

Chapter 3

Lessons for Development Economists from the Shanghai Experience, 1842–2008

Niv Horesh

University of New South Wales, Australia

ABSTRACT

This chapter compares the contours of Shanghai's economy in the pre-war era (1842-1937) with its breakneck reform thrust following the 1990 designation of the city's Pudong precinct as China's primary financial centre. It will seek to explore why the city was a magnet for so many Chinese entrepreneurs and intellectuals before World War II, and whether the reformed societal and physical infrastructure of Shanghai in the 21st century can bring about similar entrepreneurial dynamism, that might help shake off the legacy of state dirigisme and create a truly global innovation hub.

INTRODUCTION

To many observers Shanghai seemed “incomparable” before the World War II. Once foreigners had been allowed to settle there, soon after the Nanjing Treaty of 1842, the city developed by leaps and bounds. Immune to Chinese sovereignty, and months away from London by sea, the city acquired a reputation for laissez-faire and the mystique of hybridity and vice (Barber, 1979, pp. 144-159; Bergère, 2002, pp. 359-362).

Consider this pithy description from a Western tourist guidebook to the city published in 1936: (*All About Shanghai*, 1936, Chapter 6)

Cosmopolitan Shanghai, city of amazing paradoxes and fantastic contrasts; Shanghai the beautiful, bawdy, and gaudy, contradiction of manners and morals; a vast brilliantly-hued cycloramic, panoramic mural of the best and the worst of Orient and Occident. Shanghai, with its modern skyscrapers, the highest buildings in the world outside of the Americas, and its straw huts shoulder high. Modern department stores that pulse with London, Paris, and New York; native emporiums with lacquered ducks and salt eggs, and precious silks and jades, and lingerie and silver, with amazing bursts of advertising colour and more amazing bursts from advertising musicians, compensating with gusto for lack of harmony and rhythm. Modern motors throbbing with the power of eighty horses march

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abreast with tattered one-man power rickshaws; velveteen limousines with silk-clad Chinese multimillionaires surrounded by Chinese and Russian bodyguards bristling with automatics for protection against the constant menace of kidnapping (foreigners are not molested); Chinese gentlemen in trousers; Chinese gentlemen in satin skirts. Shanghai the bizarre, cinematographic presentation of humanity, its vices and virtues; the City of Blazing Night; cabarets; Russian and Chinese and Japanese complaisant "dance hostesses"; city of missions and hospitals and brothels. Men of title and internationally notorious fugitives tip cocktails in jovial camaraderie; Colonels' Ladies and Judy O'Gradys promenade in peacock alley; social celebrities and convivial cocottes; ladies who work; ladies who shirk: ladies who live to love; ladies who love to live. Behold! "The longest bar in the world!" The shortest street in the world with a blatant cacophony of carnality from a score of dance-halls; scarlet women laughing without mirth; virgins in search of life; suicides; marriages; births; carols of vested choirs; cathedral chimes; Communists plotting; Nationalism in the saddle; war in Manchuria!; it's a great old town, and how we hate it and love it! Vital, vibrant, vivacious; strident, turbulent, glowing-Shanghai is the Big Parade of Life of every colour, race, tempo; the bitter end of the long trail for many wastrel souls; the dawn after the dark for others.

This Chapter compares the contours of Shanghai's economy in the pre-war era (1842-1937) with its breakneck reform thrust following the 1990 designation of the city's Pudong precinct as China's primary financial centre. The aim of the comparative perspective offered here is to highlight the ways in which the city's pre and post-war institutional settings differ, and whether they might yield dissimilar outcomes insofar as innovation and entrepreneurship are concerned.

Building on the very latest literature in urban development, management and economic history, the study will focus on three elements that are

conventionally seen as vital to sustaining technological innovation: well-functioning capital markets, respect for property rights, free information flow and a quality education system (Belke & Fehn, 2001; Feng, Froud & Johal, 2001; Houben & Kakes, 2002; Warschauer, 2003). Inevitably, it will leave other important areas of exploration to future research, because these are only associated with the contemporary Chinese economy, e.g. research clustering or fiscal federalism (Qian, 2002; Huang, 2008).

In recent years, Western media has highlighted in various ways the staggering makeover of China's economy, culminating with the coverage of the Beijing 2008 Olympic Games. However, with the notable exception of Godø (2008), there seems to be relatively little in the English-language academic literature to put this makeover in historic perspective. Nor is there much literature to help draw out the possible limitations of China's state-led economic makeover based on our understanding of the roots of innovation; of the process of industrialisation in developed countries, or of the long-haul transition from a mass-production "Old Economy" to hi-tech services-based "New Economy" (Madrack, 1995; Waller, 2000). This Chapter is designed as a first tentative step toward elucidating Shanghai's changing role in propelling China's economy, and its prospects as a moot hi-tech hub in light of that historic experience.

SHANGHAI'S POSITION IN THE CHINESE PRE-WAR ECONOMY

Assessment of pre-war Shanghai's contribution to the economic modernization of China is a complex task: the jury, in many ways, is still out. The rapidly changing political and social circumstances in the PRC quite often call for a review of past performance in view of present achievements and failures. In the field of Shanghai Studies, such major scholarly reviews can occur every two decades or so.

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