: Shanghai Foreign Language University</td>
<td>D: Shanghai University of Finance and Economics</td>
</tr>
<tr>
<td>E: Shanghai University</td>
<td>F: Eastern China Normal University</td>
</tr>
<tr>
<td>G: Shanghai University of Politics and Law</td>
<td>H: Donghua University</td>
</tr>
<tr>
<td>I: Jiaotong University</td>
<td>J: Shanghai Engineering Technology University</td>
</tr>
<tr>
<td>K: Shanghai Institute of Foreign Trade</td>
<td>L: Shanghai Institute of Commerce</td>
</tr>
<tr>
<td>M: East China University of Science and Technology</td>
<td>N: Shanghai Normal University</td>
</tr>
<tr>
<td>O: Shanghai Conservatory of Music</td>
<td>R: Shanghai Academy of Theatre</td>
</tr>
<tr>
<td>S: Shanghai Institute of Technology</td>
<td>T: China Europe International Business School</td>
</tr>
</tbody>
</table>

### 4.5 Summary

This chapter provides a brief overview of Shanghai’s industrial history with special attention to the city’s space economy. History books tell us of the industrial glory the city had enjoyed, as well as of the turmoil of the recent industrial restructuring. From this history, we can find the answer to several critical questions concerning industrial lands in Shanghai’s inner city: namely, where they are found and how they came into being. With such knowledge, we are ready to hear the story of Shanghai’s post-industrial sites and their transformation over the past two decades that I will discuss in the next two chapters.
5 FROM FABRICS TO FINE ARTS: THE FORMATION OF ART DISTRICT M50\(^{40}\) (CASE I)

“Urban planning in Shanghai is equivalent to demolition and destruction.”
– A freelance painter at M50\(^{41}\)

“It is a treasure when everyone sees it as a piece of junk. It is a piece of junk when everyone sees it as a treasure.”
– A freelance painter and photographer at M50\(^{42}\)

M50, a site that had turned out mass-produced fabrics in the inner city of Shanghai just ten years ago, is now one of Shanghai’s most fashionable art districts. As one of the most prominent CICs in Shanghai, and a site that had experienced dramatic urban, economic, and social transformation at a dizzying pace, M50 exemplifies China’s complex urban restructuring dynamics. In this chapter, I will provide a narrative of M50’s development trajectory, with a special focus on the roles of different players and the interplays of their relations among each other. The purpose of the case study in this chapter, as well as in the next, is to uncover Shanghai’s complex urban processes, or in Scott’s (2006b) words, the “idiosyncratic pathways” of cultural agglomerations that cannot be reduced to a set of dependent and independent variables (p. 15). In the two case studies of this dissertation, I hope to provide as many details of the two sites as possible, while leaving interpretations and generalizations to the last two chapters.

\(^{40}\) A version of this chapter has been published. Zhong, S. (2009). “From fabrics to fine arts: Urban restructuring and the formation of an art district in Shanghai.” Critical Planning 16: 118-137.

\(^{41}\) Anonymous Interview, October 13, 2008.

\(^{42}\) Anonymous Interview, June 5, 2009.
5.1 Prelude: Shanghai Industrial Restructuring and Suzhou Creek Art Warehouses

Traversing the inner city of Shanghai from west to the east, Suzhou Creek has been a witness to the city’s industrial transformations over the past 150 years. Areas along the Creek were home to China’s first modern textile mill, flourmill, beer brewery, yarn factory, water treatment plant, and power station (Han and Zhang, 2004). In addition to the manufacturing sector, many financial institutions and trading firms also located their warehouses along the river. Map 4.2 shows the large industrial agglomeration formed along the Creek in the 1930s. Accompanying their construction was the proliferation of slum housing for destitute migrants as well as *lilong* housing for the well off. These people flooded Shanghai in search of better job prospects, or to evade wars or peasant uprisings elsewhere in the country.

The production-based urban development strategy pursued by the communist regime since 1949 served to reinforce the industrial role of the river during the socialist period. By the end of 1950s, roughly a thousand factories found sites along the Creek (Yao *et al*., 2004). However, as indicated in the previous chapter, the economic reforms and the reorientation of the city economy toward services since the 1980s had led to a decline in the Shanghai manufacturing sector, comprised mainly of SOEs. The city experienced the peak of factory closures and relocations in the 1990s. Industries along Suzhou Creek were hit hard during the restructuring period because of their obsolete equipment and production technology and proximity to the city center. Exacerbated by serious water pollution problems, the vacant industrial spaces along Suzhou Creek had become “junk” (Ley, 2003) in the popular imagination and, therefore, strong candidates for urban redevelopment (Shu, 2002).

43 In this dissertation, “the Creek” and “Suzhou Creek” are used interchangeably.
44 *Lilong* housing, literally meaning alley housing, was a peculiar housing style in Shanghai during the concessionary period. The style combined features of traditional Chinese housing and western terrace housing. Compared with old *lilong* housing, new *lilong* housing has “a fine architectural style, high standard, wide rooms, compact layout, bathroom, kitchen and other fittings complete, peaceful environment, in relatively wide lanes” and was built to meet the need of more affluent classes (Han and Zhang 2004, p.20).
An ambitious and costly river clean-up project undertaken by the Municipal Government in 1996 began to change the physical appearance of the Creek\(^45\). Almost simultaneously, another change was quietly taking place in the old industrial spaces along the Creek: the spontaneous arrival of artists and designers. Thanks to his earlier experience in New York, Deng Kun Yan, a Taiwanese architect, was one of the forerunners of this movement. In 1998, he found an old red-bricked grain warehouse building at 1305 South Suzhou Road that was being occupied by over a hundred migrant workers as makeshift dormitories. The building, built in 1933, was said to be once owned by Du Yuesheng, a well-known Shanghai tycoon\(^46\) in the concessionary period. Amid considerable skepticism, Deng turned the warehouse into a trendy design studio (Shu, 2002). Following quickly, two old warehouses close to Deng’s studio were occupied by other architectural and design firms.

Within the next two years, numerous cultural workers followed suit, among them painters, photographers, sculptures, graphic designers, architects, interior designers, fashion designers and so on (Shu, 2002). Two old warehouse buildings, referred to as the “Red Houses,” at 1131 and 1133 West Suzhou Road in the more upstream area of Deng’s studio were notable examples of buildings occupied by artists. The Red Houses were brick-red two-storey granaries designed by a British architect in the 1920s. Before artists found them to be ideal studio spaces in 2000, they had lain idle for a few years as their state owners, Shanghai No. 2 Rice Mill and Shanghai Fodder Mill (two state-owned factories), had gone out of business. The two warehouses soon became a haven

\(^{45}\) Since the early industrialization days of the mid-19th century, Suzhou Creek had served as both an industrial and residential sewer for the city. Pollutants in Suzhou Creek are extremely difficult to remove because of the Creek’s frequent sharp turns and the reflux caused by the sea tide. Water pollution problems first surfaced in the 1920s, resulting in the relocation of a water treatment plant on Suzhou Creek. During the socialist period, a number of river-cleaning projects were undertaken in an attempt to rid the Creek of pollution problems; however, these efforts were largely unsuccessful, as waste discharge by industrial facilities and substandard housing along the Creek could not be eradicated. In the early 1990s, the Creek had become so dirty that the name “Suzhou Creek” was synonymous to “pollution” in Shanghai. Seriously tainting the global image of the city, Suzhou Creek had become a big eyesore for the municipal government. Industrial decline and residential upgrading/redevelopment along the Creek in the 1990s helped eliminate many sources of this pollution. These factors contributed to the effectiveness of the Suzhou Creek cleaning project starting from the second half of the 1990s (Yao et al, 2004).

\(^{46}\) The tycoon, Du Yuesheng, was also a ringleader of the “Qing Gang,” an active underground gang organization in Shanghai before 1949.
for Shanghai’s avant-garde artists, along with a couple of foreign-owned private galleries (Han and Zhang, 2004).

Before the mid 1980s, freelance artists were not commonly seen in China. Several interviewed artists indicated that most artists used to work within the “system” (i.e., the state art institutions), holding salaried jobs. At that time, art exhibitions were largely organized by state institutions. The selection of artworks for participating in these state-sponsored exhibitions was based on hierarchical, bureaucratic, and usually corrupt methods. Meanwhile, the production of art, as an enterprise with ideological implications, was expected to conform to conventions and cater to the political needs of the state, or at least not to contradict them. Under these circumstances, art production that could be seen as experimental or offering social critiques had a hard time surviving in the public domain. Private exhibitions, although quite common, were mostly held for small circles of friends or acquaintances of the artists involved. Information regarding such private shows was spread by word of mouth only, and the public normally had no access to them. A number of artists working within the system were nevertheless tired of the state control in the production of art. In the absence of commercial art dealers, independent curators, and art critics, as well as that of non-government exhibition spaces, it was difficult, though not impossible, for most artists to survive outside the embrace of the state. Many artists, eager to break away from control and supervision by the state, had to go abroad to seek opportunities. By the mid-1990s,

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48 “85 New Wave” was an influential art movement in the mid-1980s that started to question and critique the state-centered art production system in China’s Maoist period. It is acknowledged as a cornerstone in helping establish China’s contemporary art. However, this rebellious art movement was put to an end with Xiao Lu’s installation work “Dialogue” (which involved shooting) at the Chinese Contemporary Art Exhibition and the subsequent closing of several important art journals following the cracking down of the Tiananmen student democratic movement in 1989. It was only after several years into the 1990s that Chinese contemporary art revived, this time generating greater international and commercial impact. See Chen, Xiaoxin (2006), “Retrospection and Reflection—About 85 New Wave Art Movement [Zhuiyi he Sikao—Guanyu 85 Xinchao Meishu Yundong],” http://www.sznews.com/art/content/2006-08/02/content_220107.htm (accessed June 20, 2009)
foreign private galleries began to appear in Shanghai. ShanghArt, a gallery established by Swiss national Lorenz Helbling, who had once been a tenant at the Red Houses, was one of these pioneers. The establishment of these independent institutions opened up a new frontier for artists. Meanwhile, the escalating prices for contemporary Chinese art in the international market place since the affluent 1990s also acted as a pull factor for artists to abandon or partially abandon state organizations and try life on their own.

By the beginning of the new millennium, the Red Houses of Suzhou Creek had evolved into a hotbed for adventurous artists desiring to work outside the state system, including five well-known artists and two galleries (80 Weiba, 2008). During the 2000 Shanghai Biennale, “satellite” exhibitions for avant-garde artists entitled “Fuck Off” were held in Suzhou Creek warehouse spaces. As the two curators for the exhibition, Ai Weiwei and Feng Boyi stated, “‘Fuck Off’ emphasizes the independent and critical stance that is basic to art existence, and its status of independence, freedom, and plurality in the situation of contradictions and conflicts.” These independent and controversial art exhibitions that were widely open to the public and that


51 Some artists may simultaneously hold salaried jobs and work for themselves. This arrangement could give them both stability and new opportunities for advancing their careers.

52 The earliest concentration of freelance artists in China could be traced to Yuanmingyuan Village in Beijing, which started to form at the end of 1990. The earliest artist entrants of Yuanmingyuan village were a few autonomy-seeking art school graduates, as well as a number of former staff of China Art Newspaper, a suspended art publication following the June 4 student movement in 1989. These freelance artists, called “vagrant” artists at the time, rented farm dwellings as their studios. See Feng Boyi (2008), “A Power from the Society [You Yizhong Liang Laizi Minjian],” http://view.artxun.com/zhongguomeishujia-59-290045.shtml (accessed July 22, 2009).


54 The Chinese name for the exhibition was “Bu Hezuo Fangshi,” meaning “an Uncooperative Approach.”

55 Ai Weiwei, born in 1957, is the son of Ai Qing, one of China's most respected modern poets. He studied art both in China (Beijing Film Academy) and the US (the Parsons School of Design in New York), and had been residing in the US for years. Aside from being a curator, he is also an artist, architect, photographer, and publisher, and had been the Editor-in-Chief of several important avant-garde art journals in the 1990s. He also once helped direct a popular TV drama series about overseas Chinese in New York. see http://ylqq.mloho.com/user6/39321/archives/2007/248458.html (accessed June 30, 2009). Feng Boyi is an independent art critic and curator.


represented a milestone for China’s contemporary art\(^\text{58}\) were widely covered by influential Chinese and international media. Time proved that so long as experimental art did not challenge the state directly, it was able not only to survive harsh criticisms by conservative officials and their allies, but also to help revalorize deteriorating warehouse spaces.

In those days, the old industrial buildings along Suzhou Creek were invaluable to aspiring artists. Functionally, they offered spacious and flexible spaces. Economically, they were cheap and accessible to even marginal artists. Aesthetically, the textured industrial buildings were distinctive in a sea of monolithic modern high-rise buildings. Culturally, they represented the unique industrial past of the locality. Socially, they sat within a diverse mix of residents, including those living in traditional \(\text{lilong}\) housing, whose quotidian lives provided endless inspiration for artists (Wang and Zhu 2003; Han and Zhang 2004).

By 2002, over 30 old warehouse or industrial buildings were estimated as converted into over 100 art or design studios (80 Weiba, 2008). In some ways, the storyline of Suzhou Creek art warehouses echoes the experiences of other large cities such as New York, Zurich, London, San Francisco, Chicago, and Vancouver. In all these cases, the cultural economy sectors were closely linked to marginal urban places, including obsolete industrial buildings (Zukin 1982; Ley 1996; Lloyd 2005; Hutton 2008).

### 5.2 50 Moganshan Road: an Emergent Art District by Accident

However, soon after some artists established studios along Suzhou Creek, they were faced with imminent eviction. Following a series of market-oriented institutional reforms in urban

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management, land administration, and housing provision, the 1990s was a decade in which a prosperous property market was developed and scales of urban redevelopment in the inner city reached new highs in many Chinese cities, including Shanghai (He and Wu, 2005). In addition, the success of the Suzhou Creek cleaning project and artistic re-appropriation trained the spotlight on the district. During the next few years, new waterfront lifestyle condominiums commanding top prices in the city’s overheated property market mushroomed along Suzhou Creek. This condominium boom threatened the survival of the new cultural enclave.

Unlike migrant workers who once occupied old warehouses or industrial spaces, artists and cultural workers stood up to fight for their space. Some wrote letters to the government, while others attempted to draw media attention. However, largely, the outcome depended on individual efforts. For example, bulldozers were stopped in front of Deng Kun Yan’s building, while some nearby old warehouse buildings were mercilessly demolished.

In Shanghai’s rush to modernize, the Red Houses were finally torn down despite strong protests from their occupants and wide media exposure (Han and Zhang, 2004). When talking about his eviction from the Red Houses, an artist I interviewed remarked sarcastically, and somewhat helplessly, “Urban planning in Shanghai is equivalent to demolition and destruction.”

Nobody, however, had anticipated that the demolition of the Red Houses would result in the birth of a new art district. When pioneering artists who had strong social networks among themselves chose to move their studios into the Red Houses, one member of their group, Xue Song, established his studio nearby at 50 Moganshan Road (first abbreviated as “50MGS” and later


60 Anonymous Interview, October 9, 2008.

61 Anonymous Interview, October 13, 2008.
renamed “M50”\(^{62}\) in May 2000\(^{63}\), the site of a bankrupt state-owned textile company. Xue was unable to join his artist friends at the Red Houses because works needed to be treated with smoke and the Red Houses were not sufficiently ventilated for such a practice (Han and Zhang, 2004). In May 2002, when Xue’s artist friends at the Red Houses were told that demolition of their buildings was an irreversible decision, they decided to join Xue in nearby 50MGS\(^{64}\). In February 2003, more artists arrived who had been evicted from a building at 720 West Huaihai Road that was about to be demolished. Hence, at the peak of Shanghai’s indiscriminate redevelopment in the early 2000s, over ten art studios and three private galleries helped establish 50MGS as one of Shanghai’s preeminent art districts (marked as the red dot in Map 4.6)

5.3 Restructuring of 50MGS: Another Thread of the Story

Historically, large numbers of light manufacturing industries, particularly those established by Chinese private capital, were concentrated along Suzhou Creek. The Moganshan Road area was in a prime location along the curve of the Creek. From the end of the 19\(^{th}\) century to the 1930s, the area grew into one of the largest industrial agglomerations in the city, including the largest cotton and flour mills in China. The Moganshan Road area therefore occupied a special place in the industrial history of Puxi (X. Chen, 2008).

50MGS was located on an important site in this area. Initially built as a cotton warehouse in 1933, it became the site of a yarn company and cotton mill established by a Chinese industrialist\(^{65}\) in

\(^{62}\) In this dissertation, “50MGS” and “M50” refer to the same industrial site. To be accurate, I use the former name when talking about events that took place before the planning consultants gave the site the latter name.

\(^{63}\) The two locations were only a 3-minutes walk away from each other.

\(^{64}\) At that time, managers of M50 was also looking for tenants, see details in the next section.

\(^{65}\) The company was first registered in Hong Kong as a British concern by a Chinese industrialist from Tsingtao (a Northern Chinese city) in order to enjoy better protection in Shanghai’s foreign concessions, in which the company was located (X. Chen, 2008).
1937. In 1939, the company boasted 3,000 spindles, 200 looms, and employed more than 1,000 workers as one of the largest cotton mills in the city. Although the company name had been changed many times, it remained a wholly private establishment until two years after the founding of People’s Republic. The company was then transformed by the communist regime into a joint-ownership enterprise with the state (gongsi heying), and finally, into a full SOE in 1966, the year the “Cultural Revolution” was launched. Amid the push to establish “modern enterprise systems” (xiandai qiye zhidu), the company became “Shanghai Chunming Slub Corporation” (SCSC) in 1994 as a subsidiary of Shangtex Holding (Group) Corporation, which evolved from Shanghai Textile Industry Bureau, the government department responsible for managing textile production in Shanghai. During the city’s industrial restructuring in the nineties, however, the municipal government required the textile sector to be greatly downsized. On December 31, 1999, SCSC was shut down by the government partly because of high energy consumption and pollution problems. This marked the beginning of a post-industrial period for 50MGS (X. Chen, 2008, pp. 34-35). The legacy of over 60 years of textile production at 50MGS was a mélange of over 40,000 square meters of industrial buildings bearing characteristics of different historical periods, from the 1930s to the 1990s.

At the dawn of restructuring, the company employed approximately 1,500 people, most of who were laid off (xiagang) when production ceased in 2000. The laid-off workers who still had the ability to work were divided into two groups. The relatively young, totaling over 500, were offered a lump-sum severance payment (usually in the amount of several 10,000 RMB, depending on the workers’ service period with the company) and then became totally disconnected from the

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66 Closing of SCSC was an administrative order. In fact, at the time of company closure, SCSC was producing at full capacity. According to a director of the company, “workers were prepared to work on New Year’s Day when we received the notice [of company closure] from our supervising work unit” (Anonymous Interviewee, June 3, 2009).


68 A small number of former employees were retained to become service workers (such as security guards or elevator operators, and so on.)

69 The relatively young were defined as those born after 1956 (for men) or 1962 (for women) (not inclusive).
company. These people, called the “bought-out” (maiduan) group, were registered as “unemployed,” and had to look for new jobs in order to survive. The larger portion of the laid-off workers from SCSC (over 700 in total), who were older than the previous group, were not officially registered as unemployed because they were not completely severed from the company. This group was called “contract support” (xiebao). This was part of a government policy to ease social tensions from mass unemployment. Officially, SCSC retained its name as an industrial company and, at least nominally, contract support workers remained SCSC employees. The SCSC management staff stayed on as well to look after factory properties. Meanwhile, however, they had to find the financial means to fulfill the lump-sum payment promise of “buying out” workers, as well as support for the contract workers over a longer period. This “support” included a minimum monthly allowance, as well as contributions to their individual social security accounts until the official retirement age. In addition to the previous two groups, approximately 100 hundred workers from SCSC were deemed "too weak" to work, and supporting these people was an additional responsibility of the SCSC. Under these circumstances, the company was under enormous pressure to find new sources of income after selling off their inventory and old machineries.

Once production ceased, the existing industrial properties became the company’s most valuable remaining asset. Some companies in similar circumstances might have sold the land to developers for commercial development. However, not all land could attract commercial buyers, at least in the short run. For these companies, including SCSC, leasing spaces to other firms, particularly

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70 After reaching retirement age, the contract support workers would officially leave the company and could start drawing on their pensions from the Municipal Government. Before retirement age, it was the company’s responsibility to support the workers. At the time of interview (Sept. 2008), SCSC still needed to support approximately 600 laid-off workers. However, according to the interview, SCSC still occasionally provides support to its former workers, even if they were retired. For example, SCSC usually provides a funeral allowance in case of death. However, this is not mandatory for restructured SOEs. Contract support workers are supposed to find new jobs more easily than the “bought out” workers because new employers of the former could be exempted from topping up the new employees’ social security accounts because they are the responsibility of former SOEs. After SCSC was closed, three people in the former SCSC management started their own textile companies in the suburbs of Shanghai and Jiangsu Province, and over 200 former skilled workers from SCSC (either “bought out” or contract support types) followed them to the new companies.
small-scale firms under private ownership (minying qiye) that were rapidly expanding in the post-central-planning era was a common strategy. At the beginning, the SCSC management was not very selective about whom they accepted as tenants. Almost anyone who could pay the rent was allowed in. Soon, 50MGS became a mix of warehouses and various small-scale manufacturing firms in apparel making, printing, food processing, metal processing, and furniture making, among others. However, in the eyes of the management, this mix was considered “chaotic” (hunluan71). A popular notion was that private firms were not as rule-abiding as SOEs, and could easily go astray under China’s transitional conditions. Indeed, at that time, many firms at 50MGS were not registered with the government and many small firms that employed mostly migrant worker were neglecting safety and hygienic standards. Some workers residing at 50MGS were even said to be violating the government family planning policies. Littering and spitting were common at 50MGS, and many manufacturing firms were storing hazardous materials (e.g., paint and oil) without following safety procedures72.

In order to expedite industrial restructuring and ease the transition, the Municipal Government devised policies to encourage restructured SOEs to lease vacant spaces to private firms in so-called “urban industries.” Urban industries, as designated by the government, were thought to be especially suitable for Shanghai’s environment. From the government perspective, the most important consideration was to replace old high-externality, resource-intensive industries with “greener” firms73. Former SOEs that could meet certain standards set by the Economic

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71 The word “chaotic” (liuan or hunluan) in China tends to conjure up the meaning of something illegal and out of control, and is therefore often seen as a problem to be avoided or resolved. This is particularly the case for government and various kinds of government institutions, including state-owned enterprises. Also, recall that in the Confucius tradition, discarding orthodoxy and official values is also deemed as leading to unwanted social chaos (Whyte, 1992).

72 Anonymous Interview, June 3, 2009.

Commission74 could be awarded the title “urban industrial parks,” together with some funding from the government.

Following the state’s guidance on urban industrial parks, SCSC management tried hard to attract tenants in electronics, printing, and apparel businesses to 50MGS. SCSC was particularly interested in electronic firms, which were regarded as clean and knowledge-based, and, therefore, modern. At the same time, to conform to government standard, SCSC evicted over ten firms, most of which were unregistered family-based businesses that sold homemade food products. In February 2002, SCSC was successfully designated by the Economic Commission as “Chunming Urban Industrial Park.”

However, as a SOE, SCSC was actually not whole-heartedly following state guidance because it also had its own concerns. In May 2000, SCSC’s management decided to lease approximately 200 square meters to Xue Song for an art studio. The management was aware that art studios were neither included in the official category of urban industries nor commonly regarded as a form of manufacturing. Therefore, there was a risk in allowing art studios into a property that was officially zoned “industrial.” In 2002, when more artists and art dealers moved into 50MGS from buildings that were about to be demolished elsewhere, there were still no official policies to support such reuse of space. In the words of one SCSC Director, they were quietly engaged in “underground” practices75. Moreover, the government was still very suspicious of avant-garde art in general, which had become a new channel for expressing personal views and attitudes toward China’s fast-changing society. Furthermore, some artists were experimenting with new art forms, such as installations, and short films, among others, which were very different from the traditional art known to bureaucrats and SCSC management. In a country that was practicing ideological

74 These standards include the types of tenant firms, low vacancy rate, absence of pollution, firms’ registration with the government, and so on.
75 Anonymous Interview, September 17, 2008.
control and censorship, these new art forms had become a very sensitive issue\(^76\).

In 2002, rents at 50MGS were still very cheap, approximately 0.4-0.5 RMB/m\(^2\)/day\(^77\). Although several small businesses had been evicted in order to help 50MGS obtain the title of urban industrial park, the low levels of rent still enabled many small manufacturing firms to stay on. These firms existed peacefully side-by-side with the slowly growing number of art studios, galleries and other cultural firms. One SCSC director vividly described this “co-inhabitation” as follows:

“Many workers lived there [at 50MGS]. After working hours, those workers, wearing slippers and barebacked, strolled in the factory. Their hand-washed clothes and underwear were hanging in the air, with water dripping down. Artists were there, too, as well as foreigners and fashionable women who were curiously peeking into every corner of the old factory. Children of migrant workers were also playing there, shouting happily and noisily. The coincidence of so many different people at 50MGS formed such an interesting scene! But the civility of artists such as Xue Song and most workers’ surliness formed a big contrast.”\(^78\)

Perhaps it was this mix that had somehow served as a “camouflage” for SCSC’s underground practices. Naturally, there were other reasons why the government did not intervene to stop the SCSC from renting space to artists. The government could not, and indeed did not, know everything about SCSC’s daily management practices. It also recognized the hardships that many

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\(^76\) In the old days, the most important criterion to judge the quality of a piece of art in China was the artwork’s degree of conformity to the real thing (imitative type). Therefore, artistic skills rather than ideas were considered as an artist’s most important professional quality. In the popular view, artworks should look “beautiful” as the Chinese term for art (“meishu”) literally means the skill to create something beautiful. According to Becker (2008), this tendency turns art into a craft as virtuosity rather than creativity defines a piece of work. In contrast, contemporary Chinese art tries to reflect the ideas, thoughts, and emotions of the artists; therefore, good works do not necessarily look “beautiful” (expressive type).

\(^77\) In 2002, the average rent for Shanghai’s office space was 18.9 USD/m\(^2\)/month (approximately 5.2 RMB/ m\(^2\)/day). See “2003 nian Beijing, Shanghai and Guangzhou xiezilou shichang wu zhanshi [Eventless in Beijing, Shanghai and Guangzhou’s property market in 2002],” Zhongguo Fangdichan Bao [China Real Estate News], May 10, 2003. [http://www.zjcom.cn/detail/house/K02294.htm](http://www.zjcom.cn/detail/house/K02294.htm) (accessed June 5, 2008).

\(^78\) Anonymous Interview, June 3, 2009.
SOEs faced in the course of the city’s restructuring. At the time, the government’s attitude towards art studios on industrial properties could perhaps be best characterized as ambivalent: it neither encouraged nor banned these practices outright; a certain degree of *laissez faire* attitude prevailed.

As time went on, management gradually realized that attracting so-called urban industries was not necessarily in their best interest. First, the title of “urban industrial park” did not fundamentally change the “chaotic” appearance of the site. Second, infrastructure facilities (e.g., power capacity) that had been built for textile production did not match the various kinds of production requirements of the new occupants. Third, the old company had been shut down partly because of pollution problems. However, after visiting a number of industrial parks, SCSC management realized that the electronic industries, which they had initially wanted to attract, were not as pollution-free as they had thought. E-wastes 79, for example, had become a hot issue in the country. Fourth, being fully aware of the long history of 50MGS, the management was in favor of keeping the old buildings at 50MGS, and, its existing use by various private manufacturing firms contributed to the fast deterioration of the buildings. In short, although unhappy with their situation, the SCSC management was unsure of its next move. It was at that point that contacts with artists and the first few artists relocating to 50MGS gave them the idea that inviting more artists into 50MGS would not only solve infrastructure and pollution problems, but help protect the existing buildings from further deterioration.

With the help of the public media, the new use of old industrial and warehouse buildings gradually caught the attention of the public. As an idea that had its origins in the West, many Shanghai citizens began to see that converting industrial into artistic or “creative” spaces was somehow “cool.” As for SCSC management, their concern was initially merely to lease out all available space and to keep the site leased. Gradually, with more artists and designers queuing up to get into

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79 For an affluent society, the biggest environmental hazard is what Marcotullio (2003) calls “green” issues as opposed to “brown” or “green” issues. Solid waste generated from the consumption of electronic products is a typical “green” issue.
what was becoming a highly desirable place, management began to consider selecting tenants that were most suited for their property. Hence, the idea of an art district was born.

5.4 Voices from Scholars: Conservation of Industrial Heritage

Toward the end of the 1990s, Prof. Zhang Song, a conservation expert from Tongji University and tens of students from the School of Architecture and Urban Planning conducted a survey in approximately 70 of Shanghai’s old industrial buildings. The survey found that Shanghai’s industrial buildings were being damaged and torn down at an alarming rate. The survey report recommended over 30 industrial buildings to the government for inclusion in the Shanghai protection list (Excellent Historic Buildings or EHB), from which approximately 15 sites were finally selected. Despite this effort, the majority of Shanghai’s industrial buildings were still left to the mercy of developers.

In the political circle, as early as 2002, Yan Zhuangzhi, the Vice-Dean of School of Communication at Shanghai University and a member of Shanghai Political Consultative Conference Committee, had put forward a motion on conserving Shanghai’s art warehouses. However, at that time, a scholar-politician’s voice was too weak to prevent art warehouses from disappearing quickly from the city’s landscape.

Around 2003, more scholars, particularly those from two disciplines (historical conversion and economics) started to pay attention to what was perceived as a new urban phenomenon. Urban historic conservation experts were a formidable force. A representative of this force was the “Research Center for National Historic Cities” (RCNHC) of Tongji University headed by Prof.

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Ruan Yisan, a well-known and outspoken urban conservationist. As a research organization specializing in urban heritage conservation, RCNHC was quite conscious of the destructive effects of Shanghai’s modernist urban transformation. Before the 1990s, the Center’s research agenda had been mostly focused on old commercial and residential areas. Beginning in the 1990s, however, and informed by conservation practices in several European cities, RCNHC researchers began to realize the earlier neglect on industrial buildings. In the 1990s, the Center hoped to draw the government’s attention to the old industrial buildings that were fast disappearing in the 1990s by writing newspaper articles as well as letters to the government. Seeing how most of their conservation efforts were in vain, RCNHC decided to undertake a few case studies so that more persuasive arguments for conservation could be advanced. At that time, SCSC was still struggling with their restructuring strategies and wanted to do something to regularize what they perceived as a “chaotic” situation at 50MGS. Looking for a consultant to help them strategize their future development, they commissioned RCNHC in 2003 to produce a conceptual plan. With an agenda to advance the conservation practices of industrial heritage in Shanghai, RCNHC conducted the study for the whole Moganshan Road Plot that included 50MGS, albeit considerably larger (Map 5.1). This turned out to be the first planning project with the aim of conserving industrial heritage in China. Although the plan would not reach statutory status, it would provide an expert view on the future of 50MGS. As it turned out, the consultant report described industrial heritage as an urban resource, advocating a combination of conservation efforts and the reuse of industrial buildings at 50MGS. The report suggested that 50MGS had the potential of becoming an “art district,” a novel concept for Shanghai that would help make the case for historic conservation. In addition, the consultant team also proposed a new name for 50 Moganshan Road, a moniker one hears frequently today: “the M50." 

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81 SCSC has registered M50 as a trademark; however, the name of the company remained SCSC. In the following sections, I will use 50MGS and M50 interchangeably.
Map 5.1: Suzhou Creek Riverside Landscape Plan by the Government (2002)

Note: In the Moganshan Road Plot, green color denotes green space, orange color denotes commercial-office use. Outside of Moganshan Road Plot, dark yellow denotes high-density, residential use and light yellow denotes mid- and low-density residential use. M50 is located at the southeast corner of the Moganshan Road Plot and was split into two parts marked by the two colors in this statutory plan.

Starting from around 2000, another group of researchers pioneered the study of creative industries in China. The best-known figure was Prof. Li Wuwei of the Institute of Economics at Shanghai Academy of Social Sciences (SASS). Not only was Prof. Li a well-known economist, he was also an active political figure who had once held important positions at the National Committee of the Chinese People’s Political Consultative Conference. His research touched on the growth of creative industries in European countries and their potential importance in Shanghai. Eventually, Prof. Li became more concerned with the spatial distribution of creative industry firms. Although
seen from different perspectives, the two streams of research arrived at the same conclusions around 2003: creative industries (including art) and old industrial spaces were a perfect match for each other. Hence, function and space became integrated at the theoretical level. In 2003, Prof. Ruan and Prof. Li both attended a symposium on reusing the city’s industrial buildings held in Tianzifang, another emergent CIC in Shanghai. The views of the two professors began to draw the attention of many public officials at the symposium.

The rethinking of Shanghai’s urban development trajectories was not restricted to academia; it was reflected in the work of artists as well. The influential Third Shanghai Art Biennale held in 2002 was themed “Urban Creation.” Prof. Wu Jiang, then the Vice-Dean of School of Architecture and Urban Planning at Tongji University, and an expert of architectural history, was one of the curators. The widely publicized and well-attended exhibition did not just draw people’s attention to China’s contemporary art, it also helped bring Shanghai’ urban development issues into the spotlight.

Although society was beginning to recognize the destructive consequences of modern urban development, property developers never slowed because commercial value of the land along Suzhou Creek was enormous. Around 2004, new apartments in Moganshan Road Area could be sold for 11,000 RMB/m² (approximately 1,325 USD/ m²). In addition, industrial land was also particularly vulnerable in the sense that its redevelopment cost was relatively low, compared to old residential areas because relocation issues were largely absent and restructuring SOEs were usually mired in financial problems. In addition, urban planning alone generally failed to provide

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82 Prof. Wu Jiang later worked as a Vice Director for Shanghai Urban Planning and Administration Bureau. He is responsible for a large amount of work on the city’s heritage conservation.
83 See Lou, Jing, “Uncertain Future for Shanghai’s ‘SoHo’,” People’s Daily, August 17, 2004, p.16. In China, properties are sold in terms of building area (jianzhu mianji), which not only includes areas within a suite but also common areas (such as stairs, hallways, lobby, service spaces, and so on.) shared by all owners of a building. For example, if a person buys a 100-square meter apartment at 11,000 RMB/ m², the actual area within his/her suite could only be 80 square meters or even smaller. Therefore, the buyer is actually paying approximately 14,000 RMB for 1 square meter of living area in his/her suite (juzhu mianji).
protection for the conservation of industrial spaces. According to the Suzhou Creek Riverside Landscape Plan, which had already been approved by the Municipal Government in 2003 (Shanghai Urban Planning Administration Bureau 2007, p.206), the industrial buildings at 50MGS were to be replaced by riverside green space and commercial-office properties with a considerable number of high-density residential developments nearby (Map 5.1 and Photo 5.1). While RCNHC was working on its consulting report, most of the industrial land in the Moganshan Road Plot had already been sold to the developers. Demolition of many industrial buildings, including several with high historic and aesthetic values, had already begun. As an artist at M50 recalled,

“In 2003 or 2004, the oldest building at the former flour mill was equipped with dynamite and would explode any time. Knowing that the building would soon be gone, several painters at M50 went there to wave farewell. They took many photos of the building, hoping to keep some memory of it.”

84 Urban land in China belongs to the state; thus, both the Municipal and District Government can get revenue from rezoning the land for commercial uses and then putting it into the land market. The incentives for the District Government to sell land are even greater. This is because district governments may not get tax revenue from tenants of the old industrial spaces or the de facto land owner (SOE) because business taxes are paid to the districts where the businesses are registered, which is not necessarily the businesses’ physical location. However, revenues from land sales for the district government are quite certain. Therefore, from the government’s perspective, particularly the district governments’ perspective, selling land can help them “maximize” revenue in the short term.

85 Fuxin Flour Mill, the earliest and once the largest flourmill in China, was located at 120 Moganshan Road.

86 Anonymous Interview, June 5, 2009. The building referred by the artist was later listed as Shanghai’s EHB and hence was protected. However, most other buildings of the former flourmill were demolished.
Photo 5.1: Graffiti Wall and New High-rise Apartment Buildings in Moganshan Road Area

Source: Photo taken by the author on March 6, 2009

Note: High-rise apartment buildings have replaced many former warehouses and industrial spaces along Suzhou Creek. The graffiti on the right means “demolition” in Chinese.
M50 fared no better. In 2004, part of the SCSC land was sold to an influential Hong Kong Real Estate Developer (Tian’an Jituan), while an area closer to the river was to be turned into green space. Rumor had it that the government had already received the money from the developer. Clearly, the existing statutory plan catered to the interest of the developers. According to the main planner at RCNHC, “the M50 site could be completely cleared for new development within three months if demolition had started.” Notably, that the conservation plan made by RCNHC was actually in direct conflict with the statutory plan. The principal planner at RCNHC even self-ridiculed what they had done, that is, they “committed a mistake against the government’s will” (“dingfeng zuo’an”). What motivated the planners to take this risk were their professional integrity, as well as support from the academy, the media, and the art community, which were the mainstay of the conservation forces. The pro-conservation arguments were that industrial heritage was part of Shanghai’s history and that, once it was gone, it could not be restored. Moreover, the “smart” reuse of old industrial buildings by artists would boost the image of the city and provide Shanghai with a new impetus of growth. The most frequently cited example to support such an argument was SoHo in New York.

At the most perilous juncture, scholars also availed the mass media to advocate their views. The most notable example was a series of articles or interviews published in the widely circulated People’s Daily, the Chinese Communist Party’s top mouthpiece, and Hua Dong News, a local edition of People’s Daily. These articles featured well-known scholars, including Prof. Ruan Yisan, Prof. Li Wuwei, and Prof. Zheng Shiling (a well-known expert on architectural history and Vice Chancellor of Tongji University in Shanghai). These newspaper articles raised alarm for the fast

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87 Anonymous Interview, June 3, 2009.
88 Anonymous Interview, October 9, 2008.
89 See Ruan, Yisan, “Protect Shanghai’s ‘SoHo’ [Baohu Shanghai de ‘Suhe’],” Hua Dong News, May 26, 2004, p.10. Ruan Yisan, “What is ‘SoHo’ [He Wei ‘Suhe’],” Hua Dong News, May 26, 2004, p.10. Lou, Jing, “Building Shanghai’s ‘SoHo’—Interview of Li Wuwei (Creative Industry Forum) [Gouzhu Shanghai ‘Suhe’—Fang Shanghai Shehui Kexueyuan Bumenjingji Yanjiusuo Suozhang, Yanjiusuan Li Wuwei (Chuangyi Chanye Luntan)],” Hua Dong
disappearance of Shanghai’s industrial buildings and advocated the reuse of these buildings by
creative firms. The SoHo district in New York, which appeared in the title of several articles, was
frequently cited again as an example for Shanghai to emulate. Scholarly concerns in the public
media were also echoed by a few scholar-turned-bureaucrats in the municipal government, such as
Wu Jiang, who had a Ph.D. in Architectural History from Tongji University and was then
Vice-Director of the Shanghai Urban Planning Administration Bureau. The personal support for
conservation by certain influential bureaucrats later turned out to be crucial in softening up the
attitude of the Municipal Government.

In addition to advocacy, some parties at M50 also used direct action to stop the bulldozers. A
number of artists and firms not only moved into M50 to protect the place, but also tried to make a
large “noise” about its potential demolition. ShanghArt, one of the earliest galleries to enter M50,
initially used their M50 space only for storage, while keeping its office and exhibition spaces in
Fuxing Park. At the request of the SCSC management, ShanghArt eventually relocated all of its
functions to M50. As an influential gallery, its relocation to M50 helped anchor a few art studios.
In addition, ShanghArt organized several art exhibitions at M50 in an attempt to draw public
attention to the site.

The RCNHC also played an active role in this conservation effort. As a state-owned research
institution with a good reputation in the academic world and strong connections to government
institutions, it pushed the conservation agenda even further. For one thing, RCNHC brought a few
other heritage-related academic units together by establishing a loose research network centered

News, July 8, 2004, p. 3.
Zheng, Shiling, “Taikang Road: Feeling the Impulse of New Age (Creative Industry Forum) [Taikang Lu: Dadaole Shidai Maibo
(Chuangyi Chanye Luntan)],” Hua Dong News, July 15, 2004, p. 3.
Li, Wuwei, “New Ideas from Old Factories (Creative Industry Forum) [Jiu Changfang Li Chuang Xinyi (Chuangyi Chanye
Luntan)],” Hua Dong News, July 22, 2004, p. 3.
Lou, Jing, “The Future of Shanghai’s ‘SoHo’ is Uncertain [Shanghai de ‘Suhe’ Qiantu Weibu],” People’s Daily, August 17, p.16.
90 These academic units were all related to urban heritage conservation and were from several reputable Shanghai universities,
including Tongji University, Fudan University, Eastern China Normal University, Shanghai Conservatory of Music, and Shanghai
Theatre Academy. Locations of these universities are marked in Map 4.6.
on M50 in one of the buildings that was the most likely to be demolished. According to a chief planner at RCNHC, their initial leases with SCSC were only for six months or one-year term because everybody anticipated eviction albeit nobody knew when that would happen. Occupying a spacious building at M50, the loose research network organized several important forums that could attract top scholars and high-ranking officials to M50. A few of these symposia were even co-organized with central administrative institutions in Beijing, such as the Ministry of Culture, the Ministry of Construction and the State Administration of Cultural Heritage, institutions that all had an interest in advancing the cause of heritage conservation. As one informant put it, “The utilization of old industrial spaces for cultural production at M50 really helped expand the scope of many top-level officials who visited the site. I saw sparkles in the eyes of some ministers from Beijing.”

Privately, scholars at RCNHC also invited several celebrity artists, such as Qu Xiaosong, Tan Dun, He Xuntian, and Zhang Yimou, to M50 for social gatherings. The presence of these prestigious artists helped raise the status of M50 as a prominent art district in the eyes of the government. The territorial strategies employed by the conservation forces are a declaration of tenants’ claim to urban space. Gradually, the entry of more firms and various types of organizations as well as the “noise” made at M50 helped change the balance in this incessant tug-of-war between development interests and conservation forces.

91 Anonymous Interview, June 3, 2009.
93 Qu Xiaosong, Tan Dun, and He Xuntian are all well-known composers. Qu Xiaosong, who had lived in the US for a long period, had four of his operas shown outside of China. Tan Dun is the composer for the music used in the official ceremony for the transfer of the sovereignty of Hong Kong in 1997. His best-known work is the music for the film “Crouching Tiger, Hidden Dragon,” for which he won an Oscar Award for best original music in 2001. His music also received four nominations in the 44th Grammy Award in 2002. He Xuntian, a professor at Shanghai Conservatory of Music, is very well known in China for his Tibetan-style popular music. Zhang Yimou is perhaps the best-known filmmaker and film director from Mainland China. His films, such as Red Sorghum, Raise the Red Lantern, The Story of Qiu Ju, To Live, and others have won him many international awards.
5.5 “Creative Industry Cluster”: Recognition from the Government

The political environment for industrial heritage conservation had been gradually improving for years, thanks to the efforts of conservation forces from various sides. Earlier on July 25, 2002, the 41st Meeting of the Standing Committee for the 11th People’s Congress in Shanghai passed the “Regulation on the Conservation of Shanghai’s Historic Cultural Areas and Excellent Historic Buildings,” which took effect from the beginning of 2003. According to this new regulation, workshops, shopping premises, factories, or warehouses built more than 30 years ago that could represent China’s industrial history could be officially listed as EHB. By 2005, 43 industrial buildings were listed as EHBs, including one that was built quite recently in 1955 in the Maoist Era (S. Zhang, 2006).

Meanwhile, issues of historic conservation were also beginning to catch the attention of top political figures in Shanghai. In 2003, Chen Liangyu, then-Party Secretary of Shanghai called for applying “the most strict regulations” on Shanghai’s historic conservation. In a government meeting the next year, Han Zheng, Mayor of Shanghai, pointed out, “while new development is development, conservation and renovation also represent a way of development.”

SCSC and its supervising organization must also be mentioned. As a member of the powerful industrial conglomerate called the Shangtex Holding (Group) Corporation, SCSC also had its own political clout to support its conservation effort. If conservation forces from the society were not strong enough to keep away bulldozers, the influence of certain political figures could certainly

add some heavy weight to the conservation camp\textsuperscript{96}.

In addition, on the part of the RCNHC planners, they also used certain tactics to convey their ideas to the top officials. They were sufficiently flexible to rephrase their conservation plans so that their conservation strategy and the statutory plan did not appear to be in direct conflict. RCNHC chief planners understood that in China, directly confronting and challenging the government could make things worse. Therefore, they tactfully explained to the government that M50 as an art district was not only was economically viable, but also could be part of the Suzhou Creek landscape that the government was deliberately re-making. As a consequence, M50 could be integrated with the riverside greenbelt in the statutory plan. Through such rephrasing, it would be easier for the government to provide support to M50\textsuperscript{97}.

Both the change in the wider political environment and the conservation camp’s effort helped M50. By 2005, the Municipal Government had largely changed its attitude toward creative industries and old industrial buildings. Not only did it acknowledge the importance of creative industries for the city’s economy in the post-restructuring period, it had also begun to accept the role of old industrial buildings in nurturing such industries. A few events suggest this changed perception; one was the establishment of the Shanghai Creative Industry Center (SCIC) in November 2004. As a semi-governmental organization, it was mandated to promote creative industries in Shanghai\textsuperscript{98}. Another important event was the designation of creative industry clusters by the Economic

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\textsuperscript{96} Anonymous Interview, May 29, 2009.

\textsuperscript{97} In addition, unlike avant-garde art, historic conservation is a politically “neutral” topic for the government. In this sense, the agenda of historic conservation was more likely to influence the attitude of the local state than the cause of nurturing China’s new art scene when it comes to protecting M50.

\textsuperscript{98} Although the organization was registered as a non-government organization, its leadership team comprises of people who have held important political positions. Its website address (www.scic.gov.cn) also suggests the organization’s connection to the government. The mission of the organization is “to coordinate resources, formulate development targets and strategies, strengthen the guidance, construct a platform, promote the assembly, and establish a system, thus gradually forming a modern industry structure supported by the individual creative industry enterprises and clusters on the platform of ‘Shanghai Centre of Creative Industry,’ and driving the overall development of Shanghai creative industry.” (Shanghai Creative Industry Center, http://www.scic.gov.cn/english/introduction/index.html#3, accessed on Nov 10, 2008). Since SCIC started to operate in January 2005, it has played an active role in organizing cultural activities, academic forums, and business promotion events related to creative industries (such as Shanghai International Creative Industry Week).
Commission of the Municipal Government. In 2005, the first 18 sites in Shanghai were awarded this title, among them M50. In the words of an SCSC Director, “it was in 2005 that M50 finally went ‘above ground’ from its ‘underground’ status”. By the end of the following year, 75 sites in Shanghai had been designated as CICs, over two-thirds of which were based on old industrial sites (Author’s survey). As one of the pioneers of Shanghai’s CICs, M50 is now one of the government’s pet projects to portray Shanghai’s modern image. It is not only frequented by top government officials, including the Party Secretary of Shanghai, but has also been designated as a “Teaching Base for Cadres” (ganbu jiaoyu jidi).

The RCNHC had initially proposed M50 as an art district; thus, the SCSC management began gradually to replace the many small manufacturing firms with studios, galleries, and design firms. Apart from raising their rent or refusing to renew leasing contracts, management also used soft “persuasion” to get manufacturing firms to vacate the premises. At the peak of adjustment, the SCSC management even helped some firms that were about to be evicted to find new places for relocation. For a certain period, they hired a mini-bus to transport people in these firms to see the candidate sites. In 2003, over 50 tenants left; another 40 plus tenants vacated their spaces in 2004. This process continued after M50 won government recognition as an art district.

By 2007, M50 had largely become an art district. Among the over 130 businesses and organizations currently located at the site, approximately two-thirds are art studios and galleries, with the rest being mostly design firms and culture-related research organizations. Since its

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99 Anonymous Interview, September 17, 2008.
100 In 2007, Xi Jinping, the Party Secretary of Shanghai (March –October 2007) visited M50 to conduct policy investigation and research. This official visit, though symbolic, marked the M50’s acceptance by top officials in Shanghai.
101 The Municipal Government uses M50 as a model example to teach various levels of officials on issues regarding city management. However, ironically, M50 was initially developed spontaneously with many practices running counter to the government policies.
102 Many of the candidate sites for relocation were other old industrial sites under the management of Shangtex Holding (Group) Corporation.
103 Anonymous Interview, June 3, 2009.
104 The website of M50 at www.m50.com.cn has a full list of current M50 tenants.
embryonic days, M50 has houses a mix of Chinese and foreign artists and firms. Even for firms established by Chinese people, a big proportion was by people who had some experience in the West, either by being educated or living in the West for a number of years. This feature continues today. The social composition at M50 mimics Shanghai’s local culture formed since the concessionary period: a blend of Eastern and Western elements. This is an attractive factor for many people.

Today, among Shanghai CICs designated by the Economic Commission, M50 is the only one focusing on visual arts. Most importantly, M50 studios produce original work. The high concentration of artists is a factor that attracts many design firms. For example, an award-winning architect and interior designer chose to locate his firm at M50 mostly because he thought that working shoulder-to-shoulder with artists could inspire his design impulse. As a graduate from Tongji University, he considered locating in the surrounding areas of Tongji with a high concentration of architectural design firms and ancillary services. However, he finally decided to go to M50 because he thought efficiency was less a credo for M50 than for Tongji Area. As he remarked,

“I always want to experiment with new ideas. If you care too much about economics, you would not venture into new things. I see architecture as a form of art, not engineering. If you believe in the latter, Tongji [Area] might be more suitable for you. However, if you believe in the former, M50 is the right place… [a]nd most of our design work is done for art or cultural facilities and originality is the key for our success. Here we benefit from collaborating with original artists and designers from various fields, whether they are photographers or interior designers… M50 represents a community of people who cherish originality and independence. In Tongji Area, firms depended on Tongji Brand or connections with Tongji.

105 Tongji University has one the best Architectural and Interior Design programs in China.
However, here, each of us makes our own brands... I think many architects choose to locate in the Tongji Area because of convenience and low business costs. However, M50 artists or designers stay together more for spiritual or symbolic reasons than for pure economic reasons.”

This comment reinforces the results from interviews with other artists or designers that firms at M50 are not really well connected in terms of production or value chains. What matters more at M50 is social relations rather than direct production or market linkages.

5.6 Commercialization: Growing Pains

Today, thanks to the popularity of M50 among artists and creative workers, rents at M50 command 3-5 RMB/m²/day, a near tenfold increase from the 2002 level. In recent years, many less commercially oriented enterprises, such as personal art studios, have been replaced by more profitable types such as galleries or design firms. In 2004, there were more than 100 artists working at M50; however, currently, only 50 or so private art studios remain. As one SCSC director revealed, “Today, very few new entrants are art studios.” For enterprises with deep pockets, high rents serve as a kind of marker for their “status.” However, for young artists and designers who have just graduated from school and want to start their careers at M50, two obstacles must be faced: First, they must convince a team of elite artists and designers that their

107 Anonymous Interview, September 17, 2008.
110 Anonymous Interview, June 3, 2009.
111 An informal (unregistered) organization called “Artists/Designers’ Confederation (ADC)” acts as an advisory team for the SCSC management. SCSC management frequently asks ADC members (both from M50 and outside) to help judge the quality of a potential tenants’ work, act as juries for SCSC sponsored design competitions, or offer other kinds of advice to SCSC, such as opinions on renovation. ADC members are mostly well-known artists or designers who are friends. It could be said that ADC somehow functioned as a gatekeeper for M50.
creative work is of high quality and worthy of the highly demanded space at M50. Second, they must be able to afford the prohibitive rents. Although M50 today still has many stable firms, the rate of displacement is accelerating. As one painter and photographer who entered M50 in 2004 noted:

“Displacement is becoming more frequent in recent years compared with when we just moved in four or five years ago. Now some people stay as short as a few months.”\textsuperscript{112}

Another well-known painter at M50 commented,

“Some young artists may choose low rent studios elsewhere, but others seek opportunities. Many do come to M50 because it has the best contemporary artists in Shanghai, and this gives young artists a chance to learn about the business end of their work. In addition, M50 also provides plenty of exposure for aspiring artists. However, not all of them succeed. Some may rent a small space here with borrowed money, and after one to two years leave for a cheaper place elsewhere because their work does not sell. The lucky ones remain, however. High rents therefore serve as a test of the artists’ marketability.”\textsuperscript{113}

However, this interviewee also acknowledged that “although marketability does not fully represent the quality of artistic work, there is some connection between them.”\textsuperscript{114}

Even for artists who can still afford to stay at M50, higher rents cause them undue hardships. To cope with the high rents, some tenants have to produce artworks that are more tailored to market demand (such as oil paintings of smaller size or derivative products). For many others, they have

\textsuperscript{112} Anonymous Interview, June 5, 2009.
\textsuperscript{113} Anonymous Interview, October 13, 2008.
\textsuperscript{114} Anonymous Interview, October 13, 2008.
to engage in some kind of commercial dealings unrelated to art production, namely, subletting of
spaces. In some cases, two or several artists have to share one studio that is meant to accommodate
only one artist. In some other cases, the tenant artists (primary tenants) simply rent out part of wall
for other artists (secondary tenants) to hang their artwork. There are many unknown artists from all
over China who would like to test their luck at M50, but are too poor to afford a full studio there.
Being secondary tenants is their way in. These secondary tenants usually have to get to know the
primary tenants in person or through referrals, and subletting contracts between primary and
secondary tenants are always made privately without acknowledging the SCSC management. In so
doing, the primary tenants have somehow become part-time property dealers or gallery
managers\textsuperscript{115}. While getting involved in this business may distract artists (primary tenants) from art
production, income from subletting help many of them survive at M50\textsuperscript{116}.

In fact, during the past several years, accompanying the escalating rents are the changing faces of
people at M50. Earlier artists went there simply to produce art in an uninterrupted environment
and did not care too much about fame or wealth. In fact, numerous works produced in the early
2000s at M50 were considered as heresy by the authorities. Artists were attracted to the site
because they could be left alone. However, currently, many people flock to M50 for public
exposure and a quick fortune, although the probability of becoming successful is rather small. As a
disappointed painter commented,

\begin{quote}
\text{“In recent years, I have come to increasingly hate the term ‘artists’ because now people
[referring to artists at M50] greet each other with questions like ‘how much have you sold
your work for?’ or ‘who has made a fortune recently?’.” They are not talking about art at all.
Money is the focus of all talk. They sound like salesmen. Even visitors to art studios are not}
\end{quote}

\textsuperscript{115} For example, an artist mentioned that his rent cost him RMB6000 per month. However, he could rent out one of his walls for
\textsuperscript{116} Some primary tenants physically left M50 and sub-leased their M50 spaces for economic return.
paying attention to art. They first ask about sales of the artworks.”\textsuperscript{117}

Another painter pointed out, “Many people like to brag about the worth of their artwork. However, unwittingly, they are giving the management excuses to raise rents\textsuperscript{118}.”

In addition to changes in tenants, the ambience at M50 is also changing. In 2005, M50 was renovated with funding from Shangtex Holding (Group) Corporation, SCSC’s supervising body. An architectural firm at M50, whose principal architect was trained in Europe and had participated in the design of the National Stadium in Beijing (main stadium for 2008 Beijing Olympics), planned and designed the site for M50. SCSC management hoped that the renovation could help turn M50 into a “five-star international art district.” Although the renovation work improved M50’s infrastructure facilities (such as fire protection and road pavement) and the site design had been exhibited overseas, not all artists were supportive of this project. An artist commented,

“The term ‘five-star international art district’ was really absurd. The renovation helped push up rental levels. When I came here, the rent was RMB0.6 [per square meter per day] and now I pay RMB1.8 [per square meter per day]… and worse, the renovation had changed the ambiance of M50. M50 had grown organically in the past. I like its old primitive appearance because everyone with a memory of the past can be moved by the old M50. You felt no pressure staying there. It was a place like home because you could sit wherever you want and talk about whatever you feel like. However, now, M50’s healthy body is shrouded in a cloth. Although many people, particularly those new entrants, like this new look because they thought words like ‘five-star’ or ‘international’ represent status, but I do not buy into that…\textsuperscript{119}”

\textsuperscript{117} Anonymous Interview, June 5, 2009.
\textsuperscript{118} Anonymous Interview, July 7, 2009.
\textsuperscript{119} Anonymous Interview, July 7, 2009. In fact, a number of my interviewees have mentioned that in comparative terms, M50 perhaps remained the most “primitive” among Shanghai’s well-known creative industry clusters. This fact suggests that
However, almost all occupants I interviewed at M50 acknowledged that rents at M50 were quite “reasonable” in comparison with commercial office spaces in the surrounding areas. In fact, the management of M50, which has the discretion to set rental levels, makes certain adjustments for some tenants. Art studios, for example, enjoy lower rents than design firms because the latter are thought to be more commercialized (perhaps, a reason why few new entrants have been art studios in recent years). For a selected number of older occupants, rents are set lower than for others because, in the management’s view, they were instrumental in making M50 what it is today. In addition, a few better-known artists are able to negotiate lower rents since they are potentially more mobile and management would like to retain them. The different rental levels applied to different tenants sometimes cause resentment among tenants, particularly the young and more recent entrants because earlier entrants or better-known artists, who pay less, are far more able to afford higher rents. Cliquism arises from this kind of resentment, as well as the different orientation of artists who entered M50 at different periods. However, the earlier and later tenants tend to stick to their own groups and inter-clique communications are sparse\textsuperscript{120}. This situation is detrimental to the cohesion of an art district.

Despite the need to support artists for one or another reason, the management believes that M50’s commercial success is essential for their future prospect. As managers of state assets, they must follow directives from the government\textsuperscript{121}, which require that state-owned assets continue to appreciate over time. In addition, after modern enterprise reform, SOEs such as SCSC are seen as commercial entities, with profit as their ultimate goal. Rent hikes will therefore become unavoidable in the future. Notably, too, is a certain degree of censorship that management

\textsuperscript{120} For example, the Artists/Designers’ Confederation (ADC) mainly comprises of elite artists and designers who are close to one another. People outside the group have little chance or interest in joining it.

\textsuperscript{121} Most of these administrative orders are from the State-owned Assets Supervision and Administration Commission and Development and Reform Commission
exercises on the type of art that can be produced. In China, commercial interests are always entwined with political standpoints. As an informant pointed out, M50 artists may create whatever they please, but some types of sensitive work are not allowed to be shown there.\(^{122}\)

In fact, most artists are aware of these restrictions. In order to be commercially successful, which is the goal for most art studios at M50 today, not directly confronting the state is the one rule that must be observed. In this regard, self-censorship is perhaps more effective than the control functions exercised by the SCSC management. Unlike its earlier role as a “shelter” for marginal artists, M50 is today a largely commercialized entity carrying the modernization vision of the state. It is perhaps this new orientation that has reassured the government that M50 can continue to prosper as an art district, at least for the near future.

5.7 Achilles Heels: The Unresolved Issue of Land Use Incompatibility

Although M50 has won government recognition as a CIC, which has helped keep the bulldozers away for a while, the title nevertheless cannot guarantee long-term conservation of buildings on the site. In Shanghai, only three types of officially designated buildings are subject to protection by conservation laws or regulations: “Preservation Unit of Cultural Relics” (wenbao danwei), “Excellent Historic Buildings” (youxiu lishi jianzhu), and buildings within designated “Historic Cultural Areas” (lishi jiequ). Although 13 more industrial sites were added to the list of EHBs in 2005, following the promulgation of a new conservation regulation, as mentioned earlier (Zhang S. 2006), most buildings in Shanghai CICs still do not fall within any of the above three conservation categories.\(^{123}\)

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\(^{122}\) Anonymous Interview, September 17, 2008.

\(^{123}\) Most of buildings in CICs are not sufficiently aesthetically refined or historically significant to be included in the official protection category.
Currently, the only shield for the old buildings in CICs is the so-called policy of “three unchanging principles” (*san bubian zhengce*): Keep the land-use type unchanged, keep the ownership unchanged, and keep the structures unchanged. However, in reality, this policy contradicts statutory land-use plans for most CICs, including M50. Under China’s planning system, statutory land-use plans have two sets of maps: one denoting current situations (*xianzhuang*) and the other denoting blueprints for the future. Currently, two-thirds of Shanghai CICs are marked as industrial land in the first sets of maps; in the second sets of maps, most of the land is zoned for residential or tertiary sector purposes without identifying the timeframe of the land-use changes. *On the map,* the current land-use of M50 is marked as industrial while its future use in the latest version of the statutory “detailed control plan” (2006) is stipulated as mixed office-residential use with Floor Area Ratio set at 4.0 or higher (Map 5.2), the highest type of development intensity allowed along Suzhou Creek. Therefore, *on paper,* as far as the statutory land-use plan is concerned, M50’s current situation as an art district is quite tenuous because it neither conforms to its current use nor its planned function. Therefore, the current land-use can only be considered as an interim or temporary state.

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124 The latest version of the “detailed control plan” (2006) for Moganshan Road Plot is different from its 2002 version (Map 5.1). In the 2002 version, M50 was divided into two parts: green space and mixed commercial-office use. In the latest version, M50 is wholly zoned for mixed office-residential use. According to my interview, the 2006 version is a compromise between the conservation side and development interests (Anonymous Interview, June 3, 2009).
This situation suggests that as far as conservation issues are concerned, the “three unchanging principles” is powerless in relation to development interests as the latter has the backing of the current statutory plan. If developers are interested in M50, they could have the site cleared so long as their proposals conform to the land-use plan and they follow legal procedures of land-use change. The incompatibility between an art district and “industrial land” on paper can serve developers’ interests by providing an excuse for them to change the existing situation. As a policy, rather than a law or regulation that generally has longer stability, the “three unchanging principles” simply serve to temporarily legitimize the existing land-use incompatibility. Whether the land-use...
change stipulated in the plan will ever come to pass and when that might happen are up to the
government who represent the state as the owner of the land. In addition, the wording of the “three
unchanging principles” is also quite ambiguous, as it simply suggests “maintaining the status quo”
of land and buildings, and does not directly state that non-industrial functions are allowed within
industrial lands. This impermanence and ambiguity have at least two implications. On the one
hand, the government has the greatest flexibility in controlling the future disposal of land; on the
other hand, this flexibility suggests uncertainty for M50. Meanwhile, to avoid demolition, M50
must at least demonstrate to the government that they are a better alternative to high-density
commercial developments. Therefore, the commercial success of M50 largely determines the
future of industrial buildings at the site. As one SCSC director explained, “the threats [of
demolition] have spurred us to become economically successful\textsuperscript{125}.”

Another way of legitimizing non-industrial use of industrial land is the “2.5 industries” put
forward by some scholars. Incidentally, as many creative industries bear characteristics of both the
manufacturing and service sector (Scott, 2000a), the government uses the ambiguity of the term
“2.5 industries” (the industries between secondary and tertiary sectors) to downplay the problem
of land-use incompatibility. However, such a term mostly appears in non-official documents (such
as talks by certain cadres), making it even more elusive and ambiguous in terms of policy
implications.

Most tenants at M50 are aware of the future uncertainty of their creative spaces. This is also the
reason most firms are unwilling to invest much on renovation. An architectural firm I visited was
among the earliest at M50 to have a specially designed and renovated interior. According to its
chief architect,

\textsuperscript{125} Anonymous Interview, September 17, 2008.
“We felt very uncertain about our future at the beginning [in 2004] although we liked the buildings at M50 very much. What motivated us to do the renovation work was some insider news on the fate of buildings at M50. Although there was no guarantee that developers would not come, the building we chose was said to be among the least likely to be demolished. So, we moved in and did the renovation work. Our renovation also drew some emulators here. However, in general, tenants are very cautious of spending money on renovations, so you can see that most firms here have very simple interior decorations. This is part of the reasons why buildings at M50 still maintain a relatively primitive feel. It is also our luck that many people turned out to like that. However, sometimes, this can restrict a firms’ future growth.”

5.8 Post-CIC Endeavors: Venturing into Creative Industries

M50 has become one of the most successful CICs in Shanghai, in terms of reputation, publicity, and rate of occupancy. The current commercial success of M50 was built on property business. Most of Shanghai’s CICs followed this path. However, in recent years, the SCSC management has begun to see the limitations of surviving on “creative properties”; instead, SCSC wants to venture into creative industries themselves.

The SCSC management believes that a successful CIC art district should have a combination of working and living spaces that are well integrated with each other. Although in daytime, M50 is full of people, after office hours, it is virtually empty because residential function is not officially allowed (i.e., it remains designated as industrial). The earliest artists were allowed to put up a “bedroom” within their studios and indeed, a few live-work studios are still in existence;

126 Anonymous Interview, October 15, 2008. Although M50 had undergone some renovation, compared with other CICs in Shanghai, M50 appears less commercialized.
127 This is another case of “illegal” practice at M50.
however, later entrants have been banned from residing at M50. In fact, a few artists I interviewed thought that spaces at M50 are not suitable for living due to lack of public facilities in the area. Although there are plenty of new (and expensive) high-rise apartments in the adjacent areas, very few M50 workers actually live in these communities. In addition, except for occasional cultural activities, there is nothing to attract visitors or residents at night. This situation makes M50 appear more as a dead office area than a viable urban district at night. Although SCSC management wants to change this situation and has expressed their views in a number of public forums on Shanghai CICs, at the moment, it is hard for the firm to overcome existing planning restrictions. To carry out its vision, the M50 management has been involved in a site-planning project of another old industrial area with the collaboration of professional planners and architects. M50 management’s team proposed a mix of residential and office use for the site. Although this proposal was selected as the best by the jury panel, it nevertheless could not be approved by the government because of existing planning restrictions.

Participating in site design and planning is only a small step. In fact, in recent years, the SCSC management has ventured into art as well. First, since 2006, SCSC has commissioned musicians to write a song for M50 each year, in the hope of producing a music album in ten years time. Second, since 2007, the M50 management has organized an annual juried creativity competition for university students. By forming a creative design team and offering a free creative studio for students, SCSC hopes to turn creative ideas generated in the competitions into marketable products. Third, the management was involved in the production of a love-story drama in 2008 that had been shown in major theatres in Shanghai. Fourth, SCSC launched a virtual “creative industry park” in 2009 for creative workers and creative industry firms to share information and market products. By becoming directly involved in creative industries, M50 management hopes to make M50 a valuable cultural brand. In fact, years ago, the management had registered M50 as a trademark. According to a director of SCSC,
“As an industrial property manager, we do not have to do these kinds of things [creative industry businesses], but after working with creative firms for so many years, we have unconsciously become part of creative industries. We hope to use these efforts to accumulate our cultural capital.”\(^{128}\)

Clearly, SCSC, still the name of a state-owned textile company, is prepared for the second stage of transformation—turning the attention from providing cultural spaces to making cultural products, and from focusing on physical properties to accumulating and capitalizing on cultural capital, although nobody is clear whether or not they will succeed. For anyone unfamiliar with the M50 story, it is hard to believe that just ten years ago, 50MGS was nothing more than a common shop floor in Shanghai, turning out uncompetitive fabrics. At present, the name of M50 represents not only a remade space of cultural production and consumption, but also a would-be cachet of culture and history.

\(^{128}\) Anonymous Interview, September 17, 2008.
6 NEW WINE IN OLD BOTTLES: RED TOWN INTERNATIONAL CULTURAL AND ART COMMUNITY129 (CASE II)

“Above all, our priority is functions of the building. Only after necessary functions are satisfied, we try our best to preserve the original character of the historic building.”

– A Managerial staff from Red Town Corporation

“We want LV [Louis Vuitton] to have a presence at Red Town but it would not come if the rental level is not high enough.”

– A managerial staff from Ten Steel Corporation

M50 typifies the development of Shanghai’s CICs at an early stage. Although M50 had been formed without conscious planning, its development trajectory convinced both the public and government that the city’s industrial buildings could be profitably recycled for use by artists or creative firms. The second case, Red Town International Cultural and Art Community130, sheds additional light on the development of Shanghai CICs in later phases. Originated under different conditions, and influenced by different players as well as occupied by different tenants, the Red Town case offers a striking contrast to M50. In the following narrative, I will highlight the roles of different players that helped make Red Town what it is today.

129 The official name of the creative cluster is “New Ten Steel Creative Industry Cluster.” “Red Town International Cultural and Art Community” (abbreviated as “Red Town”) is the flagship project of the cluster. Other existing projects at the cluster (such as a flower market, a multimedia industrial park that was still largely empty in the second half of 2009) are either temporary or similar in nature to Red Town in terms of development models. In addition, the cluster is better known as “Red Town” rather than as “New Ten Steel Creative Industry Cluster” and I will continue to use the name “Red Town” in this dissertation.

130 For simplicity, Red Town and Red Town International Cultural and Art Community are used interchangeably in the dissertation.
6.1 Background: Restructuring of Shanghai No. 10 Steel Factory

The Red Town International Cultural and Art Community as an emergent creative cluster in the Western sector of the central city sits on the old site of the Shanghai No. 10 Steelworks (abbreviated as “Ten Steelworks”)\(^\text{131}\). This industrial facility was first built by the government between 1956 and 1958 for the production of steel strips (www.tensteel.com). The opening of the company coincided with the political movement of the "Great Leap Forward" (1958), in which steel and iron production was deemed as an indicator of industrial might and became one of the most popular industrial sectors in the country (\textit{dalian gangtie}). Established as a large-scale local SOE under the supervision of the Shanghai Municipal Government\(^\text{132}\), Ten Steelworks played an important role in boosting Shanghai’s industrial production, as well as fulfilling the city’s central economic plans in the socialist period (Photos 6.1 and 6.2).

\textbf{Photo 6.1: Shanghai No. 10 Steelworks under Construction (1950s)}

![Photo 6.1](image)

Source: Shanghai Red-town Culture Development Co. Ltd. © Shanghai Red-town Culture Development Co. Ltd., by permission.

\(^{131}\) Red Town is marked as a red triangle on Map 4.6.

\(^{132}\) China's state-owned-enterprises were managed by different levels of government, including the central government, provincial/autonomous region government, city government, and district government.
The problems of Ten Steelworks began to emerge toward the end of the 1970s, when the central government, faced with the failures of the Great Leap Forward and the Cultural Revolution, decided to build a state-of-the-art steel production facility, namely, Baoshan Steel (Group) Corporation (Bao Steel), in the northern part of Shanghai with help from the Japanese government\textsuperscript{133}. As the flagship steel company of the Chinese Central Government, Bao Steel not

only had Beijing’s support, but also had the best engineers, management team, and technology available at that time. Over the next two decades, superior products from Bao Steel gradually overtook the profitable market that had long been enjoyed by Ten Steelworks and several other steelworks under the supervision of the Shanghai Municipal Government. In the 1990s, a popular saying in Shanghai vividly captured this “survival of the fittest” law in Shanghai’s manufacturing sector: “Two shan [mountains] in Shanghai, Baoshan, and Jinshan, crushed Shanghai’s steelmaking and textile industries.”

As a result of modern enterprise reform, Shanghai No. 10 Steelworks was corporatized in October 1996 to become Shanghai No. 10 Steel Corporation Limited (abbreviated as “Ten Steel”) as a subsidiary of the Shanghai Metallurgy (Group) Holdings Corporation. Two years later, the Shanghai Metallurgy Holdings (Group) Corporation was merged with Bao Steel. From that time on, Ten Steel became a subsidiary of the colossal Bao Steel and, hence, an SOE under the supervision of the central government.

This maelstrom of organizational reform was accompanied by the economic and spatial restructuring of Ten Steel. Ten Steel is located at the western end of Huaihai Road, a major commercial thoroughfare in the old French Concession that dates back to the beginning of the 20th century. In addition, the location is also close to the Xujiahui Commercial Area, a historically busy sub-center, and the newly developed Hongqiao Business and Commercial Center, the birthplace of

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134 Baoshan refers to Baoshan Steel (Group) Corporation and Jinshan refers to Sinopec Shanghai Petrochemical Company Limited (SPC), located in Jinshan District of Shanghai (colloquially called “Jinshan Petrochemical”). The former is one of the largest steel companies in China, while the latter is one of the largest petrochemical and synthetic fiber production bases in the country. Both of the two huge industrial establishments were built in the 1970s and happen to have “shan” in their commonly used names, which literally means mountain in Chinese.

135 In the modern enterprise reform, the former Shanghai Metallurgy Industry Bureau, a government department responsible for managing the city’s industrial production in the metallurgical sector, was transformed into the Shanghai Metallurgy (Group) Holdings Corporation, a state-owned company with the responsibility to manage state assets and companies in the metallurgical sector under market discipline.

socialist China’s land market\textsuperscript{137}. In addition, three subway or light-rail lines were planned for the area. Clearly, the locational advantage, as well as economic potential, of the Ten Steel land\textsuperscript{138} was enormous. In 1997, because of stringent pollution control measures, as well as the diminishing market share, Ten Steel relocated its production to Qingpu, a suburb of Shanghai. As production continued, the majority of workers were able to keep their jobs, even though they had to travel longer distances from their homes in the city. In subsequent years, however, environmental control measures were further tightened. Given the high cost of relocation for a steel production facility, as well as the difficulties Ten Steel would encounter in its efforts to re-conquer its former position in the highly competitive steel market, production was completely halted in 2005. It was estimated that in the half century from 1956 to 2005, the total profit returned to the state by Ten Steel was seven times that of all the investment the government had put into the company\textsuperscript{139}. However, unlike in previous relocations, the termination of steel production at Ten Steel in 2005 resulted in the laying off of over 2,000 workers, although some with exceptional skills were recruited by Baosteel\textsuperscript{140}. In 2000, over 2,000 individuals were engaged in production; by 2005, approximately only 800 were actually working for the company, while another 2,800 were registered as contract support workers (unemployed but kept on Ten Steel’s roster and were financially supported by the company; see M50 case for details). In 2009, the number of workers in the two categories further declined to 300 (working) and 2,200 (on contract support list).\textsuperscript{141}

Since production ceased at the old site in 1997, the management of Ten Steel, as well as its parent company, hoped to immediately cash in on the economic value of the prime land it occupied to

\textsuperscript{137} In 1988, the land-use right of Hongqiao Plot 26, the first plot of land in PR China to be put to the land market, was sold to a Japanese investor. This event, still controversial at that time, marked the beginning of land market reform in Shanghai and Mainland China. See http://www.jzcost.cn/hydt/dcxw/200810/5522.html (accessed July 28, 2009).

\textsuperscript{138} The total land area owned by Ten Steelworks was about 20 hectares, including about 10 hectares on 570-588 West Huaihai Road and another 10 hectares at some other locations (branch factories) in the same Changning District. The latter sites were later sold to commercial developers and were largely unrelated to the Red Town case. Therefore, in this dissertation, I use “Ten Steel site” or “Ten Steel land” to refer to Ten Steel’s main site on West Huaihai Road.

\textsuperscript{139} Anonymous Interview, June 10, 2009.

\textsuperscript{140} Anonymous Interview, September 1, 2006.

\textsuperscript{141} Anonymous Interview, June 10, 2009.
make up for the loss in steel production. Similar to many other SOEs under restructuring in Shanghai, Ten Steel has to keep supporting a bulging regiment of laid-off workers. To attract potential developers, the management of Ten Steel went on an investment promotion (zhaoshang) trip to Beijing in 2000, which resulted in their signing a contract with a Beijing property developer to building a new 30,000-square meter shopping mall on the Ten Steel site. After obtaining the relevant permits from several departments of the Municipal Government, including the Economic Planning Commission and the Construction Commission, site clearing started. A number of buildings at Ten Steel were demolished to prepare for the new construction\footnote{Anonymous Interview, June 10, 2009.}

However, the shopping mall plan did not go very far. For some unknown reasons, construction did not proceed as fast as anticipated. In 2004, the Bao Steel Real Estate Development Corporation, a subsidiary of Bao Steel and a sister company of Ten Steel, decided to use the land to develop high-end apartments. The change of the original land redevelopment plan by Ten Steel’s parent company resulted in Ten Steel’s litigation with the shopping mall developer from Beijing, who finally won the case with a cash award of RMB23 million (approximately USD 3 million) from Ten Steel\footnote{Anonymous Interview, June 10, 2009.}. However, as luck would have it, the new residential development plan was again stranded because the State-owned Asset Supervision and Administration Commission of the State Council, Bao Steel’s supervising body in the National Government, disapproved of its diversification into the property development before the apartment development project could start. As a result, Bao Steel Real Estate Development Corporation was later divested from Bao Steel. Thus, chance had twice played a role to keep new commercial developments away from the Ten Steel site. As two of the other largest SOEs in Changning District\footnote{Ten Steel was one the three largest SOEs in Changning District, which traditionally had been dominated by residential and commercial land uses. The other two large SOEs were Tianyuan Chemical Plant and No. 21 Textile Mill.} had both sold their land to developers, the fate of Ten Steel site was an “anomaly.” Today, only Ten Steel land is still in the
hands of the original SOE\textsuperscript{145}.

The Ten Steel site occupies a large land area of approximately 100,000 square meters. While negotiating new development projects or waiting for new developers, Ten Steel management was simultaneous looking for tenants for its old factory space as an alternative business strategy. In the years following the suspension of industrial production, some spaces at Ten Steel site were converted into restaurants, an old warehouse building was turned into a flower market, and a few other premises were leased to lighting retailers\textsuperscript{146}.

Ten Steel also had some large spaces suitable for public events. The old 7\textsuperscript{th} Workshop, built in 1958 and expanded in 1983, was approximately 183 meters in length, 18 meters in width and 12–15 meters in height (www.sss570.com). In the cramped central city of Shanghai, an empty space of such enormous size was rarely seen. The distinctiveness of the space soon caught the attention of organizers of cultural events. Between September and October of 2003, a sculpture exhibition was held there which pre-figured the transformation of the Ten Steel site.

The exhibition, entitled “Asian Field,” featured the works of Antony Gormley, a well-known British sculptor who had long been working with local communities around the world to create sculptures. The “Asian Field” was a display of 192,000 different palm-sized clay figurines hand-made in five days by over 300 residents from Huadu Region in Guangdong Province. Co-organized by the Cultural and Education Section of the British Consulate-General in Shanghai and Shanghai Municipal Administration of Culture, Radio, Film and TV\textsuperscript{147}, the exhibition was part of the cultural activity called “Creative Britain” to spread creative ideas from UK and help

\textsuperscript{145} Also, note that about half of the land originally owned by Ten Steel was sold to developers.

\textsuperscript{146} The premises used by lighting retailers were later leased wholesale to New Changning Group to be renovated and turned into a multimedia industrial park. However, in 2009, the industrial part was still largely empty.

\textsuperscript{147} Cultural activities openly held in China must have the support of the government.
Chinese people to learn about British culture\textsuperscript{148}. The Shanghai Oil Painting and Sculpture Institute and the Bureau of Culture of Changning District were also involved in this event. The exhibition lasted a month and created reverberations in the city’s art community in Shanghai.

Once the exhibition ended, Ten Steel management started looking for other opportunities to lease the space. Indeed, the cultural exhibition had raised the reputation of the site. A few catering businesses approached Ten Steel management, hoping to turn the largest workshop space at Ten Steel into restaurants, a very profitable business in Shanghai. One of the most attractive proposals was made by visitors from the Taiwan Catering Association who wanted to introduce various kinds of Taiwan snacks (xiaochi) to the Ten Steel site. However, thanks to previous experience in holding cultural events, Ten Steel management declined all proposals from caterers. One important consideration was that catering was a polluting business. In addition, catering businesses were said to be “catering to the needs of the masses.”\textsuperscript{149} What was in the mind of management was something more prestigious and upscale. Finally, it was a new project initiated by the Government: the Shanghai Sculpture Space, which coincided with the ideas of Ten Steel management.

6.2 Shanghai Sculpture Space: A Brocade Ball\textsuperscript{150} from the Government

Shanghai had long harbored the idea of becoming a city of public sculptures. Many political figures regarded public art as a facet of Shanghai’s culture; hence, this was a good business proposition. In 1982, the Planning Team for City Sculpture of Shanghai (PTCSS) was established

\textsuperscript{148} The exhibition in Shanghai was part of an itinerant show in several cities in China, including Guangzhou, Beijing, Shanghai, and Chongqing. Information about the event was obtained from the printed advertisement of the activity.

\textsuperscript{149} Anonymous Interview, June 10, 2009.

\textsuperscript{150} In ancient China, a brocade ball (xiuqiu) was frequently used by a girl to pick up her future husband. The girl threw the ball toward a crowd of suitors and the man who received the ball would be the girl’s husband. Therefore, the term “brocade ball” is used to mean something that will determine the winner out of a number of choices.
by the Municipal Government, the first of its kind in a Chinese city\(^{151}\). In 1985, PTCSS was renamed “City Sculpture Committee of Shanghai” (CSCS) and was put under the supervision of several government institutions, including the Shanghai Construction Commission, the Propaganda Department of the Communist Party and the Federation of Literary and Art Circles of Shanghai. In 1990, the call for building more city sculptures by Zhu Rongji, the then-Party Secretary of Shanghai (and later Premier of China) greatly boosted the role of CSCS. In 1991, the Office of CSCS (OCSCS) was established as the operating arm of CSCS\(^{152}\) (J. Wu, 2004).

Over the following years, Shanghai continued its organizational and institutional capacity campaign for the city’s public sculpture undertakings. In 1994, the city drew up its first City Sculpture Plan. Two years later, the “Regulations on the Construction of Public Sculptures in Shanghai” were promulgated. Four years later, the first “International Symposium on City Sculpture” was held in Shanghai, drawing public attention to the city’s ambitions to become a global cultural center. In order to simplify administrative arrangements, the Communist Party announced that OCSCS would be put under the umbrella of Shanghai’s Urban Planning Administration Bureau (SUPAB). Soon after, the Department of City Sculpture and Landscape Management (DCSLM) was established under SUPAB to facilitate the planning administration of public sculptures\(^{153}\). In July 2004, the Municipal Government approved the Comprehensive Plan for Public Sculptures in Shanghai, which not only set the goal for Shanghai to install approximately 5,000 public sculptures (including 100 key landscape sculptures) by 2010, the year when Shanghai Expo would be held, but also provided guidelines for the spatial distribution of these sculptures. The Plan indicated that the number and quality of public sculptures in a city was an indicator of modernity and global city status and Shanghai’s lack of public sculptures was

\(^{151}\) “The Planning Team for City Sculpture of Shanghai” could be considered a local version of “the Planning Team for City Sculptures of China,” which was established in the same year in Beijing.


\(^{153}\) In addition to supervising public sculptures, DCSLM was also responsible for the conservation of listed EHBs, supervision of city billboards, urban design, and city landscape design (Anonymous Interview, September 1, 2006).
considered a disadvantage in this respect\textsuperscript{154} (J. Wu, 2004).

As time went on, more government officials began to accept the idea that Shanghai’s position in the global city hierarchy was not only determined by its economic vibrancy, but also by the city’s cultural projection. In 2004, as part of this effort toward the city’s cultural Great Leap Forward, CSCS and SUPAB decided to build a cultural center of international standard—the Shanghai Sculpture Space (SSS), and the idea later received the endorsement of Yang Xiong, Vice-Mayor of Shanghai, and Shen Jun, Vice-Secretary of Shanghai Municipal Government\textsuperscript{155}. The SSS was conceived as a platform for sculptors around the world to share their ideas, for the public to receive art education and for the government to select and store good sculptural works in preparation for the 2010 Shanghai Expo.

The next step was for the government to determine the location of the SSS. Around 2004 and 2005, the government, led by a few well-known scholars, began to understand the importance of industrial heritage conservation (see case on M50 in Chapter 5). This was particularly true for SUPAB, which was staffed with many former scholars in urban historic conservation, such as Wu Jiang, Vice-Director of SUPAB. In addition, DCSLM, the department within SUPAB responsible for advancing the city’s public sculpture undertakings, was also responsible for supervising the conservation of the city’s EHBs. One of the department heads had once been a Ph.D. student of Prof. Ruan Yisan in Tongji University, one of the best-known and vociferous historic conservationists in China. In addition, successful building conversion cases in the West, such as the power-station-turned Tate Gallery of Modern Art in London, train-station-converted the Musée d’Orsay in Paris, and electric-works-turned the Massachusetts Museum of Contemporary Art, all gave SUPAB bureaucrats ideas of recycling Shanghai’s old industrial spaces for this government

\textsuperscript{154} Also from Anonymous Interview, September 1, 2006.
project. Furthermore, at the time, M50 and a few other factories transformed into art or creative districts were gaining prominence in Shanghai. These spontaneous and indigenous cases suggested that converting industrial buildings to open sculpture spaces was not only desirable, but also a feasible proposition for Shanghai\textsuperscript{156}.

A few candidate sites were soon selected, including Ten Steel, the old slaughter house (also once the site of a pharmaceutical company), the old Shanghai flourmill, the old Shanghai beer brewery, and a number of other sites. Ten Steel was finally selected mainly for two reasons. First, as it is within the five-minute walking distance from a planned subway interchange, the convenient location was considered necessary for a public art facility. Second, the western part of the central city, where a number of upscale apartment buildings were concentrated, lacked cultural facilities, and SSS could provide these services. The decision to build SSS at Ten Steel site quickly received the support of Changning District Government, as well as Ten Steel management. The project was a brocade ball thrown to Ten Steel by the Municipal Government.

From the government perspective, the only big obstacle for the project was its incompatibility with the projected land-use. In the official maps, the current use of land was designated as industrial, whereas the planned use would be office and residential uses. This created an awkward situation for SUPAB. Although many other Shanghai CICs had experienced similar problems, the SSS case was different inasmuch as the Municipal Government was directly involved. Openly violating statutory plans by the planning department of the government would not only create a bad precedent for developers, but would also taint the image of a government that was striving to build a global city. In order to soften the issue, SUPAB used its administrative powers and adjusted the future use of Ten Steel land to “mixed uses of cultural and other public facilities and services”\textsuperscript{156}

\textsuperscript{156} Before the SSS project, there had been a few government-sponsored projects of industrial building conversion in Shanghai. For example, part of Yangshupu Water Treatment Plant had been turned into a museum of the plant. However, this museum is not open to the public. The SSS is different because the government wanted it to be open to the public.
before undertaking the SSS project\textsuperscript{157}.

6.3 Implementing the SSS Project: Public Private Partnerships

Once this major administrative obstacle was cleared, SUPAB had to determine the means to implement the project. Since the 1980s, the city had embarked on a series of administrative reforms in order to downsize the government and public sector (Chan and Xiao, 2008). At the time of the SSS project conception, selecting a private party to implement public projects had become the norm in Shanghai. The government not only needed the expertise of another organization to build and operate the cultural facility, this outside organization would also eventually to assume financial responsibility because the government did not want to see SSS draining the city's budget. Finally, it was decided that SUPAB’s role in the project would be restricted to two aspects. First, SUPAB would sign a 20-year lease with Ten Steel for Buildings A and B to be used for the SSS (the old 7\textsuperscript{th} Workshop, see Figure 6.1) and would pay the rent out of the public purse. Second, it would also provide an initial cash subsidy for the project during the first three years of operations\textsuperscript{158}. Another project partner (developer-operator) would have to assume financial obligations after the initial starting-up period. In addition, the developer-operator would also have to ensure that exhibitions at SSS would be open to the public free of charge, apart from organizing two yearly sculpture exhibitions. In order to attract commercial partners, the government would allow the selected company to use part of the space in question for commercial purposes. In addition, it would also be allowed to rent Building C from Ten Steel at a low cost and build building H (Figure 6.1) for commercial use.

\textsuperscript{157} Although changing statutory plans at will could also wreak havoc on public trust in the government, this strategy, without any missteps in administrative procedures, seemed more justifiable than directly violating statutory plans.

\textsuperscript{158} According to a respondent, the government’s total subsidy for the project was approximately RMB3 million a year, in addition to the rents paid to Ten Steel (Anonymous Interview, June 3, 2009).
Figure 6.1: Layout of Red Town International Cultural and Art Community (including Shanghai Sculpture Space)

Source: Shanghai Redtown Culture Development Co. Ltd. © Shanghai Redtown Culture Development Co. Ltd., by permission.

Note: Shanghai Sculpture Space is located at Building A and B. Phase I of the project covered Buildings A-C and H and the rest were Phase II of the project. The buildings in Figure 6.1 only accounted for about half of the buildings currently owned by Ten Steel at 570-588 West Huaihai Road site. In 2009, the rest of buildings were used as restaurants, flower market, Ten Steel offices, retail shops and a multi-media industrial park.
Since SSS was conceived as a cultural center of international standard, renovating the building and operating SSS would demand deep pockets. Having neither financial means nor cultural aptitude, Ten Steel, the sitting tenant or the *de-facto* owner of the old industrial site, would have no chance of becoming the developer-operator itself. In September 2004, an open tendering was held to select an interested party. Companies or organizations were asked to submit building renovation plans, as well as commercial proposals, for the next ten years. The commercial plan was a very important part of the tendering proposal as SUPAB considered economic viability a necessity of the project.

In the first round of selection, nine organizations were short-listed, including the Shanghai Art Museum, Shanghai Grand Theatre, the developer of No. 8 Bridge\(^{159}\), and Shanghai Dingjie Investment and Management Co. Ltd. (Dingjie Corporation). After five rounds of selection, in May 2005, the project was awarded to the Dingjie Corporation\(^{160}\). The Shanghai Art Museum and Shanghai Grand Theatre, two reputable cultural organizations, were eliminated from the candidate list because, as state organizations, they would have to use public funds to finance the project. Since SUPAB had conceived of the project, it had in mind to attract private capital in this cultural project. SSS was planned as a pilot project based on the idea of a public-private partnership, described in Chinese as a model in which “the government builds the stage while businesses gives the performance (*zhengfu datai, qiye changxi*).”

In contrast, the well-known developer for No. 8 Bridge also failed because they could not compete with the Dingjie Corporation in terms of cultural background\(^{161}\). Why then was Dingjie

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\(^{159}\) No. 8 Bridge was an emergent creative industry cluster (CIC) in Shanghai with a high concentration of well-known architectural design firms. It was based on the old site of an automobile spare parts company that had been relocated to the suburbs. It was renovated and managed by a commercial developer from Hong Kong. Situated at a central location, No. 8 Bridge commanded one of the highest rents among Shanghai CICs and was one of the most commercially successful.

\(^{160}\) Anonymous Interview, June 3, 2009.

\(^{161}\) Anonymous Interview, June 3, 2009.
Corporation selected as the developer-operator of a government flagship cultural facility? To answer this question, one must look at the main personalities related to the company.

Dingjie Corporation was a private company established by Zheng Peiguang, an artist-turned-developer. Mr. Zheng graduated from Shanghai Theatrical Academy in stage design in 1984. His education had not only honed his sensitivity in artistic perception, it had also helped him become a member of the Chinese art community\textsuperscript{162}. After obtaining a bachelor’s degree, he studied architecture in Tongji University, where he also taught art for a number of years. His experience in Tongji had familiarized him with scholars and practitioners in the fields of architecture and urban planning, as well as people in the construction businesses. In the late 1980s, he began to work for the Department of Culture and Sports of the Hong Kong Branch of Xinhua News Agency\textsuperscript{163}, managing its cultural exchanges for eight years. During this period, Zheng further expanded his social networks and perfected his business skills. Toward the end of the 1990s, he went back to Shanghai as a property developer. Over the next several years, his private company became involved in a number of renovation projects of historic buildings in Shanghai. In the interview, Zheng reiterated that it was his background in arts and personal love for old buildings that had pushed him into the “tough” business of heritage conservation. He himself had once participated in several short training courses offered by \textit{L’École de Chaillot}, an educational institution in Paris famous for training heritage conservation specialists. Indeed, it was these heritage renovation projects that had helped him “gain some influence in Shanghai Urban Planning and Administration Bureau\textsuperscript{164}.” In addition, over the years, Zheng and the Dingjie

\textsuperscript{162} For example, Cai Guoqiang, Zheng’s classmate in Shanghai Theatre Academy, and also a native of Fujian Province, is a famous Chinese artist now residing in the US. Cai, who uses explosives and gunpowder in artistic creation, had won several international awards, including the 48th Venice Biennale International Golden Lion Prize in 1999. Cai’s famous works include APEC Cityscape Fireworks Show 2001 in Shanghai, Explosive Project for Central Park New York, 2003 and the Fireworks for the Opening Ceremony of 2008 Beijing Olympics (see \url{http://en.wikipedia.org/wiki/Cai_Guo-Qiang}, accessed August 12, 2009).

\textsuperscript{163} Xinhua News Agency, Hong Kong Branch, was an organ of the Chinese Central Government. In January 18, 2000, it was renamed as Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region. (see \url{http://en.wikipedia.org/wiki/Liaison_Office_of_the_Central_People%27s_Government_in_the_Hong_Kong_Special_Administrative_Region}, accessed August 12, 2009)

\textsuperscript{164} Interview with Zheng, Peiguang, June 3, 2009.
Corporation had accumulated large sums of money, which was decisive in winning the bid for the SSS project. As SUPAB wanted SSS to be a world-class cultural facility, and only allowed developers a very short time to do the renovation work, strong financial backing from the developer was necessary for fulfilling the government’s expectation165.

Although Zheng Peiguang was the sole owner of Dingjie Corporation, he had the support of other people. One important supporter was Dr. Deng Gang, a former scholar and government official. Dr. Deng had been studying architecture at Tongji University. In 1993, while working on his master’s thesis on "dialogues" between a city’s new and old buildings, he began paying attention to issues of urban renewal. After receiving his Ph.D. under a very reputable architecture professor at Tongji, Deng worked for a short time in architectural design. Later, he began to work as an investment analyst for the Shanghai Investment Consulting Corporation166, conducting feasibility studies for big construction projects. After gaining some experience there, he switched to the Department of Investment of Shanghai Municipal Development and Reform Commission (SMDRC), the government institution responsible for managing public investment projects. Although his work at SMDRC was not directly related to urban conservation projects, he kept an eye on Shanghai’s building conservation projects. As a government official, he not only had opportunities to establish a strong social network, but also was quick to perceive the changes in Shanghai’s heritage environment at the beginning of the new millennium, when the government was shifting gradually from single-minded economic development to conscious conservation of heritage buildings. After five or six years of employment with SMDRC, Deng finally resigned to establish his own landscape and architectural design firm. With a team of design professionals, his company was ready to provide technical support for the renovation project at Ten Steel. In addition, his

165 As sole owner of Dingjie, Zheng did not need to get the approval of anybody else to use the money of the company. In the eyes of the government, therefore, financial resources of Dingjie could be quickly mobilized for the SSS project if the company was to be chosen.

166 Established in 1986 as a state-owned company, Shanghai Investment Consulting Corporation is the largest consulting company in Shanghai that specializes in consultancy services of construction projects. (see http://222.66.64.131:7001/sicc/index.htm, accessed July 3, 2009)
experience in construction investment and his social networks were clearly additional assets for Zheng Peiguang’s bid for the SSS project.

Furthermore, Zheng Peiguang also had the support of Mr. Zheng Peimin\textsuperscript{167}, who received an MBA degree from Tsinghua University in Beijing, a top university in China, and had special expertise in business management and investment banking. In January 2006, after successfully winning the bid and completing the early phase of work for SSS, Zheng Peiguang registered another company called Shanghai Red Town Cultural Development Co. Ltd. (Red Town Corporation) to pursue the project. The initial registered assets of the company were RMB10 million, with Dingjie Corporation controlling the majority of stock in the new company. Zheng Peiguang was appointed President, while both Deng Gang and Zheng Peimin served on the board of directors. Zheng Peiguang and Deng Gang were also CEO and Vice-CEO of the company respectively, and thus responsible for daily operations. Clearly, an impressive team helped Dingjie\textsuperscript{168} win the bid. As Dr. Deng Gang remarked in the interview,

“We cannot expect a pure scholar or a pure investor or a pure artist to do this [SSS project]. The project needs people with composite knowledge and multiple experiences. In addition, obsession with old buildings and a strong desire to do heritage conservation work were also crucial. When we first saw the buildings at Ten Steel, it was all ruins, but we liked the buildings from the beginning. You need certain people to discover the beauty of those dilapidated buildings and know how to transform them. Our team happens to be composed of people with all the necessary traits to do this project.”\textsuperscript{169}

\textsuperscript{167} “Zheng” in this dissertation is an abbreviation of “Zheng Peiguang,” not “Zheng Peimin.” When both of the two persons are talked about, I use full names.

\textsuperscript{168} At the time of submitting the tendering proposal, the Red Town Corporation had not yet been registered yet. Therefore, Zheng Peiguang used his Dingjie Corporation in the tendering process.

\textsuperscript{169} Interview with Deng Gang, June 26, 2009.
Once the bid was awarded, renovation work started at once. To achieve international standards, the architectural designs for Building A and B (Figure 6.1) were commissioned to BAU (James), an architectural firm from Melbourne, while design for Building C was done by a domestic firm (Lan Li, 2008). The idea was to preserve the authenticity of the buildings. Physical work on reconstruction started in June 2005, with the target of opening the SSS before the end of 2005. The renovation turned out to be very expensive. Not only did the top soil, polluted by industrial acid, need to be removed and subjected to special treatment, recovering the “old” look of the buildings was also full of challenges. The drawings of the original building designs had been lost, so that surveying had to be conducted first to obtain basic information about the buildings. Buildings A, B, and C were once red-bricked buildings; however, in later renovations, the facades had been covered with layers of grey paint and cement according to the aesthetic norms at different periods. Red Town Corporation wanted to do what Zheng Peiguang and Deng Gang called “subtraction”; that is, removing the top paint and cement to reveal the original red brick facades. Cement could be peeled off more easily; however, paint had to be removed with silicon carbide and high-pressure squirt guns, which took much time and money. Meanwhile, the structures of the buildings also needed to be reinforced, and Red Town Corporation chose to do it with expensive carbon fiber. To accomplish the renovation work on time without sacrificing standards, the management of Red Town Corporation, Zheng Peiguang, along with other renovation experts, frequented the SSS site to provide professional advice on how to deal with the many unanticipated problems arising during renovation. In the words of the CEO, Zheng Peiguang,

“[t]he renovation was like an excavation, as construction workers kept discovering exciting things in their work. If I were not there supervising the renovation work from morning to night, many old and valuable things would have been lost.”

170 Interview with Zheng Peiguang, June 3, 2009.
Although the renovation of SSS buildings was aimed at conserving the original flavor of the buildings, Red Town Corporation also equipped SSS with state-of-the-art facilities, including central air conditioning, an infrared alarm system, automatic windows and so on, matching the standard of existing 4A office buildings in the city in order to achieve a so-called international standard (Lan Li, 2008).

SSS was opened to the public on November 11, 2005 with an exhibition entitled “Sculpture 100 Years.” The exhibition, co-organized by CSCS, SUPAB and Red Town Corporation and curated by Chen Yungang, a well-known sculpture educator from Xi’an, lasted 100 days and featured 120 sculpture works by Chinese sculptors spanning several generations. Both the event and the opening ceremony of SSS were widely publicized in the public media, including well-circulated newspapers and magazines in Shanghai, such as Jiefang Daily, Xinmin Evening News, and Xinmin Weekly.¹⁷¹

In the following years, numerous other high-profile art exhibitions were held at SSS, including the Solo Sculpture Exhibition of Rodin (2006), the International Student Exhibition of the 6th Shanghai Art Biennale (2006), the Japanese Cartoon and New Media Exhibition (2007), the Solo Exhibition of Andy Warhol (2008), several sculpture exhibitions related to the 2010 Shanghai Expo (2006, 2007, and 2009), and so on. Although, as promised, most of these exhibitions were open to the public free of charge, a few, such as Rodin’s solo exhibition needed to charge admission. Most of these exhibitions were well attended, thus helping to publicize the SSS project.

In addition to short-term public cultural activities, during regular times, a collection of sculpture works stored at SSS was also opened to the public. Some of these sculptures were selected from previous exhibitions at SSS, while others were bought by the government through other channels.

Most selections were made by officials from the City Sculpture Committee of Shanghai, some of whom had had some art training. These expert officials were claimed to have the ability to know the level of art that people enjoyed. In picking up “suitable” sculptures for Shanghai, naturalistic work was generally preferred over abstract sculptures. However, whether the works on display actually appealed to the public was not known. Wu Jiang, Vice-Director of SUPAB, explained the government’s selection criterion this way:

“Sculpture is different from painting and many other forms of art because as a form of public art, it is seen by the masses every day. Therefore, it must be acceptable to the public. Given the limited ability in art appreciation of the masses, non-abstract sculpture works are more acceptable to the people for the time being. In the longer term, after getting more exposure to art, the appreciation ability of the masses is expected to improve and abstract sculptures will become more acceptable. In fact, whether works are abstract or not, such is not the criterion for judging the quality of art, but is a criterion for judging the art appreciation ability of the masses.”

6.4 Red Town International Cultural and Art Community: Commercial Maneuvering

As a commercial entity, the primary concern for Red Town Corporation was to make profit, although its management team kept stressing the importance of supporting “art for arts’ sake.” In fact, the commercial viability of the project had been deemed a necessity in the public tendering process. If art were the sole concern for Red Town Corporation, the company would not have won

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172 When I was interviewing an official from OCSCS in the summer of 2006 at Red Town, the official invited me to attend a meeting with a sculptor from Norway who showed a PowerPoint presentation of his works to three officials from OCSCS. The meeting was one of many that OCSCS officials scheduled with artists around the world to select artwork for display at Red Town or within the city. It is unknown whether the works of this artist were selected in the end.

Ever since the SSS project was conceived, the Municipal Government was clear that art and economic returns should not be in a mutually exclusive relationship.

It would be wrong to accuse Zheng Peiguang and Deng Gang of being cynical as their enthusiasm for art and love for historic buildings was probably genuine. However, from a practical perspective, Red Town Corporation’s support for art is perhaps better seen as a well-calculated investment, rather than an altruistic act. The full awareness of the exchange value of art today and the ability to capitalize on cultural values were the “competitive edges” of the Red Town Corporation management team. Both Zheng Peiguang and Deng Gang admire Warhol-type artists who, while understanding art, do not despise commerce. Therefore, they firmly followed the business motto of “doing well by doing good”; in turning the Red Town project into a commercial success, they were proud of their leading roles in forging a “perfect” marriage between art and the world of business.

However, turning art and culture into economic capital requires both financial backing and a measure of good luck. The government-sponsored SSS was an opportunity for a successful commercial project. The new activities introduced to the Ten Steel site by the SSS project had served to transform the image of the place completely. In the era of socialist industrialization, steel production linked the site to the urban proletariat whose physical stamina had sustained an austere industrial economy. Now, in the relatively affluent post-socialist period, steel converters in the old 7th Workshop were replaced by deliberately placed works of high art. As a new space of cultural consumption, mental association of the site with sweaty steel workers quickly faded. Replacing it were the privileged consumers of art, representatives of the new urban middle or wealthy upper class, as well as affluent international visitors. Today, the Ten Steel site, with its flagship project SSS, has become a prestigious location, conferring a patina of high social status on those who go there. The deliberate preservation of the look of the old buildings, including hints of their partial
erosion and decay (Wang, 2009), served the purpose of image reconstruction because their authenticity was thought of as matching the taste of the newly affluent classes and cultural firms (Photo 6.3). Lash and Urry (1994) suggest that physical and semiotic contexts (such as ambiance) can boost the sales of the products or services being offered. Consciously or unconsciously, Red Town Corporation had employed this strategy in their fashioning of Ten Steel’s new image. In addition, the project, or at least the commercial part of the project, was named “Red Town International Cultural and Art Community” (abbreviated as Red Town). Such a name was said to be inspired by the red brick facades of the buildings. However, in Chinese, the pronunciation of Red Town (Hong Fang) can easily conjure up the name of Moulin Rouge (pronounced as Hong Mo Fang in Chinese) in Paris. This linguistic twist, whether or not intentional, only served to reinforce the new image of the site in the public imagination. Whether by working on bricks and mortar or by linguistic maneuvers, Red Town Corporation’s symbolic transformations of Ten Steel site would finally translate into financial returns that the company had clearly anticipated and coveted.
Photo 6.3: The Front Façade of Shanghai Sculpture Space—Retaining the Authenticity of Buildings

Source: Photo taken by the Author on September 28, 2009.

Commercial sub-leasing of old industrial spaces to creative/cultural industry firms in Shanghai was not the invention of Red Town Corporation. As early as 1999, Liu Jidong, an interior designer and architect trained in the US, on his return from America, had rented a large space of approximately 5,000 square meters at the desolate Sihang Warehouse, a historic building on the north bank of Suzhou Creek, to start his design firm. Although the leasing rate was low, the excessively large space of the warehouse imposed undue financial pressure on Liu. In order to survive, he borrowed a large sum of money from a venture capital firm against a business plan of space sub-leasing. Renovating the spaces according to his own aesthetic judgment, he sub-leased them to other design firms, particularly those in architectural planning and environmental design.
This business model, although violating land-use policies in Shanghai at the time, turned out to be highly successful in commercial terms, as the renovated spaces became highly popular among design firms with a foreign connection (e.g., a foreign firm or a firm established by Chinese expatriates, such as by Liu himself)\textsuperscript{174}. Soon his personal efforts attracted public attention, and his business model was quickly copied by many property developers\textsuperscript{175}.

Red Town Corporation followed Liu’s model. The company made money by sub-leasing the spaces at the Ten Steel site in two ways. First, part of the spaces at Buildings A and B, and all parts of Building C and H, were to be used as commercial office spaces. Second, the large space in Building A and B, as well as the big courtyard, part of which had resulted from earlier demolitions, could be leased temporarily to various organizations for holding commercial or social activities during intervals of big public exhibitions. As a result, spaces used for commercial purposes became the “lifeline” of the Red Town Corporation. To maximize these commercial spaces and profit, bold alterations of the interior of buildings were made. As Wang (2009) writes,

"Zone A was designed to keep the original interior spatial form, and Zone B is being divided further to sub-levels. A series of rectangular shaped concrete boxes are constructed along the long axis of the workshop right in the middle, dividing the entire space into three sub-zones horizontally. The huge physical structure dominates the primary part of the plant, reserved for office spaces. The corridor and pocket spaces at the ground level that are left vacant are places for sculptures. As it is, only small sculptures can be accommodated by these small, discrete, and mostly dim and negative spaces, where artificial lighting is required. This also

\textsuperscript{174} Similar to the M50 case, the government did not intervene to stop Liu’s sub-leasing because the state-owned company that owned the old warehouse needed money for its own restructuring. Also like the M50 case, Liu’s commercial success later helped convince the government that the old warehouse building, which had been under threat of demolition, was worth conserving.\textsuperscript{175} See “Flowering of Creative Industry Parks in 2006,” January 30, 2007, at http://business.sohu.com/20070130/n247934384.shtml (accessed March 3, 2009). Also, see Li, Li, “Warehouse Conversion to Offices in Shanghai, Gold Rush for Creative Firms,” November 22, 2006, Property search portal at http://office.soufun.com/2006-11-22/873745.htm (accessed June 17, 2008).
eliminates one key feature of industrial buildings favored by artists, namely, a large and flexible space. The re-organization of the space is more like inserting a box which offers ordinary office-scale spaces into the so-called ‘inspiring’ large industrial space, leaving the latter serving as a decorative canopy or man-made landscape for the former.”

My first visit to the site was in the summer of 2006. At that time, there were still very few commercial tenants. Although the three-storey box had already been put up in Building B, sculptures were the focus of SSS because the upper levels of the box were still largely empty (Photo 6.4). I returned several times in 2008 and 2009 and felt that public exhibition spaces were gradually being crowded out by commercial spaces. Now, with office spaces totally occupied, when standing in a corridor of Building B, it is very hard to tell whether SSS is an exhibition hall or simply a fancy office building (Photo 6.5). Sculptures that had been displayed at SSS could easily be mistaken as decorations for a deliberately designed entrance to offices (Photo 6.6 and 6.7).

176 At the time of location selection, the Shanghai Urban Planning and Administration Bureau thought high ceilings of 12-15 meters of Building A and B were very suitable for displaying large public sculpture works. However, the modification of interior spaces has fundamentally changed that aspect of the buildings.
Photo 6.4: Building B of SSS (2006)

Source: Photo taken by the Author on June 9, 2006.
Photo 6.5: Building B of SSS (2009)

Source: Photo taken by the Author on September 28, 2009.
Photo 6.6: Building B of SSS—Public Exhibitions Downstairs, Commercial Tenants

Upstairs

Source: Photo taken by the Author on May 14, 2008.

Note: Infinity Interiors is a company specializing in interior design, building, construction, and project management that have branches in China Mainland, Hong Kong and US.
Photo 6.7: Building B of SSS—Exhibition Space or Office Space?

Source: Photo taken by the Author on September 28, 2009.

Note: Statue of Deng Xiaoping, the chief architect of China’s economic reform, was placed at the entrance of an office at Building B. The work of public art has been reduced to a decoration for a company.

Most part of the first phase of the Red Town project (including Buildings A, B, and C, totaling 20,000 square meters, with a public exhibition area of approximately 5,000 square meters)\textsuperscript{177} was completed on May 1, 2006. The on-schedule opening of SSS and the smooth running of the project in the first phase earned Red Town Corporation credit in the eyes of the government as a competent developer-operator. On May 20, 2006, the Economic Commission of Shanghai Municipal Government awarded the Ten Steel site the title of CIC with an official name “New Ten

\textsuperscript{177} Data offered by Red Town Corporation. It should be noted that the public exhibition spaces are sometimes also used by companies to hold business activities. See the following discussion.
Steel Creative Industry Cluster,” alongside the other 12 sites\textsuperscript{178}. The official award was another big boost for the project. Government support for the expansion of Red Town soon ensued. Quickly, the wholesale lease of buildings D, E, F, and G (totaling 26,000 square meters)\textsuperscript{179} was signed between Red Town Corporation and Ten Steel. According to the 20-year lease agreement, Red Town Corporation would have the right to renovate the spaces and lease them for profit. Part of the profit from the space subleasing was earmarked to subsidize the SSS project or other art support programs run by the Corporation. Renovations on Buildings D, E, F, and G (Phase Two) started in September 2006. By the end of the following year, the buildings were ready for use (See Photo 6.8 and 6.9 for a comparison of the buildings before and after renovation). In addition, H and I were two new buildings. Although Red Town Corporation deliberately reduced the intensity of new development allowed by the Shanghai Urban Planning and Administration Bureau\textsuperscript{180}, the new structures had the impact of shrinking the originally spacious courtyard. Like the old buildings, the new structures would also be returned to Ten Steel when the land and building lease matures in twenty years. The arrangement was somewhat similar to a build-operate-transfer agreement popularly used in the development of physical infrastructure. Figure 6.2 illustrates the relationships among different parties involved in the two phases of the project.

\begin{flushright}
\textsuperscript{178} In fact, application for listing was done before SSS and Red Town began to function fully.
\textsuperscript{179} Data offered by Red Town Corporation.
\textsuperscript{180} According to Zheng Peiguang, Building H was originally planned as a four-story building approved by the Shanghai Urban Planning and Administration Bureau. However, Red Town Corporation finally decided to build a one-story building with a sloped roof covered by grass so that the courtyard would not appear to be reduced in size by the addition of the new buildings. (Interview with Zheng Peiguang, June 3, 2009). Building I, which now hosts a gallery, is of roughly the same height of Building A and B.
\end{flushright}
Photo 6.8: Building E, F and G (2006)

Source: Photo taken by the Author on June 9, 2006.

Note: Expensive high- and mid-rise apartment buildings at the back had been developed before the advent of Red-town project.
Photo 6.9: Building E, F and G (2009)

Source: Photo taken by the Author on September 28, 2009.

Note: Apartment buildings at the back remained unchanged but Ten Steel site has been fundamentally transformed into a place of prestige and social status. Clean and aesthetized as it was, however, the big courtyard was not well utilized by the public.
The government’s aspiration for a so-called “international standard” was echoed by both Ten Steel and Red Town Corporation in business development. The target clients of Red Town were cultural or creative firms with national or international reputations whose status was thought of as matching the site’s new position as one of Shanghai’s cultural landmarks. In addition, these firms were also considered as valuing the authenticity of buildings that Red Town Corporation had constructed. To draw target clients to the site, Red Town Corporation had to resort to vigorous business promotion strategies.

To turn the planned “international cultural and art community” into reality, Red Town Corporation held tenant screenings from the very start. At the beginning, the tenant search was done by a team led by Zheng Peiguang himself. Zheng stressed the importance of a “common language” between his team and potential clients. A common language in arts and in historic buildings, in other words, the “cultural capital” possessed by a potential client, was considered an “admission ticket” to the planned cultural community. According to Zheng, a few firms/enterprises (including the studios of
some elite artists) came simply because they were part of his personal network, while others were invited because, for some reason, the potential clients impressed him or he felt an immediate affinity on first contact. In short, Zheng believed in the principle that, as the proverb goes, “birds of a feather flock together.” The early entrants of Red Town included a few design firms, some art/design studios, and a number of art galleries. These early entrants were given some concessions on rents. Yang Mingjie, a promising industrial designer, was said to have even been given a design studio at Red Town free of charge.

After some early tenants had entered the site, Red Town Corporation commissioned CB Richard Ellis (CBRE), a global leader in commercial real estate consultancy, to help with the tenant search. CBRE, a Standard and Poor 500 company, was headquartered in Los Angeles and had over 300 branches worldwide. Red Town Corporation hoped to take advantage of CBRE’s global reach to attract well-known international corporations to the site. In addition, some early tenants that were not running so profitably were advised to leave. Red Town Corporations’ business promotion strategy turned out to be successful. By mid 2009, the over 70 tenants at Red Town could be divided into two groups. The first group comprised art institutions, including art museums, art galleries, and art studios. According to the government plan, SSS was to attract “galleries and private studios of national or international influence.” This guideline was strictly followed in the tenant searches. In fact, a number of well-known artists and art galleries, such as Xiang Jing (an award-winning sculptor), Red Bridge Gallery, Dongda Gallery, and Eye Level Gallery, alongside with a few foreign galleries, were introduced to Red Town. The Minsheng Modern Art

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182 Yang Mingjie, an industrial designer with academic degrees from both the China Academy of Art and Muthesius Academy of Fine Arts in Germany, just within half a year of moving his design studio to Red Town, won a reputable award as one of the “Top Ten Outstanding Young Designers of China.” His design company became one of the “Top Ten Excellent Design Institutes in China.” See “Mingjie Yang: The Power of Simplicity,” from Red (the publication of Red Town Corporation), March 2007, pp. 34-35.
Museum, the first art museum supported entirely by private capital in China\textsuperscript{185} occupied Building F.

The second type of tenants included various types of business, the majority of which were broadly defined cultural firms in design, advertising, and the media. These included branches of global giants, such as Leo Burnett (advertising), Hakuhodo (the oldest advertising company in Japan), Interbrand (global branding), Parker Pen, Charmant (eyewear), and Electrolux (home and professional appliances), as well as well-established Chinese companies or firms such as a design branch of JunaYao Group (aviation, retail, food and cultural products), an advertising subsidiary of Shengda (largest Chinese game company, listed in Nasdaq), and the award-winning Dashe Architectural Design Firm. In addition, spaces at Red Town were also temporarily leased to global firms for business activities such as new product releases, anniversary or business parties. These activities featured many global luxury brands including Omega, BMW, Porsche, Maserati, Swarovski, Remy Martin, as well as household brand names like HSBC, Philips, Elle, Chevrolet, and so on\textsuperscript{186}.

The entry of the high market tenants, as well as the patronage of global luxury brands, served to reinforce the high-class status of the Ten Steel site that had first been transformed by the government-sponsored SSS. In mid-2009, average rents at Red Town were between RMB5–5.5/m\textsuperscript{2}/day\textsuperscript{187} (approximately USD 0.74–0.81/ m\textsuperscript{2}/day), occupying the high end of rental spectrum in Shanghai CICs (author’s survey). Temporary lease of space was also very expensive. In 2009, a space of 2,500 square meters in Building A that could accommodate 500-1,000 people for social activities was leased for RMB100,000 /day (approximately USD14,700/day) during

\textsuperscript{185} Minsheng Modern Art Museum was established by Minsheng Bank, the first non-state-controlled bank in China. The bank is listed in Shanghai Stock Exchange.

\textsuperscript{186} Data provided by Red Town Corporation management.

\textsuperscript{187} Interview with Zheng Peiguang, June 3, 2009.
weekdays and RMB120,000 /day (approximately USD17,600/day) on weekends. In Building B, a meeting room of 100 square meters could be leased for RMB8,000/ day (8 hours) (approximately USD1,170/8 hours) during weekdays and RMB10,000/day (8 hours) (approximately USD1,470/8 hours) during weekends. Indeed, rent, status and profitability mutually reinforce one another. As revealed by Zheng Peiguang, despite the high investment cost (RMB50–60 million for Phase I and RMB150 million till 2009), Red Town Corporation could recover its investment in 7–8 years, compared to the initial estimate of 12 years at the time of project tendering.

Similar sites have proliferated during the past few years; thus, the competition for tenants has become a game that Red Town Corporation must constantly be engaged in. Although the Red Town Corporation has succeeded in luring many reputable tenants, it was not always a winner in this competitive game. While targeting advertising industries, Red Town Corporation hoped to attract Ogilvy, another giant in the business, to the site; so far, it has not prevailed over the retention efforts of the Jing’an District Government. ShanghArt, the flagship art gallery of M50, was another of its target. However, ShanghArt does not intend to follow this siren call in the immediate future. On the other hand, retaining existing tenants constitutes another challenge. In fact, for many firms, Red Town is not really a “sticky” place. In the interviews, I came across two commercially successful firms whose management had hinted at moving out: one because it was unhappy with the current property management of the site, and the other because it felt that Red Town is not irreplaceable and that there are alternatives. In fact, among the four clusters I had surveyed, firms at Red Town had the lowest level of location satisfaction. This is ironic given the costs involved in business promotion by the Corporation. In addition, as the questionnaire survey and interviews with tenants also revealed, business linkages among firms at Red Town are very sparse, making their relocation less costly than it might otherwise have been.

188 See the website of Shanghai Sculpture Space at www.sss570.com (accessed May 5, 2009).
189 Data from marketing brochure of Shanghai Sculpture Space and Red Town.
190 Interview with Zheng Peiguang, June 3, 2009.
Despite the footloose nature of profitable tenants, compared with other CICs in Shanghai, Red Town enjoys several advantages, the most notable of which is government support. This can be understood from several aspects. First, besides leading the symbolic transformation of the Ten Steel site, SSS also helps provide constant media exposure, in addition to drawing groups of visitors to Red Town. Second, the change of land-use types at the Ten Steel site to cultural and service uses by the Shanghai Urban Planning and Administration Bureau provides land-use certainty for the future. Tenants at Red Town do not have to worry about demolition issues as their peers at M50 or other Shanghai CICs. Third, there is an implicit public subsidy to the project. In theory, the zoning up of land from manufacturing to service uses would result in higher land values. If due procedures are followed, the land must be put to auction in the land market and, in order to get the land-use right of the Ten Steel site, Red Town Corporation would have to pay a considerable land premium. However, in reality, this procedure was bypassed and Red Town Corporation obtained the land-use rights from Ten Steel, the de facto land owner of the place, still at the price of a piece of industrial land. The unpaid premium was a hidden subsidy that was different from direct injection of public money into the first phase of SSS and the Red Town project. As the subsidy was hidden, it could easily be captured by the developer-operator. Fourth, the government’s involvement in the project has symbolic value. In a context of a strong state, government support provided reassurance to potential tenants that the project would not fail.

Government involvement in the project was so important to the commercial success of Red Town that understanding why Red Town Corporation took every chance it could to publicize the project’s nexus to the government is not difficult. Perhaps, most people are not quite clear of the difference between SSS and the Red Town project. This is not only because Buildings A and B were used for both public exhibitions and commercial activities simultaneously, but also because

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192 Given the high rental levels at Red Town, it is unlikely that tenants are the main beneficiaries of the implicit subsidy.
193 It took me a while to understand this difference in my fieldwork.
the public images of SSS and Red Town had been constructed in such a way that the difference between them remained ambiguous. For example, the official website of SSS at www.sss570.com ends with “.com,” suggesting the commercial nature of the cultural facility. On its website, people can easily find space leasing information of Building A and B with rates specified for each types of venue. Another example is the marketing brochure of Red Town (or SSS), which was designed to have two front covers: one for Red Town and the other for SSS. The brochure devotes half of its pages to each with all the information on space leasing. In addition, in the public media, most reports or articles about Red Town mentions SSS without specifying the differences between the commercial part of Red Town and SSS. Indeed, with all these image management techniques, it is easy to fall into the misconception that SSS and Red Town International Cultural and Art Community are simply two names of the same project, which in a way, of course, is true.

The Red Town project demonstrates that culture, history, and art are good objects for investment if state influence is harnessed at the same time that “smart” commercial maneuvering is used. The involvement in the SSS project and the business acumen shown in the Red Town project earned Zheng Peiguang several awards, including, “Outstanding Figures in China’s Creative Industries (2006)” and “Leaders in Shanghai’s Creative Industries (2007).” In 2007, the Red Town Corporation was listed among “The Best 100 Firms in Creative Industries in China.” In the same year, New Ten Steel Creative Industry Cluster became a “Leading Creative Industry Cluster in Shanghai.” These awards signified the government’s endorsement of public-private partnerships in building and running cultural faculties, as well as the sanction on Shanghai’s burgeoning cultural industries in the post-industrial era. For the Red Town project, these awards and the related media exposure represented a promise of greater profits in the future.

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194 Red Town has a separate website at www.redtown570.com.
6.5 Perception of Visitors: Public Space or Private Domain?

Ever since the inception of the project, SSS was touted as a cultural facility open to the public. Although unlike most other CICs, Red Town Corporation did not impose any formal restrictions on access to the Ten Steel site on a daily basis, the site is, in reality, far from truly “open” in both a physical and psychological sense.

As indicated above, rates for the temporary leasing of exhibition spaces at Building A and B are very expensive. During periods of business activity, the spaces leased would be enclosed and reserved for a club of high-flying companies in the market. When visiting Red Town, the CEO of Louis Vuitton (China Region), the leading global luxury brand, remarked, “LV will come when rents here reach USD5/m²/day” (Chen, 2008, p. 33). The more high-end the space users are, the more exclusive the company wants its space to be. By luring upscale companies to the site, profit margins for Red Town Corporation escalate; however, public access to the site suffers.

In addition to physical restrictions imposed at certain periods, a psychological barrier is far more enduring and intimidating. Compared with other CICs in Shanghai, Red Town has one of the best surveillance systems to match its international standard. As touted in the marketing brochure of Red Town (or SSS), “[The site has] 24-hour indoor and outdoor patrols by security guards. The central system watches all entrance and exits, as well as the elevators, but excluding the machine room. There are also video recordings and other special systems.” Many tenants acknowledge the necessity of the security work in managing the increasing volume of traffic to the site and in ensuring a quiet working environment (individual interviews). For visitors, surveillance, particularly the presence of large number of security guards equipped with walkie-talkies,
represents a tacit deterrence to certain kinds of conduct, such as improper dressing\textsuperscript{195} or peeking into the doors of valued tenants. Similar to theme parks and shopping centers, CICs have been shaped into “privately owned public spaces in which the public are under the watchful eyes of video-cameras, and rowdy, troublesome elements are excluded before the disorder might disturb others” (Featherstone, 1994, p.398).

The up-scale nature of tenants at Red Town itself creates certain barriers to visitors. All of the catering businesses introduced at the site were Western-style restaurants or cafeterias, providing food or drinks that have little appeal to local residents. The price of food is in itself enough to deter even a successful professional working at the site\textsuperscript{196}. Therefore, understanding why these catering businesses usually attract a disproportionate number of international visitors is not difficult. In addition, from my own experience, I also found that tenants at Red Town are the least welcome tenants from among the four sites wherein I conducted surveys (i.e., Red Town, M50, Tianzifang, and Creative Factory; see Chapter 7).

Although Red Town enjoys a huge courtyard, which is very unusual among Shanghai CICs, and although there is a large number of residential buildings nearby, not many local residents were actually using these facilities (Photo 6.9). I have been to the site no less than 10 times, and on no occasion have I found significant number of users from the surrounding communities. My interviews with tenants reinforced this impression. Visitors to the site were mostly young people who came to Red Town with a clear purpose, doing business or seeing sculptures and/or the architecture. Not once did I see significant number of elderly people who simply wanted to sit

\textsuperscript{195} On one visit to the site (September 28, 2009), I saw three worker-like people in slippers asked by a security guard to change their shoes or to leave the site. The security guard reiterated that it was appropriate for women to wear slippers (fashionable?) but inappropriate for men to wear them on Red Town premise. Without much protest, the three people left the site.

\textsuperscript{196} I heard three people working on the site complaining about the type and price of food offered by the catering businesses on the site, including one award-winning architect who was a business partner of an architectural design firm at Red Town. A common western-styled lunch at Red Town costs approximately RMB70-80 (USD10-12), while walking 5-10 minutes outside of Red Town, an ordinary Chinese-style lunch would cost approximately RMB8-20 (USD1.2-3). Therefore, on a typical day during lunchtime, the cafeterias at Red Town are quite empty, while the Chinese fast-food restaurant just outside of Red Town premises is full of people.
there basking or chatting, or children playing on the lawn, both of whom can always be found in Shanghai’s community parks in other residential areas. Though geographically close, Red Town remains aloof from the vibrant life in the surrounding communities.

This situation partly foretells the failure of the courtyard design. In the interviews, one of the principal designers of the courtyard indicated that history was deliberately preserved in the landscape design to enhance the attractiveness of the site. Beams and stones from the old buildings were recycled to be placed in the courtyard for seating or viewing. In addition, weights weighing from 500 to 1,000 kg, and pickling tanks used in steel production, were laboriously transported from the closed branch factory of Ten Steel Corporation in Qingpu to be used as featured landscape components197 (Photo 6.10). Weights were imprinted with the name of “Shanghai Metallurgical Industry Bureau,” an organization long gone, reminding people of the history of steel production at the site decades ago. However, the conservation of history is partial and fragmented, and it only served to satisfy the curiosity of new urban elites and the international visitors who are largely ignorant of the most painful part of the industrial restructuring period. When talking about the techniques used in historic conservation at Red Town, an old industrial worker who lost his job ten years ago remarked,

“On the first day of my work twenty years ago, I was told that workers would be treated as owners of the country. We were guaranteed a secure job and a promising future, and so, we worked hard in return and saved every cent that we could for the country. However, years later, we found that the promises were broken and our loyalty was betrayed. The country is getting richer, but we are not. My reaction to these industrial relics is indignation. They are not interesting at all. Perhaps they should also tell people how many of us had lost our jobs in the restructuring and how many of us had made sacrifices for the country!”198

Photo 6.10: Landscape Design—Conservation of History?

Source: Photo taken by the Author on September 28, 2009.

Note: The slope at the back was the roof of Building H, a new development in the courtyard. The pickling tanks placed on the lawn were recycled from the closed production facilities of Ten Steel. But the displaying of these industrial relics failed to inform the visitors of the painful history of industrial restructuring.

Clearly, mass unemployment represents the darker side of industrial restructuring. By deliberately selecting historic fragments that suit the aesthetized and sanitized new image of the Ten Steel site, people who were really part of Shanghai’s industrial history were excluded from the new urban spaces. As Zukin (1995) argues, culture-led urban regeneration strategies mask the asymmetrical power relations among social groups. It is the power group that determines who should be visible and included, and who must be hidden and excluded from public space. In the post-industrial and
post-socialist Chinese cities, by shaping a new urban culture, the powerful coalition of state and
cultural capital had turned new “public” space into a preserve for elites.

6.6 Bund 1919—A Sequel to Red Town

The commercial success and public-relations victory of the Red Town project had greatly
augmented the ambition of Red Town Corporation to venture into new territories. At the end of
2007, Red Town Corporation spotted another old industrial site suitable for replicating the Red
Town project. The site was located on the bank of Yunzaobang, a tributary of Huangpu River in
Baoshan District in the northern sector of the city, and had originally been built in 1919 as one of
the earliest textile firms in Shanghai. Before the latest restructuring, the sitting tenant (or de facto
landowner) was Shanghai No. 8 Textile Co. Ltd., which had gone bankrupt in the 1990s. Now the
land use-right was in the hands of Shangtex (Group) Co. Ltd., a reformed state-owned industrial
group that controlled the properties of numerous old textile companies in Shanghai, including the
site of M50199. Compared with the Ten Steel site, this new site was much larger, with
approximately 70,000 square meters of desolate floor space to work on. In addition, a number of
buildings had the potential to be officially listed as “Excellent Historic Buildings.” In order to
work on the project, Red Town Corporation and Shangtex (Group) Co. Ltd. formed a new
company called Shanghai Shenfang Investment Management Co. Ltd. (Shenfang). With a new
commercial name “Bund 1919200,” the site was to be turned into an industrial agglomeration of
design firms of national or international reputation that would serve China’s export sectors201.

199 Shangtex (Group) Co. Ltd. was the supervisor of Shanghai Chunming Slub Co. Ltd., the manger of M50 site. Refer to M50
case for details.
200 The Chinese name of the site, “Bandao 1919,” actually means “Peninsular 1919.” However, the English name of the site used
by Red-town Corporation is “Bund 1919,” relating the site to the famous “the Bund,” the old symbol of a metropolitan Shanghai
since the early 20th century. With a large number of colonial buildings, the Bund represents the Western influence on the
development of Shanghai
201 In recent years, the government has increasingly realized the limits of China’s role as simply a global factory. The
government therefore hopes to build up a new economy that could be labeled as both “Made in China” (zhongguo zhizao) and
With the experience gained from the Red Town project, Shenfang again resorted to the dual channel of vigorous business promotion and government enhancement. On the one hand, Shenfang forged a partnership with Milan Design Confederation to promote the site to potential international tenants. On the other hand, the company succeeded in drawing support from different tiers of government. With the recommendations of the Baoshan District Government and the Municipal Government, Bund 1919 was named as a candidate location for the Shanghai China Design Center (SCDC), an organization sponsored by the Ministry of Commerce of the National Government to promote China’s product and industrial design capabilities. In August 2009, SCDC’s location into Bund 1919 was finally endorsed by the Ministry of Commerce. Shenfang hoped that the entry of such a flagship tenant would help redefine the site, similar to the role that SSS had played for Red Town.

While the buildings at Bund 1919 were still under renovation, large advertisements of the project, outsizing posters of cultural activities at Red Town, had been posted at the entrance of the Ten Steel site (Photo 6.11). Although it is still too early to tell the future of Bund 1919 project, one thing is clear: Cultural property capital, represented by the Red Town Corporation, will keep “scavenging” for old bottles in the city to put sellable new wine into them. By reproducing itself from site to site, Red Town Corporation is helping to transform both the physical landscape and economic structure of Shanghai according to a state-defined vision of modernity.

“Created in China” (zhongguo chuangzao).
Photo 6.11: Entrance to Red Town

Source: Photo taken by the Author on September 28, 2009.

Note: Advertisement for Bund 1919 project, as well as posters of cultural activities at Red Town, was erected at the entrance to the Red-town site. The size of the advertisement was much larger than those of posters.
“I was in Kunming before I came to Shanghai. In terms of doing art, there was not a big
difference between these two cities. There were a lot of art exhibitions in Yunnan, too.
However, after exhibitions, usually nothing happened there. However, in Shanghai,
exhibitions are usually followed by sales. Therefore, I can make a living in Shanghai even if
things are more expensive in this city.”

– A freelance painter

“It is very simple. We wanted a cool place at an affordable price. So we came here.”

– Manager of a multimedia firm

7.1 Introduction

In earlier chapters, I discussed the formation of Shanghai CICs mainly from the perspective of
space providers. In order to complete this analysis, however, it is important to examine space users
as well. Space is not just a physical carrier of creative activities. What make space meaningful are
the varied human activities that transform an abstract into a lived space. Friedmann (2007) argues
that “places are shaped by being lived in” (p. 257). Although place and space mean different
things\textsuperscript{202}, his remark underlines the importance of space users and their activities in physical space.
Scott (1980, 1988, 2000a) and Granovetter (1985) also stress the multiple activities and social
relationships embedded in production processes. To understand the formation of creative clusters,

\textsuperscript{202} As pointed out by Friedmann (2007), “[the] experienced spaces of the city acquire their character as a place by virtue of being
lived in. Such places have a different appearance and feeling from deserted or abandoned spaces that have left behind only the
empty shell of buildings. They are also different from spaces that have been newly built but are not yet inhabited. In short, by
being lived in, urban spaces become humanized” (Emphasis original) (p. 259). To my understanding, “space” tells more about a
physical or material entity while “place” implies human activities and perceptions as well as geography.
therefore, it is important to examine how spaces are used and in what ways workers or businesses are interrelated by sharing a given space. The preceding case studies have provided preliminary information about space users at M50 and Red Town; however, many questions remain. For example, who are the tenants? What do they do? Why do they choose to stay in CICs? How do they use the spaces they rent? This chapter presents the results of the questionnaire survey of space users and tries to answer these questions.

The survey was conducted from February 16 to 27, 2009. There are several reasons why I did not devise a random sample. First, at the time of my research, there were 75 CICs in Shanghai altogether, and it was impossible to obtain a complete list of all the firms located in these clusters. Second, the management companies of many clusters were not interested in participating in this research, and it would have been difficult to gain access to firms located at these sites had they been chosen in cluster sampling. Third, in many clusters, only a very limited number of tenants had rented space by the time of the survey, and thus many stood virtually empty. Taking into consideration these factors, as well as the knowledge already gained during my work on the two case studies, I finally decided to include both M50 and Red Town in the survey. However, to enlarge the sample size and provide a basis for comparison, I selected two more clusters, namely, Tianzifang and Creative Factory, since these two were accessible and could offer meaningful contrasts to my case studies.

Tianzifang is an early case of CIC. It is located in Taikang Road, a prime area in the middle of the old French Concession where traditional *lilong* houses built since the 1920s mingle with small-scale street factories that can be traced back to the 1930s (marked with the purple dot on Map 4.6). Before the advent of citywide industrial restructuring in the 1990s, the area had five major street factories, namely, factories for food-processing machineries, spare parts for clocks,

needles, and other products. Similar to many others in the city, the factory spaces in Taikang Road had fallen into disuse by the late 1990s. At the end of 1998, Yilufa Cultural Development Co. Ltd, established by Wu Meisen, a foreign returnee and well-known collector of antique furniture, was chosen to help the government revitalize the area. Wu was said to have connections both with the District Government and the art community. The arrival of his company soon brought a number of well-known artists to the desolate industrial spaces at Taikang Road, including Chen Yifei, Er Dongqiang (photographer), Zheng Wei (pottery artist), Huang Yongyu (Chinese painting and engraving artist), Wang Jieyin (engraving artist), and others. Soon, a number of art shops, galleries, some less well-known artists, and a few foreign art studios followed the “masters” to the site. In 1999, Huang Yongyu renamed the site “Tianzifang,” which shares the same pronunciation with the name of arguably the earliest painter in Chinese history. In the next few years, due to space constraints in the old factories, some lilong houses were also converted into commercial spaces under the brokerage of Wu and his company. Meanwhile, commercial activities burgeoned, replacing some early arrivals who could not sell enough of their work to afford the escalating rents. Tianzifang today has a combination of production and consumption spaces, with the latter growing at a faster pace. Although there are still quite a few art studios and some design firms in the area, these are gradually losing ground to shops, including art galleries, restaurants selling exotic cuisines, and small retail shops displaying expensive designer products such as clothes, accessories, jewelry, decorative items, and so on. Similar to M50, the buildings at Tianzifang had also been under threat of demolition. Land was said to have been sold to developers, and a number of blocks in the surrounding area had already been demolished.

204 See www.tianzifang.cn/about.asp, accessed October 13, 2009.
205 Anonymous Interview, October 9, 2008.
206 Chen Yifei, trained in both Shanghai (in the 1960s with Shanghai Fine Art School) and US, was “a central figure in the development of Chinese oil painting and is one of China’s most renowned contemporary artists.” He first acquired fame during the Cultural Revolution, when he painted huge portraits of Mao Zedong and other heroic events of the Communist Party. In the early 1980s, he went to US and earned a Master’s degree in art. “After the Cultural Revolution Chen became the forerunner of a new age in Chinese aesthetics, promoting a new sense of modernity and lifestyle in his paintings as well as in fashion, cinema, and design.” Chen died in 2005 at the age of 59. Today, his oil paintings command some of the highest prices among contemporary Chinese artists. See http://en.wikipedia.org/wiki/Chen_Yifei, http://www.china-fun.net/book/author/20060704/043042.shtml# (accessed Oct 13, 2009).
However, the advent of artists and other new economic activities to the site saved the old street factory spaces and residential buildings. Tianzifang is perhaps the most open CIC in Shanghai today because it is the only one without a physical boundary; and residential function mixes organically with retail and office uses. Therefore, Tianzifang, being characterized by mixed land-uses, offers a comparison to other CICs.

Creative Factory has a large number of construction-related design firms. It is located in the vicinity of Tongji University (Creative Factory is marked with purple square and Tongji University marked with the letter “A” on Map 4.6), which has one of the best architecture, urban planning, and civil engineering programs in China. The Research Institute for Ocean Fishing Machinery used to occupy the Creative Factory site and is still the de facto owner of the land. In the 1990s, the Institute moved to suburban Songjiang and began leasing the vacated office spaces to the burgeoning construction-related design firms in the area, most of which were in one way or another connected to Tongji University. A small proportion of firms at Creative Factory are now in the old office buildings, while the majority is concentrated in a high-rise office building that was completed in 2003. The firms at Creative Factory were expected to offer some kind of comparison to firms in the three other sites that were primarily comprised of old industrial buildings. In addition, Creative Factory is a site that can be considered a pure production site, as commercial activities are largely absent.

Before the survey was conducted, a pre-test of the questionnaire was done by four creative workers and revisions were made, based on the feedback obtained from the pre-test. (See Appendix III for a translation of the questionnaire used in the survey). I then recruited and trained

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208 Approximately three-quarters of Shanghai CICs based on the old industrial sites mainly comprised old industrial buildings. Although the site of Creative Factory has now also been zoned as “industrial land” (ancillary industrial use), the firms there are concentrated in a new building and it can be used to represent CICs on non-industrial land. The proportion of clusters based on old buildings in the sample roughly approximate the overall picture in Shanghai.

209 These included an architect, an urban planner, a mid-level manager at an advertising company, and a public relation person at a media group.
an undergraduate student to help me send out and collect the questionnaires. Before the survey, approval was obtained from the management of each site. At each site, we tried to contact as many firms as we could⁴⁹. Some firms declined to participate in this research; however, most agreed to participate and completed the survey in either my (the author’s) or the research assistant’s presence. Some respondents asked questions regarding the survey as they were completing it; this was helpful for obtaining accurate information. A small number of respondents asked us to go back to pick up the questionnaires at a later time or date (usually 3–5 hours or 1–3 days later). Most returned the completed questionnaires, and only a small number decided not to participate when we again visited them. The questionnaires were all returned in sealed envelopes and when they were pooled, identify each respondent was impossible. Table 7.1 provides the response rates for each site. In the end, we had 127 returned questionnaires altogether; however, some of them were only partially completed. The response rate for all sites was 55.5%. In general, sites with smaller firms or art studios, such as at M50 and Tianzifang, had higher response rates. Understandably, Red Town, which has larger and reputable corporations, had a response rate that was lower. Overall, however, the response rates were quite satisfactory. This must at least be partly attributed to the reputation of my local sponsor, the Shanghai Tongji Urban Planning and Design Institute, which provided me with a “Letter of Introduction,” a necessary and important document in persuading people or organizations to participate in a social survey in China.

⁴⁹ The surveys were conducted approximately 3 weeks after the Chinese New Year. This timing was chosen because generally at this time of year, firms tend to be less busy and we could potentially have higher response rates. The drawback was that some firms, particularly small private studios, might not yet have started to work at that time. For Tianzifang, there was no clear physical boundary. Thus, the firms we contacted mainly concentrated along the main lane of the area (Taikang Road). For other three sites, firms located in all the buildings at the site were included in the survey. My goal was to obtain 30 completed questionnaires for each site.
Table 7.1: Response Rate of the Survey

<table>
<thead>
<tr>
<th></th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total # of Returned</td>
<td>33</td>
<td>34</td>
<td>23</td>
<td>37</td>
<td>127</td>
</tr>
<tr>
<td>Questionnaires</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total # of firms Contacted</td>
<td>61</td>
<td>54</td>
<td>52</td>
<td>62</td>
<td>229</td>
</tr>
<tr>
<td>Response Rate (%)</td>
<td>54.1</td>
<td>63.0</td>
<td>44.2</td>
<td>59.7</td>
<td>55.5</td>
</tr>
</tbody>
</table>

It is necessary to examine the potential biases of the data before getting into the analysis. First, since the clusters were not selected by random sampling, the data collected may be better used to represent the situation of the four selected sites, rather than the overall picture of CICs in Shanghai. Second, the cooperation of management was a pre-condition for selecting clusters. Therefore, the four clusters tended to be those that were more open and better known to the public than others. Third, none of the management of the four sites provided us with a complete list of tenants (including accurate room numbers) at their site. Although we had tried to cover all buildings on each site (except at Tianzifang, which does not have a physical boundary), some firms may not be contacted for various reasons, including the firms’ absence or lack of time. It could also be the case that the more accessible firms (i.e., at lower levels of a building) had a higher chance of being contacted. However, this bias was by no means intentional. Fourth, large and hierarchical corporations were less accessible and less willing to participate in this research. Therefore, the sample may over-represent smaller businesses in these four clusters. Fifth, as my local sponsor is affiliated with Tongji University, which is reputable in the construction industries (including architectural design, planning, landscape design, and others), firms in these industries may have been more willing to fill out the questionnaires than others (e.g., those in fashion design or graphic design business). Therefore, the sample may over-represent industries that employ a
disproportionately high number of Tongji alumni\textsuperscript{211}.

Data bias suggests that caution needs to be exercised when it comes to interpreting the data. However, despite these problems, the data are still valuable in several respects. First, there is virtually no research providing data regarding the firms located in Shanghai CICs. Information gathered in this survey can serve at least an exploratory purpose. Second, the data can help us understand the four selected clusters and, potentially, the relatively “mature” (or fully occupied) clusters in Shanghai. Although the data cannot tell us “everything,” they reveal “something” about Shanghai CICs, which can be complementary to information obtained from the interviews. In addition, where possible, I use information obtained from other sources to cross-check the survey data to ensure their validity.

As the survey was not based on random sampling, in the following analysis I will depend more on descriptive statistics than on inferential statistics. I will divide the analysis into four parts: company/enterprise\textsuperscript{212} profile, location decisions, cluster ecology and space use and urban planning (please refer to Appendix III for the survey questions).

7.2 Company/Enterprise Profiles

Age of Firms

A large proportion of firms at the four sites consisted of relatively new establishments. Among the 104 firms that provided information on the year they were established, 86.5\% were formed after

\textsuperscript{211} One respondent I encountered told me that his firm chose to participate in the survey because he was a graduate from Tongji. However, generally he did not do this kind of thing if it was not directly related to the company’s business.

\textsuperscript{212} For simplicity, I will use the term “company” or “firm” to refer to various kinds of establishments or enterprises, including private studios.
1999, 56.7% were less than five years old at the time of the survey, and 25% were established within the last three years. Even in Red Town, which has relatively well-established companies, 62.5% were found to have been started within the last five years. One can conclude from this that the birth of new creative firms came hand-in-hand with the formation of CICs in Shanghai.

Organization of Firms

Table 7.2 provides information regarding organizational forms of firms at the four sites. Clearly, at the time of the survey, Red Town and Creative Factory had a larger proportion of corporations while M50 and Tianzifang were more dominated by private studios and sole proprietor enterprises, both of which are less formal forms of business organization.

<table>
<thead>
<tr>
<th>Form of Organization</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
<td>%</td>
</tr>
<tr>
<td>Private studio</td>
<td>0</td>
<td>0</td>
<td>14</td>
<td>43.8</td>
</tr>
<tr>
<td>Sole Proprietor</td>
<td>6</td>
<td>18.2</td>
<td>5</td>
<td>15.6</td>
</tr>
<tr>
<td>Partnership</td>
<td>5</td>
<td>15.2</td>
<td>1</td>
<td>3.1</td>
</tr>
<tr>
<td>Corporation</td>
<td>22</td>
<td>66.7</td>
<td>12</td>
<td>37.5</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>100</td>
<td>32</td>
<td>100</td>
</tr>
</tbody>
</table>

Size of Firms

Table 7.2 can be corroborated by Table 7.3, which reveals the average size of firms at the four sites. All sites had very small firms (with one to two people) at the time of the survey; however, the
average or median size of firms at Red Town and Creative Factory was much bigger than those at other two sites. In general, all four sites were dominated by small firms, as the biggest group median was less than 17 formal employees. The median size of M50 and Tianzifang firms was only 3.6 and 3.5 formal employees, respectively, while average sizes were only 8.3 and 5.2 formal employees, respectively. Table 7.4 provides information on the number of temporary employees. Evidently, employing temporary employees was quite a common practice among firms at the four sites; however, in general, their numbers was small compared with the number of formal employees.

### Table 7.3: Number of Formal Employees in the Firms

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Grouped Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>27.3</td>
<td>33</td>
<td>31.0</td>
<td>4.0</td>
<td>150.0</td>
<td>16.4</td>
</tr>
<tr>
<td>M50</td>
<td>8.3</td>
<td>29</td>
<td>14.9</td>
<td>2.0</td>
<td>75.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Red Town</td>
<td>39.8</td>
<td>22</td>
<td>61.2</td>
<td>2.0</td>
<td>200.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>5.2</td>
<td>32</td>
<td>5.1</td>
<td>2.0</td>
<td>25.0</td>
<td>3.45</td>
</tr>
<tr>
<td>Total</td>
<td>18.8</td>
<td>116</td>
<td>34.6</td>
<td>2.0</td>
<td>200.0</td>
<td>7.2</td>
</tr>
</tbody>
</table>

### Table 7.4: Number of Temporary Employees

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Grouped Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>3.9</td>
<td>28</td>
<td>4.6</td>
<td>.0</td>
<td>25.0</td>
<td>2.9</td>
</tr>
<tr>
<td>M50</td>
<td>1.9</td>
<td>22</td>
<td>1.4</td>
<td>.0</td>
<td>4.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Red Town</td>
<td>14.5</td>
<td>16</td>
<td>49.5</td>
<td>.0</td>
<td>200.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>1.6</td>
<td>22</td>
<td>1.5</td>
<td>.0</td>
<td>4.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Total</td>
<td>4.8</td>
<td>88</td>
<td>21.3</td>
<td>.0</td>
<td>200.0</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Among the firms that provided relevant information, 70.1% (N=118) did not have subsidiary or other branches (the smallest proportion among the four sites in this respect was for Red Town at 65%) at the time of the survey, and 16% had only one subsidiary or other branch. On the other hand, 77.2% (N=120) were not a subsidiary or a branch of another company (the smallest proportion among the four sites in this respect was for Red Town at 66.7%). Again, this data suggest the small scale of firms at the four sites.

Features of Production or Products of Firms

The questionnaire contains a number of questions regarding the features of production or products of firms. These questions were designed for understanding the firms’ business. Descriptions of the products/production were described in the questionnaire and the firms were asked to evaluate these descriptions in terms of applicability to their company (“strongly disagree,” “disagree,” “partly (dis)agree,” “agree,” “strongly agree”). Art studios or galleries were asked to skip these questions, as the features of their production were straightforward.

Table 7.5 summarizes the percentage of firms that agreed or strongly agreed with certain product/production description. A weighted score was calculated for each description by assigning 5, 4, 3, 2, and 1 to “strongly agree,” “agree,” “partly (dis)agree,” “disagree,” and “strongly disagree,” respectively. The higher the score, the more accurate the description of products/production for the firms. Figures in Table 7.5 show that the first four descriptions more accurately reflected the production of firms surveyed (with art studios and art galleries being excluded) than the rest. The last two descriptions were the least accurate, although over half of the firms still agreed with these descriptions. In particular, firms in the four sites tended to produce high-quality, unique, and custom-made products. In comparison, price competitiveness was less
important and standardization of products was less prevalent.

Table 7.5: Products and Production of Firms (N=95)

<table>
<thead>
<tr>
<th>Product/Production Description as Described on Questionnaire</th>
<th>% of Firms Agreed or Strongly Agreed</th>
<th>Weighted Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>K) We compete by providing high-quality products.</td>
<td>89.2%</td>
<td>4.09</td>
</tr>
<tr>
<td>E) We provide custom-made, individualized or one-off products.</td>
<td>83.5%</td>
<td>3.99</td>
</tr>
<tr>
<td>H) Our work involves a lot of artistic work.</td>
<td>82.8%</td>
<td>4.11</td>
</tr>
<tr>
<td>L) We compete by providing unique products.</td>
<td>80.9%</td>
<td>4.15</td>
</tr>
<tr>
<td>F) Our work is comprised of different projects.</td>
<td>71.6%</td>
<td>3.74</td>
</tr>
<tr>
<td>I) Our work is knowledge-intensive.</td>
<td>67.7%</td>
<td>3.78</td>
</tr>
<tr>
<td>A) We provide totally different products from our competitors.</td>
<td>66.3%</td>
<td>3.72</td>
</tr>
<tr>
<td>B) We need constantly try new methods in our production.</td>
<td>65.2%</td>
<td>3.63</td>
</tr>
<tr>
<td>G) Our production is reliant on inputs from our clients/ customers.</td>
<td>63.7%</td>
<td>3.67</td>
</tr>
<tr>
<td>D) Our products are produced in small batches.</td>
<td>63.0%</td>
<td>3.57</td>
</tr>
<tr>
<td>C) We produce according to pre-set product standards.</td>
<td>58.9%</td>
<td>3.38</td>
</tr>
<tr>
<td>J) We compete by providing cheaper products.</td>
<td>56.0%</td>
<td>3.31</td>
</tr>
</tbody>
</table>

Firms in the survey were also asked about the value of their products (both goods and services) and were allowed to choose more than one answer. Among the 118 firms that provided answers to this question, only 13 firms (11%) answered that their products offered only utilitarian value to users. Most firms provided products with certain symbolic values (such as aesthetic, artistic, cultural, recreational value, and so on) or a combination of utilitarian and symbolic values. Figure 7.1 summarizes the percentage number of firms that provided products of certain values. Clearly, a very high proportion of firms (79.7%) offered products with aesthetic or artistic value. Utilitarian
value and cultural value had the next two highest proportions at 56.8% and 50.8%, respectively. Therefore, although firms generally did not provide products only for their utilitarian value, the “usefulness” of the products remained an important feature of the firms’ products.

**Figure 7.1: Value of Products offered by Firms (N=118)**

Note: Figures in the graph represent the percentage number of firms that offered products of a certain type of value.

**Level of Success of Firms**

The firms were asked to rate the overall degree of their success, incorporating various factors such as profitability, recognition, and growth potentials, among others. Scores ranged from 0 (“not successful”) to 6 (“extremely successful”). Table 7.6 provides a summary of the responses to this question. On average, firms at Tianzifang and M50 deemed themselves more successful than firms at Creative Factory and Red Town (the difference between the means of Red Town and Tianzifang
is significant at 0.003, while the difference between the means of Red Town and M50 is significant at 0.011 (two-tailed T-test, equal variances not assumed). This is ironic given the fact that in the sample, Red Town and Creative Factory had larger and established firms.

Table 7.6: Degree of Success

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>3.9</td>
<td>31</td>
<td>1.1</td>
<td>4.0</td>
</tr>
<tr>
<td>M50</td>
<td>4.4</td>
<td>28</td>
<td>1.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Red Town</td>
<td>3.3</td>
<td>19</td>
<td>1.2</td>
<td>4.0</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>4.4</td>
<td>31</td>
<td>1.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Total</td>
<td>4.1</td>
<td>109</td>
<td>1.3</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Brief Summary

The survey data suggest that firms at the four sites were relatively new and small, offering products with significant creative content. Although the official categorization of creative industry in Shanghai may be quite arbitrary (see Chapter 1), in terms of the current state of affairs at the four clusters, a substantial number of firms at these four clusters conformed to the prototypical “creative firms” described in widely cited Western literature (e.g., Scott, 1997, 2000a, 2005). Combining the data of company profiles with information regarding the self-perceived level of successful firms, it seems that small-firm dominated clusters tended to perceive themselves as more successful than those with more large firms. However, we cannot conclude from this that smaller firms perform better overall, as the data could not establish a significant negative correlation between company size and the self-perceived degree of success [Pearson correlation coefficients at 0.076, sig. (two-tailed) at 0.439] of the firms. Many factors might be at work here.
Firms at Red Town may perceive themselves as less successful because smaller companies, which may have been over-represented in the sample, may have been overshadowed by the big “players” (many of which might have been excluded). In other words, firms may perceive success in comparative terms.

### 7.3 Location Decisions

One of the most important issues I want to address in the survey is the location choice of firms. It is an essential aspect of the formation processes of CICs in Shanghai.

*Why Shanghai?*

Companies at the four clusters were first asked why they chose to locate in Shanghai rather than other cities. A number of location factors were listed on the questionnaire and firms were asked to rate these factors in terms of their relative importance. Figure 7.2 illustrates the relative importance of different factors for their decision to locate in Shanghai. The number in the graph represents the percentage of firms that regard certain factors as important or very important\(^\text{213}\).

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\(^{213}\) I also calculated the weighted score for each location factor by assigning 5, 4, 3, 2, 1 to “very important,” “important,” “somewhat important,” “unimportant,” and “totally irrelevant.” The result is not very different from calculating the percentage number of firms choosing “very important” or “important.” This is also true for location choices of certain clusters (Figure 7.3).
Referring to Figure 7.2, all but one location factor were deemed important or very important by more than half the firms. In comparative terms, however, Factor F [accessibility to external (domestic or international) markets], stood out as Shanghai’s top location advantage (with 75.8% firms regarding it as either important or very important). It is also interesting to discover that, although Shanghai is the largest city in China, Factor E (its local market size) was not considered as important as Factor F (the city’s accessibility to the external market). This suggests that Shanghai today still maintains its historic role as a link or gateway to other parts of China, as well
as to the world.

Factors B (the city’s openness to new ideas and differences) and A [high concentration of talents (artistic, technological, and managerial)] were also considered as important or very important by approximately three-quarters of the firms. According to Florida (2002a, 2005), these two factors (“tolerance” and “talents”) are directly related to the creativity of cities. Factor T (technology) as argued by Florida, was not ranked so high (as Factor L, for example) perhaps because the sample included many small art studios and galleries that were not dependent on the levels of scientific and technological development of the city. Notably, Factor A, which ranked quite high among the entire list of factors, is reflective of the city’s “technology” as the term “talents” includes technical or technological experts as well as artistic and managerial types. In Figure 7.2, Factor K (amenities) appears as fourth and this is one of Florida's highly valued assets, as he thinks that amenity attracts footloose creative talents to certain cities. In addition, factors such as G (ease of finding business partners), E (i.e., huge market size), and D (city as a brand-name for firms and products), though not as important as the four factors previously mentioned, were considered as very important or important by approximately two-thirds of the firms.

In contrast, Factor M (the origins of the business owners) was considered the least important factor, although a very large proportion of firms (86%, N=121) in the sample were in fact established for the very first time in Shanghai. Another interesting issue revealed in the data is that overall business costs, which are usually considered one of the major concerns of business management, was not very highly regarded compared to most factors listed. Factor C (preferential policies for firm), related to business cost cutting, was also not ranked very high. The firms in the sample considered value-creation, which depends on creativity, far more important than single-minded cost-cutting by the firms in the sample. Such a result conforms to the discussion of Scott (2000a) on creative firms in advanced economies that generally have higher business costs than those in
developing countries, but nevertheless excel and win through innovation, creativity, and product differentiation. Therefore, creative firms may have chosen to stay in Shanghai not to reduce business costs (indeed business costs were higher in Shanghai than most other cities in China); but rather, to seek the creative impulses the city provided.

*Why this Location?*

Firms were also asked why they had chosen the specific cluster where they had leased space as opposed to other locations in Shanghai. Similar to Figure 7.2, Figure 7.3 shows the relative importance of different factors for a firm’s decision to locate in their respective cluster.
Figure 7.3: Why Locate in that Cluster

Note: Figures in the graph represent percentage of firms that considered a certain location factor as “very important” or “important”.

The listed location factors can be divided into two types: location attributes and cluster dynamics (Drake, 2003). Cluster dynamics can be further divided into “traded interdependencies” and “untraded interdependencies” (Storper, 1995). Referring to Figure 7.3, among the top seven factors that over 60% of the firms considered very important or important, four factors can be categorized as major location attributes, including L (prestige of the location), J (aesthetics and cultural meanings of locality), M (public attention and visibility of firms), and E (concentration of talents).
cultural meanings of locality), M (public attention and visibility of firms), and R (official designation of creative industry cluster). Among these top factors, three can be categorized as “untraded interdependencies,” including F (networking opportunities), E (concentration of talents), and D (cohesion of the cluster).

In comparison, factors that can be categorized as “traded interdependencies” and are directly related to business costs were not ranked very high. These factors include B (accessibility to inputs or intermediate products), C (closeness to business partners), and A (closeness to customers/clients). This may be because many of the commodities produced by creative firms can now be transmitted directly through the Internet, reducing the need for firms to be in close proximity to one another, although this factor should by no means be eliminated from consideration. In addition, Factor H (rental level), which is usually considered important in location choices and which had been an important consideration for earlier occupants of Shanghai CICs (see M50 case in Chapter 5), had lost its relative importance. This also demonstrates that, in relative terms, direct business cost-cutting factors were less important than factors that had greater direct impact on creativity, such as location attributes or specific factors related to cluster dynamics. This does not, however, suggest that cost-cutting factors have become unimportant. Over half of the firms regarded rental level as an important or very important factor in selecting business locations in the city.

However, some “location attributes” and factors demonstrating “untraded interdependencies” remained relatively unimportant. Only a small proportion of firms (29.1%) deemed Factor P (neighborhoods in the surrounding areas) as important or very important. This result also corroborates my observation that Shanghai CICs are generally unrelated to the communities in the

\[214\] The different rankings of factor A and N could be because firms had to go to their clients more often than the clients came to the firms.
surrounding areas. In addition, although firms ranked networking opportunities as the most important factor, other factors related to “untraded interdependencies” or institutional thickness (Amin and Thrift, 1995) such as G (mutual learning opportunities) and K (availability of supporting organizations) were not so highly regarded. The data seem to suggest that networking among firms or people had not materialized into many mutual learning opportunities. Perhaps, at this stage, networking is mainly used to increase business leads or expand business channels.

As the four clusters may have different location attributes or advantages, I also calculated the relative importance of various location factors for different clusters (Table 7.7). Notably, the sample size for each cluster is far smaller than that for all cases. More caution is needed when interpreting the data for sub-categories. In the following discussion, therefore, I will incorporate more information gathered from literature review, interviews, and site observations to cross-check the validity of survey data.

---

215 I visited 70 Shanghai CICs. During the site visits, because the location of these clusters were usually not clear to me beforehand, I had to frequently ask people on the street about the location of the cluster I intended to visit. In at least 10 instances, people who appeared to work or live in the surrounding areas (less than 50 meters away from the cluster) had no knowledge of the cluster.
### Table 7.7: Why Locate in that Cluster?

<table>
<thead>
<tr>
<th>Location Factors</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
<th>All Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>F) Networking opportunities</td>
<td>63.3</td>
<td>74.2</td>
<td>50.0</td>
<td>81.3</td>
<td>69.0</td>
</tr>
<tr>
<td>L) Prestige of the location</td>
<td>48.2</td>
<td>78.1</td>
<td>57.2</td>
<td>84.4</td>
<td>68.4</td>
</tr>
<tr>
<td>J) Aesthetics and cultural meanings of locality</td>
<td>41.3</td>
<td>73.3</td>
<td>85.7</td>
<td>77.4</td>
<td>68.4</td>
</tr>
<tr>
<td>E) Concentration of talents</td>
<td>80.0</td>
<td>74.2</td>
<td>47.6</td>
<td>60.0</td>
<td>67.0</td>
</tr>
<tr>
<td>M) Public attention and visibility of firms</td>
<td>45.2</td>
<td>78.8</td>
<td>52.4</td>
<td>79.4</td>
<td>65.6</td>
</tr>
<tr>
<td>R) Official designation of CIC</td>
<td>40.0</td>
<td>75.7</td>
<td>61.9</td>
<td>75.1</td>
<td>63.8</td>
</tr>
<tr>
<td>D) Cohesion of the cluster</td>
<td>55.2</td>
<td>56.3</td>
<td>60.0</td>
<td>71.9</td>
<td>61.0</td>
</tr>
<tr>
<td>I) Characteristics of office space</td>
<td>48.4</td>
<td>55.1</td>
<td>80.9</td>
<td>61.3</td>
<td>59.8</td>
</tr>
<tr>
<td>A) Closeness to customers/clients</td>
<td>43.3</td>
<td>74.2</td>
<td>45.0</td>
<td>68.7</td>
<td>59.3</td>
</tr>
<tr>
<td>Q) Accessibility of location</td>
<td>46.9</td>
<td>50.0</td>
<td>71.4</td>
<td>64.8</td>
<td>57.3</td>
</tr>
<tr>
<td>O) Amenities in the surrounding areas</td>
<td>45.2</td>
<td>43.8</td>
<td>55.0</td>
<td>75.8</td>
<td>55.2</td>
</tr>
<tr>
<td>H) Rent level</td>
<td>53.3</td>
<td>64.3</td>
<td>40.0</td>
<td>56.3</td>
<td>54.5</td>
</tr>
<tr>
<td>K) Availability of supporting organizations</td>
<td>71.0</td>
<td>40.7</td>
<td>40.0</td>
<td>51.7</td>
<td>52.3</td>
</tr>
<tr>
<td>N) Customer/client traffic</td>
<td>35.5</td>
<td>51.6</td>
<td>33.4</td>
<td>79.4</td>
<td>52.1</td>
</tr>
<tr>
<td>C) Closeness to business partners</td>
<td>66.7</td>
<td>46.6</td>
<td>36.8</td>
<td>34.4</td>
<td>46.8</td>
</tr>
<tr>
<td>G) Mutual learning opportunities</td>
<td>48.2</td>
<td>51.7</td>
<td>31.6</td>
<td>43.8</td>
<td>44.9</td>
</tr>
<tr>
<td>B) Accessibility to inputs or intermediate products</td>
<td>48.2</td>
<td>28.6</td>
<td>15.8</td>
<td>35.5</td>
<td>33.6</td>
</tr>
<tr>
<td>P) Neighborhoods in the surrounding areas</td>
<td>13.7</td>
<td>20.0</td>
<td>31.6</td>
<td>50.0</td>
<td>29.1</td>
</tr>
</tbody>
</table>
Note: Figures in the table represent percentage of firms (at a certain CIC or all four CICs) that considered a certain location factor as “very important” or “important”.

Comparisons among different clusters not only help us better understand the overall picture of Shanghai CICs, but also the individual clusters included in the sample. In addition, checking the validity of data for an individual site is made easier as more is known about the four clusters sampled than about the overall situation.

By referring to Table 7.7 on the Creative Factory, unlike in the overall picture, the most important factors were E (concentration of talents) and K (availability of supporting organizations). For the other three clusters, Factor K was considered far less important than for the Creative Factory. This is quite understandable given the cluster’s closeness to Tongji University and the interwoven relationships between Tongji and construction-related private design firms in the vicinity, as well as interrelations among firms themselves (Liu, 2007). In addition, factors that came after the two most important factors for Creative Factory were also related to cluster dynamics (Factors C, F, and D). Furthermore, factors such as C (closeness to business partners) and B (accessibility to inputs or intermediate products) were much more highly regarded by firms at Creative Factory than those at the three other clusters\(^{216}\). Again, these results are consistent with existing research (e.g., Liu, 2007; Xiang, 2005) and information from my interviews, as well as my own observations\(^{217}\). In contrast, factors related to “location attributes,” such as I (characteristics of

\(^{216}\) Factor A (closeness to customers/clients) was actually less important for Creative Factory than for other three clusters because design work was usually commissioned by clients from places outside of the area. This result is consistent with the results presented in Table 7.12 and 7.13 about the geographic locations of clients for firms at the four clusters.

\(^{217}\) A Tongji graduate (and a friend of mine) allowed me to use a corner of his private architectural design studio to work on my dissertation; hence, I had the chance to observe the business of his firm, as well as other firms linked to his. The studio was located near Tongji (but not in Creative Factory). The links between his studio and Tongji, and between his studio and other firms in the area, were very close. For example, five out of the six permanent employees in his studio were Tongji graduates, and there were a large number of Tongji students working for the studio on a temporary basis. The studio also used much of Tongji’s resources, ranging from academic resources, such as open seminars and formal classes for training employees, to amenities, such as canteens, cafeterias and the swimming pool, for social activities and recreation. Firms offering printing and binding, architectural rendering, and model-making services, all important intermediate products for studio work, were not only all located in the surrounding areas, but also remained open until late into the night to cater to the studio’s project-based and irregular schedule. These observations were by no means peculiar to this studio. In addition, I also had chance to interview two
office space) and J (aesthetics and cultural meaning of locality) were relatively less important for firms at Creative Factory than for the remaining clusters. This may be because firms at Creative Factory were mostly housed in non-historic buildings and firms choosing this type of buildings tend to have more utilitarian concerns.

For firms at M50, top factors included M (public attention and visibility of firms), L (prestige of the location), and R (official designation of creative industry clusters), all of which are “location attributes.” The importance of Factor R is understandable, given that M50 was one of the pioneers of the Shanghai CICs (the same is true for Tianzifang). Other important factors for M50 also included E (concentration of talents), F (networking opportunities), A (closeness to customers/clients), and J (aesthetics and cultural meanings of locality).

For firms at Red Town, factors such as J (aesthetics and cultural meanings of locality), I (characteristics of office space), and Q (accessibility of location) were ranked highest. These three factors were more important in comparison with other factors for the case of Red Town, and were far more highly regarded by firms at Red Town than by firms at other three clusters. These results are not surprising given the fact that buildings and spaces at Red Town were the most impressive among the four clusters (see Chapter 6). In addition, Red Town is closer to Shanghai’s urban rail system (and a future rail interchange) than the other three clusters; hence, their accessibility is an advantage. On the other hand, a far smaller proportion of firms at Red Town than other three clusters regarded rental level, mutual learning opportunities, and accessibility to inputs/intermediate products (factors H, G, and B) as important or very important. These results are also understandable because Red Town is the newest among the four clusters and has more well-established larger firms. These firms would be expected to have fewer business linkages.

architects: one at M50 and one at Red Town. They suggested that architectural firms chose Tongji Area for the intricate business linkages well established there as well as the support and reputation of Tongji University. (Anonymous Interviews, October 15, 2008 and June 8, 2009).
among themselves, be less sensitive to rental increases, and as less dependent on cooperation with other firms.

For firms at Tianzifang, L (prestige of the location), F (networking opportunities), M (public attention and visibility of firms), and N (customer/client traffic) were considered as the four most important factors. Moreover, these factors were more highly regarded for the case of Tianzifang than for other clusters. Owing to the fact that Tianzifang was also one of the pioneers of Shanghai CICs, it enjoys more prestige and public attention than most other CICs in Shanghai. Unlike the other three clusters included in the survey, Tianzifang had a higher proportion of retail businesses; thus, that its customer/client traffic was ranked as more important than for the other three sites is understandable. In addition, four other factors were also considered quite important for Tianzifang: J (aesthetics and cultural meanings of the locality), O (amenities in the surrounding areas), R (official designation of creative cluster), and D (cohesion of the cluster). These results are consistent with the fact that Tianzifang is located in the old French Concession and is most accessible to urban amenities among the four clusters.

Also notably, P (neighborhoods in the surrounding areas), the least important factor for the other clusters, was ranked much higher for Tianzifang (50% firms thought it important or very important). In fact, Tianzifang is the only cluster without a clear physical boundary and has been organically integrated with the surrounding communities. Although in the interviews, there were a good number of complaints about the interference between office/shop and residential uses, the survey result reveals that a high proportion of firms at Tianzifang valued the cultural and social characteristics offered in surrounding communities. In fact, a number of art studio owners at Tianzifang mentioned they liked to observe the quotidian life of a traditional Shanghai neighborhood, as well as enjoyed being part of it.
Importance of Location Decisions

The firms were asked to rate the importance of location decisions on the success of their business in terms of values from 0 (“not important”) to 6 (“extremely important”). Table 7.8 provides a summary.

Table 7.8: Importance of Location Decisions

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>4.00</td>
<td>32</td>
<td>1.39</td>
</tr>
<tr>
<td>M50</td>
<td>4.48</td>
<td>33</td>
<td>1.50</td>
</tr>
<tr>
<td>Red Town</td>
<td>4.10</td>
<td>21</td>
<td>1.34</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>4.76</td>
<td>34</td>
<td>1.28</td>
</tr>
<tr>
<td>All Samples</td>
<td>4.37</td>
<td>120</td>
<td>1.40</td>
</tr>
</tbody>
</table>

The results suggest that on general, firms thought location decision was quite important for firm’s success. Table 7.9 shows us how satisfied the firms were with their business locations. Firms were asked to rate the satisfaction level between 0 (“not satisfied”) and 6 (“extremely satisfied”).

Table 7.9: Level of Location Satisfaction

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>3.73</td>
<td>30</td>
<td>1.28</td>
</tr>
<tr>
<td>M50</td>
<td>3.85</td>
<td>33</td>
<td>1.00</td>
</tr>
<tr>
<td>Red Town:</td>
<td>3.38</td>
<td>21</td>
<td>1.53</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>3.80</td>
<td>35</td>
<td>1.49</td>
</tr>
<tr>
<td>All Samples</td>
<td>3.72</td>
<td>119</td>
<td>1.32</td>
</tr>
</tbody>
</table>
Table 7.9 reveals that the level of satisfaction for firms in M50, Tianzifang, and Creative Factory were higher than for those in Red Town, although the difference is not very significant. This result is interesting because Red Town not only had more established and big firms, but also had the strongest backing from the government and commercial interests, while the other three clusters were mainly formed on a spontaneous basis in the early stage. In addition, firms at Red Town tended to regard themselves less successful than firms at the other three localities (Table 7.6). Again, the data about location decisions demonstrates that clusters with bigger and more well-established firms did not necessarily fare better.

A Brief Summary

In making location decisions, firms were generally more concerned with value creation in their own business than with cost reduction. However, there were substantial variations with regard to location decisions among firms in the four clusters. Firms at Creative Factory were more inclined toward benefiting from cluster dynamics, while firms at the other localities were more interested in several “location attributes.” Except for Tianzifang, firms at the other clusters were not quite so interested in getting integrated with surrounding communities. In addition, although location decision was considered as an important business decision by firms in all the clusters, the location satisfaction level at Red Town was the lowest. Indeed, I personally heard the largest number of tenant complaints in Red Town while doing the survey.218

218 Most complaints at Red Town were regarding the poor management services, building qualities and the inadequacy of infrastructure services.
7.4 Cluster Ecology

Formal business linkages among firms in a region are considered as an important part of the agglomerative economy because firms not only reduce their transaction costs by staying close to each other, they also share many important resources, whether infrastructure, talent pools, supporting organizations, among others. On the other hand, linkages from distant places can also be helpful to firms in the sense of providing novel ideas and wider customer base. This part of the survey is primarily concerned with the spatial distribution of firm business linkages, whether physically near or distant.

Location of Business Linkages

Firms were asked to choose the location where the largest number of their suppliers was located. Similar questions were asked for the location of business partners, institutional clients/customers, and final customers. Tables 7.10—7.13 reveal the locations of these business linkages for firms at the four clusters219.

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219 In the originally designed questionnaire, I asked the respondents to provide the percentage of linkages in all the listed localities. Two people who did the pre-test recommended that I simplify the question as it was very hard to provide specific percentages and that this not only would affect the accuracy of the information, but also reduce the respondents’ willingness to complete the survey. Therefore, I simplified the survey questions by making them into multiple-choice questions. However, by doing so, I could potentially obtain less detailed information. I regarded the risk of discouraging people from completing the survey far greater than the risk of getting less detailed information.
Table 7.10: Locations of Major Suppliers

<table>
<thead>
<tr>
<th>Distance</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
<td>%</td>
</tr>
<tr>
<td>&lt;=1km</td>
<td>12</td>
<td>37.5</td>
<td>2</td>
<td>6.5</td>
</tr>
<tr>
<td>In Shanghai but &gt;1km</td>
<td>12</td>
<td>37.5</td>
<td>17</td>
<td>54.8</td>
</tr>
<tr>
<td>In China but outside of Shanghai</td>
<td>7</td>
<td>21.9</td>
<td>6</td>
<td>19.4</td>
</tr>
<tr>
<td>Overseas</td>
<td>1</td>
<td>3.1</td>
<td>6</td>
<td>19.4</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>100</td>
<td>31</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 7.11: Locations of Major Business Partners

<table>
<thead>
<tr>
<th>Distance</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
<td>%</td>
</tr>
<tr>
<td>&lt;=1km</td>
<td>5</td>
<td>19.2</td>
<td>1</td>
<td>5.3</td>
</tr>
<tr>
<td>In Shanghai but &gt;1km</td>
<td>16</td>
<td>61.5</td>
<td>9</td>
<td>47.4</td>
</tr>
<tr>
<td>In China but outside of Shanghai</td>
<td>5</td>
<td>19.2</td>
<td>5</td>
<td>26.3</td>
</tr>
<tr>
<td>Overseas</td>
<td>0</td>
<td>0.0</td>
<td>4</td>
<td>21.1</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100</td>
<td>19</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 7.12: Locations of Major Institutional Clients/Customers

<table>
<thead>
<tr>
<th>Distance</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
<td>%</td>
</tr>
<tr>
<td>&lt;=1km</td>
<td>3</td>
<td>10.3</td>
<td>1</td>
<td>6.3</td>
</tr>
<tr>
<td>In Shanghai but &gt;1km</td>
<td>9</td>
<td>31.0</td>
<td>4</td>
<td>25.0</td>
</tr>
<tr>
<td>In China but outside of Shanghai</td>
<td>16</td>
<td>55.2</td>
<td>5</td>
<td>31.3</td>
</tr>
<tr>
<td>Overseas</td>
<td>1</td>
<td>3.4</td>
<td>6</td>
<td>37.5</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>100</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Clearly, among the four, Creative Factory was the most localized cluster. Firms at Creative Factory had not only the largest proportion of suppliers, institutional clients/customers and business partners in the surrounding area (<=1 km), they also tended to have the largest proportion of business linkages in Shanghai (both <=1 km and > 1km) as well (except for institutional clients/customers for which Creative Factory was about the same as Tianzifang, see Table 7.12). In contrast, short-distance business linkages for the other three clusters were quite limited, particularly for Red Town and M50. However, in absolute terms, although the majority of business

Table 7.13: Locations of Major Final Customers

<table>
<thead>
<tr>
<th>Distance</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>%</td>
<td>Count</td>
<td>%</td>
</tr>
<tr>
<td>In Shanghai</td>
<td>5</td>
<td>38.5</td>
<td>7</td>
<td>23.3</td>
</tr>
<tr>
<td>In China but outside of Shanghai</td>
<td>8</td>
<td>61.5</td>
<td>4</td>
<td>13.3</td>
</tr>
<tr>
<td>Overseas</td>
<td>0</td>
<td>0.0</td>
<td>19</td>
<td>63.3</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>100</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>
suppliers and partners for Creative Factory firms were concentrated in the surrounding areas or in Shanghai, their market areas were largely spread across various parts of China.

However, in terms of overseas linkages, Tianzifang and M50 stood out. Particularly notable was the fact that the majority of final customers of firms in both these two clusters were from overseas (Table 7.13). In the survey, a few respondents at Tianzifang revealed that 100% of their products were sold to the international market. In contrast, Creative Factory had the least proportion of business linkages from overseas (Table 7.10—7.13). For Red Town firms, their main business linkages were spread across various parts of China, although Shanghai was also an important node.

Communication Channels

An important reason for firms to stay in proximity with one another was face-to-face contact, which is irreplaceable in doing business. Therefore, the survey asked the firms to rate the importance of three major ways of communication, namely, face-to-face contact, telephone/cellular phones and web-based contact, with scores ranging from 0 (“not important”) to 6 (“extremely important”). Table 7.14 presents the results. As the absolute scores can be quite arbitrary, it is more meaningful to examine the relative importance of the three types of communication for firms surveyed.

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220 Also note that more firms at these two clusters are serving final customers than serving institutional clients/customer (Table 7.12—7.13, see “count”).
Table 7.14: Mean Scores for Different Types of Communications

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Face-to-face Contact</th>
<th>Phones</th>
<th>Web-based Contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>5.06</td>
<td>4.65</td>
<td>4.35</td>
</tr>
<tr>
<td>M50</td>
<td>5.23</td>
<td>4.45</td>
<td>4.97</td>
</tr>
<tr>
<td>Red Town</td>
<td>5.26</td>
<td>4.56</td>
<td>4.68</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>5.12</td>
<td>3.97</td>
<td>3.45</td>
</tr>
<tr>
<td>All Samples</td>
<td>5.16</td>
<td>4.38</td>
<td>4.32</td>
</tr>
<tr>
<td>(N=114)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The mean scores for face-to-face contact were consistently higher than those for phones and web-based contact, while the difference in scores between phones and web-based contacts was not quite clear. The data suggest that firms in today’s new economy sectors remain very dependent on the oldest way of communication in doing business.

*Human Resource Needs and Strategies*

Talents were a major competitive edge for today’s creative industry firms. With *hukou* policy\(^{221}\) still in effect, human resource is a far less mobile factor of production than capital in today’s China. Exploring the fluidity of the labor market for Shanghai’s creative industries is important for understanding the formation of the city’s CICs. In the survey, the firms were asked to estimate the proportion of their employees from different geographic areas, including: Shanghai (defined as those with a Shanghai *hukou*), China (excluding Shanghai) and overseas. Incorporating answers about the total number of formal employees, the percentage number of employees from different

\(^{221}\) Although the restrictions on granting *hukou* (an official household registration document for Chinese nationals) to migrants had been relaxed in recent years, the policy is still in existence in China. As migrants without *hukou* are less able to obtain social security protection or social services from the local government, *hukou* restriction could become a barrier for people to move to other places of the country. Although well-educated people have better chances of getting Shanghai *hukou*, the annual quota, as well as the complicated procedure of obtaining Shanghai *hukou*, could still become an obstacle for talents from other parts of China to move to Shanghai.
geographic areas can be calculated for each cluster\(^{222}\). The results are presented in Table 7.15.

Table 7.15: Average Percentage of Employees from Certain Geographic Areas

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>from Shanghai %</th>
<th>from China (not SH) %</th>
<th>from Overseas %</th>
<th>Total %</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>47.8</td>
<td>51.8</td>
<td>0.4</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td>M50</td>
<td>40.7</td>
<td>57.0</td>
<td>2.3</td>
<td>100</td>
<td>22</td>
</tr>
<tr>
<td>Red Town</td>
<td>43.3</td>
<td>51.5</td>
<td>5.2</td>
<td>100</td>
<td>18</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>40.9</td>
<td>43.3</td>
<td>15.8</td>
<td>100</td>
<td>23</td>
</tr>
<tr>
<td>All Samples</td>
<td>45.0</td>
<td>51.7</td>
<td>3.3</td>
<td>100</td>
<td>94</td>
</tr>
</tbody>
</table>

It needs to be noted that it is difficult to define whether a person is from Shanghai. Some people came to Shanghai to attend university from another part of China, but had found jobs in the city after graduation and had remained there (usually obtaining a local *hukou* in the process). Some people may regard these people as coming from Shanghai, but others may regard them as immigrants from other part of China. To standardize the answers, I define people from Shanghai as having a Shanghai *hukou*. However, this tends to overestimate the number of people or talented employees who were Shanghai citizens from the start (i.e., those raised in Shanghai before attending tertiary educational institutions) and underestimate those from elsewhere in China.

Referring to Table 7.15, the majority of employees (55%) in the firms that had provided answers came from outside of Shanghai. Given the potential bias of the data just mentioned, the real proportion of “outside talents” could be even higher. This means that creative industries in

\(^{222}\) Only cases that provided information on both the number of employees and the percentage number from different geographic areas can be used in the calculation. Therefore, “N” is generally smaller in Table 7.15 than in Table 7.16.
Shanghai were very reliant on these outside talents, despite restrictions on *hukou*. In other words, creative industries in Shanghai served as a pull to talents from across the country, even from overseas. Although employees from overseas did not comprise a large proportion of the total (only 3.3% for all samples), they were present in all four clusters surveyed. Figures in Table 7.16 indicate that creative firms employing foreigners was a common practice in some CICs.

Tianzifang not only had the highest proportion of firms with foreign employees, it also had the largest proportion of foreign talents (15.8%). In terms of these two indicators, Creative Factory was the least internationalized. Given the fact that foreigners only accounted for a tiny proportion of Shanghai’s workforce, the figure for Tianzifang was quite remarkable.

**Table 7.16: Percentage of Firms with Employees from Overseas**

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Percentage</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>6.5</td>
<td>31</td>
</tr>
<tr>
<td>M50</td>
<td>11.5</td>
<td>26</td>
</tr>
<tr>
<td>Red Town</td>
<td>26.3</td>
<td>19</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>37.5</td>
<td>24</td>
</tr>
<tr>
<td>All Samples</td>
<td>19.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Firms were also asked about their methods of recruitment. They could select all the answers that applied to them. Figure 7.4 presents the results for all samples. Among the 96 firms that answered

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223 In reality, Shanghai’s popularity as a destination for domestic migrants has made Shanghai *hukou* one of the most difficult to obtain in China.

224 No specific figures about the proportion of foreigners in Shanghai’s workforce could be found. However, according to Shanghai Statistic Yearbook 2007, in 2006, there were altogether 115,326 foreigners in Shanghai holding a residence permit (foreigners must get this permit to work in Shanghai) while the total number of people in Shanghai holding jobs were 8,855,100. (Website of Shanghai Statistical Bureau, [http://www.stats-sh.gov.cn/2003shtj/tjnj/npj07.htm?d1=2007tjnj/C0313.htm](http://www.stats-sh.gov.cn/2003shtj/tjnj/npj07.htm?d1=2007tjnj/C0313.htm), [http://www.stats-sh.gov.cn/2003shtj/tjnj/npj07.htm?d1=2007tjnj/C0314.htm](http://www.stats-sh.gov.cn/2003shtj/tjnj/npj07.htm?d1=2007tjnj/C0314.htm), accessed Oct. 20, 2008). The proportion of former figure over the latter is calculated as 1.30%. In reality, 1.30% is a big overestimation of the proportion of foreign workers in Shanghai’s workforce because those holding residence permits also included family members of foreign workers and foreign students. Also, according to the Xinmin Evening News (Lu, Yannan, “‘Yang Jumin’ Canyu ‘Zijia Dashi’ [‘Foreign Residents’ Involved in ‘Our Own Business’],” May 29, 2009, A12), the number of foreigners working in Shanghai was approximately 50,000 by the end of 2006. If this figure is used, the proportion of foreign workers in Shanghai’s workforce was only approximately 0.565% by 2006.
this question, 57.3% used “ads in the public media.” Also notable is that over half of firms (51%) recruited employees through informal means, such as personal networks. This again demonstrates that new economy firms do use many traditional methods in running their businesses. In addition, approximately one-third of the firms had potential employees first knocking their doors and sending in their resumes (another informal way of recruitment), instead of these firms needing to formally post job vacancy ads to attract applicants. This also suggests that many firms have access to a ready pool of talents even before recruitment needs arise.

**Figure 7.4: Ways of Recruitment for Firms (All Samples)**

![Graph showing ways of recruitment for firms](image)

Note: Figures in the graph represent the percentage of firms using a certain way of recruitment.

It is also interesting to compare the results among the four clusters. Table 7.17 presents a comparison. In fact, for firms at M50, Red Town, and Tianzifang, personal networks were the main channel for finding talents. Particularly interesting is the case of Red Town, which had more
established firms. Firms there were very dependent both on informal personal networks, as well as formal and costly ways of “ads in public media” and “recruitment agencies” for their human resource needs. In contrast, “unscheduled visits” were less frequently used in Red Town than in other clusters. This is to be expected, given the difficulty of accessing the firms at Red Town, which I and my research assistant had experienced when trying to send out the questionnaires to its firms. Another interesting case is M50. Firms there were more reliant on “unscheduled visits” than firms in the other three clusters. This is consistent with the fact that M50 was not only well-known, but also very accessible for newcomers. On the other hand, M50 firms were least dependent on the “company website” for recruitment needs among the four clusters. Given the fact that M50 had a large number of small-scale art studios that depended on the M50 website for internet publicity, this result is understandable. In addition, “ads in public places,” perhaps the most informal way of recruitment listed in the questionnaire, were found in use only among firms at M50 and Tianzifang, although it remained an unimportant way of recruitment.
Table 7.17: Ways of Recruitment

<table>
<thead>
<tr>
<th>Way of Recruitment</th>
<th>All Samples</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(N=96)</td>
<td>(N=31)</td>
<td>(N=25)</td>
<td>(N=18)</td>
<td>(N=22)</td>
</tr>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Ads in Public Media</td>
<td>57.3</td>
<td>74.2</td>
<td>56.0</td>
<td>55.6</td>
<td>36.4</td>
</tr>
<tr>
<td>Personal Network</td>
<td>51.0</td>
<td>35.5</td>
<td>60.0</td>
<td>61.1</td>
<td>54.5</td>
</tr>
<tr>
<td>Unscheduled visit</td>
<td>33.3</td>
<td>32.3</td>
<td>52.0</td>
<td>16.7</td>
<td>27.3</td>
</tr>
<tr>
<td>Recruitment Agency</td>
<td>32.3</td>
<td>29.0</td>
<td>28.0</td>
<td>50.0</td>
<td>27.3</td>
</tr>
<tr>
<td>Company Website</td>
<td>29.2</td>
<td>38.7</td>
<td>16.0</td>
<td>33.3</td>
<td>27.3</td>
</tr>
<tr>
<td>Ads in Public Places</td>
<td>5.2</td>
<td>0.0</td>
<td>12.0</td>
<td>0.0</td>
<td>9.1</td>
</tr>
<tr>
<td>Other</td>
<td>2.1</td>
<td>0.0</td>
<td>0.0</td>
<td>5.6</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Note: The figures in the table represent the percentage of firms (at a certain CIC or at all four CICs) using a certain way of recruitment.

Job-hopping is a common phenomenon among employees of creative firms (Saxenian, 1994). This was also the case for the firms surveyed. They were asked to estimate the percentage of firms in their respective business area that frequently faced job-hopping problems. The average figures for the four clusters were 43% (for Tianzifang, N=20), 44.84% (for Creative Factory, N=31), 47.50% (for M50, N=24) and 50.59% (for Red Town, N=17). The figure for the whole sample was 46.20% (N=92).

Sources of Creativity

Creativity is, of course, the master key to creative industries. Among the 102 firms that provided
answers to this question, 94 (92.16%) thought that their success was dependent on human creativity. The survey also tried to find other sources of creativity. Figure 7.5 presents the importance of different creativity factors for firms. As is evident from the data, sources of creativity mainly came from within the firms themselves, rather than from outside. The top two factors, “teamwork within the enterprise” and “individual capability,” were factors internal to firms themselves. The fourth factor in ranking, “management styles,” was also pertinent to the internal business of the firm. Although the third most important factor, “customer/client demand,” came from outside the firms, it was directly related to the firm’s business. The three factors that were ranked the lowest were from the external environment or the cluster dynamics. They seemed far less important to the firms than internal features. This suggests that the four clusters had not developed in a way that would provide positive externalities to stimulate the firms’ own creativity. That said, we must acknowledge the fact the survey did not differentiate the types of business when examining the firms’ sources of creativity. Different types of business may have different degrees of reliance on external resources or stimulants. Art studios, which are usually quite small and informal, generally do not have plenty of business linkages with other businesses. Neither do they need external talents. Therefore, they tend to be more reliant on themselves than firms engaged in productions that are more complex.
Figure 7.5: Sources of Creativity (All Samples, N=94)

Note: Figures in the table represent percentage of firms regarded a certain source of creativity as relevant.

Table 7.18 compares the results among different clusters. Firms at Creative Factory, even with better business linkages, were still highly dependent on factors internal to firms for creativity. However, in comparative terms, external factors such as “(in)formal social interactions” and “cooperation among firms” were far more important for Creative Factory than for the other three clusters. Firms in Red Town were the least dependent on factors from the environment and cluster dynamics; this is another unsurprising conclusion. What remains perplexing is that firms at M50, Red Town, and Tianzifang, which were based in old industrial buildings, were no more dependent on external stimulation than those at Creative Factory. Although firms tended to regard “aesthetic and cultural meanings of a locality” as an important location factor (see Figure 7.3), aesthetics and cultural values perhaps benefit firms more in terms of prestige of a locality than in terms of sources of creativity. In addition, Tongji University, as an important institution in the vicinity and with its
thick academic and research atmosphere, perhaps could help stimulate the creativity of firms at Creative Factory.

Table 7.18: Sources of Creativity

<table>
<thead>
<tr>
<th>Sources of Creativity</th>
<th>All Samples (N=94)</th>
<th>Creative Factory (N=27)</th>
<th>M50 (N=26)</th>
<th>Red Town (N=15)</th>
<th>Tianzifang (N=26)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teamwork within the Enterprise</td>
<td>70.2%</td>
<td>96.3%</td>
<td>57.7%</td>
<td>60.0%</td>
<td>61.5%</td>
</tr>
<tr>
<td>Individual Capability</td>
<td>68.1%</td>
<td>74.1%</td>
<td>69.2%</td>
<td>53.3%</td>
<td>69.2%</td>
</tr>
<tr>
<td>Customer/Client Demand</td>
<td>51.1%</td>
<td>55.6%</td>
<td>42.3%</td>
<td>40.0%</td>
<td>61.5%</td>
</tr>
<tr>
<td>Management Styles</td>
<td>30.9%</td>
<td>40.7%</td>
<td>30.8%</td>
<td>33.3%</td>
<td>19.2%</td>
</tr>
<tr>
<td>Stimulation from Environment</td>
<td>27.7%</td>
<td>29.6%</td>
<td>26.9%</td>
<td>26.7%</td>
<td>26.9%</td>
</tr>
<tr>
<td>(In)formal Social Interactions</td>
<td>16.0%</td>
<td>25.9%</td>
<td>15.4%</td>
<td>6.7%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Cooperation among Firms</td>
<td>12.8%</td>
<td>25.9%</td>
<td>7.7%</td>
<td>0.0%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

Note: Figures in the table represent percentage of firms (at a certain CIC or at all four CICs) that regarded a certain source of creativity as relevant.
For all clusters, “customer/client demand” is an important source of creativity, including M50, which has a high concentration of art studios. However, among the 16 art studios in the entire sample that provided answers to this question, only three (18.75%) regarded customer/client demand as the source of their creativity. Therefore, art studios are generally less commercial-oriented than firms at the overall level.

**Supporting Institutions**

To evaluate the institutional thickness of the four clusters, the survey asked firms to choose the types of organizations that they thought could benefit them (but might not be accessible) and the types of organizations that they had access to. Table 7.19—7.20 present the results for these two questions.
Table 7.19: Organizations that Could Benefit Firms

<table>
<thead>
<tr>
<th>Types of Organizations</th>
<th>Cluster Name</th>
<th>All Samples (N=111)</th>
<th>Creative Factory (N=30)</th>
<th>M50 (N=30)</th>
<th>Red Town (N=20)</th>
<th>Tianzifang (N=31)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Educational or training institutions</td>
<td>32.4</td>
<td>60.0</td>
<td>23.3</td>
<td>15.0</td>
<td>25.8</td>
<td></td>
</tr>
<tr>
<td>Business associations</td>
<td>28.8</td>
<td>20.0</td>
<td>16.7</td>
<td>40.0</td>
<td>41.9</td>
<td></td>
</tr>
<tr>
<td>Regulatory bodies</td>
<td>24.3</td>
<td>30.0</td>
<td>26.7</td>
<td>20.0</td>
<td>19.4</td>
<td></td>
</tr>
<tr>
<td>Promotional organizations</td>
<td>24.3</td>
<td>26.7</td>
<td>23.3</td>
<td>15.0</td>
<td>29.0</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>19.8</td>
<td>36.7</td>
<td>16.7</td>
<td>15.0</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td>Professional organizations</td>
<td>19.8</td>
<td>23.3</td>
<td>13.3</td>
<td>25.0</td>
<td>19.4</td>
<td></td>
</tr>
<tr>
<td>Workers' associations</td>
<td>4.5</td>
<td>10.0</td>
<td>0.0</td>
<td>5.0</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1.8</td>
<td>0.0</td>
<td>3.3</td>
<td>0.0</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>None is useful</td>
<td>18.9</td>
<td>10.0</td>
<td>33.3</td>
<td>20.0</td>
<td>12.9</td>
<td></td>
</tr>
</tbody>
</table>

Note: The figures in the table represent the percentage of firms (at a certain CIC or at all four CICs) that regarded a certain type of organization as important.
Table 7.20: Organizations that were Accessible to Firms

<table>
<thead>
<tr>
<th>Types of Organizations</th>
<th>Cluster Name</th>
<th>All Samples (N=107)</th>
<th>Creative Factory (N=31)</th>
<th>M50 (N=29)</th>
<th>Red Town (N=19)</th>
<th>Tianzifang (N=28)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Business associations</td>
<td>22.4</td>
<td>22.6</td>
<td>20.7</td>
<td>15.8</td>
<td>28.6</td>
<td></td>
</tr>
<tr>
<td>Regulatory bodies</td>
<td>21.5</td>
<td>29.0</td>
<td>6.9</td>
<td>31.6</td>
<td>21.4</td>
<td></td>
</tr>
<tr>
<td>Promotional organizations</td>
<td>18.7</td>
<td>25.8</td>
<td>13.8</td>
<td>10.5</td>
<td>21.4</td>
<td></td>
</tr>
<tr>
<td>Professional organizations</td>
<td>17.8</td>
<td>25.8</td>
<td>10.3</td>
<td>15.8</td>
<td>17.9</td>
<td></td>
</tr>
<tr>
<td>Educational or training institutions</td>
<td>16.8</td>
<td>41.9</td>
<td>6.9</td>
<td>5.3</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>8.4</td>
<td>12.9</td>
<td>6.9</td>
<td>5.3</td>
<td>7.1</td>
<td></td>
</tr>
<tr>
<td>Workers' associations</td>
<td>2.8</td>
<td>6.5</td>
<td>0.0</td>
<td>0.0</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1.9</td>
<td>0.0</td>
<td>3.4</td>
<td>0.0</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td><em>None is accessible</em></td>
<td>45.8</td>
<td>29.0</td>
<td>58.6</td>
<td>63.2</td>
<td>39.3</td>
<td></td>
</tr>
</tbody>
</table>

Note: Figures in the table represent the percentage of firms (at a certain CIC or at all four CICs) that had access to a certain type of organization.

Firms in general did not think very highly of the roles of supporting institutions (e.g., in Table 7.19, the highest percentage was only 32.4% for all samples and a rather large proportion of firms chose “none is useful”). Perhaps firms had not yet realized the importance of institutional thickness at the
time of the survey or the supporting institutions (if they existed) had not been providing useful services to firms. On the other hand, by comparing the numbers in Table 7.19 and 7.20, the percentage of firms that judged certain institutions as important was generally higher than the percentage of those that actually had access to such an institution. This indicated the gap between what was useful and what was available. The gap was wider for those institutions that could provide hidden and long-term support (such as educational and training organizations, and R&D institutions) than those that had more conspicuous and short-term impacts (such as business associations, regulatory bodies, or promotional organizations that tended to have direct effect on firms’ financial/economic performance). In terms of educational and training organizations, they were considered by firms (all samples) as the most useful type. However, except for Creative Factory, which was closely connected to Tongji University, the remaining clusters had little access to them. Even for Creative Factory, the gap between needs and reality was quite large (60% Vs 41.9%).

Referring to Table 7.20, the absence of institutional thickness could also be demonstrated by the high percentage of firms that chose the answer “none is accessible” (45.8% for all samples). In comparative terms, Red Town seemed to have the least developed institutional support system, while Creative Factory, with a major university nearby, was the best among the four. Given the fact that Red Town was not only newer than other three but also had many large and self-contained companies, this result is quite understandable.

Notably, workers’ associations were neither highly regarded by firms nor readily available to them. The state-sanctioned workers’ unions commonly found in SOEs were not found in the private firms at the four clusters. In reality, self-organized workers’ associations are in reality not allowed by the government\(^\text{225}\). For firms, the political risks of allowing such organizations to exist far

\(^{225}\text{In China, most state-owned firms have Workers’ Unions sanctioned by the government (although not self-organized). Aside from helping the government implement policies, Workers’ Unions usually help organize social activities in the organization.}\)
exceed their potential benefit. This aspect was revealed by several of respondents. Occasionally workers may resort to an unregistered type\textsuperscript{226} (usually without a formal structure); however, such an organization would quickly become dysfunctional.

\textit{A Brief Summary}

The four clusters included in the sample have demonstrated different cluster characteristics:

1) Creative Factory had relatively dense local production networks and mainly served the mass market in China. This is consistent with Tongji’s reputation in China and the firms' intention to deploy the brand-name “Tongji” in their client relations.

2) Red Town, with bigger and more established firms, depended on production linkages in Shanghai and other parts of China. They had major markets throughout China.

3) M50 and Tianzifang, with numerous small-scale creative firms, depended on production linkages in Shanghai and other parts of China. They mainly served the international market.

The majority of employees came from outside of Shanghai. Firms in Tianzifang had the largest proportion of workers from outside Mainland China, although foreigners remained in the minority. In terms of the sources of creativity, most firms depended on factors internal to the firms, rather than stimulation from the environment. In addition, the data do not suggest significant institutional thickness of the clusters. Even for Creative Factory, which enjoyed better institutional support than the other three, there still existed a large gap between what was potentially needed and what was available.

\textsuperscript{226} Note that Saich’s (2000) paper suggests that unregistered social organizations were a way for the Chinese society to evade the Leninist control by the state.
7.5 Space Use and Urban Planning

The last part of the survey was concerned with issues related to space usage and urban planning. This part is important for understanding existing problems, as well as providing solutions in future planning.

Rental Issues

Almost all firms surveyed were renters. Table 7.21 summarizes rental levels for the four clusters. As the majority of firms did not provide this information, data on rental levels at the four clusters may not be very accurate.

Table 7.21: Rental Levels at the Four CICs

<table>
<thead>
<tr>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB/m²/day</td>
<td>RMB/m²/day</td>
<td>RMB/m²/day</td>
<td>RMB/m²/day</td>
</tr>
<tr>
<td>(USD/ m²/day)</td>
<td>(USD/ m²/day)</td>
<td>(USD/ m²/day)</td>
<td>(USD/ m²/day)</td>
</tr>
<tr>
<td>1.5~5</td>
<td>1.5~6</td>
<td>4~8</td>
<td>2~10</td>
</tr>
<tr>
<td>(0.22~0.74)</td>
<td>(0.22~0.88)</td>
<td>(0.59~1.18)</td>
<td>(0.29~1.47)</td>
</tr>
</tbody>
</table>

Note: Exchange rate was calculated at 6.8RMB/USD

Rents in a cluster usually varied depending on many factors, such as the location in a cluster, levels in a building, building quality, types of uses—commercial or office, art studios, or design firms, among others. The rental levels ranged between 1.5 RMB/m²/day and 10 RMB/m²/day in the four

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227 Only one company in Creative Factory was the de facto owner of the space. As the land of the four clusters was still designated as “industrial” land, the Municipal Government forbade the de facto property owners to sell the space to existing users. Therefore, renting was the only alternative for newcomers.
clusters. In general, the rental level at Creative Factory was the lowest among the four. Taking into consideration the rental level for offices in Shanghai at the time\textsuperscript{228}, the lower end is quite reasonable. Owing to the high-end rental range mainly applied to commercial spaces within the clusters, which tended to be substantially higher than similar spaces used for offices, even the high-end spaces cannot be regarded as very expensive. However, most firms at the four clusters were start-ups with very limited financial resources. Rent is therefore a heavy burden for them; this aspect will be further explored in the next few questions.

The firms were also asked about their alternatives if high rents forced them to move. Figure 7.6 presents the results. It can be seen that the majority of firms were indeed facing the threat of rental hikes. Among the four clusters, Creative Factory, which is located further away from the city’s major commercial districts, was least threatened by rental increases. It was also the cluster that had the smallest proportion of firms that thought current rental levels to be unbearable. For the other three clusters, about half the firms facing rental increases consider the current rents as unsustainable.

\textsuperscript{228} According to Wenhui-Xinmin United Press Group website, (Liu, Xiuhao, January 15, 2009, “Shanghai’s Office Rents Returned to 2007 Level”), \url{http://www.news365.com.cn/wxpd/ls/sydc/200901/t20090115_2166199.htm} (accessed May 12, 2009); at the end of 2008, the average rental level for A-grade office in Shanghai was 8.1 RMB/m\textsuperscript{2}/day. (The survey was conducted between February 16 and 27, 2009). However, for commercial spaces, which usually occupy lower floors, the rates could be several times higher.
The questionnaire also asked what the firms would do if their rent increased to unbearable levels. Figure 7.7 provides the results for all samples. It can be seen that half of firms (50%) would still choose to locate in CICs (either in the original cluster but renting smaller space or relocate to a CIC with cheaper rents). Indeed, for some firms, the official title of CIC not only helped enhance the prestige of a cluster, but also offered a layer of protection for the buildings they occupy. In contrast, slightly less than half of firms (47%) would still choose their original areas (either in the original cluster or relocate to another cheaper place in the same area). Only 17% would consider any other place in Shanghai. Alternatives provided by the firms include “move to other cities.”

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229 This aspect was revealed by some respondents in the survey as well as a few of interviewees.
“wait and see,” and “move to the location of headquarters,” among others.

**Figure 7.7: Relocation Choices of Firms if Rents Become Too High (N=100)**

Table 7.22 provides some comparisons among clusters. It can be seen that M50 was most reliant on the name of creative industry cluster (74.1% would choose to stay there). This was an unsurprising result for M50, one of the pioneers of Shanghai CICs (Tianzifang came in second at 51.9%). Among the four clusters, Creative Factory seemed to be the “stickiest place” (Markusen, 1996) (58.6% said they would stay in the same area), showing once again the irreplaceable importance of Tongji University to firms located at the Factory. On the other hand, firms at M50 were most attached to their cluster (one-third would still stay there, though choosing to make-do with smaller spaces). In contrast, firms at Red Town neither wanted to remain in the original area.
nor move to some other Shanghai CIC. This result is consistent with the fact that Red Town was the newest of the four, as well as the most dissatisfied with their existing office location.

### Table 7.22: What Firms Would Do if They Were Forced to Move

<table>
<thead>
<tr>
<th>Name of Cluster</th>
<th>% of Firms Choosing Same Area</th>
<th>% of Firms Choosing CICs</th>
<th>% of Firms Choosing Original Cluster</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>58.6</td>
<td>34.5</td>
<td>20.7</td>
<td>29</td>
</tr>
<tr>
<td>M50</td>
<td>44.4</td>
<td>74.1</td>
<td>33.3</td>
<td>27</td>
</tr>
<tr>
<td>Red Town</td>
<td>35.3</td>
<td>35.3</td>
<td>11.8</td>
<td>17</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>44.4</td>
<td>51.9</td>
<td>29.6</td>
<td>27</td>
</tr>
</tbody>
</table>

Note: Figures in the table represent percentage of firms (in a certain CIC) making a certain relocation choice.

**Evaluation of CIC Policy**

Firms were also asked about the overall impact of awarding a CIC designation by the government. Among the 112 firms that provided answers, the majority (59.8%) regarded the overall impact as positive. In contrast, only 0.9% regarded it as negative. However, quite a high proportion (25.9%) deemed the awarding as having no significant impact. This was particularly true for Creative Factory (40% chose “having no significant impact”), another unsurprising result. When I was doing the survey, a number of respondents in Creative Factory were unaware of the fact that they were located in an officially designated CIC. One had never even heard of this moniker.

**Planning Measures**

Respondents were asked to rate the importance of several planning measures concerning the
cluster they were staying in. These questions were designed to identify existing problems as well as future planning priorities. Figure 7.8 summarizes the results for all samples, while Table 7.23 provides a comparison among the four clusters. Figure 7.8 shows that all but one measure were considered "important" or "very important" by over half of the firms, suggesting that almost all of these measures can be considered quite important. However, in comparative terms, there were substantial differences among measures. It is clear that B (check rental increase) stood out as the most important planning measure. A high percentage of firms regarded it as "very important" or "important," and the result also applied across the board (Table 7.23). The measure H (enhance accessibility) also ranked very high for all four clusters. The other three measures, namely, C (conserve buildings), K (market the cluster), and H, were also important when all samples are pooled (Graph 7.8). However, if comparisons are made among clusters, these three measures turned out to be far less important for Creative Factory than for any of the others. This is understandable, since most firms in Creative Factory were located in a new building and therefore depended more on the interwoven linkages among them than on the fame and reputation of the locality. Also notable was the measure E (preserve old neighborhoods), which was far more important for Tianzifang than for the other three clusters. As Tianzifang is more integrated with surrounding neighborhoods than any of the others, this result is unsurprising. Similarly, the measure G (enhance social activities among space users) was more important for Red Town than for the other clusters, a natural result for a cluster with more self-contained and inward-looking firms.

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Again, I use the percentage of firms regarding certain measures as important or very important rather than a weighted score as there were no big differences between the results of the two methods of calculations.
Figure 7.8: Evaluation of Planning Measures (All Samples)

Note: Figures in the graph represent percentage of firms regarding a certain planning measure as “very important” or “important”
Table 7.23: Evaluation of Planning Measures (in percentage)

<table>
<thead>
<tr>
<th>Planning Measures</th>
<th>Creative Factory</th>
<th>M50</th>
<th>Red Town</th>
<th>Tianzifang</th>
<th>All Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>B) Check rent increases</td>
<td>86.2</td>
<td>93.9</td>
<td>100.0</td>
<td>91.4</td>
<td>92.4</td>
</tr>
<tr>
<td>H) Enhance accessibility</td>
<td>83.9</td>
<td>84.9</td>
<td>90.5</td>
<td>88.5</td>
<td>86.7</td>
</tr>
<tr>
<td>C) Conserve buildings</td>
<td>62.1</td>
<td>87.5</td>
<td>85.7</td>
<td>90.9</td>
<td>81.8</td>
</tr>
<tr>
<td>K) Market the cluster</td>
<td>66.6</td>
<td>84.4</td>
<td>80.0</td>
<td>88.2</td>
<td>80.1</td>
</tr>
<tr>
<td>D) Enhance amenities</td>
<td>67.7</td>
<td>81.9</td>
<td>81.0</td>
<td>78.7</td>
<td>77.1</td>
</tr>
<tr>
<td>L) Be selective on tenants</td>
<td>56.6</td>
<td>68.8</td>
<td>85.7</td>
<td>85.3</td>
<td>73.6</td>
</tr>
<tr>
<td>E) Preserve old neighborhoods</td>
<td>51.7</td>
<td>67.7</td>
<td>73.7</td>
<td>82.3</td>
<td>69.0</td>
</tr>
<tr>
<td>I) Strengthen supporting institutions</td>
<td>70.0</td>
<td>68.8</td>
<td>70.0</td>
<td>67.7</td>
<td>69.0</td>
</tr>
<tr>
<td>A) Ensure space availability</td>
<td>53.4</td>
<td>66.7</td>
<td>57.1</td>
<td>66.7</td>
<td>61.5</td>
</tr>
<tr>
<td>G) Enhance social activities among space users</td>
<td>60.0</td>
<td>53.2</td>
<td>71.5</td>
<td>57.5</td>
<td>59.5</td>
</tr>
<tr>
<td>F) Strengthen business linkages among firms</td>
<td>55.1</td>
<td>59.4</td>
<td>66.7</td>
<td>56.2</td>
<td>58.8</td>
</tr>
<tr>
<td>J) Convert industrial land-use</td>
<td>24.0</td>
<td>39.3</td>
<td>35.2</td>
<td>56.0</td>
<td>38.9</td>
</tr>
</tbody>
</table>

Note: Figures in the table represent percentage of firms (at a certain CIC or at all four CICs) regarding a certain planning measure as “very important” or “important”. 

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Issues Related to New Developments

At the end of the survey, firms were asked to evaluate two issues related to new developments: (1) the overall impact on their business of building demolition at their cluster and (2) the relationships between new property developments in the surrounding areas and the future prospects of their creative cluster. Figure 7.9 indicates that the majority of firms (76.5%) thought that the demolition of existing buildings would produce large or slight negative impacts, while a very small proportion of firms thought the overall impact would be positive (1.7%), suggesting something about the value firms put on the old buildings in their clusters.

However, when we examine Figure 7.10, 40.8% of firms thought that new property developments in surrounding areas and the future of their cluster were beneficial to each other, while only a small proportion thought the relationship was “in conflict.” Some respondents mentioned that new developments could help improve the amenities, infrastructure, and accessibility of the area\textsuperscript{231}, thus benefiting their firm. In addition, many believed that new property developments in the surrounding areas would not lead to the demolition of the buildings they occupied. Perhaps, perceptions have changed fundamentally from the formative years of Shanghai CICs (see case study of M50), when new developments posed a serious threat to the old industrial buildings. Although the preservation of Shanghai CICs was by no means guaranteed, the threat of imminent demolition had indeed been greatly relieved. Respondents may have underestimated the negative impact of property development on rental levels in their cluster, or believed that the government could protect them from such increases in the future while allowing new developments to be built nearby. In fact, approximately one-third of the firms thought that although the relationship could be beneficial, it could also lead to conflicts, depending on government policies, thus underlining the important role of public policy in protecting the future of Shanghai CICs in an era of rapid

\textsuperscript{231} This suggests that infrastructure, amenities, and accessibility were problems in their clusters.
development.

**Figure 7.9: Overall Impact of Demolition on Firms (N=119)**

Note: Figures in the graph represent the percentage of firms expressing a certain views on the overall impact of demolition.
Figure 7.10: Relationships between New Property Development in the Surrounding Area and the Future Prospects of CICs (N=120)

Note: Figures in the graph represent the percentage of firms expressing a certain view.

**A Brief Summary**

The firms surveyed demonstrated that they were to some extent geographically anchored in the Shanghai CICs and in their neighborhoods and rent hikes, which might force firms to relocate, posed a serious problem for individual firms, as well as for the particular cluster as a whole. One artist at Tianzifang mentioned that rental increases had accelerated the commercialization of
Tianzifang. Private studios, which had helped establish the district in the beginning, had increasingly been replaced by galleries and shops. If the government was to allow this trend to continue, it is likely, he argued, to see the eventual decline of Shanghai CICs.
CREATIVE INDUSTRY CLUSTERS IN SHANGHAI: A SYNOPTIC ANALYSIS

“Places are shaped by being lived in; they are spaces of encounter where the little histories of the city are played out. They are, of course, also shaped by the state through planning, supervision, ordinances, and so forth. The patterns and rhythms of life in the small spaces of the city are therefore not simply a straightforward projection of civil life. Places are also sites of resistance, contestation, and actions that are often thought to be illegal by the (local) state.”


The two cases, M50 and Red Town, may not represent the overall picture of Shanghai CICs. Weaving the stories of M50 and Red Town together, however, we can see the trajectory of Shanghai’s economic and social restructuring, including its cultural turnover, in the past decade. In particular, the institutional complexities in Shanghai’s CIC formation, epitomized in the two cases, suggest that the formation of CICs in Shanghai can neither be reduced to a simple cause-effect relation nor to some aggregate of location decisions by creative firms. Rather, it has to be understood as a complex set of urban processes that was shaped by the situated actions of players and the intricacies of their social relations. Rather than simply gaining insights into the two cases, the ultimate purpose of my research has been to use the two cases as an entry point for understanding the economic, social, and spatial dynamics of Shanghai’s post-industrial transformation. As the two cases were initially presented separately, I will now first undertake a comparative analysis of the two with respect to both their differences and similarities. I will then supplement this analysis with the results of the questionnaire survey and other information gleaned...
from fieldwork and literature, to arrive at a comprehensive overview of Shanghai CICs. Taking a dynamic perspective, I will emphasize not only the roles of different players in the CIC business, but also how these roles have changed over the years, as they both affected and were reciprocally affected by the city's headlong pace of growth and change.

8.1 M50 and Red Town: A Comparison

M50, one of the earliest of Shanghai's CICs, was developed spontaneously in a period of intense conflict between development interests and urban conservation forces. As "development" was the dominating theme in Shanghai in the 1990s and early 2000s, and many new forms of art were deemed to be novelties by society and even, as some in the government thought, heresies, the state was not yet ready to accept the legitimacy of a spontaneous factory-turned-art district. From the government’s perspective, denial was easy because the sporadic creative activities that had sprung up here and there ran counter to the pro-development land-use regulations that characterized the era. In practice, the state adopted a *laissez faire* attitude toward the spatial concentration of art studios, galleries, and other cultural institutions that had settled in at M50 and acquiesced in so-called underground (formally illegal) practices. This was because of the political imperative of keeping the grievances of millions of laid-off workers contained during the economic and social upheaval of the time. The marginal status of M50 in the early years attracted many marginal space users, such as artists whose work had not yet become accepted by mainstream society. Low rents were commensurate with this marginality; at the same time, they offered economic incentives for aspiring artists and other "cultural" enterprises. Without much foresight or planning, M50 gradually blossomed into a prominent art district with high commercial value. At that point, denying M50's success was no longer possible or sensible. Much to the state's satisfaction, M50’s transformation could not have been more auspicious. The efforts by conservation forces to resist
property development had unexpectedly led to a new mode of economic development that fitted comfortably into the state’s political agenda. In addition, the new mode of growth had the added advantage of advancing the worthy cause of heritage conservation, to which a growing number of middle-class residents were now beginning to subscribe. With the blessing of the state, the commercialization of M50 became the latest theme of urban development.

The trajectory of M50, as well as that of a number of other early cases of CICs whose origin had been spontaneous, offered an important learning experience for both the state and potential investors. For the government, the unexpected “happy ending” at M50 seemed to offer a “panacea” for the convoluted issue of industrial restructuring. Promoting CICs had become part of the toolkit of policymakers. At the same time, the escalating rents that old industrial spaces at M50 and a number of other localities could command was a living example for property developers who, faced with an increasingly saturated apartment and traditional office market in Shanghai, desperately sought to exploit new territories. Old industrial properties, with their low acquisition costs and distinctive cultural value that an increasingly affluent society had learned to treasure, were an enticing promise of low-risk profit. Therefore, the pairing of property interest with the state to extract economic values was an unsurprising outcome in the CIC business.

Red Town, which came into being more recently, can be interpreted as an induced property project initiated by a coalition of political, economic, and cultural elites who had discovered the economic and cultural value of CICs. There was a great deal of newly acquired awareness of the formation process of Red Town. Thus, parties with political power and/or economic capital, such as the state and the business community, exerted far greater influence on the project than had been the case of M50, which was undertaken as a new project by a restructuring SOE. In this sense, Red Town offers a major contrast to M50. For Red Town, the political environment had changed greatly. Fervor over new developments, though still widespread, had become subdued. The new theme of
urban growth was historic conservation. From the very start, the Red Town project, bundled with the government-sponsored Shanghai Sculpture Space, was geared toward status, profit, and image-making. The government wanted to use private capital to provide a cultural facility of international standard, and to expedite the process of industrial restructuring and modernization. Both these steps were considered necessary for Shanghai to advance into the prestigious league table of global cities. With clear policy articulation, the government dictated the project by masterminding the private-public partnership arrangement, providing crucial financial, regulatory, administrative, and symbolic support, and even defining the type of arts that could be on display. In contrast, the Red Town Corporation, as the property developer, wanted art and culture for profit. For the company, the historic buildings at Ten Steel site were a priceless asset whose market value was further enhanced by the state's political influence in the project. Teamed with culturally inclined businessmen who could assume multiple roles in the worlds of art, culture, business, and politics, the company enjoyed an enviable competitive advantage. By deliberately attracting affluent visitors to the site for cultural consumption, and by selling spaces to prestigious clients, Red Town Corporation could harvest handsome profits even as it accumulated political capital with the state. However, in the fanatic pursuit of a presumptive international standard (which seemed to possess all of Shanghai), less profitable but very promising businesses were priced out of the market, and a large part of Shanghai's industrial history was erased. What was allowed to be shown to the world was an unadulterated picture of progress and modernity, quite different from the image of “primitiveness” that some people still associated with M50.

Therefore, both M50 and Red Town were in many respects fundamentally different with respect to political context, formation, major players, tenant types, and so on (see Table 8.1 for a summary). These differences, however, conspicuous as they are, cannot mask the similarities they shared. To understand these similarities, we will have to look at the restructuring of Ten Steel, as well as the more recent changes at M50.
### Table 8.1: Major Differences between M50 and Red Town in Terms of Cluster Formation

<table>
<thead>
<tr>
<th>Major Parameters</th>
<th>M50</th>
<th>Red Town</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formation Process</strong></td>
<td>✓ Spontaneous, trial and error ✓ Intense conflicts between development interests and historic conservation forces (cultural workers, scholars, restructuring SOE, etc.) ✓ Results unintentional.</td>
<td>✓ Engineered “property project” with deliberate plan. ✓ Good rapport among the government, restructuring SOE and developer.</td>
</tr>
<tr>
<td><strong>Major Players</strong></td>
<td>✓ Restructuring SOE. ✓ Conservation forces (scholars, creative workers, etc.).</td>
<td>✓ The State (Municipal and District Government). ✓ Commercial developers. ✓ Restructuring SOE.</td>
</tr>
<tr>
<td><strong>Government Attitudes and Roles</strong></td>
<td>✓ Pro-development. ✓ Suspicion and <em>laissez faire</em> attitude toward M 50 at the beginning. ✓ State recognition at a later stage.</td>
<td>✓ More emphasis on historic conservation. ✓ Active involvement in planning and development. ✓ Provision of financial, regulatory, administrative and symbolic support.</td>
</tr>
<tr>
<td>Major Parameters</td>
<td>M50</td>
<td>Red Town</td>
</tr>
<tr>
<td>------------------</td>
<td>-----</td>
<td>----------</td>
</tr>
<tr>
<td>Space Provision</td>
<td>✓ Restructuring SOE as space manager while searching for survival strategies.</td>
<td>✓ Deliberate renovation and commercial subleasing by property developers.</td>
</tr>
<tr>
<td>Location Decisions by Firms</td>
<td>✓ (Early days): Studios, galleries and design firms took advantage of the cheaper rents and flexible space, and conservation cause. ✓ (Present): Increasing displacement by firms that want to take advantage of the locality’s prestige.</td>
<td>✓ Branding and selling space by developers. ✓ Accessibility of the site. ✓ Prestige of the locality brought about by SSS project. ✓ Sparse business linkages and interactions among firms.</td>
</tr>
<tr>
<td>Tenants</td>
<td>✓ Surviving artists and small start-ups, increasingly being replaced by more commercially-oriented firms</td>
<td>✓ Well-established firms in cultural/creative industries, including some global corporations</td>
</tr>
<tr>
<td>Rental Levels</td>
<td>✓ Relatively low but increasing fast</td>
<td>✓ High</td>
</tr>
<tr>
<td>Land-use Type</td>
<td>✓ Still designated as industrial land and land-use incompatibility exists.</td>
<td>✓ Rezoned and no land-use incompatibility exists.</td>
</tr>
</tbody>
</table>

Source: Summary by the Author.

First, before the commencement of Red Town and the SSS project in the late 1990s and early
millennium decade, Ten Steel site had experienced a restructuring process similar to that of M50. Ten Steel, the SOE undergoing restructuring, had to carry out a state policy of shifting to a market orientation; however, they were left to their own devices in searching for an appropriate strategy of survival. Afloat in uncharted waters, Ten Steel management was as ignorant of the future development trajectory of the site as its peers at M50. Therefore, at the beginning, it proceeded by trial and error. For quite some time, the space at the Ten Steel was leased to small businesses of one kind or another before the “brocade ball” from the government (SSS) fundamentally changed the development trajectory of the site. In this process, Ten Steel management had learned to manage their site just as the space managers of M50 had done. Its current preference for cultural firms was acquired from direct dealings with such organization as space users. In addition, in years when new developments were always prioritized, the Ten Steel site faced the same kind of demolition pressures from overly eager developers, similar with the experience of M5. Unlike in the case of M50, however, luck, not the struggles of the conservation advocates, prevented Ten Steel site from becoming another casualty of Shanghai’s modernist city-building project.

Second, although M50 had started as a haven for surviving artists that could be easily ignored, once it became famous, the site was invaded by commercial interests. True, rents at M50 are still quite reasonable and, in fact, substantially lower than what the site would have commanded in a purely commercial context; however, several rapid rent hikes have led to an accelerated displacement of unprofitable firms. Furthermore, SCSC, the company in charge of the M50 site, is increasingly engaged in an effort to upgrade M50 to an international standard in imitation of Red Town. In recent years, M50 has gained a great deal of international exposure. Frequent by many Chinese, as well as global, celebrities, its tenants have become more prestigious and economically upscale. SCSC is now seeking to reinvent itself. Its recent venture into the cultural business and purposive accumulation of so-called cultural capital may one day help the company forget its past as a mere producer of textiles and be admitted to the privileged club of “cultural businesses.”
Perhaps, it is just a matter of time before SCSC will enjoy equal footing with firms such as Red Town Corporation. Immaterial of the many underground practices that characterized its early growth, the government is now touting M50 as the new art district to the international community and as a cultural landmark of the city alongside "engineered" cases such as Red Town.

Thus, M50 and Red Town are different and, in some respects, similar. The comparative analysis of the two cases leads to the following conclusion: the two sites started from the same point but followed different paths. Later, the divergent paths began to converge. If such different cases as M50 and Red Town could somehow converge by a combination of market pressure and competition, it is very likely that other CICs in Shanghai hosted at old industrial sites will head in the same direction, if not to the same destination. Stories found in literature, the mass media, as well as those told by my interviewees on Tianzifang, No. 8 Bridge, and a number of other CICs, corroborate this assertion. Given the historic background of a state-triggered industrial restructuring, the growth-dictated political environment, and the social reality of an emergent urban middle class incessantly searching for wealth, higher status, and social distinction (Davis, 2005), the convergence of different cases should cause little surprise.

8.2 Formation of CICs: An Institutional Analysis of Major Players

The preceding analysis along the temporal axis traces the trajectory of Shanghai CICs formation from spontaneous clustering of marginal creative workers to elite-led property development. However, it is equally important to take a cross-sectional perspective. Although Scott (2006) argues that cultural agglomerations should be studied in terms of the idiosyncratic path of individual sites, forgetting structural factors would leave us adrift in a sea of facts, unable to gain a deeper understanding at the theoretical level. In addition, in focusing on the actions of collective
and individual agents in the formation processes of CICs and tracing the intricate relationships among them, comparisons between Shanghai’s experience and cases from elsewhere in the world can become more straightforward. In the following, therefore, I will elaborate on the roles of the major players, including the state, the economic sector (such as SOEs, developers, and creative enterprises), and the non-economic sector (including policy entrepreneurs, the international influences\textsuperscript{232}, and local communities). As my research focuses on urban transformations, particular attention will be devoted to the changing roles of the players. Finally, I will revisit the topic of “idiosyncrasies” and discuss the relationships between contingencies and structural factors.

8.2.1 The State

In a political context of a strong state, examining the roles of the Chinese state not only helps us gain insights into the phenomenon of CICs \textit{per se}, but also other multi-stage and multi-scalar urban transformations (such as urban regeneration in general). The role of state is best understood in terms of state-society and state-economy relationships, as the influence of state cannot be isolated from the power of societal and economic forces.

Both the M50 and Red Town story are suggestive of the intention of the Chinese state to dominate and control processes of urban transformations. First, by launching the economic and SOE reforms, the state triggered a restructuring process. In many instances, industrial firms were shut down or relocated by administrative orders of the Shanghai government. Second, although the state adopted a \textit{laissez faire} attitude toward restructuring firms in the early years of CIC formation, as shown by the M50 case, the state was unable, rather than unwilling to intervene. The pragmatism

\textsuperscript{232} Some international influences came from the business community or foreign government. However, for simplicity's sake, I list the influence from the international community under the category of non-economic sector.
and flexibility of the government, as well as its willingness to allow the rules to be bent, were instrumental in the formation of early Shanghai CICs. Once opportunities arose, however, the state would relinquish its attitude of “benevolent negligence” and quickly reassert its control by putting its stamp of approval on what had already transpired. One of my interviewees thought that awarding the title CIC to the formerly spontaneous art district of M50 was just a way for the state to demonstrate its dominance. Third, with new knowledge regarding CICs acquired through social learning, the state was both capable and eager to engineer new transformations, giving rise to the numerous new CICs that have dotted the landscape of Shanghai in recent years. The state's heavy involvement is understandable, given that old industrial land was all in possession of the state. Red Town was a case where the Municipal Government exerted strong influence; however, in many other CICs, the District governments (or their representative, the local Street Offices) provided leadership or major support. In comparative terms, government support at the District levels tended to be more economically than culturally oriented, as exemplified by Red Town. The types of direct support at the District level may range from tax incentives to rental subsidies, while a few Districts even target specific industries for financial support (see Appendix IV). However, in practice, some Districts may go so far as to allow certain administrative rules to be bypassed. With the support of the District government, No. 8 Bridge, a highly commercialized CIC rehabilitated and managed by a Hong Kong developer, was renovated before a number of required regulation permits were obtained. As a result, the whole renovation work took only three months, a time span that would have doubled had due procedures been followed. As an informant commented, “the [No. 8 Bridge] project would not have been so successful if each step had been strictly followed.” Apart from formal state organs, some semi-government organizations were also active promoters of CICs. The Shanghai Creative Industry Center (SCIC), established by the Shanghai Economic Commission, is a notable example. The organization not only acted as a “think tank” for the government by conducting research on creative industries, it also served as a

233 Anonymous Interview, October 15, 2008.
234 Anonymous Interview, August 22, 2006.
coordinator for many government-sponsored activities to promote them. In addition, SCIC was also directly involved in the development of “1933 Old Millfun,” a CIC that had been used first as a slaughterhouse, then as a pharmaceutical plant, and eventually as a high-end office-retail complex, with the SCIC office located at the site.

Paradoxically, the absence of state power is as important a factor in the formation of CICs as its presence. Many underground practices that circumvent government rules have proven to be crucial in turning M50 into one of today’s most prominent art districts in Shanghai. The incapacitation of state power meant that societal power, though not institutionalized and guaranteed as it is in liberal democracies, is nevertheless present in Shanghai. These de facto societal forces have overridden the initial intentions of the powerful state and helped redirect city’s new trajectory of urban restructuring. The case of M50 is by no means unique. Many other CICs were developed without significant oversight or guidance by the state, although their emergence may not be as conflict-ridden as it had been with the M50. Creative Factory and the area around Tongji University, which hosts a large number of design firms related to the university (see questionnaire survey, Chapter 7), is a good example. As the agglomeration of industries was mainly channeled through the market, CICs with substantial state support tended to be those that started out as a property project (renovation before tenants came), while CICs without any direct roles of government tended to be those that originated from clustering firms (firms came before substantial renovation took place).

At certain times, the state also played a destructive role in the formation of CICs. This must be understood in light of the fact that the Chinese state is by no means a monolithic entity. Some government organizations or state-owned institutions were sympathetic to the conservation cause, while others were not so inclined. The district governments, which could reap revenues in new developments with greater certainty than in rehabilitation projects, tended to play a more negative
role in historic conservation than the municipal government. However, the most notable institutionalized threat to the formation of CICs in Shanghai was land-use planning, which was pro-growth. In the case of M50, without the *ad hoc* resistance of tenants and other conservation forces, buildings at M50 would have been undoubtedly demolished, using the justification of the existing land-use master plan. Many sites, including Red Town, Tianzifang, the Creative Warehouse, and so on, all faced similar threats from developers. Although historic buildings are increasingly being valued, there are still no institutionalized protective measures for older industrial buildings within the city. Commercial success of individual sites is still the yardstick for the government to determine the fate of such buildings.

8.2.2 The Economic Sector

*Restructuring State-owned Enterprises*

The restructuring of SOEs and their involvement in the provision of new economy spaces are a phenomenon with Chinese characteristics. Under the central planning system, SOEs used to be an organ of the state. Although they enjoyed a certain operational autonomy (Womack 1991), their main role was to carry out the state economic plan. However, the reforms of the 80s and 90s pushed them into the forefront of the new market economy. Their state ownership and intricate historic links with various state organs put them in a unique and privileged position. They were, of course, expected to obey state orders; however, they were also enjoying a greatly increased autonomy in making business decisions. Rather than controlling detailed production matters, the state now dictated only the political orientation of SOEs. SOEs were required to become “competitive” and to fit into the pro-growth neoliberal agenda. At the same time, they were to play a role in maintaining political stability. So long as these bottom-line policies were observed, the
government was willing to tolerate various “malpractices” or “countermeasures” by the restructuring SOEs. Therefore, in the early days of CICs, “mutual adjustment” characterized the relationships between SOEs and the state. However, because of their nexus to the state (e.g., channels to reach certain officials), SOEs also had far greater capacity to influence public policy than do smaller tenant firms. Examples are the conservation claims of SCSC, the space manager of M50, which could easily reach upper officials through the Shangtex Holding (Group) Corporation, SCSC’s supervising organization.

The social consequences of industrial restructuring, such as mass lay-offs, should not be attributed to the advent of new cultural or creative industry firms because mass lay-offs preceded them. Although the laid-off workers were largely absent from the business of CICs (except for those hired by their SOEs as service workers for the new clusters), the political imperative of supporting these laid-off workers directly pushed restructuring SOEs into exploiting the stock of real estate properties under their control.

Historically, SOEs were among the biggest beneficiaries of the free land-use system. Their ownership of land-use rights today reflects this historic continuity. The willingness of the state to allow manufacturing to fail, while urging SOEs to restructure their activities, led many SOEs to go into the property business because land was the single most valuable (and greatly appreciating) asset they had. Depending on the situation, these SOEs might sell their land-use right to developers outright or else lease these spaces to potential tenants. In the latter case, CICs could be established. Spaces could either be leased directly to firms (with or without renovation) or sub-leased through a “secondary landlord” (i.e., a commercial developer). M50 and Red Town are representative of these two alternatives. In both types of cases, the responsible SOEs could exert major influence over the use and longer-term trajectory of a site. The, SCSC’s preference for conservation was a precondition for M50’s transformation, while Ten Steel’s disinterest in the catering businesses
helped reserve the 7th Workshop for the cultural project of the Shanghai Sculpture Space later on. Having discovered the economic potential of industrial heritage buildings in recent years, restructuring SOEs, as well as their supervising organization, have become more and more entrepreneurial in the CIC business.

Property Developers and Managers

In the early days, the roles of developers were mainly negative, posing as a major threat to old industrial buildings and the survival of spontaneously formed cultural enclaves. In the case of M50, however, it was precisely this threat that led to the relocation of many art studios and galleries from Red Houses, which were slated for demolition. It was these same threats that pushed many firms/organizations with an interest in urban conservation to occupy buildings at M50. In recent years, as old industrial buildings were seen as new investment opportunities, developers became major boosters of CICs.

For projects in which the government had a heavy hand, the private-public partnership exemplified by Red Town was the typical mode of development. This arrangement helped the state mobilize financial capital for the revitalization of old industrial areas at the same time that it gave the government more leverage to influence development. From the developer perspective, the direct involvement of the state would boost the prestige of CIC projects and smoothen the entire process, thereby increasing economic returns. Here, the importance of business entrepreneurs who had not only access to financial capital but also the necessary business acumen and social networks must be stressed. In fact, the cozy relationships between the government and property developers were always based on personal ties. Both Zheng Peiguang and Deng Gang of Red Town Corporation were well known to officials in the Shanghai Urban Planning and Administration Bureau. Wu Meisen, owner of a development company that helped transform the industrial spaces
at Tianzifang, was also said to have official connections\textsuperscript{235}. In addition, a No. 8 Bridge insider who knew the development process of the site well succinctly summarized the role of personal networks in CIC business, claiming that “guanxi\textsuperscript{236} is productivity\textsuperscript{237}.”

Of course, not all developers are the same, and their participation in establishing CICs depends at least in part on how much cultural capital they possess. Red Town Corporation, for instance, had access to cultural resources (i.e., members of the cultural elite were on their management team); thus, it was inclined to make a major investment in art and culture, if not wholeheartedly, then at least in the hope of being rewarded with a substantial return. However, in today’s context, many CIC developers are single-mindedly in pursuit of profits with no enthusiasm for promoting art and culture, nor any desire to forge industrial agglomerations such as "clusters.” Their sole motivation is to cash in on undervalued properties. When they became involved, the names of “art and culture” or creative industries are typically invoked by such developers as a marketing and public-relations gimmick. An interviewed architect who had a firm at Red Town thought that CIC was actually a misnomer because the clustering of creative firms in the social-economic sense has not occurred. Instead, he thought that most CICs might better be called “themed high-standard office venues” (you zhuti de gaodang bangong changsuo)\textsuperscript{238}. In such cases, the renovation of old buildings was always done poorly, and their design was done for general-purpose buildings, rather than specialized use of particular clients (see Photos 8.1-8.3 for similar design). Some developers actually undertook multiple projects by using a single “template,” while others tried to increase their renovation “efficiency” by copying the designs of well-known CICs. During my fieldwork, I visited 70 CICs in Shanghai. For the most part, I could easily tell a CIC site from its surroundings simply by casting a cursory look at the facades of the renovated buildings. Even the names of

\textsuperscript{235} Anonymous Interview, October 9, 2008.
\textsuperscript{236} Guanxi in Chinese means the whole system of interpersonal relationships in which people benefit each other on a reciprocal basis.
\textsuperscript{237} Anonymous Interview, August 22, 2006.
\textsuperscript{238} Anonymous Interview, June 8, 2009.
Shanghai CICs bore many similarities. Perhaps, inspired by M50, developers seemed to follow a formula in naming CICs. A large number, for example, were given an official name spelled out in English letters and/or Roman numerals, such as No. 8 Bridge, Space 188, 1933 Old Millfun, E Warehouse, and JD Manufacturing, among others (see Appendix I). The Roman numerals in these names are indicative of either the history or location (street number) of the site, while the English letters are intended to give the project an “international tint.” Perhaps, the initial intention was simply to give an impression of being modern. In the end, commercial maneuvering had replicated CICs that, despite their different origin, history, and destination, were no longer distinguishable from one another. Though designated as Creative Industry Clusters, no spirit, personality, or distinctive essence (Molotch 2002, p. 666) could be discerned for most projects.

**Photo 8.1: Exterior of a CIC—Creation**

Source: Photo taken by the Author on May 14, 2008.
Photo 8.2: Exterior of a CIC—X2 Creative Space

Source: Photo taken by the Author on May 15, 2008.

Photo 8.3: Exterior of a CIC—Space 188

Source: Photo taken by the Author on May 16, 2008.
In terms of space leasing, developers tended to employ vigorous business promotion strategies to attract prestigious tenants, although very few were actually able to replicate the commercial success of Red Town. In effect, spaces in these CICs were quite often leased to firms based on a false promise of uniqueness, reasonable rents, or other supposed benefits. In this way, the expectations of firms could be easily disappointed, and relocation was common. At the time of my site visits in mid-2008, a significant number of CICs showed fairly high vacancy rates, and some were virtually empty, suggesting the failure of marketing strategies. Therefore, CIC projects were neither a guarantee of historic preservation nor a promise of industrial clustering.

_Tenant Firms_

Tenant firms engaged in various kinds of creative activities are the heart and substance of CICs. Without these space users, CICs would have been only empty shells, no matter how well the physical structures might be designed. According to the survey conducted on four selected CIC sites, tenant firms were relatively small and new, and were engaged in the kind of flexible specialization that characterizes “creative industry firms” in many parts of the world. In general, firms that offer design or technical solutions were more likely to be found in CICs than those selling, say, financial services, although the latter were also considered as a pillar of the city’s post-industrial economy.

Firms concentrated in CICs for very different reasons. The case studies suggest that in the early days, low rents, history, characteristics of spaces, and the agenda of historic conservation were crucial location factors for firms moving into the obsolete industrial buildings. However, with increasing commercialization and the displacement of less profitable firms, the importance of direct economic incentives such as rents has decreased, while location factors (such as networking
opportunities) that could contribute to a firm’s value creation have become more prominent. Although the aesthetic and cultural meanings of the locality remained important, more firms were attracted to CICs by attributes such as the prestige of the location or the public visibility of firms; however, these factors did not characterize sites that had become marginal when their conversion to CICs began. The status of these clusters and their tenants had therefore changed in a way of mutual causality, with each reinforcing the other. The blind pursuit of status alone can be quite perilous for CICs at the overall level because status and prestige are only meaningful in relative terms and not all CICs can attain prominence simultaneously. Similarly, not all CIC projects can become flagship cultural facilities such as the Shanghai Sculpture Space. The quest for status or international standard will therefore lead to a dead end if all developers were to employ the same business strategy (Photos 8.4-8.6).

Photo 8.4: Exterior of a CIC—The New Factories

Source: Photo taken by the Author on May 30, 2008.

Note the English words on the building outnumber and small Chinese characters.
Photo 8.5: Menu of a Restaurant at a CIC—New Factories

Source: Photo taken by the Author on May 30, 2008.

Note: The restaurant menu caters to Western or westernized Chinese consumers.
In the West, artists have long been recognized as social entrepreneurs who can turn blighted neighborhoods into chic spots (Zukin, 1982; Lloyd, 2005; Ley, 1996, 2003). Shanghai’s avant-garde artists played similar catalytic roles. However, the roles of designers, particularly those involved in architectural and environmental design, were no less important in Shanghai’s inner city transformations. Not only architects (such as Taiwanese Deng Kun Yan and US
returnee Liu Jidong) were the pioneering occupants of desolate industrial spaces, but also they were preachers of industrial heritage conservation. Recycling old industrial spaces was an imported idea. Compared with marginal artists, these well-trained design professionals were better informed of such western practices. In addition, they were also more conscious of the design and use of urban spaces thanks to their professional judgment. An M50 artist suggested that it was architects that helped many artists there to learn the historic meanings of M50 buildings.

Despite the active involvement of artists and designers, Shanghai CICs has not turned out to be clear cases for residential gentrification. Most CICs are still largely monolithic production or commercial spaces and this should be partly explained by the zoning restrictions and land ownership arrangements (by SOEs) of these sites. In the past decade, artists and designers have pushed Shanghai’s inner city transformations by engaging in new forms of production and historic conservation, rather than in the stylized consumption practices that are supposed to attract new middle class emulators. Whether this is simply a temporary phenomenon that will ultimately lead to residential gentrification or whether Shanghai CICs will only experience industrial gentrification (industrial-to-industrial use) (Pratt, 2009) still remains to be seen.

Universities in Shanghai have spawned a large number of tenants for CICs. The areas around Tongji University are home to many construction-related design firms and areas around Jiaotong University are populated primarily by creative start-ups in computer and internet businesses. In addition, Donghua University (the former Shanghai Textile University) had spun off numerous businesses related to textile and fashion design, while Shanghai University’s advantages in graphic design and animation had contributed to the agglomeration of firms in these lines of business (Map 4.6). Universities have therefore contributed to the formation of CICs, much like industrial

\[239\] Anonymous Interview, July 7, 2009.
agglomerations, as a kind of spontaneous growth that had greater vitality and lasting power than CICs that had started as nothing more than property projects.

In addition, except for a small number of spontaneous cases, such as Creative Factory near Tongji University, even the commercially successful CICs, firms tended to have very restricted localized linkages. There is no assurance that this situation will change so long as the main factor underlying the spatial concentration of firms in CICs remains nothing but a business promotion strategy. If tenants at prominent places such as Red Town could easily be enticed to another location, it is reasonable to anticipate that less well-known CICs would probably not fare much better.

8.2.3 The Non-Economic Sector

Policy Entrepreneurs

Political scientists have called an important group of non-economic actors “policy entrepreneurs.” Policy entrepreneurs are people who can influence the direction of public policies through the introduction of new ideas or actions. Policy entrepreneurs involved in Shanghai CIC businesses consist of three groups: (1) Scholars from universities or other institutions who played an active role in advancing the cause of conservation and creative industries/CICs. Prof. Ruan Yisan from Tongji University (or Research Center for National Historic Cities) and Prof. Li Wuwei from the Institute of Economics at Shanghai Academy of Social Sciences, who had influenced Shanghai’s conservation and creative industry policies, respectively, are notable examples. (2) Government officials who helped bring about policy changes by using their influence within their own organizations. Wu Jiang, former Vice-Director of Shanghai Urban Planning and Administration Bureau, and a conservation scholar, is representative of policy entrepreneurs within state organs.
(3) Other conservation promoters such as artists, creative workers, and media professionals. Deng Kun Yan, the Taiwanese architect who was said to be the first person to convert a warehouse into a studio in Shanghai, is a notable example in this category.

Although policy entrepreneurs are generally not directly involved in space provision of CICs, they helped change the direction of public policies that had an impact on CICs. Policy entrepreneurs might work through both formal and informal channels. Formal channels include petitions to the government, published articles, conservation plans that helped advocate certain policy views, and so on. The importance of formal channels greatly depended on the institutions with which these policy entrepreneurs were affiliated. State institutions could usually exert greater influence compared to private firms. In addition, famous universities, such as Tongji University, could and did play a prominent role. Not only had the University produced a number of conservation experts, these experts also assumed leadership roles in undermining the social consensus by creating a “Tongji Community” that would help link up government officials, scholars, and developers in promoting CICs, sometimes even forging coalitions among them. The academic strength of the university in space design (architectural, urban or environmental design) was an instrumental factor in the CIC transformation.

However, policy entrepreneurs might also influence policies through informal personal ties. Ruan Yisan, a well-known expert in historic conservation, was well-connected to many top officials in the municipal government, as well as to some ministries in the national government. His voice could thus quickly reach top policymakers who were often receptive to his ideas. In addition, policy entrepreneurs within state organs could have personal views that diverged from official policies. Even when an upfront challenge of state policies was impossible (which is the norm in China), these policy entrepreneurs might nudge policy directions through informal channels.

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240 Anonymous Interview, October 23, 2008.
new statutory plan for the Moganshan Road Area was said to be a compromise reached through both formal and informal channels. All these evidences corroborate the observation of Friedmann regarding China’s planning culture: a mixture of the formal and the informal (2005b: 189).

However, the roles of policy entrepreneurs have also undergone major changes. In the early days, most policy entrepreneurs had worked against the state and development interests, trying to push the urban conservation issue into the policy agenda. In recent years, however, with the historic conservation of industrial heritage buildings becoming more widely adopted by developers and the government (though chiefly because of its profit-making potentials) the critical voice of early policy entrepreneurs has gradually become more muted. Many of them, particularly those employed by public or government institutions, have become more or less satisfied with the recent reorientation toward conservation in urban development policies. In effect, SSS and Red Town were touted by many conservation experts and government officials, including several prominent early policy entrepreneurs, as a good “demonstration project” of combined historic conservation and economic development. However, the social dimension of conservation efforts, such as preserving the memory of historically disadvantaged groups and their social exclusion, has rarely caught the attention of the conservation community in Shanghai. Given the political sensitivity of these issues, even scholarly debate has remained silent. Almost all existing literature on urban historic conservation in China is devoted to the technical, aesthetic, or economic aspects of buildings and urban spaces, while the social dimension is pushed out of sight. In addition, many artists or creative workers, who had once been vociferous warriors against the interests of property developers, have become less visible in the public domain. Some of them merely moved elsewhere in Shanghai or further out to villages or towns far from the city. As Hsing (2010) suggests, once

242 Anonymous Interview, October 5, 2009.
243 Two of artist interviewees mentioned that if rents became too unaffordable, they would go back to their home cities. (Anonymous Interviews, July 7, 2009, July 21, 2009)
actors are de-territorialized, they lose their political power.

**International Influences**

Although the creation of CICs was largely a Chinese undertaking, overseas influences from a variety of sources had been present throughout the entire process of CIC formation. The very practice of converting derelict industrial spaces into art or design studios originated in the West, and was popularized by the writings on loft living by Zukin (1982). In the early 90s, many of the pioneers who had occupied derelict industrial spaces along Suzhou Creek had been foreigners or Chinese expatriates, such as Deng Kun Yan (from Taiwan), Liu Jidong (returning from US), and Lorenz Helbling and his well-known art gallery of ShanghArt (from Switzerland). In fact, the early spontaneous clusters had attracted a disproportionate number of foreign creative workers. The majority of firms that sub-leased spaces at “Creative Warehouse” renovated by Liu Jidong had come from overseas. This situation continues today. As revealed in my survey, approximately one-third of the firms at Tianzifang had employees from abroad, with foreign workers accounting for approximately one-sixth of the talents employed there (see Chapter 7).

The internationally oriented production at each CIC was accompanied by the same trend in consumption activities. Each day, well-known CICs such as M50, Red Town, Tianzifang and a number of others attract large number of foreign visitors whose purchasing power far exceeds that of the average domestic consumers (from survey results). As a sales person in Tianzifang who sold children’s clothes and accessories designed by a French design firm said, “Things sold here are mainly for foreign consumers as they are too expensive.” The proliferation of exotic restaurants or cafeterias in the more consumption-oriented CICs was another demonstration of the large

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245 Anonymous Interview, February 18, 2009. Items sold in the shop were very expensive. For example, a regularly priced children’s shirt cost RMB300-400 (approximately USD 45-60).
number of foreigners who visit these sites (Photos 8.4-8.6). Furthermore, among the artists I interviewed at M50 and Tianzifang, all claimed that foreigners or overseas Chinese were the principal clients of their artworks, and some even had all their artworks sold on the international market. Art studios in Shanghai CICs were heavily dependent on foreign markets; hence, most of them were hit hard in the latest financial turmoil triggered by the sub-prime mortgage crisis in the US. A painter at M50 who used to sell at least one of his pictures each month complained that he has not been able to sell even one piece over the preceding 18 months, while another artist said that foreign clients who used to purchase his oil paintings at the asking price had recently been engaged in serious bargaining, often leaving without buying anything. The boom-and-bust of the art market makes creative industries a volatile business in Shanghai CICs and elsewhere.

Heritage conservation crusaders were also influenced by practices overseas. The new orientation of urban heritage conservation with regard to industrial heritage sites was clearly informed by practices in Europe and North America. Scholars who wanted to convince the government that conservation was in the best interest of the city frequently cited examples such as SoHo in New York, Granville Island in Vancouver, or the South Bank in London, even as the negative impacts of gentrification were typically overlooked. In fighting development interests, artists of international influence, such as the well-known film producer Zhang Yimou or the Chinese-American composer Tan Dun, were invited to M50 to draw media attention. In the end, the government’s decision to convert an industrial building into the Shanghai Sculpture Space was also inspired by successful cases in the West, such as Tate Gallery of Modern Art in London, the Musée d’Orsay in Paris, and the Massachusetts Museum of Contemporary Art.

Ideas regarding creative industries also drew heavily from practices in Western societies. Pioneering research on Shanghai creative industries by Li Wuwei was based on a study in Britain.

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246 Anonymous Interview, June 5, 2009.
Today, the book entitled “Creative Economy: How People Made Money from Ideas” is treated as a bible of the new economy, and its British author, John Howkins, is a revered guru among Shanghai policymakers\textsuperscript{247}. In effect, the working definition of creative industries given by the Shanghai Creative Industry Center was based on a study of practices in many other countries or regions, including Britain, US, Sweden, Australia, Taiwan, Hong Kong, Singapore and so on (Shanghai Creative Industry Center, 2006a, 2006b).

In the latest rush to build CICs of international standard, not only have developers with overseas connections entered the scene (such as the Hong Kong developer for No. 8 Bridge, Zheng Peiguang’s connections in Hong Kong, and Wu Meisen’s experiences abroad), but designs for renovation as well as business promotion practices have been increasingly drawn from expertise from abroad. Renovation planning for M50 was done by a tenant architectural firm headed by a Chinese architect who had received his degree in Germany and had once worked in Switzerland. The renovation designs of No. 8 Bridge and X2 Creative Industry Park were done by Seiichi Hirokawa, a Chinese-Japanese architect. Architects from Australia were invited to do the renovation design for buildings used for SSS, and the global real estate agency CB Richard Ellis was commissioned to sell spaces at Red Town to established international tenants. If international standard was the aspiration of most CICs in Shanghai, we can only expect more influences to come from overseas in the future.

\textsuperscript{247} In China, John Hawkins is revered as “Father of Creative Industries in the World.” In his book entitled Creative Economy: How People Make Money from Ideas, Hawkins argues that creativity or human imagination is the core of the new economy. Following the Blair government’s adoption of Hawkins’ ideas in the late 1990s, Hawkins gained prominence among economic policymakers or economic managers of many cities around the world. Hawkins has served as a consultant to many important organizations, such as ABC, BBC, CCTV (China’s Central TV Station), NHK, EU, UN, IBM, and others. In recent years, he has been frequently invited by organizations in China to provide consultancy services or address in important conferences, public forums, and television and radio programs. Currently, Hawkins is a Vice-Director of the Shanghai Academy of Theatre as well as an adjunct professor there. He also serves as an advisor to Shanghai Creative Industry Center and Shanghai Creative Industry Association. The John Hawkins Creative Industry Research Center is also located in Shanghai Academy of Theatre. (http://baike.baidu.com/view/877516.htm, accessed October 28, 2009). Also, see http://www.scie.gov.cn/cms/Article_Show.asp?ArticleID=133, http://www.scie.gov.cn/cms/Article_Show.asp?ArticleID=179, http://www.scie.gov.cn/cms/Article_Show.asp?ArticleID=113, accessed November 24, 2009.
Local Communities

Local communities were a player that should have been there but in fact were left out. The exclusion of local communities in urban development was not unique to the case of CIC development. The paper of Tingwei Zhang on China’s urban pro-growth coalitions (2002) and the paper of He and Wu on property-led redevelopment in Shanghai (2005) both reveal that local communities have at best a marginal role in determining the course and outcomes of urban transformation. As far as Shanghai’s CIC business is concerned, local communities can be divided into two categories. The first is the old workers of the restructuring SOEs that for the most part have lost their jobs. Although many of these workers have not totally broken away from their old employers, most of them perhaps were unclear about what was happening with their old companies. Even those who were subsequently re-employed by their enterprise played very subordinate roles as service workers or security guards. Therefore, the former employees of SOEs had neither any say in CIC formation nor benefited significantly from the profitable business of subletting their former work spaces. In addition, their historic role in Shanghai’s industrial development had been brutally erased from memory, despite the newly discovered enthusiasm for building conservation.

The second type of local community is the residential communities located in the areas surrounding CICs. Some old neighborhoods are still in existence. However, as a result of large-scale urban redevelopment in the 1990s and the location advantage enjoyed by inner city industrial sites, many areas in the vicinity of CICs were redeveloped and gentrified even before the advent of creative workers and the renovation of old industrial buildings. Whether residents were...

248 Owning to political sensitivity, I was not able to find former laid-off workers of SCSC or Ten Steel. However, I had chance to get to know and interview four laid-off workers from other restructuring SOEs in Shanghai. All of them were unclear what their previous companies were doing after restructuring. They seldom went back to their previous companies after being laid off. In addition, during site visits, I had chance to hold brief talks with a few service workers and security guards on Shanghai CICs who were former employees of the restructuring SOE. To my surprise, some of them were also unclear what “creative industry cluster” meant.
old or new, disadvantaged or privileged, they were not consulted during the decision process of CIC development, even though physical changes would undoubtedly affect them in significant ways. Notably, the local residents’ committees, the semi-grassroots organizations that have started up over the past decade all over China, are responsible for only local residents, while those who work in the area or whose businesses are located there have no relationships at all with them. In addition, because of formal or informal entry controls of CIC facilities (Photos 8.7 and 8.8), even if many CICs have a relatively large courtyard that is typically underused, CICs seldom provide open spaces for people living in nearby areas. When doing my site visits, people living in the surrounding areas were usually ignorant of the existence of the CIC. Even if they were aware of the names of CICs, they knew very little about what was going on inside its boundaries. In general, Shanghai CICs are similar to alien intruders sitting uneasily within the vibrant communities and urban life just a stone’s throw away.

249 Management of some CICs formally forbid people unrelated to their sites or the businesses located within to enter their premises. During my fieldwork, security guards kept me out of a large number of CICs. Once, I was sent to the security office of a site for interrogation regarding my purpose and because I had been taking photos. Even after I had obtained a Letter of Introduction from my local sponsor that clearly stated the purpose of my visit, I was not allowed to enter some sites.

250 For example, on one visit, I became lost and could not find the site because the address was not clear. I asked several small business owners in the area about the location of the site but received no answer. When I finally found the place, I realized that the shops of these business owners were less than 30 meters away from the site.
Photo 8.7: Gate of a CIC—UDC Innovative Plaza

Source: Photo taken by the Author on May 29, 2008.

Note: A typical gate of a CIC that usually remained half-closed.

Photo 8.8: Gate of a CIC—E Warehouse

Source: Photo taken by the Author on May 30, 2008.

Note: A typical gate of a CIC that usually remained half-closed.
8.2.4 Contingent Factors and Local specificities

Barnes and Hutton (2009) suggest the importance of contingencies and local specificities in urban transformations. The story of M50 and Red Town reveals that certain contingency factors had a role to play at given junctures in the process. The accidental relocation of artists and galleries into M50, and the suspension of two development projects at the Ten Steel site, had both created propitious conditions for the later transformation of their respective sites. M50 and Red Town were by no means the only examples. Tianzifang was once faced with the threat of demolition. However, a funding shortfall had resulted in the postponement of new developments, which gave creative firms time to transform its old industrial spaces. No. 8 Bridge is another case. The restructuring SOE, a car spare-parts producer that had been relocated to the suburbs, was initially contemplating a new high-rise development project. However, its location in the immediate vicinity of the Public Security Bureau meant that a high-rise project at No. 8 Bridge site would probably not be permitted because of the imperative of protecting "state secrets." This concern finally resulted in the rehabilitation of old buildings and eventually turned the site into a prominent CIC.

These examples suggest that contingency events did help redirect trajectories of individual sites. Quite a few of these events played constructive roles because they helped produce “exceptions” in the mass decimation of industrial heritage. Although individual events could not be replicated, circumstantial factors were present. Given the large stock of Shanghai’s industrial heritage buildings, a number would undoubtedly survive. Contingency factors were therefore indispensable to the formation of CICs in Shanghai.

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251 Anonymous Interview, October 23, 2008
252 Anonymous Interview, August 22, 2006.
In addition to contingencies, local specificities also warrant attention. For example, the rare and unique huge space of 7th Workshop at Red Town and the particular position of the site of M50 in the industrial history of Shanghai all helped transform the spaces at these sites. Such local specificities, which cannot be replicated elsewhere, help create a unique path for the individual site.

However, important as they might be, contingencies and local specificities cannot substitute for the structural factors that play a more fundamental role in the transformation of CICs. Chance or good luck can only enhance but not replace the conservation efforts of policy entrepreneurs, among other factors. At certain junctures, circumstantial factors merely serve as a turn on the steering wheel; without the necessary impetus coming from elsewhere, the trajectories of Shanghai's CICs would not have been directed toward the outcomes we see today.

In addition, two more points need to be made with regard to the relationships between structural and contingency factors. First, contingencies quite often take effects through interactions among structural players. This means, ad-hoc interplays of players do not usually produce anticipated results. Second, structural factors and contingencies are not absolute and should be examined in relation to the scale of the study. For example, if the purpose of a study is to examine the differences of the macro-level transformation between Shanghai and Western cities, Shanghai’s institutional and policy context become contingency factors or local specificities. However, if the study focuses on the differences of micro-level transformations among different CICs, the city’s historic and institutional context should be treated as structural factors. The higher up the scale of study, the more importance the roles of contingencies and local specificities. But regardless of the relative importance of structural factors and contingencies/local specificities, neither of them should be left out in the analysis of urban transformations.
8.2.4 A Summary

This institutional analysis suggests that the formation of CICs in Shanghai was a multi-agency, multi-scalar process. Table 8.2 provides a summary of the roles of different players in the process of CIC formation, as well as their role changes over the years. Figure 8.1 provides a graphic illustration of the same. It shows that the whole CIC development could be understood from two mutually constitutive perspectives: policy and practice. Practice can be further divided into two types of mutually reinforcing activities: space provision and space usage (including production and consumption practices). The graph links policy, space provision, and space usage to the agency of different structural players or factors.
Table 8.2: Formation of CICs—Institutional Decomposition

<table>
<thead>
<tr>
<th>Actors/Factors</th>
<th>Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>The State</td>
<td>✓ Skeptical of spontaneous art district (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Benevolent negligence (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Redevelopment supporter, destructive roles on CICs (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ CIC promoter (later years)</td>
</tr>
<tr>
<td>Restructuring SOEs</td>
<td>✓ “Underground” space provider (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Land-use right owner (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ More commercially oriented renovator or space manager (later years)</td>
</tr>
<tr>
<td>Property Developers</td>
<td>✓ Destructive roles (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ Renovators and space managers (later years)</td>
</tr>
<tr>
<td>Tenant Firms</td>
<td>✓ Revalorization of derelict spaces (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Conservation activists (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Industrial agglomeration (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ More commercialized space users (later years)</td>
</tr>
<tr>
<td>Policy Entrepreneurs</td>
<td>✓ Critical forces against development interest, changing policy directions through formal or informal channels (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Becoming invisible or complicit in CIC business (later years)</td>
</tr>
<tr>
<td>International Influences</td>
<td>✓ Revalorization of derelict spaces (early years)</td>
</tr>
<tr>
<td></td>
<td>✓ Informing conservation and industrial policies (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ Major customer base for firms at CICs or visitors of CICs (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ Talent pool (early and later years)</td>
</tr>
<tr>
<td></td>
<td>✓ Reconstructing CIC images (later years)</td>
</tr>
<tr>
<td>Local Communities</td>
<td>✓ Affected by industrial restructuring and CIC business but largely excluded from the transformation process (early and later years)</td>
</tr>
<tr>
<td>Contingency Factors</td>
<td>✓ Redirecting trajectories of individual sites (early years)</td>
</tr>
</tbody>
</table>

Source: Summary by the Author.
Figure 8.1: Formation of CICs—Institutional Decomposition

Source: the Author.

Notes: In the figure, rectangles represent the components of CIC business, ellipses represent structural players or factors, solid arrows represent influences exerted by structural players or factors on CIC business and dotted arrows represent influences among components of CIC businesses.
9 INDUSTRIAL RESTRUCTURING AND FORMATION OF CICS: THEORETICAL AND POLICY IMPLICATIONS

“Modernity in China... was closely associated with a new linear consciousness of time and history, which was itself derived from the Chinese reception of a social Darwinist concept of evolution made popular by the translations of Yan Fu and Liang Qichao at the turn of the century. In this new temporal scheme, present (jin) and past (gu) became polarized as contrasting values, and a new emphasis was placed on the present moment ‘as the pivotal point marking a rupture with the past and forming a progressive continuum toward a glorious future’.”

– Lee (2000, p. 31)

In the last chapter, I compared the cases of M50 and Red Town. I also summarized the evolution of Shanghai CICs focusing on the principal institutional players and identifying a number of contingent factors that have contributed to shaping present outcomes. In this section, my focus will shift to theory as I explore how Shanghai’s development trajectory fits into current theoretical debates on China’s urban transformation, with particular emphasis on the role of the state and its planning practices. Setting this story against the background of cities in the “Atlantic Core,” I will highlight major differences in China’s urban trajectory, as well as discuss some of the causes that are peculiar to China’s process of urban change. However, in doing this, I will not be using the Western experience as a yardstick for Shanghai’s performance, nor do I wish to imply that Shanghai should in any way follow the path taken by cities in the West. Instead of constructing an East-West dualism, my intention is to stress the specificities of Shanghai and Chinese cities more generally. Understanding these specificities will not only help us to identify both causes and
processes of urban transformation in China, but will also help deepen our insights into the urban dynamics of Western cities. My main argument is that, despite the apparent convergence of Shanghai’s latest transformation with the experiences of Western cities (such as industrial decline in the inner city, the proliferation of firms engaging in flexible specialization, a rising urban middle class, competition for inner city spaces, culture-centered capital accumulation, and others) that has been noted by a number of observers, historical continuities and path dependencies are much more defining features for Shanghai’s development. In the following pages, I will elaborate on the major differences that have been shaped by China’s unique historic and institutional context.

9.1 Theoretical Implications

9.1.1 Post-Socialist, Not Post-Fordist Transformation

The reasons behind the de-industrialization of many Chinese cities (a phenomenon of the recent period) were quite different from those that had led to the breakdown of the Fordist system in “advanced” economies from the 1970s onward. The Fordist system was developed in a capitalist institutional context characterized by vertically integrated mass production, mass consumption of standardized products, and a well-regulated Keynesian welfare state that effectively kept the conflict between labor and capital contained (Amin, 1994). The crisis of the Fordist system surfaced when productivity gains began to decrease due to social and technical limits (e.g., worker resistance to the increasingly rigid production line work), increasing globalization of economic flows that fall outside of the purview of national regulatory frameworks, growing fiscal burden of social expenditure, and change of consumption pattern from unified to non-standardized and short shelf-life goods (Nielson, 1991; Tickell and Peck, 1995). The Fordist crisis was mitigated by the
development of a flexible production system characterized by flexible firms (vertically
disintegrated), flexible workforce, and non-standardized products. These changes were supported
by new modes of regulation that re-organized the capitalist economic and social order toward a
greater role for markets and the globalization of capital, labor, and culture. In contrast, the Maoist
system of central planning, although focusing on heavy industry and with a large welfare
component\textsuperscript{253}, was administratively dictated. State-organized mass industrial production was not
intended for capital ambulation or to cater to the mass demand of the Chinese consumers, but was
meant to fulfill the political imperatives of nation building. The Maoist economy was
characterized by the under-consumption of ordinary citizens and sustained by the moral suasion of
the communist ideology, as well as various kinds of social control measures (e.g., \textit{hukou}).
Therefore, the crisis of the Maoist economy that finally brought down its many SOEs was not
caused by a dysfunctional Fordist regime, but rather by the “inefficiencies” of the socialist
production system and a serious shortage of basic consumer goods and services, or the internal
contradictions of the socialist system. In addition, the endogenous factors were reinforced by
exogenous factors from the West that wanted to draw China into the global circulation of
commodities and financial capital.

The solutions to China's crisis happened to coincide with the response of the West to its Fordist
crisis, at a time when the welfare system was cut back to allow for a bigger role of global
competition. However, there were also many differences. Aided by transnational flows of capital
and ideas, as well as continued strong intervention by the state (e.g. through industrial policies),
the municipality of Shanghai saw the simultaneous de-industrialization of its central city and an
accelerated process of industrialization in the suburbs. While the industries lost in the central cities
tended to be traditional labor-intensive types (such as textile, machinery), many new industries in
the suburbs bore Fordist characteristics: vertically integrated firms, assembly line workers

\textsuperscript{253} The welfare provision in Maoist period was organized by the state-owned enterprises or organizations (work units) instead of
the state; therefore, the benefits were usually distributed in an uneven and unequal way.
performing short-cycle tasks, and standardized products (Piore and Sabel, 1984). These suburban industries comprised mainly of two parts. First, some of them were relocated from the inner city (usually with substantial new investment) and were part of the endogenous process of industrial restructuring. Second, many of the new industries with high-technology components were financed by international capital (foreign direct investment) and chiefly catered to export markets and the accumulated consumption needs of a burgeoning domestic urban middle class (Zhou et al., 2005). Therefore, they were part of the global process of industrial restructuring. Notable examples of the bi-processes of industrial restructuring include two colossal joint-venture automobile companies (classical cases of Fordist production): Shanghai Volkswagen Automobile Co. Ltd. and Shanghai General Motors Company Ltd., both of which established their production facilities in the outlying area of the city or the suburbs\(^{254}\). With simultaneous de-industrialization in the inner city and industrialization in the periphery areas, Shanghai’s industrial might was not significantly compromised. As has been shown in Chapter 4, not in a single year, including the most turbulent 1990s, has Shanghai seen its aggregate manufacturing output decline. What characterized Shanghai’s industrial trajectory was an internal structural and spatial adjustment within the manufacturing sector that led to a cycle of alternating boom and bust at different localities within the municipal territory.

The technology of flexible specialization or “recombinant” production (Hutton, 2008) witnessed in the West also emerged in Shanghai to satisfy the individualized needs of certain companies and of a more affluent class, either at home or abroad. This constitutes the second stage of Shanghai’s latest industrial restructuring. This stage bears much similarity with Western post-Fordist transformations. The spatial manifestation of this transformation was the re-industrialization of

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\(^{254}\) Shanghai Volkswagen Automobile Co. Ltd. is a joint venture between Volkswagen Group and Shanghai Automobile Industrial Corporation (SAIC, a colossal SOE) established in 1984. The company is headquartered in Anting International Auto City, northwest of Shanghai. In 2009, the company produced nearly 700,000 cars (see [http://en.wikipedia.org/wiki/Shanghai_Volkswagen_Automotive](http://en.wikipedia.org/wiki/Shanghai_Volkswagen_Automotive), accessed July 31, 2010). Shanghai General Motors Company Ltd. is a joint venture between General Motors and SAIC established in 1997. Shanghai GM was the top passenger vehicle producer in China in 2006, with sales of 413,400 vehicles (see [http://en.wikipedia.org/wiki/Shanghai_GM](http://en.wikipedia.org/wiki/Shanghai_GM), accessed July 31, 2010). The production facility of Shanghai GM is located in Pudong New Area close to the Outer Ring Road.
many inner city sites beginning in the late 1990s, which was accompanied by the rise of CICs on old industrial sites in the city. Notably, there was only a short time lag between the de-industrialization and re-industrialization processes. However, given the fast pace of change of everything in the city, such “time compression” of Shanghai’s latest transformations is easily understandable.

According to regulation theories, a post-Fordist regime of flexible accumulation must be accompanied by a supportive mode of regulation, for example, a Schumpeterian workfare state in the US (Jessop, 1994). From the perspectives of regulation schemes, Shanghai’s local state is by no means privileging the newer flexible system over the vertically integrated types. It is true that in recent years, Shanghai Municipal Government has legitimized CICs and the many small and private firms on these sites; however, this endorsement is dwarfed by the more staunch support given to big industrial players in the city. The restructuring of the SOEs in effect consolidated the big SOEs through the administratively forced mergers and acquisitions which produced several huge and more vertically integrated state conglomerates [e.g. Shangtex Holding (Group) Corporation, Baoshan Steel (Group) Corporation]. And simultaneously, the efforts by the government to attract global industrial corporations were also very pro-active. Compared with small and flexible firms, these industrial giants are not only better able to secure financing and land, but enjoy advantage in the competition for talents as it is easier for them to obtain hukou quota for their employees. In addition, as the M50 and Red Town case have shown, the main beneficiaries of the recent government support for CICs are actually big developers or SOEs, rather than the small and flexible creative firms. All these evidences suggest that a true supportive regulation environment for the new flexible sector is yet to materialize in Shanghai.

Therefore, Shanghai’s post-socialist transformation should not be understood as a linear progression from vertical integration to flexible specialization in the production realm or from
mass to niche market in the consumption realm as the thesis of post-Fordism suggests. Rather it is characterized by a switch from a central-planning socialist system to a post-socialist regime that combines vertically integrated mass production and mass consumption with flexible specialization and individualized consumption practices. In addition, the flexible sector has not enjoyed equal footing with the vertically integrated system in the policy or regulation arena. Therefore, historic continuity is a much more defining feature of Shanghai’s latest industrial trajectory.

9.1.2 Dominating and Flexible Roles of the Chinese State

Another fundamental difference from urban trajectories in the West is the role of the state in Shanghai’s transformation. Industrial restructuring and the formation of new economy spaces in the West was largely a market outcome. In Shanghai, however, it was undertaken as a grand engineering project by the state to stimulate the city’s economic growth, with an ultimate objective of maintaining the party-state’s political legitimacy. This has to be understood in light of the different institutional contexts. In Western democracies, such as the US, there is a clear division of functions between market and state in achieving economic vitality. When brought down to the level of cities, local governments are institutionalized as public corporations that enjoy substantial autonomy in the management of their own affairs (Elkin, 1985). Although, the local state has played a significantly greater role in enabling and promoting the re-industrialization of the inner city (Ley, 1996; Zukin, 1982; Hutton, 2004b) in the latest round of urban restructuring in the US, it could only induce economic development, not become a major economic player itself: in the economy, productive assets are almost exclusively controlled by the private sector (Elkin, 1985).
In contrast, in China, the boundary between the state and the impersonal market is much more blurred (Chan and Xiao; 2008, Oi, 1995; Leaf, 2005a). Quite often, the Chinese state steers local economic and urban development directly; it may even become an economic player itself. This results partly from the fact that the state controls major productive assets, most importantly urban land and, to a lesser extent, financial capital. Moreover, local state, nominally the agent of the central state and responsible for their supervising government, depends on land sales for the lion's share of its revenues (Tingwei Zhang, 2002c). Aside from China's top-down political system, the career of city officials is usually benchmarked against the economic performance of their locality (Li and Zhou, 2005). Over the past two decades, economic growth has been treated as a top priority by municipal governments. In the Shanghai CIC programs, as well as in other growth-oriented policies, the government has tended to rely heavily on the construction of physical projects (e.g., real estate or infrastructure) as a way to direct the city’s development. This is not simply because physical change is generally easier to engineer, but also because it is the most visible dimension of urban transformation. Hence, in the eyes of public officials, it is also the most visible form of political achievement and hence credit for career advancement.

Nevertheless, despite the fact that the Chinese state has always been authoritarian (Gamble, 2003; Ji, 1998; Lin, 2007), its willingness to make compromises and to bypass stipulated rules, as well as its readiness to be flexible in the application of its policies, is a time-honored practice. The well-known Chinese idiom, “the sky is high and the emperor is far away” exemplifies this tradition. Institutional amphibiousness, as discussed by Ding (1994), simply adds another

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255 Also, the implementation of rural “household responsibility system” that set out the grand project of economic reform in Mainland China was said to be simply a state effort to legitimize earlier local counter measures. According to the Wikipedia,

“This system was not initiated by politicians; rather, they first conducted an experiment with local villagers and later applied the system nationwide.

It was considered a crime to allocate farmlands to individuals or families in the Mao era; however, the low-level productivity under collective farming and drought forced villagers of Xiaogang, Fengyang to do so in 1978. They implemented this system secretly, and signed a contract, “if any one of us is put to prison as a result, others shall be responsible for the raising of his children until they reach 18 years of age.”
dimension of China’s flexibility in its governance arrangements. We can interpret this *ad hoc* flexibility as a form of informality in China’s governance system. Today, with the Central and Municipal Government\(^{256}\) increasingly receding from the micro-management of the local economy, various local actors (e.g., District Governments, Street Offices, and Residents’ Committees) assume correspondingly greater responsibility. Under such circumstances, the only way for the upper levels of government (central or municipal government) to remain influential in affairs taking place at the lower levels of the administrative hierarchy (district government or the community) is for them to exhibit even greater flexibility in policymaking and management, so long as certain political goals (such as social stability) are not overstepped. However, underpinning the state’s flexibility in policymaking and management is the absence of clear rules often made in haste and without consideration of whether they conflict with or contradict existing rules. Many laws in China are made before lawmakers\(^{257}\) comprehend the issues at hand, since everything is changing so rapidly that to violate or ignore existing rules is the only rational outcome\(^{258}\). The remedy to this situation is for the state at various levels to engage in a constant process of social learning wherein new insights are gained from actual practice. Flexibility allows the government to adjust existing rules or policies *after* learning from experience. In a sense, therefore, flexibility underlies a type of hidden influence of the state. Usually, knowledge gained from experience is harnessed by strengthening the state’s presence retrospectively, that is to say, after it legitimates what has already happened and turns that fact into a rule. The changing nature of CICs from spontaneous growth to planned development was a clear demonstration of the state’s

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\(^{256}\) Under China’s urban system, Shanghai (together with Beijing, Tianjin, and Chongqing) enjoys the same status as a province and, correspondingly, Shanghai Municipal Government is at the same administrative level as a provincial government. In Shanghai, local government refers to District Government and its representative offices (Street Offices) at the sub-district level.

\(^{257}\) Lawmakers in China are elected representatives in the People’s Congress at different levels of government [from the Central Government, down to city-level (selected cities) governments].

\(^{258}\) This remark was made by Wu Jiang, former Vice-Director of Shanghai Urban Planning and Administration Bureau on October 18, 2008 at the 4th Annual Conference on the Conservation and Development of Historic Village in China, Shanghai, October 18-19, 2008.

The secret experiment was very successful. In 1979, the experiment was again conducted in Sichuan and Anhui Provinces, both seeing dramatic increase in agricultural productivity. Deng Xiaoping openly praised these experiments in 1980, and the system has been adopted nationwide since 1981.” (quoted from [http://en.wikipedia.org/wiki/Household-responsibility_system](http://en.wikipedia.org/wiki/Household-responsibility_system), accessed March 29, 2010).
capacity for social learning, and its intention to control the direction of urban restructuring. Therefore, the state's flexibility in dealing with the CIC issue is reflected in the alternative means that were supported in achieving the ultimate end, rather than an alternative end in itself. Although the dominating roles of the local state in urban development have been widely acknowledged (He and Wu, 2005; Wu 2002; Tingwei Zhang, 2002c), the flexible aspect of managing urban processes and the state’s social learning capacity have largely been neglected in the existing literature.

9.1.3 State-defined Vision of Modernity

Since Shanghai’s recent urban restructuring was given its overall direction by the state, we may ask what constitutes the state's vision of the future. I shall argue that Shanghai was driven by a desire for modernity, and that this is yet another aspect of the city's historic continuities. In Chinese, the very name of Shanghai evokes modernity (Lee, 1999). At the turn of the 20th century, the evolution of Chinese society, in which Shanghai was a pioneer, was guided by the idea of modernization (Bergère, 1989). It was also in Shanghai that the English word, “modern,” was first transliterated as “modeng” into Chinese and later the word acquired the meaning of being novel and fashionable\textsuperscript{259} (Lee, 1999). In popular imagery, modernity is frequently equated with “Western civilization in all its spiritual and material manifestations” (e.g., science and technology, liberal democracy, business corporations, cultural consumption, and so on) (Lee, 1999, p. 99). Similarly, Lu (1999b) writes, “[i]n modern China, traditionalism was frequently associated with things indigenous and an attitude of looking back in time. Modernity, however, was associated with things foreign and an attitude of looking forward” (p. 10). As early as in the semi-colonial period, Shanghai’s close contact with Western civilization had put the city in the forefront of

\textsuperscript{259} Modeng, or the Chinese version of the term “modern” should not be interpreted in a static “modernism” sense (e.g. believe in rationality, reason, science, efficiency, etc.). Adapted under Chinese circumstances, the meaning of “modeng” is more fluid, dynamic and open for re-interpretation.
China’s long march toward modernization. Since the late Qing Dynasty, whether it was building the state manufacturing sector, the legitimization of foreign industrial capital or the encouragement of the private industrial sector, industrialization policies were intended to achieve a vision of modernity.

With the founding of the People’s Republic, however, the meaning of modernity changed; now, it was the Chinese socialist state that articulated the term. Under the Maoist regime, the legacy of semi-colonialism/feudalism/capitalism were all declared to be socially “backward” residues (Ho and Ng, 2008), whereas centrally coordinated industrial production and city building were used to achieve a socialist vision of progress (Hou, 2010). Under the communist ideology, socialism was understood as an advanced system to supersede capitalism.

By the end of the 1970s, however, after years of rigid central planning and social turmoil, and with China’s material well-being dwarfed by that of Western powers, the term “modernity” began to be re-linked to the abundant material wealth and individual consumption enjoyed by the middle classes in Western societies. Beginning with the reform period, Shanghai’s modernity was interpreted economically as a strong manufacturing sector, as well as a financial and business service sectors, in support of global city functions. Physically, modernity was equated with large-scale urban redevelopment that would eradicate every trace of the city’s traditional neighborhoods and old production facilities. The shut-down of the traditional manufacturing sector, the development of the new financial center in Pudong, as well as many high-rise condominiums constructed along Suzhou Creek, all served this vision of modernity. More recently, and influenced by post-modern ideas and practices, modernity has acquired yet another meaning that includes individualized consumption, creative industries, flexible specialization, and historic conservation. Now with an emphasis on consumption, culture, and more specifically, consumer
culture, has been added as a new dimension of modernity\textsuperscript{260}. Quite interestingly, this latest post-modern impulse in the cultural field serves the political objectives of the state. Consumer culture is, in fact, the new doctrine the state would like society to subscribe to because it helps sustain control by stimulating economic production and deterring political mobilization by inculcating in people a belief that consumption is equal to happiness, and that happiness comes from becoming an avid consumer. The CIC projects, which embody these new interpretations of modernity from both production and consumption sphere, therefore, became the latest development interest to be embraced by the state\textsuperscript{261}. [O’Connor and Xin (2006) suggest that the use of term “creative industry”, rather than “cultural industry” in the Chinese policy discourses, reflects the pursuit of modernity because culture industries represent the old state-controlled domain, whereas, creative industries symbolize the domain of economic development].

However, if the term modernity is understood as “things foreign and an attitude of looking forward” (Lu, 1999b, p. 10), there is clearly a missing dimension of Shanghai’s quest to become modern: social inclusion and equity. This new emphasis on consumption clearly excludes, or at least renders invisible, a large segment of society that fails to share in economic prosperity. The term modernity is therefore interpreted selectively so that it fits nicely into the state’s political agenda. The power to define Shanghai’s future and to control public discourse is yet another characteristic of the Chinese state. This symbolic power, soft and hidden as it is, may have more far-reaching consequences as it shapes the public notion of what type of city Shanghai should become in the future. Unless it is corrected, this mental construction of the future may well turn into a self-fulfilling prophecy.

\textsuperscript{260} Hsing (2010) suggests that there has been a shift from “industrial modernity” to “urban modernity” in recent years in China. 
\textsuperscript{261} If the image of modernity that Shanghai’s city builders wanted to emulate in the 1990s was Manhattan, the image of modernity in the 2000s is clearly SoHo.
9.1.4 Pro-growth Coalitions with Chinese Characteristics

The privileging of market players in China’s urban transformations parallels the practices in Western cities, which are increasingly becoming entrepreneurial in nature (Harvey, 1989). The pro-growth coalition of the state and various development interests that expect to profit from it was evident in both the spontaneous (i.e., state-backed) modernist redevelopment movement and the induced period of CIC development (i.e., public-private partnership in the Red Town project). While state defines the goals to be achieved, the market provides the critical resources for the state to realize its grand vision while maintaining its tight grip on power. The power of the market is therefore not its dominance over the state. Rather, it is the state’s dependence on the market that allows it to maintain its control over urban restructuring.

Democratization has not, however, gone hand in hand with economic liberalization as many Western observers had supposed. Since China’s political system is not subject to popular control, local communities and social forces could only have a fleeting role and have been rendered largely invisible. Although *de facto* social forces could occasionally make their claims on urban space, power was weak and success not guaranteed. I would therefore question the existence of a “civil society” in a country where social forces remain at the mercy of the state. In addition, institutional amphibiousness (Ding, 1994), which is so typical of China and to which I have referred earlier, also renders their identity ambiguous. In short, the role of local communities is quite marginal in Shanghai’s latest urban restructuring. If the relationship between the state and business interests has become increasingly flexible, the control over social forces remains the bottom-line drawn by the state. However, we cannot overlook the piecemeal struggles of social forces. Without them, the new urban landscape of CICs would not exist today. Nothing in the business of Shanghai CICs is
more creative than the early counter-strategies practiced at various localities\textsuperscript{262}. Therefore, the power of China’s social forces, however weak and ambiguous, can be critical for the country’s urban transformations at certain junctures. This is another aspect that has been largely neglected by researchers of urban transition in China.

Although pro-growth coalitions are a driving force of Shanghai CIC businesses, the political and economic context of China determines their organizational structure, which is very different from what can be observed in a Western context. In US cities, land interests usually dominate such coalitions, with local communities resisting their initiatives (Elkin, 1985). In the case of Shanghai, however, the local state heads an urban regime, while local communities are largely rendered impotent. This conclusion corroborates Tingwei Zhang’s (2002c) generalization of China’s urban regime. However, it is also important to note the changing nature of urban regimes (Elkin 1985). The changing face of players in Shanghai CIC businesses also implies the changing structures of the city’s pro-growth coalitions. In the early days, these coalitions consisted primarily of the state and various development interests that resisted the formation of new economy spaces on post-industrial sites. In other words, the state and the development interests were hostile to cultural interests and some pro-conservation SOEs. Subsequently, as the state changed its attitude, and development interests changed their business strategies following substantial social learning, they became allied with cultural interests and the restructuring SOEs. In the absence of any substantial resistance, this four-party coalition turned Shanghai’s industrial heritage into a new “growth machine” of the city.

The prior control of certain power was the four parties’ admission ticket to Shanghai CIC projects, and through participation in such projects, their powers were further consolidated. First, the local state started both substantial political and regulatory power. The registered economic

\textsuperscript{262} I credit this point to Prof. You-tien Hsing who gave me a number of helpful comments after I made a presentation of the M50 case in the 2009 Annual Meeting of Association of American Geographers in Las Vegas, March 22-27, 2009.
growth (e.g. GDP figures) from CIC development could reinforce the local state’s political legitimacy, which would better position it to set new social agendas. Second, the development interests, which controlled financial capital, would reap handsome profits. Third, the cultural interests possessed cultural and ideological power (Zukin, 1995) which helped them define sellable products as well as draft future blueprint for the city in the post-modern social context. By participating in the CIC projects, cultural interests not only could draw more subscriptions to “their” vision of culture from members of the urban new middle class, but also benefited financially in the cultural industries and cultural property businesses. Fourth, the SOEs, which possessed territorial power (e.g. as *de facto* owners of old industrial land), could earned both economic and political capital (e.g. by avoiding social unrest), which in turn help them tighten their territorial control. In sum, the new four-party pro-growth coalition in CIC projects represents a concentration of resources and symbolic powers in China’s latest stage of urban transformations.

At the policy level, the new coalition also underlies the consolidation of cultural and urban development strategies in Shanghai. While the impact of property development is largely physical, the value of art and culture lies in their symbolic features. Culture and property development can contribute to urban economic growth in three ways, with largely similar results. First, both can contribute to the economy as purely an economic sector, such as cultural industries or the real estate sector. In Shanghai, the latter has long been considered a pillar of the economy and in recent years, cultural industries have been identified as new growth engines\(^{263}\). Second, both can help shape the image of a place, which is supposed to lead to increased investment. Third, both culture and property development can add to urban amenity, which, according to Richard Florida (2002c), attracts the high-earning creative class. In the latest post-industrial transformation, the “culturalization” of property development explains the moneymaking logic of Shanghai CICs. On

\(^{263}\) In the city’s “Eleventh Five-Year Plan” passed in 2006, creative industries are listed as high growth sectors.
the one hand, the symbolic value of art and culture is appropriated to add to the prestige of property projects; on the other hand, cultural properties are used to attract high-end users in cultural industries. The unique aspect in China is that, traditionally, the Chinese state has exerted substantial control over both property development and cultural affairs. Even today, the state’s leverage in these two aspects is still quite strong. Therefore, CICs, which combine culture with land development, could become an important domain for the state to orchestrate urban transformations.

9.1.5 Social Learning: Toward a Holistic Framework of Analysis

In the previous sections, I elaborated on how Shanghai’s urban trajectory informs theories in different perspectives, such as post-socialist transformation, roles of the state, changing visions of modernity and pro-growth coalitions. These diverging domains of theory underpin the complexities of China’s urban transformations that render any single theoretical generalization reductive. Despite the danger of oversimplifying China’s urban processes, I would like to unveil a common theme of the four domains of theory I discussed in great length, that is social learning; and this underlying theme can serve as a holistic framework for analyzing China’s urban transformations.

Simply put, *China’s urban transformations can be conceptualized as social learning processes.* The path-dependent post-socialist trajectory implies learning from the past, either consciously or unconsciously. The flexible role of the state is to ensure that social learning (including learning in planning practices) can take place. And finally, the changing definitions of modernity as well as the changing structures of pro-growth coalitions are both a result of social learning of various players in Shanghai’s urban transformations. Therefore, social learning is a unifying theme of
these different domains of theory.

China’s urban transformations are unprecedented in terms of their scale, pace and degree of uncertainties involved. Such social upheavals are beyond the control of any party, including the seemingly omnipotent Chinese state. In order to manage social changes of such a nature, learning is perhaps the only rational choice. Social learning is rooted in a Chinese cultural tradition of pragmatism (Shih, 1995). It is a process of adapting to changing circumstances and gaining knowledge from experience. In this model, learning and practice take place gradually and simultaneously (Friedmann, 1987). Learning by individual players not only helps explain what has happened in the past but also foretell what will take place as outcomes of learning shape future trajectories.

The learning processes, as well as China’s urban processes, can be understood as loops of managing changes by players. When a social problem arises, generally no party has the knowledge to solve it. Worse, no party could even make sense of it. Under such circumstances, the state would allow various types of experimentations (including tacitly allowing illegal and semi-legal practices) to take place in the hope of understanding and solving the issue. In these social experimentations, the state would have to balance the need to find innovative solutions to the pressing problems and the risk of destabilizing the political system. On the other hand, the experimenters would have to consider the need of finding solutions to survive vis-à-vis the political risk of angering or antagonizing the state (e.g. by engaging in illegal practices). These calculations are subtle and important (and usually tacit) messages more often travel through the densely knit informal networks (guanxi networks) built historically among players. Once a promising solution is found and if it happens to underpin state agendas, the state would legitimize the practice and even turn it into policy even if it has an illegal origin. Sometimes, the new knowledge gained can even help the state redefine its future vision. In contrast, if
experimenters go astray in the eyes of the state, the state can easily deny the experimentation using illegality as a perfect excuse. And once the new policy that is inspired by successful experimentations is implemented, quite often, new problems arise. This completes a loop of social learning process as well as starting a new one.

However, as argued by Friedmann (1987), social learning is conservative rather than transformative because players simply intend to tinker with the systems or “muddle through”, therefore, the risk of destabilizing the system is minimized. This property of learning fits two social realities in China: 1) the traditional distaste for “chaos” (luan) inherited from Confucian philosophy and 2) the party states’ monopolistic control of political power.

Examining social learning processes also helps uncover the asymmetric power structures in China’s urban transformations. Francis Bacon’s famous aphorism “knowledge is power” implies that learning empowers while lack of learning disempowers. The knowledge gained in social learning is empirical knowledge, but for transitional societies like China, its value is no less important than theoretical knowledge stressed by Bell (1973) in his discussion about axiomatic principles of post-industrial societies. In a context of China’s break-neck pace of urban transformations, such empirical knowledge (usually in the form of “know-how”) can help actors remain resilient in adversity and even benefit from the drastic changes. This is because crisis usually comes side by side with opportunities but special knowledge acquired from learning is needed to uncover and take advantage of such opportunities. However, the chances of social learning are shaped by existing power structures and hence not equally distributed. The state determines the agenda of learning: what can be learned (e.g. the means of economic development) and what cannot be learned (e.g. the political reform). It also determines who are included in and who are excluded from the learning processes as learning usually takes place within small groups of people (Friedmann, 1987). Laid-off workers, for example, had been
deprived of the chance of learning because of their lack of political and financial power and this in turn further disadvantage them in future transformations. Therefore, social learning is not just an important source of power (which I call “learning power”) but also serves as a mechanism of reinforcing existing power structures and social inequalities.

It needs to be noted that conceptualizing China’s urban transformations as processes of social learning is an over-simplification. I hesitate calling it a holistic theory of China’s urban transformations because such a proposition can only complement rather than replace the rich theories underpinning different aspects of urban processes. Therefore, I interpret the social learning model as an analytical framework that can help inform convoluted processes of China’s urban transformations rather than an all-encompassing general theory of urban change.

9.2 Policy Recommendations

My purpose in studying Shanghai CIC development goes beyond merely gaining a deeper understanding of China’s urban transformations. Knowledge of urban processes is also useful for identifying policy questions and tentatively designing an outline of solutions to address them (Lin, 2004). The discussion in the previous section suggests that Shanghai’s development over the past 30 years demonstrates more local characteristics than “international trends.” Given this distinctiveness, policies must be tailored to local needs and to fit into the institutional context. With this in mind, I want to discuss four major planning issues related to Shanghai’s CIC development: social justice, industrial agglomeration, land-use of inner-city industrial sites, and support for art and culture. In addressing these issues, I will adopt a dynamic perspective. Going back to the old industrial order at those sites would be neither possible nor desirable. Even if this were not the case, the economic and social well-being of workers would still not be addressed so
long as SOEs are kept alive by massive public subsidies. Therefore, what needs to be done is to devise broad policies that will mitigate the social impacts of industrial restructuring in a realistic way.

9.2.1 Social Justice

From the production spaces of the urban proletariat to the life spaces of small informal factories, from shelters for marginal artists and creative workers to the exclusive production and consumption spaces for China’s urban elites and foreign expats, the Shanghai inner-city industrial sites have undergone several rounds of change. However, the trend is worrying, since inner city urban spaces are increasingly being appropriated by powerful groups. Not only have former blue-collar workers been rendered invisible, surrounding communities are treated as irrelevant. The city is following a trajectory that departs from planning theorists’ ideal image of a city, whether it be a “cosmopolis” (Sandercock, 1998), a “just city” (Fainstein, 2000, 2005), or a “good city” (Friedmann, 2000). To become a "city of tomorrow," which is what policy planners aspire, Shanghai must address its social equity issues.

Supporting Laid-off Workers

At the time of their recruitment by an SOE, former socialist workers were promised a secure future for themselves and their families. However, the state-triggered economic and social upheaval of the last three decades have belied the state’s promises to its vanguard class by depriving them not only of their means of livelihood\(^{264}\), but also all of their right to the city. Former workers should be entitled to a share in the prosperity of CIC businesses housed in former factories and warehouses.

\(^{264}\) The subsistence payment that laid-off workers receive is meager compared with the high cost of living, partly elevated by urban elites.
SOEs that have benefited handsomely from space-leasing businesses should reserve a bigger part of their profits to support the workers who remain on their roster. For its part, the municipal government should use some of its increased tax revenue from CICs to support laid-off workers. Although firms in creative or cultural industries should not be blamed for their ex-workers’ tribulations, equity considerations would justify the use of resources provided by the winners in this game (i.e., the new economy firms) to compensate its losers (laid-off workers). If cash support to individual workers is not feasible, the municipal government could offer help by providing collective goods or services, such as education, training, or targeted job creation programs. If in the early days of restructuring, economic condition do not allow either SOEs or the municipal government to devote significant resources to help the victims of industrial restructuring, such neglect must be corrected in a timely fashion once CICs have become profitable.

*Creating Vibrant Urban Districts*

Economic, social, and cultural activities taking place at CIC sites should be woven into the urban life of the areas surrounding them. Internationally, major agglomeration of creative activities, such as Silicon Valley, Hollywood, New York, or the Third Italy, are all characterized by an organic mix of work, life, and recreational functions (Saxenian, 1994; Scott, 2000a; Currid, 2007a, 2007b). This mix is the ambiance that is associated with what we call a “creative milieu” or “creative field” (Scott, 2006b). Stern and Seifert (2010) demonstrate that community-centered cultural clusters help revitalized the urban economy. Ten Steel was chosen as the site for SSS partly because of the lack of cultural facilities in the western sector of the city. The initial intention of the plan was to facilitate the integration of cultural and residential functions. However, this goal is still far from being realized.

To solve this problem, the government must help CICs to tear down the “walls” around them. Most
CIC sites are still enclosed by the physical walls inherited from what were formerly SOE compounds. Although these walls may be maintained as a reminder of the history of the socialist factories, public access to CIC sites should not be obstructed. Actually, public access may not be in conflict with regard to security. The security of a CIC open to the public is no more jeopardized than are any office building or department store in the city.

More importantly, the invisible “psychological” wall must be pulled down. To achieve this, the government should de-emphasize the international standard of CICs and instead try to address local needs for cultural activities, consumption, and jobs. International standard represents the value and order of the economically advantaged groups that are now dominant. By imposing a universal standard, life experiences and practices that are not in conformity with this standard come to be regarded as anomalies and thus become marginalized. In this perspective, international standard can be thought of as a form of “cultural imperialism” in a new guise (Young, 1990). After all, uniform and tightly controlled urban spaces have no appeal to many creative workers. A French designer once asked the space managers at Bund 1919 to retain the old dust on the windows because he thought that over-sanitized spaces were unnatural and boring, and thus would not be conducive to creative thinking.265

To tear off the invisible walls and consolidate the fragmented urban spaces (Shen 2007; Ma and Wu, 2005), a mix of tenants, both established firms and small start-ups, should be welcomed at each site. To achieve this, part of the available space may be rented out at subsidized rates to small businesses. This can be accomplished without sacrificing the economic prospects of CICs. On the one hand, tax concessions and various other kinds of preferential treatment or rental support are already in existence for many CICs. What needs to be done is simply to target diverse group of small firms or start-ups for support, instead of giving away the subsidy to firms across the board or

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265 Anonymous Interview, July 9, 2009.
waste resources on those that do not actually need such support. On the other hand, a diverse mix of firms and people at the same locality is conducive to creativity if frequent interactions can take place among them (Florida, 2005; Saxenian, 1994). Currid (2007) further argues that the economics of cultural industries lies in the social dynamics of this sector. As a core value of creative/cultural industry firms, enhanced creativity clearly helps maintain the economic health of a CIC in the long run. As the surveys have shown, firms are now increasingly turning away from strictly economic incentives, favoring location factors that help stimulate creativity. However, management companies of many highly sought-after CICs in Shanghai want to target certain industries and thus usually select tenants in a particular industry based on a predetermined quota. Such a mechanical method of selection will turn away many creative firms that do not fall within the targeted industries, but can nevertheless contribute to the social dynamics (i.e., the “social milieu”) of the locality. Therefore, entry restrictions should be minimized, and space leasing should try to satisfy the needs of space users, rather than space providers.

In addition, to melt down the psychological barrier to CIC sites, historic conservation practices also need to address the issue of social justice. Conservation experts and policymakers must be reminded of the tendency of using cultural and historic conservation as a means of social exclusion. When Shanghai’s conservation experts were preaching conservation practices, they likely did not anticipate that adopting them would lead to consequences that ran counter to the principles of a “harmonious” society— the denial of workers’ claim to urban space, the space-makers of the socialist past. This is a major policy issue confronting China’s urban planners. If not properly addressed, social divisions will widen, with more inner city industrial sites providing merely an “enclaved” experience (Featherstone, 1994) exclusively for the affluent class, or being repackaged into up-scale “themed industrial parks.”
Integrated Community Planning

Planning practice also needs improvement. Industrial planning and detailed planning for residential areas are done by different institutions in Shanghai, as well as in China. This planning system has encouraged the homogeneity of economic and social activities in many areas of Chinese cities. Furthermore, new community development practices that have been in existence for a number of years are centered on the provision of services to local residents, rather than to those who actually work in the area. To help CICs become an integral part of the city, community development should look beyond the residential function and see living, work, and recreation as inseparable life practices. At the same time, industrial planning or planning for CICs should take into consideration wider community concerns in order to become part of or somehow coordinate with community development planning practice.\(^{266}\)

9.2.2 Industrial Agglomerations

With old production facilities turning obsolete with industrial restructuring, the CIC policy was intended to create thriving agglomerations of new industries. State involvement in the CIC business was based on the premise that successful agglomerations can be replicated by policies through the provision of spaces of production. However, the development trajectory of Shanghai CICs suggests that formation of CICs in an industrial sense is much more complex than merely being a matter of bricks and mortar. In fact, efforts to promote CICs had, for the most part, been turned into property projects that serve to line the pockets of developers instead of becoming

\(^{266}\) Community development planning in Chinese cities originated from detailed planning for residential areas, which was mostly concerned with building layout, landscape design, and public facility planning. The experiment with community development planning in Shanghai started in the 1990s, by trying to incorporate economic and social development indicators (e.g., income, educational levels, sense of belonging, and others) as well as governance and management issues (e.g., role of local residents’ committees, homeowners’ associations, and others) into the plan (Zhao and Zhao, 2003).
incubators for creative firms. This was an unanticipated outcome. After over 70 sites had acquired the title of CICs by 2007, the government suspended the program as it had become apparent that a large number of CICs, even with much state support, had no real substance. There are many examples that point to the failure of government efforts in dictating cluster formation. At the peak of Shanghai’s large-scale urban demolition and renewal, the government tried to persuade art studios at M50 to move into a suburban location with better infrastructure facilities in order that the M50 site could be cleared for a new development. However, this plan never materialized because no firms were interested in moving to distant locations selected by the government. A building across the street of Tianzifang was another example. Initially, the government wanted to turn it into a trading center for antiques; however, the project failed. Instead, Tianzifang attracted a large number of art studios, galleries, and handicraft shops, all with very limited state involvement. Many other clusters were formed without the presence of the state, and even despite initial government skepticism, such as at M50. Red Town is a state-supported CIC that has achieved commercial success; however, this case was actually not built from scratch since cultural exhibitions had been held there long before the advent of SSS and Red Town projects. Furthermore, the Ten Steel site enjoys location and transportation advantages in addition to the exceptionally large workshop space suitable for sculpture exhibitions that cannot be replicated elsewhere. Even after extensive state support and an advantageous location, tenants at Red Town were actually the least satisfied with their situation among all of the firms in the four clusters surveyed in my research. In fact, three other unrelated clusters were all spontaneously grown (see Chapter 7).

The development trajectories of CICs in Shanghai suggest that the state can administratively order the closure of firms and help build or renovate the necessary physical structures, but that it cannot dictate the formation of industrial agglomerations. State effort is neither a necessary nor a sufficient condition for the spatial concentration of creative firms. Such a result has important
policy implications in terms of the city’s new space economy. Government-sponsored CIC projects, if unsuccessful, represent a drain on public resources that could otherwise be used to tackle more pressing issues, such as urban poverty or education. Since the government has restricted the roles of public institutions in the provision of public cultural facilities (such as SSS) for fear of draining public funds\(^{267}\), no justification can be found for squandering the money on property projects that will lead neither to efficient nor equitable outcomes. Formation of industrial agglomerations usually has a logic all of their own. If awarding of CIC titles is a means for the government to pick winners for targeted support, the government should try to identify those sites where a spontaneous nucleus of creativity already exists. Moreover, the award of a CIC title should be subject to periodic review, since clusters can rise or fall. In a contrary event, the awarding program should be dropped.

My suggestion to eliminate or reduce the direct role of the state in the CIC program (e.g., by picking up winners and committing resources on renovation) is not meant to imply that the state should be absent from the scene altogether. There are a number of things it can and should be doing. First, it can offer policy support in terms of historic conservation. Uncertainty about the future prospect of their production spaces reduces the incentive for creative firms to make a long-term investment. In addition, uncertainty makes CIC sites less sticky places for firms. In fact, most industrial buildings in CICs are currently not protected by any laws or regulations. Although demolition threats have for the moment been largely subdued, they have not been eliminated. If developers want to undertake a new development, they can still proceed by arguing that their projects are in conformity with both urban comprehensive and detailed control plans. Allowing the use of industrial land for creative businesses is only a temporary policy and can be discontinued at the discretion of the state. I will discuss solutions to this issue later in this document.

\(^{267}\) Remember that in the case of Red Town, Shanghai Art Museum and Shanghai Grand Theatre were eliminated early in the open bidding process because of their nature as subsidized public institutions.
Second, the surveys, as well as interviews, suggest that rent hikes were a major issue plaguing creative firms in Shanghai CICs. Although it is unrealistic for the government to regulate the rental levels of CICs\(^{268}\) or restrict the types of tenants allowed at CICs, the government can provide rental support to new start-ups or unknown artists to help them offset the ever-escalating rents\(^{269}\). As discussed earlier, this not only addresses equity concerns, it will also benefit cluster economically because excessive concern with the costs of doing business tend to divert firms’ attention from their creative endeavors.

Third, the government can support CICs and Shanghai’s creative industries in general by strengthening the institutional thickness of the city. As shown by my survey results, a gap exists between the needs for supporting organizations (educational, training, professional, and the like) and the services available. Organizations that offer long-term benefits to creative firms are particularly in need of support. In addition, the government can also have a role in nurturing an urban environment that can value differences, befriend newcomers, and tolerate business failures. Shanghai will never be a creative city or a magnet to a large number of creative firms if economic growth is the only goal to be pursued. Creative firms are not necessarily economically efficient (Scott, 2006b), particularly at their most creative stage, because creativity is always associated with volatility in the product market and repeated trial and error. Therefore, creative talents or firms need a tolerant environment to survive and thrive. The government’s policy of fostering agglomeration of creative firms must go beyond CICs. If the numbers of creative firms and creative talents in the city do not increase over time, the proliferation of CICs will only result in fierce competition among them; ultimately, the success of one CIC may mean the failure of another.

\(^{268}\) As SOEs are required by State-owned Assets Supervision and Administration Commission to guarantee the appreciation of state asset over time, regulating rental levels would put SOEs at a disadvantageous position. \(^{269}\) A direct policy I can think of is to use rental vouchers to help qualified creative businesses to rent spaces at CICs and firms must apply for the vouchers (like a grant) from the government.
In sum, the state has a large potential role in promoting agglomerations of creative firms. However, its efforts should be focused on macro-level policies, rather than becoming directly involved in the micro-management of CICs. Furthermore, the government’s attention should be devoted to nurturing creative people, creative firms, and a creative city, all by providing support to those in actual need of help rather than to powerful developers or large corporations. In the cultural industries, the economic problems usually have a social solution (Curried, 2007).

9.2.3 Land-use of Inner-city Industrial Sites

The land-use of the inner-city industrial sites is still an unresolved issue. The policy question is whether to change the land-use type to match existing economic activities (such as Red Town) or maintain the status quo (such as at M50). I am in support of the first alternative.

Several reasons underscore the government’s hesitation in land-use adjustment. First, the hosting of non-industrial activities on industrial land is by official definition an illegal practice. The government has been unwilling to formally legitimize CICs on statutory grounds because of their “illegal origin.” Second, the government wants to maintain industrial land in the inner city that is SOE property. Third, the government has regarded CICs as a solution to the continuing woes of SOEs. Land-use change can lead to rent hikes that will undermine emerging CICs by driving creative firms away. Relatively low rent is still an attractive feature of many CICs. Owing to these concerns, the government has opted to maintain the status quo as a temporary policy. As argued earlier, “muddling through” with temporary policies provides the government with chances of social learning and offers policy flexibility in the future.

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270 Current leases were supposed to be based on the rents of industrial land.
However, as CIC business evolves, these concerns have become less real now than they were before. First, CICs have already been legitimized by the government with its awarding of CIC titles. Even if the government was unwilling to acknowledge these “illegal practices,” their existence cannot be denied. Second, Shanghai’s industrial restructuring has reconstituted urban spaces. If the land is not already in industrial use, there is no point in maintaining industrial land nominally on paper. In addition, most of the restructured industrial SOEs are no longer engaged in manufacturing activities; therefore, categorizing land under their control as industrial land is inappropriate. The government’s concern for the reduction of industrial land in the inner city can be addressed by new industrial plots in the suburbs. Today, manufacturing is still a pillar of Shanghai’s economy. Simply keeping industrial land nominally on the books will not draw manufacturing activities back into the inner city. Third, with so much emphasis on international standard and business promotion strategies, rents at many CICs have gone beyond the range that industrial premises could possibly command. In fact, if the spaces are leased according to market principles, that is, to the highest commercial bidder, whether or not the land is still zoned as industrial does not actually make a difference to the actual level of rent. If the benefit of low cost of industrial premises is not enjoyed by tenants, it will be captured by the property developers. Therefore, simply keeping industrial land nominally could not help maintain CICs’ roles as “incubators” of creative firms. In fact, CICs have been turned into cash cows for development interests without any change in land-use types because of the existence of “rent gaps.” In addition, maintaining the status quo has two added disadvantages. First, temporary policies pose many uncertainties for SOEs, as well as tenant firms. Second, zoned as industrial land, residential functions are usually banned on CIC sites. Lack of residents has contributed to the social isolation of CICs in an urban district. As CICs are largely devoted to office functions, they are dead spaces at night. This issue has to be tackled in land-use planning.

Therefore, I recommend gradually re-zoning the existing CICs sites. CIC sites should be
designated as mixed-use sites, incorporating residential, economic, and recreational activities. In addition, heritage conservation considerations must also be written into the plan. In fact, mixed-use areas that allow live-work or work-live studios can help support creative workers because dwellers can economize on their space usage and save on commuting cost. However, re-zoning of land should not bypass formal administrative procedures. As the Red Town case has shown, by avoiding the auctioning of land in the market, rent gaps cannot be eliminated and profits have largely been captured by developers. In contrast, if land is put on the market\textsuperscript{271}, the price differential will be paid by the developer and will accrue to the government, the owner of urban land. This land revenue can and should be used by the state to offer support to laid-off workers and tenants in need of help. It can also be used to support Shanghai’s art and cultural facilities.

9.2.4 Supporting Art and Culture

As art and culture are central topics of this latest phase of urban transformation\textsuperscript{272}, it warrants some more discussion. At least two policy issues need to be resolved. First, what kind of or whose art and culture should be supported? Second, how can effective support be provided?

As the development trajectory of Shanghai CICs has suggested, traditionally, the Chinese state ("the system") has been the main channel of funding art and cultural activities. With commercialization, however, artists are increasingly turning to the market for resources, although

\textsuperscript{271} In China, what is sold on the market is actually the land-use right over a fixed time (e.g., 20 years) rather than ownership outright; the latter cannot be transferred.

\textsuperscript{272} The reason for me to single out art and culture here is not to prioritize artistic creativity over other types of creativities (such as analytical, synthetic or managerial creativities). In the previous sections, I have discussed agglomerations on a more general basis, which applies to various types of creative firms. In this section, I want to address art and culture specifically because: 1) artists were the pioneers of Shanghai’s CICs, 2) management of many CICs still hope to depend on artists to kick-start their businesses; and 3) funding for art and culture in China is a much more tricky issue than funding for other types of creative endeavors because art and culture can touch on sensitive topics (besides the classic debate over the conflict between art-for-art’s sake and commercial art).
the state system remains a heavyweight supporter. It was artists’ switching from state to market for financial support that helped spawn many of the new creative spaces in the inner city of Shanghai. Unfortunately, the current dual system of art financing is problematic. Art financed by state resources must inevitably speak for the state. Therefore, the creativity of art production under this system is usually circumscribed by the political needs of the party state. Artists playing with the tide of the market have to submit to the demands of financial capital⁰ and therefore, works of art are usually perceived as instruments for speculation and aggrandizement, rather than as objects for the enrichment of life. Due to the mismatch between art production and consumption, the most volatile contemporary art market is said to be in China. As Colin Sheaf, Deputy Chairman of Bohams, a British auction house suggested, “Chinese art [is] produced by Chinese artists who think they’re producing things to Western taste. It is bought by Westerners who think they’re buying Chinese taste⁴ .” The latest global financial turmoil and the plummeting sales of the works of artists at Shanghai CICs have proved the truth of this claim. Over the long run, Chinese artworks “made for the West” will lack vitality. Neither can they be relied on to ensure the prosperity of Shanghai CICs⁵.

Clearly, the problematic dual system of art support in China has left unattended a large number of creative talents who are neither ready to subscribe to bureaucratic dictation nor prepared to bow to market forces. Potentially, a great deal of creative talent can be found in this insurgent community of artists, which will quickly wither if artists continue to be stripped of resources. The city needs to support these "insurgent" artists and their art production because, to become a cultural giant, Shanghai will need to foster a creative milieu that nurtures artists and cultural workers of diverse interests and backgrounds.

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⁰ Artists under the market system are also not supposed to be “political offensive” even though they are not required to be politically right.
⁴ See “A Whole New World,” The Economist, November 28, 2009, pp.15-16.
⁵ In fact for many of Shanghai CICs, not only pure art production is targeted toward Western market, but also a number of design products, such as designer clothes, accessories, home decorations, and so on. Similarly, many restaurants or coffee shops located in many of the CICs mainly serve Westerners. If the number of international visitors drops substantially, their business will surely suffer.
To help insurgent artists, a third channel, consisting of non-profit and non-government cultural organizations, must be set in place. Given the tight political control on the registration of NGOs and censorship of cultural production in China, establishing this third channel remains a distant dream. However, it is a direction toward which the city should be headed. For the time being, some gradual measures can be attempted. Thus far, where CICs are concerned, at least two things can be done. First, the government can designate certain areas in selected CICs, such as Red Town, and provide financial resources to encourage creative but not (or not yet) economically profitable activities. Alternatively, these spaces can be used as venues for public art education. Such efforts could draw participation from the surrounding communities. Instead of dictating who can use the spaces and how to use them, the government should let the local communities decide. Artists who come from these communities will produce works of art that their communities value. Local resident committees can take an active role in determining appropriate space usage. Second, public cultural facilities hosted on CIC sites could be turned into platforms for “insurgent” artists to display their works. Shanghai Sculpture Space is one of such facility; however, the works of art currently on display there (and probably later on in the streets of the city) are still largely selected by state officials. This practice must be replaced with a process that engages art enthusiasts from local residents. Public officials and experts can play an important role in art education; however, they cannot substitute the public in determining the “right” types of art for the people, no matter how experienced and professionally trained they may be.

9.3 Concluding Remarks

During the treaty port era, Shanghai was a city of difference that nurtured an open and tolerant cosmopolitan culture. The city was not only an amalgam of people from diverse geographic and
occupational backgrounds (Bergère, 1989, 2004; Coble, 1986; Goodman, 1995; Henriot, 1993) but also a relatively free haven for diverse cultural expressions and ideas (Gamble, 2003). Until the Japanese occupation, the city was open to all types of foreign cultures and managed to blend these cultures with indigenous elements. Its local culture, called “haipai” style, arguably had deep roots in mass society (Lu, 1999b; Z. Zhang, 1990). These historic elements helped form the “spirit,” “personality,” or “distinctive essence” of the city (Molotch, 2002). Unfortunately, we are now seeing a city of much greater uniformity, in a stark contrast with its historic origins, and Shanghai citizens are increasingly becoming nostalgic in their imaginings of a golden age.

Shanghai is currently enjoying unprecedented economic prosperity. However, if material well-being is achieved at the cost of social justice and the spirit of place, its past glory will not be restored. The time for change is now. As Hutton (2008) argues, the inner city has always been a locus for creative endeavors and experimentation. There is no end-state, only an ever-ongoing process of change. In the past, the Chinese state had always behaved as an effective social learner. We can only hope that it will take lessons from managing Shanghai’s latest inner city transformations and point the way towards a new cosmopolitan city of justice, diversity, and creativity.

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For example, Bergère comments that there were virtually no barriers between groups and every boundary could be crossed (1989, p. 44). Lu notes that there was no lack of rags-to-riches stories in the city, as Lilong housing (“shikumen mélange,” as called by Lu), was a microcosm of the city’s social mix and there were “no clear lines of class or social rank dividing...landlords and their tenants.” In addition, many political dissidents in Shanghai were nurtured in a relative tolerant and free political environment within foreign concessions. The most notable example was the Chinese communist party that was born in Shanghai in a period that had arguably benefited most from capitalism (Goodman, 1995).
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## APPENDIX I: CLASSIFICATION OF MAJOR CREATIVE INDUSTRY SECTORS IN SHANGHAI

<table>
<thead>
<tr>
<th>Category</th>
<th>2-digit code</th>
<th>3-digit code</th>
<th>4-digit code</th>
<th>Segment Name</th>
<th>Explanations</th>
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<tbody>
<tr>
<td>Research, development and design</td>
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<td>621</td>
<td>6211</td>
<td>Basic software service</td>
<td>Serving non-professional users</td>
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<td></td>
<td></td>
<td></td>
<td>6212</td>
<td>Professional software service</td>
<td>Serving professional users</td>
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<td></td>
<td></td>
<td>629</td>
<td>Other software service</td>
<td>Specialized service for individual clients</td>
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<td>611</td>
<td>611</td>
<td>Computer system service</td>
<td>Design, assembly and installation for computer systems</td>
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<tr>
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<td>602</td>
<td>Internet service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>421</td>
<td>4211</td>
<td>Sculpture craftwork</td>
<td>Using material such as gems, tusk, bones, shells, wood, bamboo, roots, softwood, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4212</td>
<td>Metal craftwork</td>
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<tr>
<td></td>
<td></td>
<td>4213</td>
<td>Lacquer craftwork</td>
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<tr>
<td></td>
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<td>4214</td>
<td>Flower-picture craftwork</td>
<td>Using material such as silk, fine hair, terylene, plastic, feathers, grass, natural flowers, etc.</td>
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<td>4-digit code</td>
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<td></td>
<td></td>
<td></td>
<td>4215</td>
<td>Natural plant fibre knit-work</td>
<td>Using material such as bamboo, rattan, grass, palm, flax, etc.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>4216</td>
<td>Embroidery and needlework</td>
<td>Using natural or synthetic cloth</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>4217</td>
<td>Tapestry</td>
<td></td>
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<td></td>
<td></td>
<td>4218</td>
<td>Jewellery</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>4219</td>
<td>Other craftwork</td>
<td>e.g. craft umbrellas, fans, folk art, etc.</td>
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<tr>
<td>31</td>
<td>314</td>
<td>3145</td>
<td>Glasswork</td>
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<tr>
<td></td>
<td>315</td>
<td>3153</td>
<td>Porcelain-work</td>
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<tr>
<td></td>
<td></td>
<td>3159</td>
<td>Garden and display craftwork and other porcelain-work</td>
<td>Using materials such as quartz, feldspar, clay, etc, for garden decoration and display purposes</td>
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<tr>
<td>75</td>
<td></td>
<td>Research, experiment and development</td>
<td>Basic research, application research, development</td>
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<td>74</td>
<td>744</td>
<td>Advertising</td>
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<td>745</td>
<td>Intellectual property service</td>
<td>Agent service, transfer, registration, appraisal, evaluation, consultancy, search related to intellectual property right</td>
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<tr>
<td>Other specialized service</td>
<td>76</td>
<td>769</td>
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<td>Other specialized service</td>
<td>Industrial design, model design, display design, apparel design, decoration design, cosmetics design, packaging design, industrial art design, commercial art design, computer animation design, animation design, brand design, company image design, and other unlisted design work</td>
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<td>767</td>
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<td>Construction Project design (engineering)</td>
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<td>81</td>
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<td>8120</td>
<td>Urban green space management</td>
<td>e.g. Planting design for street parks,</td>
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<td>490</td>
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<td>Architectural decoration</td>
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<td>News agency</td>
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<td></td>
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<td>882</td>
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<td>Publication</td>
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<td>Video and audio program production</td>
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<tr>
<td>90</td>
<td>908</td>
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<td>Culture and art agent</td>
<td>Agent services for culture and art works, programs, films, plays as well as cultural organizations</td>
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<tr>
<td>Fashion, leisure and lifestyle services</td>
<td>82</td>
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<td></td>
<td>Hairdressing and beauty specialist</td>
<td>Hair style design, beauty consultancy, skin care, etc.</td>
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<td>Photography services</td>
<td>Professional photography services, computer photo effects services, excluding photo printing services</td>
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<td>92</td>
<td>921</td>
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<td>Indoor recreation</td>
<td>e.g. pottery, sewing, painting, etc.</td>
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<td>Physical exercise services</td>
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<td>748</td>
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<td>Travel services</td>
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<td></td>
<td>81</td>
<td>813</td>
<td></td>
<td>Tourist services</td>
<td>Provision of tourist attractions</td>
</tr>
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</table>

Source: Publicized by Shanghai Economic Commission and Shanghai Statistical Bureau in November, 2005, translated by the Author.
## APPENDIX II: LIST OF CICs IN SHANGHAI

<table>
<thead>
<tr>
<th>Name of CIC</th>
<th>Address</th>
<th>District</th>
<th>Old Function before Restructuring</th>
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<tr>
<td>First Awarding: on April 28, 2005</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Tianzifang</strong></td>
<td>210 Long, Taikang Road</td>
<td>Luwan</td>
<td>Manufacturing of food processing machinery, spare parts for clocks, etc.</td>
</tr>
<tr>
<td><strong>M50</strong></td>
<td>50 Moganshan Road</td>
<td>Putuo</td>
<td>Manufacturing of textiles</td>
</tr>
<tr>
<td><strong>No. 8 Bridge</strong></td>
<td>8-10 Mid Jianguo Road</td>
<td>Luwan</td>
<td>Manufacturing of automobile brakes</td>
</tr>
<tr>
<td><strong>Creative Warehouse</strong></td>
<td>181 Guangfu Road, North Bank of Suzhou Creek</td>
<td>Zhabei</td>
<td>Warehouse for retail companies</td>
</tr>
<tr>
<td><strong>Shanghai Fashion Hub</strong></td>
<td>1718 Tianshan Road</td>
<td>Changning</td>
<td>Manufacturing of automobile clutch</td>
</tr>
<tr>
<td><strong>Excellent Pioneer 700</strong></td>
<td>700 and 789 South Huangpi Road</td>
<td>Luwan</td>
<td>Manufacturing of socks</td>
</tr>
<tr>
<td><strong>Tianshan Software Park</strong></td>
<td>641 Tianshan Road</td>
<td>Changning</td>
<td>Manufacturing of refrigerator</td>
</tr>
<tr>
<td><strong>Media Culture Park</strong></td>
<td>990－1000 Changping Road</td>
<td>Jing’an</td>
<td>Manufacturing of window hooks, aviation equipment</td>
</tr>
<tr>
<td><strong>Leshan Software Park</strong></td>
<td>33 Leshan Road</td>
<td>Xuhui</td>
<td>Manufacturing of textiles</td>
</tr>
<tr>
<td><strong>Hongqiao Software Park</strong></td>
<td>333 Hongqiao Road</td>
<td>Xuhui</td>
<td>Manufacturing of textiles</td>
</tr>
<tr>
<td>Name of CIC</td>
<td>Address</td>
<td>District</td>
<td>Old Function before Restructuring</td>
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<td>33 South Henan Road</td>
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<td>Jiang’an Modern Industrial Park</td>
<td>68 Changping Road</td>
<td>Jiang’an</td>
<td>Manufacturing of electric appliances</td>
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<td>The New Factory</td>
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<td>R &amp; D for textile industry</td>
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<td>Wisdom Bridge</td>
<td>116 Fourth Guangling Road</td>
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<td>Yifei Creative Street</td>
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<td>2577 Longhua Road</td>
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<td>Manufacturing of drugs</td>
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<td>35 Tangjia Long</td>
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<td>Creation</td>
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<td>New development</td>
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<td>Media 1895</td>
<td>627 Jiangpu Road</td>
<td>Yangpu</td>
<td>Manufacturing of pianos, compressors, textiles</td>
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<td>Peacock Park</td>
<td>99 Nanshan Road</td>
<td>Zabei</td>
<td>Manufacturing of spaces and essence</td>
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<td>Jing’ an Creative Space</td>
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<td>Jiang’ an</td>
<td>Manufacturing of underwear</td>
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<td>73 Wuhua Road</td>
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<td>988 Zhenbei Road</td>
<td>Putuo</td>
<td>Manufacturing of automobile clutches</td>
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<td>Name of CIC</td>
<td>Address</td>
<td>District</td>
<td>Old Function before Restructuring</td>
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<td>Xinxing Harbor</td>
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<td>Manufacturing of apparel</td>
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<td>Xuhuui</td>
<td>Manufacturing of steel products</td>
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<td>Style Plaza</td>
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<td>Changshou Suzhou Creek</td>
<td>19 Changshou Road</td>
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<td>Manufacturing of decelerating machinery</td>
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<td>Shanghai Fashion Hub</td>
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<td>Manufacturing of dying company</td>
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<td>3 Happy Space</td>
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<td>Songjiang</td>
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<td>New development</td>
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</table>

Source: the Author.
### Table A: Industrial Production of Shanghai (1978-2008)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Output Value of Industry (RMB 100 million)</th>
<th>Indices of Gross Output Value of Industry (1978=100)</th>
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<td></td>
<td>Total Light Industry Heavy Industry Index Light Industry Heavy Industry</td>
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<td>514.01 266.02 247.99 100.0 100.0 100.0</td>
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<td>634.65 359.62 275.03 125.6 139.9 111.9</td>
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<td>(4 547.47)</td>
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Source: Shanghai Statistical Yearbook 2009.


Note: Since 1996, new regulations have been adopted in calculating total industrial gross output value of industry. The figures of 1995 in brackets are calculated in line with the new regulations.
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Source: Shanghai Statistical Yearbook 2008 (web version),
Table C: Economic Structure of Shanghai (percent) (1978-2008)

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APPENDIX IV: QUESTIONNAIRE DESIGN (TRANSLATED VERSION)

Questionnaire Survey of Enterprises in the Creative Industry Clusters in Shanghai

Questionnaire #:_________________
Cluster Name:_________________
Date:_________________

Introduction:

Hello! My name is Sheng Zhong and I am a Ph.D student of the School of Community and Regional Planning at the University of British Columbia in Canada. I am currently conducting a research entitled “Industrial Restructuring and the Formation of Creative Industry Clusters on Post-Industrial Sites--The Case of Shanghai’s Inner City” as part of my PhD dissertation project, and this survey is designed to obtain information to accomplish the project. Shanghai Tongji Urban Planning and Design Institute is the local sponsor of this research. I have attached a photocopy of the Official Letter of Introduction at the end of the questionnaire for your reference.

As a tenant at Shanghai’s Creative Industry Clusters, your company/enterprise can provide important information for this research. Please have someone who make major company/business decisions (e.g., owners, managers, major creative workers) to complete this survey. The answers given in the questionnaire will only be accessed by me and used for accomplishing the above-mentioned research. Research findings presented in summary format without identifying any individual responses will be made available to my local sponsor and the public (both China and abroad).

To the respondent:

This survey should take approximately 20 minutes to complete. Participation in this survey is voluntary. The answers provided will remain anonymous and your identity will be completely confidential. Please note that you need not answer any questions that you feel uncomfortable with. It is assumed that the completed and returned questionnaire indicates your and your
company/enterprise’ consent to participate in this survey.

Should you have any concerns about this research, you may phone the Research Subject Information Line in the UBC Office of Research at the University of British Columbia, at +1-604-822-8598 (in English). Or if you have any problems, concerns, questions or comments, you can call me at **********.

Thank you very much for your participation and cooperation!

Instructions:

1. Please do not write your name on the questionnaire.
2. Unless specifically stated, the questions in this survey require you to check one box that corresponds to the most appropriate answer to each question. If you want to add more information about any questions, please feel free to do so in the space margin.
3. For questions that require specific answers, please provide as much information as you can.
4. Please return the completed questionnaire to me or my research assistants.
Section I: Information about Your Company/Enterprise

1. In which year was your company/enterprise established? ______________________

2. Was your company/enterprise established in Shanghai?
   - Yes
   - No Please indicate the city origin of your enterprise ______________________

3. What is the ownership type of your company/enterprise?
   - Private studio
   - Sole proprietor
   - Partnership
   - Corporation

4. Does your company/enterprise have subsidiaries or other branches?
   - Yes Total number subsidiaries ____________ or branches ____________
   - No

5. Is your company/enterprise a subsidiary of another company?
   - Yes
   - No

6. What is the total number of permanent employees in your company/enterprise? If you do not know the exact number, please provide your best estimation.
   - 1-2
   - 3-5
   - 6-10
   - 11-20
   - 21-30
   - 31-50
   - 51-100
   - 101-200
   - More than 200
   - Do not know

7. What is the total number of temporary employees in your company/enterprise? If you do not know the exact number, please provide your best estimation.
   - 0
   - 1-2
   - 3-5
   - 6-10
   - 11-20
   - 21-30
   - 31-50
   - 51-100
   - 101-200
   - More than 200
   - Do not know

8. How long has your company/enterprise been in this location? _______________years

9. What are the main businesses of your company?

__________________________________________________________________________
__________________________________________________________________________
10. (If you are an art studios or galleries, please proceed directly to question 11). The following statements describe the kind of products (goods or services) or the nature of work your company/enterprise provide. Please rate these statements in terms of your degree of agreement. Please check only ONE box in each ROW.

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<td>B) We need constantly try new methods in our production</td>
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<td>C) We produce according to pre-set product standards (e.g. official, professional or private)</td>
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<td>D) Our products are produced in small batches.</td>
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<td>E) We provide custom-made, individualized or one-off products.</td>
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<td>F) Our work is comprised of different projects.</td>
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<td>G) Our production is very reliant on inputs from our clients/customers.</td>
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<td>H) Our work involves a lot of artistic work.</td>
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<td>I) Our work is knowledge-intensive.</td>
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<td>J) We compete by providing cheaper products.</td>
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K) We compete by providing high-quality products. 

L) We compete by providing unique products.

11. What are the values of your company/enterprise’s products (goods or services) to your customers/clients? Please check ALL that apply.
   - Utilitarian value (e.g. helps solve practical problems, achieve efficiency or bring convenience)
   - Aesthetic or artistic value
   - Cultural value
   - Entertainment or recreational value
   - Scientific/technological value
   - Educational value
   - Other, please specify ____________________________________

12. How do you rate the OVERALL success of your company/enterprise compared with your competitors, considering profitability, recognition, growth potential, etc.? 0 means “not successful” and 6 means “extremely successful”. Please tick one box corresponding to the appropriate scale of success.

   (Not Successful) 0 1 2 3 4 5 6 (Extremely Successful)  

   Increasing levels of success

13. What is the title of YOUR current job? ____________________________________

14. How long have you been working for this company/enterprise? _____________ Years

(Please proceed to Next Page)
Section II: Location Decisions

15. Why does your company/enterprise choose to locate in Shanghai rather than other cities? The first column lists a few factors. Please rate the importance of these factors for your company/enterprise’s location decisions in terms of very important, important, somewhat important, unimportant and totally irrelevant. The last column “D.K./N.A.” means “don’t know” or “not applicable”. Please tick only one box in each row.

<table>
<thead>
<tr>
<th>Very Important (5)</th>
<th>Important (4)</th>
<th>Somewhat Important (3)</th>
<th>Not Important (2)</th>
<th>Totally Irrelevant (1)</th>
<th>D.K./N.A.</th>
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<tbody>
<tr>
<td>A) The high concentration of talents (artistic, technical or managerial, etc.) in Shanghai.</td>
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<td>B) Shanghai’s openness to new ideas and difference.</td>
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<td>C) Shanghai’s special preferential policies to attract business/enterprises.</td>
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<td>D) Shanghai as a brand-name for the company/enterprises and their products.</td>
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<td>E) Shanghai’s huge market size.</td>
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<td>F) The accessibility of external market from Shanghai (domestic and international).</td>
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<td>G) The ease to find business partners/collaborators in Shanghai.</td>
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<td>H) The ease to find suppliers of intermediate products or production inputs in Shanghai.</td>
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<td>Very Important</td>
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<tr>
<td>I)</td>
<td>Shanghai’s unique cultural traditions or atmospheres.</td>
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<tr>
<td>K)</td>
<td>The amenities of Shanghai.</td>
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<tr>
<td>L)</td>
<td>The availability of office spaces that satisfy our requirements in Shanghai.</td>
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<tr>
<td>M)</td>
<td>The origins of the company/enterprise owner(s) from Shanghai.</td>
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<tr>
<td>N)</td>
<td>Other reason, please specify__________</td>
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<tr>
<td>O)</td>
<td>Other reason, please specify__________</td>
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</tbody>
</table>

(Please proceed to the Next Page)
16. Why does your company/enterprise choose to locate in this creative industry cluster rather than other locations in Shanghai? The first column lists a few factors. Please rate the importance of these factors for your company/enterprise’s location decisions in terms of very important, important, somewhat important, unimportant and totally irrelevant. The last column “D.K./N.A.” means “don’t know” or “not applicable”. Please Tick only one box in each row.

<table>
<thead>
<tr>
<th></th>
<th>Very Important</th>
<th>Important</th>
<th>Somewhat Important</th>
<th>Unimportant</th>
<th>Totally Irrelevant</th>
<th>D.K./N.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Closeness to customers/clients.</td>
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<tr>
<td>B) Closeness to suppliers of intermediate products or production inputs.</td>
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<tr>
<td>C) Closeness to business partners or collaborators.</td>
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<tr>
<td>D) The cohesion of the cluster (e.g. sense of community, trust among firms/workers, etc.).</td>
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<td>E) Concentration of talents (artistic, technical or managerial, etc.) in the location.</td>
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<td>F) Formal or informal networking opportunities in the location.</td>
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<td>G) Mutual learning opportunities among companies or workers.</td>
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<td>H) The rent level.</td>
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<td>I) The characteristics of the office space (e.g. flexibility, high ceiling, display venues, etc.)</td>
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<td>Very Important (5)</td>
<td>Important (4)</td>
<td>Somewhat Important (3)</td>
<td>Unimportant (2)</td>
<td>Totally Irrelevant (1)</td>
<td>D.K./N.A.</td>
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<tr>
<td>J)</td>
<td>The aesthetics and cultural meanings of office buildings and the locality.</td>
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<td>K)</td>
<td>Availability of supporting organizations (educational, trade, professional, etc.) in the location.</td>
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<td>L)</td>
<td>The prestige of the location.</td>
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<tr>
<td>M)</td>
<td>Public attention and visibility of firms in this location.</td>
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<td>N)</td>
<td>Customer/client traffic.</td>
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<td>O)</td>
<td>The amenities in the surrounding areas.</td>
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<td>P)</td>
<td>The neighbourhoods in the surrounding areas.</td>
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<td>Q)</td>
<td>The accessibility of the location.</td>
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<td>R)</td>
<td>The official designation of the creative industry cluster</td>
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<td>S)</td>
<td>Other factor, please specify_________</td>
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<td>T)</td>
<td>Other factor, please specify_________</td>
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</tr>
</tbody>
</table>
17. How important is location to the success of your business? 0 means “not important” and 6 means “extremely important”. Please tick one box corresponding to the appropriate scale in your opinion.

(Not Important) 0 1 2 3 4 5 6 (Extremely Important)

Increasing levels of Importance

18. How do you rate the OVERALL satisfaction of the current location for your company/enterprise (please consider all aspects, such as rent, space, environment, accessibility, social-cultural aspects, etc.)? 0 means “not satisfied” and 6 means “extremely satisfied”. Please tick one box corresponding to the appropriate scale in your opinion.

(Not Satisfied) 0 1 2 3 4 5 6 (Extremely Satisfied)

Increasing levels of Satisfaction

(Please proceed to the Next Page)
Section III: Cluster Ecology

19. Suppliers are companies/enterprises that provide you with products or services that your company/enterprise uses in the production (including sub-contractors if applicable). The following lists four locations. Please choose the location that has the largest number of your suppliers.
   - <= 1km distance (about 15 minutes’ walking distance)
   - In Shanghai but >1km distance
   - In China but outside of Shanghai
   - Overseas

20. Are your company/enterprise's products sold or partially sold to other businesses or organizations?
   - Yes  ------------------Please answer question 21.
   - No   ------------------Please proceed directly to question 22.

21. Where are your company/enterprise’s business customers/clients located? Please choose the location that has the largest number of your business/organizational clients/customers.
    - <= 1km distance
    - In Shanghai but >1km distance
    - In China but outside of Shanghai
    - Overseas

22. Are your company/enterprise’s products sold or partially sold to final consumers?
    - Yes  ------------------Please answer question 23.
    - No   ------------------Please proceed directly to question 24.

23. Where are your company/enterprise’s consumers from? Please choose the location that has the largest number of your final consumers.
    - From Shanghai
    - From other part of China
    - From overseas
24. Does your company/enterprise frequently collaborate (e.g., joint projects, business partners) with other companies/enterprises? Please exclude sub-contracting cases.

☐ Yes  -------------------Please answer question 25.
☐ No  -------------------Please proceed directly to question 26.

25. Where are your company/enterprise’s business collaborators located? Please choose the location that has the largest number of your collaborators.

☐ <= 1km distance
☐ In Shanghai but >1km distance
☐ In China but outside of Shanghai
☐ Overseas

26. The following list three common means of communication your company/enterprise may use to contact with your suppliers, customers/clients or business collaborators: face-to-face contacts, telephones or cell-phones and web-based contacts. Please evaluate the importance of these means of communication in your business. 0 means “not important” and 6 means “extremely important”. If you do not use certain means of communication in your business, please put a cross (X) on the name of that means of communication marked in shade.

A) Face-to-face contacts

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐
(Not Important) 0 1 2 3 4 5 6 (Extremely Important)
Increasing levels of importance

B) Telephones or cell-phones

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐
(Not Important) 0 1 2 3 4 5 6 (Extremely Important)
Increasing levels of importance

C) Web-based contacts

☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐
(Not Important) 0 1 2 3 4 5 6 (Extremely Important)
Increasing levels of importance
27. Where does your company/enterprise recruit people? Please estimate the PERCENTAGE number of workers (including both permanent and temporary in this location) in the following categories.

A) People from Shanghai (with Shanghai *Hukou*)________________%  
B) People from other part of China (without Shanghai *Hukou*)________________%  
C) People from overseas _________________________%  

28. How does your company/enterprise recruit workers? Please tick ALL choices that apply. If you have more than one choices, please mark the most important used recruitment method with a “#” beside the box.  

- From acquaintances or through recommendations of acquaintances.  
- Use advertisements in the public media.  
- Use company website.  
- Use recruitment agencies.  
- Use advertisements in public places.  
- Unscheduled visit by job hunters.  
- Other means, please specify______________________________  
- Not applicable.

29. Is job-hopping common in your field of business? Please estimate the percentage number of businesses in your field that frequently face job-hopping problems.  

- Virtually non-existent.  
- 10%  
- 20%  
- 30%  
- 40%  
- 50%  
- 60%  
- 70%  
- 80%  
- 90%  
- Almost 100%  
- Not applicable

(Please proceed to the Next Page)
30. Do you think your company/enterprise’s success is dependent on human creativity?

☐ Yes  ---------------Please answer question 31.
☐ No  ---------------Please proceed directly to question 32.

31. In your opinion, what factors account for the creativity in your company/enterprise? Please tick ALL choices that apply.

☐ Individual workers’ knowledge and capability.
☐ The cooperation among our workers.
☐ The job collaboration with workers from other firms/institutions.
☐ The informal social interactions among workers (including those from other firms/institutions).
☐ Stimulation from the environment.
☐ Demand from customers/clients.
☐ The structure and management styles of the company/enterprise.
☐ Other, please specify ____________________________

32. The following list some supporting institutions. What institutions do you think can benefit your company/enterprise? Please tick ALL choices that apply.

☐ Educational or training institutions
☐ Research and development institutions
☐ Business associations (self-organized)
☐ Workers’ associations
☐ Professional organizations
☐ Government regulatory bodies
☐ Government or semi-government promotional organizations
☐ Other, please specify ____________________________
☐ None of them benefit our company/enterprise.
33. Among the following listed supporting institutions, what institutions are easily accessible from your current location? Please tick ALL choices that apply.

- Educational or training institutions
- Research and development institutions
- Business associations
- Workers’ associations
- Professional organizations
- Government regulatory bodies
- Government or semi-government promotional organizations
- Other, please specify__________________________
- None is accessible.

(Please proceed to the Next Page)
Section IV: Space and Urban Planning

34. Your company/enterprise’s use of this office space is?
   - Renting  ---------------Please answer question 35-37.
   - Owning  ---------------Please proceed directly to question 38.

35. Your current rent level is  ______Yuan/M²/day

36. Is your companies/enterprises facing the problem of rental increases?
   - Yes, and the rent is already unbearable.
   - Yes, and it is still manageable.
   - No.

37. If rent increases to unacceptable level, what would your company/enterprise prefer to do? Choose ONE that your company/enterprise is most likely to do.
   - Stay in this cluster but rent smaller space.
   - Move to a cheaper officially-designated creative industry cluster.
   - Move to another office location in the adjacent area with cheaper rent (not necessarily officially designated creative industry clusters).
   - Can move to any other possible locations in Shanghai with cheaper rent.
   - Other, please specify______________________________

38. What OVERALL impact does the official designation of “Creative Industry Cluster” have on your business/enterprise?
   - The overall impact is positive.
   - The overall impact is negative.
   - No significant impact.
   - It is hard to decide.
   - Don’t know.
39. The left column lists several planning measures concerning this creative industry cluster. Please rate the importance of these measures for your company/enterprise in terms of very important, important, somewhat important, unimportant and totally irrelevant. The last column “D.K./N.A.” means “don’t know” or “not applicable”. Please Tick only one box in each row.

<table>
<thead>
<tr>
<th>A) Ensure space availability.</th>
<th>Very Important (5)</th>
<th>Important (4)</th>
<th>Somewhat Important (3)</th>
<th>Unimportant (2)</th>
<th>Totally Irrelevant (1)</th>
<th>D.K./N.A.</th>
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<tbody>
<tr>
<td>B) Check rent increases.</td>
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<td>C) Conserve existing buildings.</td>
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<td>D) Enhance amenities.</td>
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<td>E) Preserve the old neighbourhoods.</td>
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<td>F) Strengthen business linkages among space users.</td>
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<tr>
<td>G) Enhance social activities among space users in the cluster.</td>
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<td>H)</td>
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<tr>
<td>I) Enhance accessibility of the location.</td>
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<td>J) Strengthen supporting institutions.</td>
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<td>K) Change the industrial land-use into service or multi-purpose uses.</td>
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</table>
L) Market the cluster.

M) Be more selective on tenants in the cluster.

N) Other, please specify__________________

40. What impact will demolition of buildings in this creative industry cluster have on our business/enterprise?

- □ Big negative impact
- □ Some negative impact
- □ No significant impact
- □ Some positive impact
- □ Big positive impact
- □ Hard to decide

41. What do you think are the overall relationships between new property development in the surrounding areas and the future prospects of this creative industry cluster?

- □ They are in conflict (win-win outcome is not possible)
- □ They are beneficial to each other (win-win outcome is possible)
- □ They can be both in conflict and beneficial to each other depending on policies.
- □ They are unrelated to each other
- □ Don't know
- □ Other, please specify____________________________________________

42. Further comments if any:____________________________________________________

_________________________________________________________________________________

This is the end of the questionnaire survey. Thanks for your cooperation!
### APPENDIX V: PREFERENTIAL POLICIES ON CICs AND CREATIVE FIRMS AT DISTRICT LEVEL IN SHANGHAI

<table>
<thead>
<tr>
<th>District Name</th>
<th>Preferential Policies</th>
</tr>
</thead>
</table>
| Huangpu District | 1. Corporate income tax rebate in the first a few years for firms registered at CICs (one-year tax free, two-year tax free and two-year tax rebate at 50%, three-year tax free and three-year tax rebate at 50%).  
3. Establishment of special fund to encourage the development of tourism souvenirs. |
| Jiang’an District | 1. Corporate income tax: two-year tax free and three-year tax rebate at 50% for firms registered at CICs.  
2. Rental support for firms located at CICs.  
3. Support for creative industries according to policies for high-tech industrial parks. |
| Luwan District | 1. 30-50% rebate of district taxes (including corporate income tax, business tax (yingyeshui) and value-added tax) for firms registered at CICs.  
2. Rental support for firms located at CICs. |
| Xuhui District | 1. Corporate income tax: two-year tax free and three-year tax rebate at 50% for firms registered at CICs.  
2. 50% rebate of combined 25% of the value-added tax and business tax for firms newly registered at CICs.  
3. Two-year corporate income tax free for high-tech firms. |
<table>
<thead>
<tr>
<th>District Name</th>
<th>Preferential Policies</th>
</tr>
</thead>
</table>
| Changning District | 1. Corporate income tax: two-year tax free and three-year tax rebate at 50% for firms registered at CICs.  
2. 40-50% rebate of local circulation tax to multi-media clusters, with a proportion returned to firms registered at the clusters.  
4. Support for creative industries according to policies for high-tech industrial parks. |
| Pudong New Area | 1. Corporate income tax: 15% reduction for firms registered at CICs.  
2. Corporate income tax: two-year tax free and three-year tax rebate at 50% for foreign investment firms registered at CICs. |
| Yangpu District | 1. Corporate income tax: three-year tax free and two-year tax rebate at 50% for firms registered at CICs.  
2. 100% rebate of business tax and corporate income tax for transfer of recognized new high-tech products.  
3. Five-year preferential tax treatment for university or college affiliated companies providing high-tech products or professional services. |
| Zhabei District | 1. Three-year policy support for newly established companies registered at CICs.  
2. Preferential treatment of newly established firms with a total district tax remittance of at least RMB 500,000.  
3. Support for recognized firms in multi-media and high-tech industries.  
4. Rental support for multi-media firms registered at CICs. |
<table>
<thead>
<tr>
<th>District Name</th>
<th>Preferential Policies</th>
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</thead>
<tbody>
<tr>
<td>Minhang</td>
<td>1. Flat 15% corporate income tax for new high-tech firms recognized by Shanghai Science and Technology Commission.</td>
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<tr>
<td></td>
<td>2. 10% reduction in corporate income tax for high-tech firms with 70% of their products serving export markets.</td>
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<td></td>
<td>3. Two-year corporate income tax free for newly established high-tech firms registered at CICs.</td>
</tr>
<tr>
<td>Putuo</td>
<td>1. Flat 15% corporate income tax for high-tech firms.</td>
</tr>
<tr>
<td></td>
<td>2. Three-year tax free and two-year 50% rebate of district taxes (including corporate income tax, business tax (yingyeshui) and value-added tax) for recognized products from high-technology transfer.</td>
</tr>
<tr>
<td></td>
<td>3. Five-year tax free and three-year 50% rebate of district taxes (including corporate income tax, business tax (yingyeshui) and value-added tax) for recognized products from high-technology developed and owned by Chinese firms.</td>
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</tbody>
</table>

Source: Adapted from Geng (2007), p.97-98, by permission.

Note: The table only provides general information. The preferential policies for individual CIC may be quite different and some preferential policies listed in the table may not be unique to CICs. For some high-occupancy CICs, there may not be any preferential policies at all. And firms at the same CIC may get different kind or amount of support, depending on the bargaining power of individual firms.
APPENDIX VI: CERTIFICATE OF APPROVAL OF RESEARCH ETHICAL REVIEW

The University of British Columbia
Office of Research Services
Behavioural Research Ethics Board
Suite 102, 5150 Agronomy Road, Vancouver, B.C. V6T 1Z3

CERTIFICATE OF APPROVAL - FULL BOARD

PRINCIPAL INVESTIGATOR: Thomas A. Hutton
INSTITUTION / DEPARTMENT: UBC College of Interdisciplinary Studies/Human Settlements
UBC BREC NUMBER: H06-00026

INSTITUTION(S) WHERE RESEARCH WILL BE CARRIED OUT:

Institution: UBC
Site: Vancouver (excludes UBC Hospital)
Other location(s) where the research will be conducted: Shanghai Tongji Urban Planning and Design Institute, creative industry clusters in Shanghai, sites of interview chosen by the interviewees

CO-INVESTIGATOR(S):
Shang Zhong

SPONSORING AGENCIES:
University of British Columbia

PROJECT TITLE:
Industrial Restructuring and the Formation of Creative Industry Clusters on Post-Industrial Sites—The Case of Shanghai's Inner City

REB MEETING DATE: March 27, 2008
CERTIFICATE EXPIRY DATE: March 27, 2009

DATE APPROVED: March 27, 2008

DOCSUMENTS INCLUDED IN THIS APPROVAL:

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<td>Consent Forms</td>
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<tr>
<td>Oral Consent-Property Company Management</td>
<td>N/A</td>
<td>February 7, 2008</td>
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<td>Oral Consent-Public Officials</td>
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<td>Oral Consent-Scholars</td>
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<td>February 7, 2008</td>
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<td>Oral Consent-SOE Management</td>
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<td>Oral Consent-Creative Workers</td>
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<td>Questionnaire, Questionnaire Cover Letter, Tests:</td>
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<td>Questionnaire</td>
<td>N/A</td>
<td>March 7, 2008</td>
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<tr>
<td>Survey Sampling Methods and Data Collection Strategies</td>
<td>N/A</td>
<td>February 7, 2008</td>
</tr>
<tr>
<td>Letter of Initial Contact</td>
<td>N/A</td>
<td>February 7, 2008</td>
</tr>
<tr>
<td>Other Documents</td>
<td>N/A</td>
<td>February 7, 2008</td>
</tr>
<tr>
<td>Interview Guide</td>
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<td></td>
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</table>

The application for ethical review and the document(s) listed above have been reviewed and the procedures were found to be acceptable on ethical grounds for research involving human subjects.

Approval is issued on behalf of the Behavioural Research Ethics Board and signed electronically by one of the following:

Dr. M. Judith Lynham, Chair
Dr. Ken Craig, Chair
Dr. Jim Rupert, Associate Chair
Dr. Laurie Ford, Associate Chair
Dr. Daniel Safarinejad, Associate Chair
Dr. Anita Ho, Associate Chair

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**CERTIFICATE OF APPROVAL - MINIMAL RISK RENEWAL**

**PRINCIPAL INVESTIGATOR:** Thomas A. Hutton  
**DEPARTMENT:** UBC/College for Interdisciplinary Studies/Human Settlements  
**UBC BREC NUMBER:** H08-00296

**INSTITUTION(S) WHERE RESEARCH WILL BE CARRIED OUT:**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Site</th>
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</thead>
<tbody>
<tr>
<td>UBC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other locations where the research will be conducted.</td>
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<tr>
<td></td>
<td>Shanghai Tongji Urban Planning and Design Institute, creative industry clusters in Shanghai, sites of interview chosen by the interviewees</td>
</tr>
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<td>Vancouver (excludes UBC Hospital)</td>
</tr>
</tbody>
</table>

**CO-INVESTIGATOR(S):** Sheng Zhong

**SPONSORING AGENCIES:** University of British Columbia

**PROJECT TITLE:** Industrial Restructuring and the Formation of Creative Industry Clusters on Post-Industrial Sites—The Case of Shanghai’s Inner City

**EXPIRY DATE OF THIS APPROVAL:** March 23, 2010

**APPROVAL DATE:** March 23, 2009

The Annual Renewal for Study have been reviewed and the procedures were found to be acceptable on ethical grounds for research involving human subjects.

Approval is issued on behalf of the Behavioural Research Ethics Board

Dr. M. Judith Lynham, Chair  
Dr. Ken Craig, Chair  
Dr. Jim Rupert, Associate Chair  
Dr. Laurie Ford, Associate Chair  
Dr. Anita Ho, Associate Chair