



# CHINA BRIEFING

The Practical Application of China Business

## Business Guide to Shanghai and the YANGTZE River DELTA

Second edition of  
the best selling guide

2006 - 2007

Features detailed overviews of  
Shanghai, Jiangsu, Zhejiang  
and Anhui and city-  
by-city analysis of  
the Yangtze River  
Delta cities of  
Nanjing, Suzhou,  
Wuxi, Changshu,  
Zhangjiagang,  
Changzhou,  
Hangzhou, Ningbo,  
Shaoxing and Hefei



# CHINA BRIEFING'S REGIONAL BUSINESS GUIDES

*"Indispensable"* – Eden Woon, CEO, Hong Kong General Chamber of Commerce

*"Truly Definitive Guides & A Must Read For All Businessmen Investing in China"* – Alex Thursby, Director, Standard Chartered Bank

## China Briefing Business Guide to Shanghai & The Yangtze River Delta (*second edition*)



China Briefing's all-new 400 page, full color second edition of the "Business Guide to Shanghai & The Yangtze River Delta" is now available. Containing case studies and articles about business in Shanghai and the Yangtze River Delta from Royal Sun Alliance (insurance); PricewaterhouseCoopers and Dezan Shira & Associates (tax); ASIMCO (auto); Halcrows (construction); B&Q (retail); Holman Fenwick & Willan (shipping); Rouse & Co (IP); WWF (environment); Fluor (manufacturing); Bovis (factory construction); The Koc Group (trading); Chesterton Petty (property); ASC Fine Wines (import & retail); Three On The Bund (premium brand development); The Big Bamboo (catering); Macallan (branding); City & Guilds (education); Fitness First (lifestyle) and many others. The Guide also contains details of options in establishing business and of available tax incentives and investment zones, provides data on tax regulations, identifies government leaders and provides profiles, and includes case studies and comments from small, medium and multinational businesses operating throughout the region. It is the most comprehensive and detailed business study of Shanghai and the Yangtze River Delta thus far available.

Available now, priced at USD70 plus post & packing  
Order online at <http://shopping.china-briefing.com>

## CHINA BRIEFING BUSINESS GUIDE TO BEIJING AND THE BOHAI RIM



**This brand-new guide** is available from November 2005, featuring articles, case studies, regional intelligence and data from leading international companies such as Motorola (telecoms); ING (insurance); ConocoPhillips (oil); BASF (chemicals); Estée Lauder (corporate social responsibility); RZB (banking); Dezan Shira & Associates (China tax and accounting); Clifford Chance (offshore restructuring); ERM (environmental due diligence); Octopus (tourism); Kimberly Clark (personal care); BOC (gas); Michelin (manufacturing); Jones Lang Lasalle (property); as well as comment on central government policies, the 2008 Olympics, north-eastern re-development and intelligence for the international businessman wanting detailed information about the politics and dynamics of China's capital city and the re-awakening of heavy industry in its surrounding provinces.

The book also includes overviews of Beijing, Liaoning, Heilongjiang, Shandong, Jilin and Hebei Provinces, and city-by-city analysis of the cities of Changchun, Dalian, Harbin, Qingdao, Shenyang, Shijiazhuang, Tianjin and Yantai. In addition, there are extensive comments from experienced China hands, international and domestic businesses, a full overview of the regional demographics, how to set up operations, the tax and logistical implications and pointers as to future trends and developments. This book, much anticipated, is the most comprehensive guide thus far available to Beijing, the impact of foreign investment in the region and the economic and political triggers driving it.

Available November 2005, priced at USD70 plus post & packing  
Order online at <http://shopping.china-briefing.com>

## CHINA BRIEFING BUSINESS GUIDE TO THE GREATER PEARL RIVER DELTA



*"The Pearl River Delta exports 70% of China's total manufacturing output"*

Featuring articles, case studies and intelligence from Invest HK (regional government policies); Standard Chartered Bank (banking and finance); Baker & MacKenzie (cross border law & arbitration); CLP Power (energy); Stephenson Harwood & Lo (litigation); Dezan Shira & Associates (China tax); Maersk (regional logistics); Robertsons (CEPA); KPMG (Hong Kong/China tax consolidation); IBM (manufacturing); MTR Corp (cross border travel development); Bayer (pharmaceuticals); Shell (energy infrastructure developments) and many other regional overviews including full profiles of Hong Kong, Macao and Local Chinese Government leaders, investment policies, and ten of the region's cities this is the most authoritative book on Hong Kong and the integration of the Pearl River Delta produced to date.

Including extensive profiles and introductions to Hong Kong, Macao; Guangzhou, Shenzhen, Dongguan, Zhuhai, Zhongshan, Huizhou, Foshan, Jiangmen and Zhaoqing this guide is the first and only book to introduce the region as a whole. It is a detailed blueprint for the international investor to use when looking at investing in China's manufacturing powerhouse – the Pearl River Delta.

Available now, priced at USD85 plus post & packing  
Order online at <http://shopping.china-briefing.com>

# 2

# Setting the Scene -Shanghai

2-1 History

2-2 Geography

2-3 Demographics

2-4 Government

2-5 Infrastructure

2-6 Urban development

2-7 IT

2-8 The Shanghai experience

2-9 Shanghai's twin sisters -  
some comparisons



This section provides some additional background on the mega-city of Shanghai, including its history, geography, demographics, infrastructure, urban development, and IT facilities. Through a number of interviews with experienced foreign business people in the city, it also provides some insights into the commercial environment.



# FISHING VILLAGE TO MODERN METROPOLIS

## Views of Shanghai's past, present and future

It seems that ever since its creation in the early 19<sup>th</sup> century, Shanghai has stirred visitors into either rapture or despair...

*"Shanghai is the most important station for foreign trade on the coast of China...no other town with which I am acquainted possesses such advantages ; it is the great gate...."*

Three Years Wanderings in the Northern Provinces of China, by Robert Fortune, c. 1843

*"If God lets Shanghai endure, he owes an apology to Sodom and Gomorrah"*

Unknown Western missionary, early 20<sup>th</sup> century.

*"Viewed from almost any angle, Shanghai is the most important city in China, its commercial prominence being chiefly due to the fact that it lies at the mouth of the Yangtze River, the valley of which contains a population of approximately 200,000,000....through this city passes 40% of the foreign trade of the country ..."*

US Department of Commerce report, 1921

*"Shanghai had nothing – nothing but its money and its ghastly fear of losing it..."*

Vincent Shean, US journalist, 1927

*"Shanghai is a very cosmopolitan place, a meeting-place for people from all countries, a great and unique city, one of the most remarkable in the world..."*

A Brief History of Shanghai, Kelly & Walsh, Shanghai, 1928

*"Shanghai, the most cosmopolitan city in the world, the fishing village on a mudflat which almost literally overnight became a modern metropolis....of the Orient yet Occidental, the city of glamorous nightlife and throbbing with activity, Shanghai offers the full composite allurements of the Far East ..."*

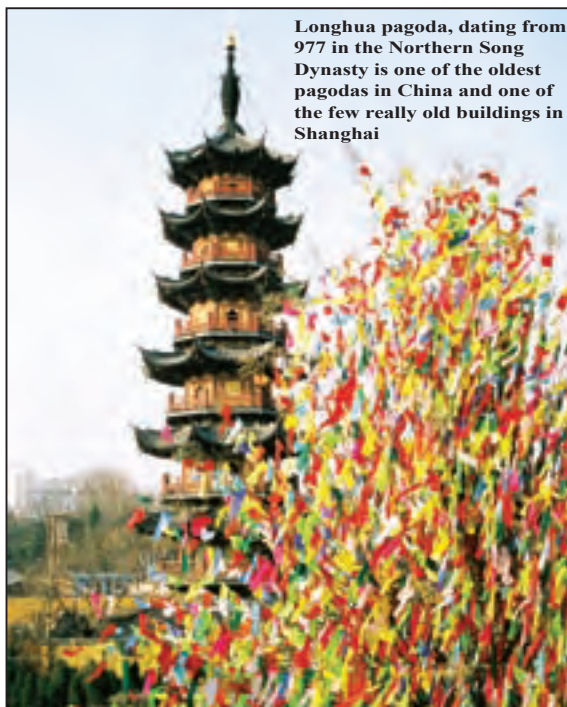
All around Shanghai, University Press, Shanghai, 1934

*"Enterprise energy, new life – this is Shanghai, mighty, vigorous, dynamic, as she keeps pace with the increased tempo of life in the West, typifying the swiftly changing face of the East ! Of tomorrow, who can say?"*

National Geographic Magazine, October 1937

## Early days

Shanghai means "above the sea" or "Upper Sea". It began as Huating County, an administrative district established in 751 AD, and located in an area known today as Songjiang District. In 991 AD, the county became Shanghai Town. By the late 13<sup>th</sup> century, the town had evolved into an important trading port. In 1292, the central government approved the establishment of Shanghai County, an action regarded as the official birth of the city of Shanghai. During the 16th century (Ming Dynasty), the city became the national centre of textile & handicraft industries, and in 1685, set up its first customs office. But Shanghai was never important in Imperial terms, compared to Nanjing, Beijing or Xi'an. Apart from the Longhua Temple, the Buddha Temple and a few remnants of the city walls, there are few really old historical sites.



Longhua pagoda, dating from 977 in the Northern Song Dynasty is one of the oldest pagodas in China and one of the few really old buildings in Shanghai

It was foreign traders, mainly British, seeking a sheltered and well-situated port in the first half of the 19<sup>th</sup> century, who provided the trigger for its rapid development. And the particular commodity that brought the British to China was of course opium, grown in India and traded for tea and silver. By 1832, 90% of the population on China's eastern seaboard was said to be addicted. The Emperor tried to stop the trade, which was draining his country's financial reserves as well as the health of his subjects, but this finally provoked the British into war.

The First Opium War (1839-42), ended in defeat for the Chinese, the ceding of Hong Kong to Britain, and the Treaty of Nanjing. This opened Shanghai and three other cities – Ningbo, Zhoushan, and Nanjing – as “treaty ports”, and gave rise to a diplomatic oddity, known as “extra-territoriality”. Britain, France and the United States enacted treaties with China giving them a “Concession” in Shanghai. Although China retained ultimate sovereignty over the cities, this mechanism allowed foreign countries holding concessions to govern the areas themselves. For example, foreigners who committed crimes were liable to foreign courts, not Chinese ones.

In 1863 Great Britain and the United States merged their Concessions into an International Settlement governed by the Shanghai Municipal Council, made up of the various governments with Concessions in the Settlement. France chose to keep her Concession separate, and this area developed a more bohemian flavour. There was a saying at the time that in the International Settlement the British would teach you how to do business, but in the French Concession the French would teach you how to live.

Shanghai was declared open to foreign trade on 14 November 1843 and the city's first boom began. The number of ships berthing there jumped tenfold between 1844 and 1854. Global businesses were formed on a rapidly expanding trade in cotton and opium, and Western goods began to arrive in China. The merchants were followed by diplomats, bureaucrats, assorted professionals and missionaries, and the city soon took on the character of a colony, albeit a slightly unusual one.

The modern political interpretation of this period is that (as Hu Jintao put it in a speech in May 2005), “China was reduced to dire misery as the country suffered one humiliating defeat after another, and

the people languished in poverty and starvation as a result of brutal foreign aggressions and corrupt and incompetent feudal rulers”.

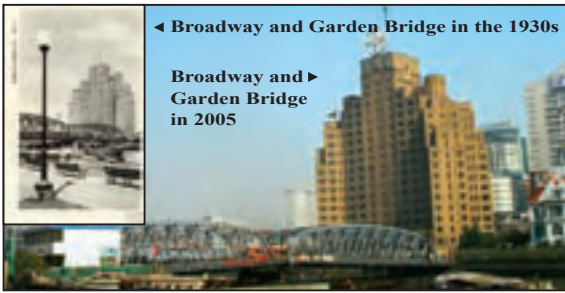
## Growth and glitter

By 1870, the city had overtaken Canton (the modern Guangzhou) as a commercial hub, and by the end of the century it was a major manufacturing centre, too, reputedly accounting for half of China's modern factory output. Shanghai became a place for Chinese firsts – the first telephones (1881), electricity (1882), running water (1884), cars (1901), streetcars (1908), coffee shops, cinemas, film stars, and high heeled shoes. The modern city is in many ways still a trendsetter, and the Shanghainese have never been shy about letting the rest of China know it.

But amidst the opulence and glitter, there was a dark side – the city exhibited credibility-stretching extremes of wealth and poverty, vice and virtue. Just beyond the foreign enclaves, millions of Chinese lived in abject misery. It is therefore maybe no surprise that concepts like equality and democracy struck such a resonant chord with the poorer Chinese and helped political organisations like the Communist Party of China (CPC) to prosper.

A hedonistic nightlife flourished - as a mid-1930s guidebook put it, rather breathlessly, “dog races and cabarets, hai-alai and cabarets, fomal tea and dinner dances and cabarets.....everywhere are cabarets... hundreds of ‘em !” The worst was typified by the Great World, opened in the 1920s a one-stop shop as for all imaginable sins, from magicians and acrobats to gambling, drugs and prostitution, still extant on the corner of Yanan Zhong Lu and Tibet Lu, although now unused and derelict. Or by “Blood Alley”, or to give it its correct name, Rue Chu Pao-san, was a short street off Avenue Edward VII (now Yanan Dong Lu). This latter street was filled with very dubious bars and brothels much frequented by the many foreign soldiers and sailors stationed in the city, or on temporary shore leave from the warships anchored out on the river. Huge quantities of alcohol led to numerous fights – hence the name.

This also possibly where the verb “to Shanghai” originated – which means, according to the dictionaries, “to kidnap a man for compulsory service aboard a ship, especially after drugging him”, or “to induce or compel someone to do something, especially by fraud or force”.



The heyday, for good and evil, of Shanghai was probably the 1920s and to a lesser extent the 1930s. This perhaps typified best by the fascinating story of the three daughters of Charlie Soong, a wealthy US-educated Methodist missionary and Bible publisher. Born in Shanghai in the 1880s and educated in America, the lives of Ai Ling, Ching Ling and Mei Ling mirrored the deep political rivalries of 20<sup>th</sup> century China. Beautiful, gracious and bright, they knew what they wanted and how to get it (the family home is now a fashionable Shanghai bar, “Sasha’s”).

In 1915, Ching Ling married Sun Yat Sen, leader of the revolution that had ended dynastic rule four years earlier, founding father of the nationalist Kuomintang movement and first president of the Republic of China. Ai Ling wedded millionaire banker and Kuomintang finance minister H.H. Kung, for a while rated as the richest man in the world. Finally Mei Ling wedded and won Generalissimo Chiang Kat-Shek, Sun’s controversial, communist-purging successor as Kuomintang head and ruler of China and, from 1949, Taiwan.

Mei Ling was extraordinarily influential, especially in America. During the 1937-45 Japanese occupation she addressed Congress, receiving a “standing, whistling, stamping” ovation. She is widely credited with convincing Washington to recognise Taiwan as “China” for almost 30 years, and to shun the mainland communists. Ching Ling, on the other hand, became increasingly drawn to the CCP following Sun’s death in 1926. She traveled the world on its behalf, and was named deputy chairperson of the government by Mao in 1949.

Another of the city’s more colourful characters was Tu Yueh-sen. Born a peasant in 1887, he joined the local police force and the “Green Gang”, a powerful secret society, and eventually ran both. In 1927, when Chiang’s Nationalist troops reached Shanghai, Tu’s thugs helped them kill some 5,000 communists. On his rewards was an appointment to the board of the Opium Suppression Bureau, which did everything but suppress the trade. As well as opium, Tu dominated

the city’s gambling, prostitution, gun-running, gold-smuggling, slavery and protection businesses. Amazingly, he still managed to be a star in the local “establishment”, and his entry in the 1933 Shanghai Who’s Who describes him as “the most influential resident, French Concession” and “a well-known public welfare worker”, councillor, school board chairman, and hospital president. He died peacefully in Hong Kong in 1951.

### Shanghai’s economy in the mid 1930s

It is interesting to look at Shanghai’s economic data for 70 years ago. While not directly comparable, the statistics show that it had already become a major hub of world trade – and this was even during a period when war was swirling around the city.

#### SHANGHAI IN THE MID-1930s

*All 1930s data is for 1935 unless otherwise stated, drawn from a British economic geography handbook*

Item	Unit	1935
<b>Population, International Settlement</b>	person	1,149,443
of which foreigners	person	28,583
Chinese	person	1,120,860
<b>Population, French Concession</b>	person	498,193
of which foreigners	person	18,899
Chinese	person	479,294
<b>Population, total</b>	person	1,647,636
<b>Electricity consumption</b>	kWh	743,510
<b>Factories in the International Settlement</b>	No.	3,421
<b>Factory workers in the International Settlement</b>	Person	170,704
of which textiles	Person	75,242
food, drink, tobacco	Person	25,886
machinery and metal products	Person	19,051
other	Person	50,525
<b>Factories in the Municipality of Greater Shanghai</b>	No.	2,676
<b>Factory workers in the Municipality of Greater Shanghai</b>	Person	245,664
<b>Foreign investment (UK) (1931)</b>	Million £	130
<b>Foreign investment (Japan) (1931)</b>	Million £	44
<b>Foreign investment (US) (1931)</b>	Million £	20
<b>Foreign investment (France) (1931)</b>	Million £	8
<b>Foreign trade (1936)</b>	Million \$	1,816
<b>Percentage of China’s foreign trade</b>	%	53.1
<b>Imports through the port</b>	Million tons	19.8
<b>Shanghai’s position compared to other world ports</b>		6th
<b>Main trading partners USA</b>	%	28
Germany	%	13
Japan	%	12.5
UK	%	11
<b>Telephones (1940)</b>	No.	85,861

A few comparisons with 2004 are also revealing. The population is 10.6 times greater, but electricity consumption has gone up by a factor of 110, reflecting the industrialisation and urbanisation of the last few decades. People are using more power. And there 101 times more land line telephones – or, if you add in the mobile phones in 2004, 253 times more telephones. People are more connected.

Foreign trade value has gone up by a factor of 15, volume by a factor of 19. Shanghai in 1935 had greater proportion of China's trade – 53.1% compared to 24.6% in 2004 – but in volume terms it has moved from 6th in the world to 2<sup>nd</sup>.

## War brings ruin

But Shanghai's golden era came to a crashing end in the early 1930s. Real estate transactions in 1930 amounted to US\$90m, and US\$185m in 1931 – but only US\$25m in 1932. Why? War.

Following the Japanese attack on Manchuria in 1932, they landed 20,000 troops in Shanghai and fought a bitter battle with Chinese forces. Western pressure brought about an eventual peace agreement, but the Japanese retained a significant military presence in their concession in Hongkou.

Things got even worse in summer 1937, following the “Marco Polo Bridge Incident” near Beijing, used by the Japanese as the pretext for a full-scale invasion of China. The Chinese mounted a counter-offensive near Shanghai, and fighting swirled round the Concessions, especially in the north of the city and in Hongkou. Many tens of thousands of local people were killed, injured or displaced. Carnage came to the International Settlements on 14 August 1937 when the Chinese Air Force, attacking Japanese shipping on the river, accidentally dropped bombs on Nanjing Road, just outside the Peace Hotel (then the Cathay), and outside the Great World, killing 1,740 and injuring 1,783. Even worse befell Nanjing at the end of 1937, when many thousands of Chinese died in the atrocities that became notorious as the “Rape of Nanking”. Eventually, the Japanese beat off the Chinese offensive and controlled the area around Shanghai.

From 1939 to 1941, Shanghai was a very strange place. Although Britain, France and other Western nations were at war with Germany and Italy in Europe, trading

between these nations, and some social intercourse, continued in Shanghai. Espionage flourished – as well as operations by the Shanghai Municipal Police and French Concession Police against communists and other perceived subversives, the Japanese, British, German, US, and French secret services, amongst others, all played their games of cloak and dagger.

But on 8 December 1941, the same day they attacked Pearl Harbour, Hong Kong, Singapore and other US and British bases in the Far East, the Japanese occupied the Settlements without firing a shot. The city's special “treaty port” status disappeared in 1943. Western residents were interned at Longhua Camp and endured four miserable years – an experience evoked in the book “Empire of the Sun” by J.G. Ballard, later made into an excellent movie filmed in the city.

Thousands of European Jews who had fled the Nazis in the 1920s and 1930s found refuge in Shanghai, not least because it required neither visas nor passports. They added a bohemian element to the city, and traces remain in the shape of several synagogues and museums. Although put into a ghetto in Hongkou in 1943, they did not suffer as badly as their counterparts in Europe. The Japanese, to be fair, resisted German efforts to implement the “Final Solution” in Shanghai.

## In the doldrums

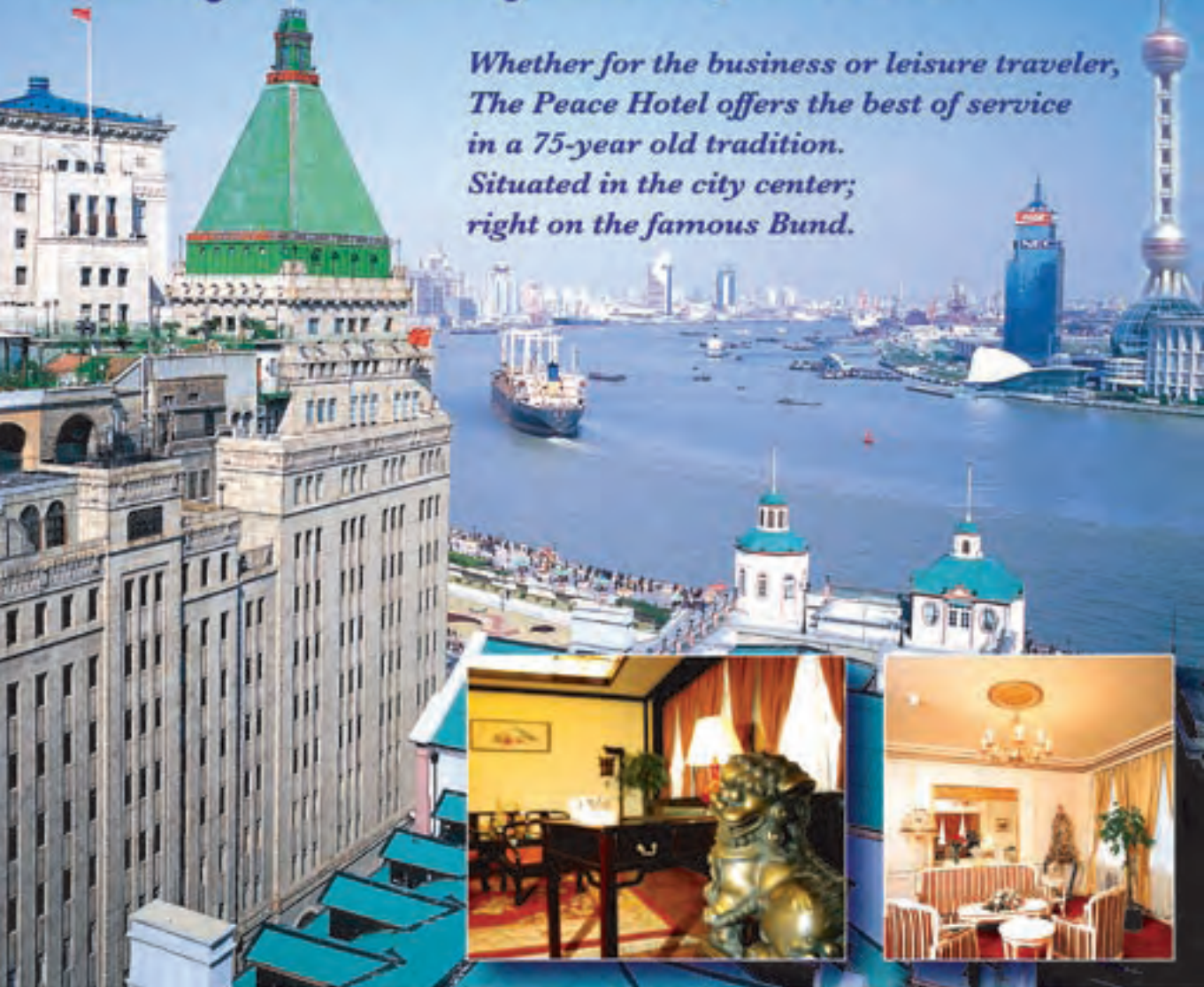
After WW2 ended, the long and decadent party that had been pre-war Shanghai never restarted. The Nationalist Chinese had a tenuous hold over the city, but it was eventually liberated without a fight by the PLA in 1949. Loudspeakers hailed the city's deliverance from “traitors and oppressors, cruel capitalist exploiters and iron-heeled imperialists”. The opium dens were closed, drug abuse largely eradicated, and 30,000 prostitutes underwent “re-education”. Most foreigners fled, as did much of the Chinese entrepreneurial class, with Hong Kong a favoured destination – the post-war economic rebirth of that city being very much driven by Shanghainese exiles.

As a colonial enclave and capitalist hub, Shanghai had much to lose from the communist revolution. The manufacturing and commercial base withered away – indeed, over 450 factories from Shanghai and nearby cities had been moved west during WW2 to protect them from the Japanese. Decay set in. Further punishment and humiliation fell upon Shanghai when



# The Peace Hotel - a unique Shanghai experience

*Whether for the business or leisure traveler,  
The Peace Hotel offers the best of service  
in a 75-year old tradition.  
Situated in the city center;  
right on the famous Bund.*



www.shanghaipeacehotel.com sales@shanghaipeacehotel.com  
20 Nanjing Road (E) Shanghai 200002 Tel: 63216888 Fax: 63290300





it became the base of the infamous “Gang of Four” and a bastion of ultra-leftism during the anarchic 1966-69 Cultural Revolution.

### Shanghai in the doldrums

The decade from 1970 to 1980 was a pretty flat period for Shanghai. A US government handbook on China, published in 1972, provides a few insights into the city during the Cultural Revolution – “a still obscure but apparently momentous political struggle” and a period of “unprecedented fluidity”, as the writers put it.

Information was “fragmentary”. According to the book :

- in 1970, Shanghai had a population of 10m
- in 1967, the city had 400,000 unemployed
- in 1967, 85% of the city’s population lived in pre-1949 housing and had less than 2.1 sq m per person
- international telephone service was available to London, via high-frequency radio for three hours a day
- in 1970, the Shanghai steelworks produced 1.5m tonnes of ingots
- in 1970, the Shanghai Truck Works produced the country’s first 15-tonne heavy dump truck
- the Shanghai No.1 Department Store “was said to compare favourably with modern Western department stores”

In 1980, a National Geographic article found the beginnings of some modernisation. No.1 Department Store saw 200,000 shoppers every Sunday, and in 1979 sold 14,766 bicycles, 11,424 sewing machines and 12,509 TV sets - at US\$150 each, compared to an average wage of US\$40/month. These sorts of purchases were still only possible using coupons from employers. The port handled 80m tonnes of trade, although only 16m related to Shanghai itself. Baoshan steel works was under construction, with one engineer remarking, “we are backward but we won’t always be”.

### Rebirth

Initially, when the government began the “reform and opening-up” period in the early 1980s, it ignored Shanghai, preferring to establish Special Economic Zones elsewhere, such as Shenzhen. Ningbo, down the coast, got development zones and a new port, and might have rivaled Shanghai if it had been allowed to do so. But the neglect could not last. With China isolated internationally after the political upheaval of 1989, fresh ideas were needed. Deng Xiaoping, Mao’s more moderate successor, decided Shanghai’s revival was in order.

The city was declared “the new dragon’s head” and re-opened for business. Thousands of construction cranes arrived - indeed, at one point in the mid-1990s, according to local legend, more than half of all the cranes in the world were here. Pudong began its startling transformation from farmland to central business district.



Early 20th century office building on Fuzhou Lu, still in use today after refurbishment  
© 2005 Belfrey Partners

In the very recent past, after clearing many old districts for new construction, the government has begun to recognize that many of the old buildings in the city can be protected and re-used. As Party Secretary Chen Liangyu put it, “the old buildings are not only the city’s symbolic landscaping attraction but best



represent its history as a combination of Western and Eastern cultures”. People do not just want concrete and glass edifices - diversity in the built environment adds to the tourism value of the city, and new commercial opportunities for businesses. Many small companies seeking to differentiate themselves from the norm are beginning to set up in old attractive French Concession houses, or some of the newly-refurbished warehouses along Suzhou Creek. In this way, Shanghai’s exotic and fascinating history can become part of Shanghai’s future.

### Further reading

Hawks Pott, F.L., A short history of Shanghai, modern publisher unknown

*Facsimile reprint of 1928 edition by Kelly and Walsh, Shanghai, available in Shanghai’s foreign language bookstores.*

Some scenes from early 20th century Shanghai - much is still recognisable today



Lethbridge, H.J., All about Shanghai – a standard guidebook, Oxford University Press, 1983

*Facsimile reprint of 1934 guidebook.*

Sergeant, Harriet, Shanghai, John Murray, 1991

*Very readable history of the late 19<sup>th</sup> century and pre-communist Shanghai, mainly based on interviews with Chinese and foreign residents*

Bickers, Robert, Empire made me – an Englishman adrift in Shanghai, Allen Lane, London, 2003

*Story of a British member of the Shanghai Municipal Police in the 1920s, but lot of general detail on the city*

Wasserstein, Bernard, Secret war in Shanghai, Houghton Mifflin, 1999

*Tales of the espionage war in Shanghai during WW2*

Wang, George, and Barr, Betty, Shanghai boy, Shanghai girl, Old China Hand Press, 2002

*A Chinese man and British lady, who later married, tell their separate stories of growing up in Shanghai before and during WW2*

Wang, George and Barr, Betty, Between two worlds – lessons in Shanghai, Old China Hand Press, 2004

*Continuation of their story from 1949, including many fascinating reminiscences from the Cultural Revolution period*

