China’s World City: Hong Kong or Shanghai?

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Abstract

Hong Kong and Shanghai are one of the most important cities in China and even Asia. They are favoured places for regional headquarters, major financial centres, have a vibrant (Western) lifestyle and are embedded within a network of global flows of information and people. Therefore they can be called world cities.

But are they really world cities? Are they megacities? Or global cities? What is the difference and what kind of responsibilities do they have? These questions will be answered within a twofold approach. After discussing the literature, a quantitative approach, including 13 major indicators within eight categories such as finance, economy, internationality or culture and the arts, follows. These indicators will be compared for three different years namely 1982, 1997 and 2012. Thus a development of these cities – compared to the top three world cities (London, New York and Tokyo) – shows that Hong Kong was doing much better than Shanghai in the 1980s and 1990s but lost its position to Shanghai in the year 2012. Shanghai overtook Hong Kong in all “hard indicators” such as value of shares traded in the stock exchange, number of Fortune 500 companies and top banks or air passengers. Hong Kong, on the other hand, was doing better in the “soft indicators” which means the rule of law (e.g. hosting more offices of law firms), students and professors per 10,000 inhabitants or attendance at museums.

Further, the qualitative approach consists of additional information about the quality of life, the cooperation between the hinterlands of Hong Kong and Shanghai, the political situation (communism and democracy) as well as a discussion of advantages, disadvantages and complementarities of these cities. The interviews of managers, trade commissioners, professors as well as reporters, done in Beijing, Shanghai and Hong Kong are complementary in answering the basic question: Which of the cities is China’s world city, Hong Kong or Shanghai?
Zusammenfassung

Hongkong und Shanghai zählen zu den wichtigsten Städte Chinas, ja sogar Asiens. Sie sind beliebte Orte für regionale Firmenhauptsitze, sind berühmte Finanzstandorte, haben ein pulsierendes (westliches) Stadtleben und sind in ein Netzwerk von Informations- und Personenströmungen eingebettet, die die wichtigsten Städte der Welt verbinden. Sprich, sie sind Weltstädte.


In einem qualitativen Ansatz werden zum Schluss weitere Information über das Leben in diesen Städten, den Kooperationen mit ihrem jeweiligem Umland, den politischen Situationen (Kommunismus und Demokratie) sowie die Behandlung der Vor- und Nachteile und deren gegenseitige Ergänzung besprochen. Die in Peking, Shanghai und Hongkong durchgeführten Interviews mit Managern, Wirtschaftsdelegierten, Professoren sowie Reportern sind wichtige Ergänzungen in der Beantwortung der grundlegenden Frage: Welche dieser Städte ist Chinas Weltstadt, Hongkong oder Shanghai?
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<th>Description</th>
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<tr>
<td>APS</td>
<td>Advanced Producer Services</td>
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<tr>
<td>CBD</td>
<td>Central Business District</td>
</tr>
<tr>
<td>CDC</td>
<td>City-Dyad Connectivity</td>
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<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
</tr>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GaWC</td>
<td>Globalization and World Cities (Research Group)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GNC</td>
<td>Global Network Connectivity</td>
</tr>
<tr>
<td>Greater China</td>
<td>Includes the People’s Republic of China, the Republic of China (or Taiwan) as well as the two SAR of Hong Kong and Macau</td>
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<tr>
<td>GVA</td>
<td>Gross Value Added</td>
</tr>
<tr>
<td>HK</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>HQ</td>
<td>Headquarter</td>
</tr>
<tr>
<td>LO</td>
<td>London or Local Office</td>
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<tr>
<td>TO</td>
<td>Tokyo</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>NY</td>
<td>New York</td>
</tr>
<tr>
<td>PRC</td>
<td>Peoples Republic of China</td>
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<tr>
<td>PRD</td>
<td>Pearl River Delta</td>
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<tr>
<td>RHQ</td>
<td>Regional Headquarter</td>
</tr>
<tr>
<td>RMB</td>
<td>Renminbi or Yuan, the currency of the People’s Republic of China</td>
</tr>
<tr>
<td>ROC</td>
<td>Republic of China or Taiwan</td>
</tr>
<tr>
<td>RO</td>
<td>Regional Office</td>
</tr>
<tr>
<td>SAR</td>
<td>Special Administrative Region</td>
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<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
</tr>
<tr>
<td>SH</td>
<td>Shanghai</td>
</tr>
<tr>
<td>TEU</td>
<td>Twenty-foot equivalent unit, a measure for capacity in container transportation</td>
</tr>
<tr>
<td>TVE</td>
<td>Township and Village Enterprise</td>
</tr>
<tr>
<td>TNC</td>
<td>Transnational Corporation</td>
</tr>
<tr>
<td>WCN</td>
<td>World City Network</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>YRD</td>
<td>Yangtze River Delta</td>
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Introduction

In autumn 2012 thousands of people protested against the new education reform in Hong Kong, when it was introduced by the local authorities. The subject of this reform was something called like “moral and national education” and should consist of “contemporary Chinese history with a heavy dose of nationalism and a favourable interpretation of the Communist Party’s role” (Bradsher, 2012), which many Hong Kong people thought is undermining Hong Kong’s semi-autonomous status. The people even started to raise the Union Jack, the symbol of 156 years of British rule, to protest against this decision (Bartsch, 2012: 13), because they feared that they were losing their semi-independence. Then, since the return of the British colony to the People’s Republic of China (PRC) on 1 July 1997, the central government has granted Hong Kong a high degree of autonomy, only taking care of foreign policy and defence until 30 June 2047. This high autonomy, recognizable for example by Hong Kong’s border to the mainland, an own currency, the use of English as one of the official languages, the rule of law or a corruption free government, is different to other cities in China like Shanghai.

The “Paris of the East“, as Shanghai was called in the 1930s, was one of the most important and recognized cities in that time. Due to political sanctions against the PRC as a response to the Koran War in the 1950s, China, and thus Shanghai, got cut off all international relations. Only in the 1990s, under the economic “open-door“ policy of China, it started to regain its position. Heavy investments, many of them coming from Hong Kong, have transformed the shabby looking city of the 1980s into one of the most modern cities of China with Pudong, its financial centre full of modern skyscrapers being called the “Dragon’s head” of China.

In the spring term 2010 I was studying at the Chinese University of Hong Kong as an exchange student. During that period, I wrote a comparison of Hong Kong and Shanghai, the two most important financial centres in China because the topic – Hong Kong versus Shanghai – was a widespread issue in the department of Geography (see Shen or Xu, 2010). After living and experiencing Hong Kong for almost five months as well as visiting Shanghai and the World Expo, I came back to Austria and started to expand this comparison into a diploma thesis. Therefore I returned to China from summer to autumn 2012, where I attended the Austrian-Chinese Summer School of the University of Salzburg and the Eurasia-Pacific Uninet in Beijing and Shanghai. Additionally I took part in the “Marktsondierungsreise: Information und Consulting in Shanghai und Hongkong“ (exploration of the Chinese market) of the Austrian Trade Commission in both cities. With additional research in the libraries of the University of Graz, the Peking University of Beijing, the Fudan University of Shanghai, the Chinese University of Hong Kong as well as the public libraries of Shanghai and Hong Kong, I was able to gather enough information to do my research. Altogether I spent another four months in China and Hong Kong, asking expatriates, managers, trade commissioners, professors and reporters about their opinion according to my research question; China’s world city: Hong Kong or Shanghai?
Additionally, I researched information on the web for more than 80 office locations to be able to get information about the cities strength’s. In this quantitative approach, I wanted to find 13 main indicators within the eight categories of economics, finance, trade and transport, internationality, legal service, information and news, education and research as well as culture and the arts. Moreover, in the third part of this study, I included some qualitative comparisons, some experiences of the interviewed people in China as well as my own experience. I aimed to find out which factors are responsible to experience a city as “liveable” (e.g. for expatriates). What is the difference between the two cities, why should someone start to work there or a company want to go there?

If a company should ask itself which city would be a favourable place for a regional headquarter or office in dealing with China or even East Asia, than this thesis should also be helpful in making a decision. Many rankings list the two cities usually among the top (world) cities. Examples are the Globalization and World City (GaWC) research group (see part one) or the IMD (2012) which list the most competitive countries in the world with Hong Kong ranked first over the USA and Switzerland, with China (and thereof Shanghai) on rank 23. The Citymayors (2013) researches list Hong Kong as the tenth most powerful city in the world (New York was number one) with Shanghai being number 21 in 2009 (Citymayors, 2009). Among the richest cities of the world, Hong Kong was ranked 36 in 2012 whereas Shanghai got rank 58 (with Zurich being number one) (Citymayors, 2012a). These and other rankings (e.g. Smartplanet, 2011, Yuwa, 2012, Citymayors, 2012b and 2012c) indicate that both cities are among the most important cities worldwide and thus a good choice for comparison.

According to the Fortune magazine, Hong Kong was regarded as useless which was expressed in the articles about “The death of Hong Kong” (in 1995) and “Who needs Hong Kong?” (in 2002) (see Chiu and Liu, 2009: 2). On the other hand, the Time magazine announced a new era of Hong Kong among the top world cities with its head cover of “Ny-lon-kong” (Time, 2008, see chapter 3.4.4.1). Therefore, Hong Kong as well as Shanghai were not always seen as important as today. Hence, I will use a historical dimension of 30 years (comparing the years of 1982, 1997 and 2012) to get to a better conclusion in answering the question, which of the two cities is the most important for China.
1. From Megacities, World and Global Cities

With the body of literature of Beaverstock, Smith and Taylor (2009), Chiu and Lui (2009: 6-7) as well as Bronger and Trettin (2011) I was able to categorize the study of cities, which is important for my study, as the following graph shows. The hierarchy marks the different approaches which lead to the definition of megacities respectively world and global cities. In the next step, I roughly distinguish the world city literature into the more traditional and geographical approach by Friedmann, the newly developed global city approach by the socialist Saskia Sassen and the most resent approach of the Globalization and World City (GaWC) research group. The GaWC in my eyes, combines both approaches with additional influences.

In the following list, I define three levels, indicating three fundamentally different functions, which are important for world or global cities. At the macro level I want to discuss the differences between hierarchies and networks, formed by world cities, using a worldwide scale. The meso level however looks into three “contributors”, helping to define world/global cities, which is important for me in comparing Hong Kong and Shanghai. Finally, the micro level focuses inside a world/global city, on the major actors in shaping worldwide networks (firms and companies, which will be discussed during the whole part of this study) as well as on some consequences of these important cities for their inhabitants (dual city approach). The numbers on the left side indicate the page numbers where the categories shown on the right side are discussed within this study.

Figure 1: Structure of Approaches Taken in Literature for Mega, World and Global Cities
Source: Vouk, 2013
1.1 Megacities

In this part I discuss the demographic approach in the study of cities. Both cities which I will compare are very populous cities and therefore it needs to be discussed what this means. As Sudijig (2010: 182) put it: “[...] megacities have more in common with each other than with their own hinterlands”. Therefore I want to ask; what megacities are? Why they are different to other cities and what makes them special?

1.1.1 Reasons for Becoming a Megacity

Just and Thater (2008) argue that the high increase in world population and the rise in productivity in agricultural products are the single most important reasons for the formation of huge cities. Two hundred years ago, just three per cent of the world population lived in cities, nowadays it is more than half. Alfred Herrenhaus and the London School of Economics already announced the “age of cities” in 2005 (Just and Thater, 2008: 3). More than 400 cities with over one million inhabitants existed on the globe with almost 100 of them located in China.

This can result from an increase of agricultural productivity but also from the loss of fertile land. Alone in China between 3,000 and 6,000 km² of arable farm land are lost due to industrialization, climate change and non-sustainable farming every year (Just and Thater, 2008: 10). As a result, the people who were once farmers before now want to settle down in cities.

Economic modernization within a city can be seen as another reason, why cities grow into megacities. But, nearly as important are political changes and decisions. Shanghai, for example would not have grown as rapid over the past 20 years without the political decision of establishing a free trade zone. (Schwentker, 2006: 19-20).

Falling costs of transportation and communication, compared with an increasing network of knowledge leads to agglomeration tendencies. Buyers and sellers like to deal with others whom they know and trust. Therefore, most of the economic activity is face-to-face because experts want to live and work in the same area in order to learn and profit from each other. Therefore many jobs are not affected by outsourcing (e.g. barbers, taxi drivers, nurses, teachers), which also leads to urbanization (Ploeg and Poelhekke, 2008).

1.1.2 Definition

“The megacity was initially associated with the flow of poor migrants and the shanty towns of Latin America and Africa, stretching ancient infrastructure beyond breaking point” (Sudijig, 2010: 181), but this has changed these days. Megacities in general can be differentiated between developed and
developing countries, which usually deal with the same problems but on different levels of standards and qualities. Within this differentiation, megacities can further be distinguished between “rich” and “poor” megacities. On the one hand “rich” megacities; which profit as production centres in the global market. On the other hand “poor” megacities; which do not gain so many benefits but have to deal with a huge proportion of rural migrants who live below the poverty line (Kraas, 2007).

Megacities are defined differently, according to different authors. One definition starts with a population over five million (Bronger), the next with more than eight million (UN, Chen and Heligman), another with ten million inhabitants (Mertins) or/and a minimum population density of at least 2,000 persons/km² and a single dominant centre (Bronger) as one can read in Kraas (2007: 11) and Krass and Nitschke (2008: 456). Just and Thater (2008: 4) argue, that the most common definition for megacities, according to the United Nations are ten million inhabitants, even across boundaries of (city) municipalities, due to the functional importance of an agglomeration. Which does not stop at the administrative boundaries of their municipalities.

The most comprehensive definition I found comes from Bronger and Trettin (2011: 32-33). They defined modern megacity with the following criteria:

1.) A minimum size *(Mindestgröße)*
   a. which they defined with five million inhabitants

2.) A reference surface *(Bezugsfläche)*
   a. which means an urban area which enables criteria three to be fulfilled

3.) A certain density value *(Dichtewert)*
   a. which should not be under 2,000 inhabitants per km²

4.) A advanced functional integration on the “city districts” *(fortgeschrittener funktionaler Verflechtungsgrad der einzelnen “Stadtteile”)*
   a. which includes the Pearl River Delta (= PRD, see 3.2.3.1)

Figure 2 shows the megacities in Asia in the near future. It is to note, that this figure also shows the PRD (Perflussdelta in German) as the biggest agglomeration if the individual megacities of Guangzhou, Shenzhen and Hong Kong would be put together.

**Figure 2: Megacities in Asia in the Year 2015**
Source: Kraas and Nitschke, 2008: 448

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1 But the authors do not define the advanced functional integration and just mention, that this criteria is fuzzy and can be manifold, according to the level of development a city has achieved (Bronger and Trettin, 2011: 33).
1.1.3 Characteristics for all Megacities

Megacities (no matter if they are in developed or in developing countries) usually have the following characteristics, which I have tried to categories into the four parts where the most impact can be found. However, for example, one part of the economy also effects other categories and vice versa. Most of the selected characteristics can be found in Kraas (2007), Kraas and Nitschke (2008) as well as Buijs, Tan and Tunas (2010).

Politics and governance

- Loss of governability and controllability (developing of informal or illegal actions and structures)
- Functional primacy (this can be seen as a differentiation between megacities in low-income countries and high-income countries (see next chapter))
- Megacities operate at many different scales at the same time: local/municipal, metropolitan, regional, national, supranational and global
- Economic, cultural and political importance for the whole region or even the whole country

Economy

- Financial capacity overload
- Huge influx of foreign direct investment
- Effect of industrialization
- Expansion of service sector with an increasing need for office space
- An economic engine, which sometimes takes the role of a nation-state as the national economic engine (see Buijs, Tan and Tunas, 2010: 82)

Environment and city structure

- Destroying of nature and loss of fertile arable land
- Shortage of affordable living space
- Developing of informal housing
- Suburbanization
- Inner urban agglomeration
- Ecological capacity overload
- Diversification of inner urban centres
- Increase of value of land and property in the inner city
- Newly built large-scale skyscrapers and landmarks (modern architecture)

Unlike global cities, which have increased their importance in these three spheres over the whole globe (Just and Thater, 2008: 3).

For example, Hong Kong has the most completed high-rise buildings (more than 12 floors) in the world with 7,697 in the Year 2012, followed by New York with 5,991. Shanghai, however, was ranked eight with 1,000
• Large scale infrastructure projects
• Construction of new city districts and intensive expansion

Social Pillar

• Huge influx of migrants, especially from the rural hinterlands
• A huge gap between poor and rich
• Gated communities
• Increase in crime
• Shortage of jobs in health and education sectors
• New sense of community is built around working place rather than sleeping place
• Different local livelihoods and lifestyles
• Centre-periphery gradient for living cost (especially housing)

1.1.4 Functional Primacy and Differentiation

Functional primacy means a distinct political, economical, social, cultural and infrastructural dominance (“pull factors”, see Bronger and Trettin, 2011: 273) - one can also say the prime position - in comparison to other cities within the country or region where the city is located. If the city is globally important, however, than it is called an international primacy.

Affects which lead to functional primacy according to Ploeg and Poelhekke (2008: 17-19) are:

1.) urban bias: trade restrictions that favours domestic manufacturing or service sector
2.) political favouritism: which can also lead to primacy (subsidized products, exclusively local access to permits, higher local urban wage curve)
3.) dual housing market: in developing countries the inefficiency in the housing market (slums/informal settlements and formal housing) leads to an increase in the size of all cities

• Functional primacy leads to a urban-rural gap (Stadt-Land-Gefälle) (2008: 39)

Focussing on functional primacy it is possible to make a differentiation between a megacity of high income countries and low income countries. Megacities in low income countries usually have a higher functional primacy than those in high income countries. That means that the importance and distance to the next city is much higher than in developed countries, where it is more equally distributed and where the differences between primary and secondary centres are on a higher level. Furthermore, in developing countries, there is something like a “balance of power” with a distribution of powers between cities, e.g. Shanghai is the economic centre, Beijing the administrative centre of China. As an example I want to show the results of Bronger and Trettin

buildings (Emporis, 2012). Regarding skyscrapers higher than 200 metres, Hong Kong had 62 and Shanghai 44 (Council on Tall Buildings and Urban Habitat, 2012).
(2011: 277) for the importance of a megacity compared to the nation (which is the economical indicator of the functional primacy). Therefore these authors calculated the GDP per capita of the city compared to the national average, which is 100 percent. The higher the index value the higher is the functional primacy.

Table 1: GDP Per Capita of Selected Megacities Compared to the Nations Average (= 100 per cent)

<table>
<thead>
<tr>
<th>Megacity</th>
<th>Basic year</th>
<th>Metropolitan Agglomeration</th>
<th>Metropolitan Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>2008</td>
<td>353</td>
<td>319</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2007</td>
<td></td>
<td>1339</td>
</tr>
<tr>
<td>Bangkok</td>
<td>2005</td>
<td>248</td>
<td>252</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>2007</td>
<td>252</td>
<td>331</td>
</tr>
<tr>
<td>Mumbai</td>
<td>2006</td>
<td>208</td>
<td></td>
</tr>
<tr>
<td>Bangalore</td>
<td>2006</td>
<td>302</td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td>2005</td>
<td>131</td>
<td></td>
</tr>
<tr>
<td>Los Angeles</td>
<td>2002</td>
<td>104</td>
<td></td>
</tr>
<tr>
<td>Paris</td>
<td>2005</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>2005</td>
<td>164</td>
<td>208 (to national average)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>117 (to EU average)</td>
</tr>
<tr>
<td>Tokyo</td>
<td>2005</td>
<td>117</td>
<td></td>
</tr>
<tr>
<td>Osaka-Kobe-Kyoto</td>
<td>2005</td>
<td>105</td>
<td></td>
</tr>
</tbody>
</table>

Source: Modified after Bronger and Trettin, 2011: 277

1.2 Indicators for the Second Part of the Study

There are no international definitions of indicators of functional primacy. Bronger and Trettin (2011: 306) defined ten indicators, which are population density, „Metropolisierungsquote“, GDP, people working in the industry sector and their added value, vehicles, passenger cars, telephone connections, university and college students, number of hospital beds, family income. Bronger (2000: 275) alone even mentioned 17 indicators with the additional categories of: inhabitants, energy consumption, access to drinking water and waste disposal, number of physicians per 1,000 inhabitants, infant mortality rate and crime rate.

I can conclude that there is no clear definition of indicators of the functional primacy and the characteristics of megacities. Therefore I define the following three indicators for the status of a megacity. Due to the historical dimension of global cities (see next chapters), I will provide these indicators for three years, namely 1982, 1997 and 2012. Additionally, if the functional primacy of the national level is so important that it becomes an international primacy, than it can be used for indicators for global cities, which will be discussed in the next chapter.
1.3 Difference Between Megacities and World/Global Cities

Bronger and Tretting (2011) differentiate between a demographic, a national and a global dimension when dealing with big and important cities. If the first dimension (demographic = many people) is fulfilled, the city can be called a “megacity”. However, the second dimension (nation, government) has to be considered, because political and state structures enable cities to grow into megacities and/or world/global cities or not. The third dimension (global) implies the global importance and connectivity of a city and which leads to the status of a world city, subdivided into different parts within a hierarchy (see chapter 1.8).

Typically for Megacities (especially in developing countries) is a highly developed functional primacy within their national level. Furthermore, megacities have an international primacy (across borders of nation-states), to a certain stage, which means, that foreign capital of multi- or transnational companies, banks and so on uses megacities as their production and contribution centres. However, global cities are accommodating headquarters of the most important transnational companies, are financial centres (banks and stock exchange) and important hubs of world traffic, which means, that they have a high global primacy and that they are the motors of internationalization. Thus global cities are not defined by size but with functional criteria. Therefore they do not have to being a megacity at all (Bronger, 2000: 281-282).

The most important difference between megacities and global cities is that the functional primacy of a megacity mainly applies to the nation level of the country, where it is located. The global city, however expands this primacy globally because of its importance in economic, traffic, finance, politics and culture for the whole world (= global primacy) (Bronger and Trettin, 2011: 334). Therefore they are not national centres (like megacities) but international centres.
### Table 2: Difference between Megacities and World/Global Cities

<table>
<thead>
<tr>
<th>Megacity</th>
<th>World/Global City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Important on a <strong>national</strong> scale</td>
<td>Important on an <strong>global/international</strong> scale</td>
</tr>
<tr>
<td>Defined by <strong>quantitative</strong> indicators</td>
<td>Defined by <strong>functional</strong> indicators</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013

# 1.4 World City/Global City

## 1.4.1 Introduction

According to the contribution of Peter Hall (1966) the term “world city” was first introduced by Patrick Geddes in *Cities in Evolution* in 1915. A “world city” is defined due to its diverse roles as a centre of political power, trade, finance and services, advanced professionals, information, luxury industries and shops, arts, culture and entertainment and all other activities which contribute to the referred above. These cities developed into major centres of finance and specialized services and are continuously strengthening these functions (Buijs, Tan and Tunas, 2010: 34-44).

The term “global city” was broadly introduced in the 1980s by Saskia Sassen to differ between world cities, which have a strong political and cultural dominance. Her main arguments have been the phenomenon of globalization, where the worldwide importance of cities was produced due to their highly known finance and service sectors (instead of political power and cultural importance). They are highly concentrated commander centres of the worldwide economy with headquarters of TNCs (transnational companies) or MNC (multinational companies) and are places of production and innovation (Linemann and Woywod, 2009). They are producing for world/global, national and regional markets and– depending on literature – include Shanghai and Hong Kong (Kraas and Nitschke, 2008: 448).

Furthermore communication and information are very important issues for world cities. Today, communication functions still in two ways, one is the electronic transfer; the other is the direct face-to-face communication (Hall, 2010: 37). This means, that certain types of economic activities can be run from a virtual office anywhere. For the work processes however it requires multiple specialized inputs and a need for direct interaction with other firms and specialist, which leads to the formation of key locations (= global cities) (Sassen, 2010: 53). They are the hubs for information gathering and “are the places which first receive and derive the advantages of new services and applications” (Clark, 1996: 159), which means that they are several technologies ahead of competing lower-order centres.
Another aspect of world and global cities are their migrants. Among those who migrate between world cities the skilled are the most symbolically significant but the low-status migrants[^4] are the most important (Scott, 2007). Large numbers of low-status migrants are attracted to world cities in the hope of getting a good job, but they are usually employed on temporary contracts, often working unsociable hours, earn minimum wages (or below) and work without appropriate documentation in sectors such as domestic work or hospitality. This leads to a gap between “global super-rich” and the rest of the society, which is very significant within world cities (= dual city, see chapter 1.10 and 3.3).

As far as I could find out, there are two mayor streams in the world city literature. The older one; based on Friedmann’s *World City Theory* as well as the national urban systems school, which consist of a *hierarchical thinking* of how cities are related to each other (Taylor, 2004). The more recent one is the stream about Sassens *Global Cities* and the more than ten year old GaWC lead by Beaverstock, Taylor and other scholars. These streams focus on innovations generated within cities, on advanced producer services, how cities are connected and how they become part of a globalized *network* rather than counting the headquarters of different economic fields. But this does not mean that there are no differentiations between cities in the second approach, because some cities are better connected and attract more globally working companies than others.

These and other aspects are a part of world cities. In the following chapters I attempt to explain what literature has produced about this topic. Moreover, I will investigate what the difference between a world and global city is, what approaches can be found, what indicators could be considered and how to rank these cities. Finally I will provide 13 indicators for the second part of my study, in order to compare Hong Kong and Shanghai.

### 1.4.2 Basics

According to Beaverstock, Smith and Taylor (1999) there is a basic division of approaches of the study of cities. One is the demographic tradition, which categorizes cities by their size (e.g. Megacities). Another is the functional tradition, which sees a city as a part of a larger system (e.g. world and global cities). For the functional tradition, they have defined four major approaches which have dominated the literature about the world/global city, which are as follow:

1.) Locational preferences and roles of (MNC) headquarters

The first steps towards a world city analysis was taken by Patrick Geddens in 1915 (*Cities in evolution*) and expanded by Hall in 1966 (*The World Cities*). Cities with a global functional capacity and power and influence in politics, trade, communications, finance, education, culture and technology can be ranked first in the world. In 1972 Hymner (*The multinational corporation and the law of uneven development*) added the need for MNC headquarters to

[^4]: Scott (2007: 2-6) argues, that this second part of migrants should be called “low status” rather than low skilled, because many low status jobs are actually filled by relatively highly skilled migrants.
be close to the capital markets, the media, the government and the possibility of face-to-face contact. He called cities which fulfilled these conditions “world’s major cities”.

2.) The new division of labour

After the first approach, many different authors started to think about the decision-making corporate activities and powers of MNCs within the newly emerged international division of labour. The two most important contributions were made by Cohen in 1981 (*The new international division of labour, multinational corporations and urban hierarchy*), who ranked the locations of major non-US corporations within a worldwide hierarchy. The second one was Friedmann (*The World City Hypothesis*), who introduced his world city hierarchy and differentiated his “‘control centres’ of capital in the new international division of labour” (Beaverstock, Smith and Taylor, 1999) between primary and secondary cities within two regions of the world (core and semi-peripheral countries).

3.) Globalization and the intensity of producer services

The major contribution was made by Sassen in 1991 (*The Global City*). She introduced the term “global city” as a result for the growing importance of globalization which led to the shift of services and finance on a worldwide (global) scale. These cities are command points in the world economy and key locations for finance and specialist service firms as well as centres for innovations. For her, some cities emerged as sites for service, marketing and innovation, which lead to growth, specialisation and agglomeration within these global cities.

4.) World Cities as international financial centres

Within this approach the ranking of international financial centres is the crucial part. One of the first was Howard Reed in 1980 and 1981 (*The Preeminence of International Financial Centers*) with his development of a taxonomy of financial centres within five hierarchical levels. Other analysis, which tried to rank banking and financial centres also continued to rank London, New York and Tokyo as supranational centres until the new millennium.

1.5 Three Major Approaches in the World City Literature

The world city literature has developed into manifold and sometimes quite different approaches over the last 30 years. Their range, for example, is from traditional perspectives via globalization or spaces of flows to networks instead of hierarchies. From my point of view, I was able to find three major directions with the “world city hypothesis” of John Friedman being the oldest and most traditional one (developed during the 1980s) to Saskia Sassen in her “global city”- debate during the 1990s. Finally to the GaWC research network in the 2000s, which is in my eyes, a kind of hybrid approach, meaning a further development of the global city theory with some elements of Friedman, Sassen and other authors (such as Casteller). These are the main types I can distinguish and which I want to discuss in the following part.
1.5.1 First Approach: World City Hypothesis by John Friedmann

According to the world city hypothesis of John Friedmann (1986), who wanted to link urbanization processes to global economic forces, there are some key points for world cities. The hypothesis is about the spatial organization of the new international division of labour and therefore these cities are world cities because of the globalization process. They are a centre for world economy and they are “basing points” for global capital. In his seven theses, world cities are world cities because they:

1.) changed the city’s structure by the formation and extension of their integration within the world economy
2.) are inter-connected by global capital (which leads to a hierarchy of world cities)
3.) have global control functions with their structure and dynamics of their production sectors
   a. including: major important headquarters, international finance, global transport and communications as well as high level business services (advertising, accounting, insurance and legal)
   b. are centres for production and distribution of information, news, entertainment and culture
   c. high percentage of professionals in control functions and also a lot of low-skilled workers (e.g. manufacturing, personal services in hotel, tourism, entertainment)
4.) are a major site for the concentration and accumulation of international capital
5.) destinations of many domestic and/or international migrants
6.) result in a spatial and class polarization (some people become rich, other poor)
   a. a huge income gap between élites and low-skilled workers
   b. large-scale immigration from rural areas or from abroad
   c. structural trends in the evolution of jobs (e.g. one quarter to one third of all world city jobs are in the fields of finance and business services)
7.) generate a huge social cost for housing, education, health, transportation, welfare and so on

1.5.2 Second Approach: Global City Hypothesis by Saskia Sassen

In her book The Global City (2001) Saskia Sassen described that she had introduced a new term for the world city discussion in 1984, the “global city”, mainly to illustrate a difference, because the old term “world city” had opposite attributes and referred to some kind of cities which has been there over centuries. Even though she followed earlier definitions of world cities, thereof Friedmann, she put a new emphasis on the production of financial and service products (Taylor, 2004). As a result she developed seven hypotheses why this new kind of city is different to the older approach.
These seven hypotheses are as followed:

1.) Geographic dispersal of economic activities (globalization) leads to a huge growth and increase in importance of central corporate functions. The more dispersed firms operate in different countries the more complex and strategic are their central functions like managing, coordinating, servicing or financing a firm’s network of operation.

2.) These central functions become highly complex and important, so the headquarters (HQs) of large global firms (TNCs or MNCs) started to outsource them. They began to buy these functions from highly specialized service firms like accounting, legal, public relations, programming, telecommunications or others.

3.) As a result, these specialized service firms, engaged in most complex and globalized markets, started to agglomerate in certain places. The importance of face-to-face communication within these agglomerations produces a mix of firms, talents and expertise from a broader range of specialized field, which Sassen called an “information loop”. This loop cannot be replicated fully in electronic space and therefore, meaning they have to cluster together, global cities are production sites for the leading information industries.

4.) This leads to the assumption, that, the more HQs outsource their most complex, not standardized functions to other firms, the freer they are in the choice of their location (= they are not subjects to agglomeration economies). However, they rely on the highly specialized and networked service sector of global cities, where all the services they need are combined in one place.

5.) Furthermore these specialized service firms need to provide a global service for their customers across borders, from city to city, forming a global network of affiliates or some other form of partnership. The increase of network-activities leads to a reduced role of the government in regulation international economic activities, even disconnecting from their broader hinterlands or even national economies. They form a network, which differentiates them from older world cities, usually the capitals of empires, which have been single major cities in the world.

6.) The growing numbers of high level professionals and high-profit making specialized service firms lead to a raising spatial and socioeconomic inequality. Top level professionals become more important, their values and numbers rise and workers who lack these attributes are pushed into a low-income status.

7.) This, however, leads to a growing informalization of economic activities, in part or all production and distribution activities (including services). Although these activities would be needed in these cities, their profit rates do not allow them to compete with high-profit making firms at the top of the system.
For Sassen (2001), spatial dispersal and global integration create new strategic roles for major cities which now function in four different ways:

1.) They are highly concentrated command points of the world economy
2.) They are key locations for finance and specialized service firms (= replacing manufacturing as leading economic sector)
3.) They are sites of production and innovation in these leading industries (special services)
4.) They intrinsically are markets for these products

This leads to a new type of city, the “global city”. This type of city can be defined as highly specialised places with top-level control and management functions, concentrated in a few leading financial centres. Further, they form a system rather than solely competing with each other, which led to changes in the organization of work (low-income jobs e.g. from cleaner to stock clerk and highest earning classes like managers).

1.5.3 Third Approach: Globalization and World Cities Research Network (GaWC)

Another group of scholars are the members of the GaWC research network, with Peter Taylor as director and Manuel Castells, John Friedmann, Sir Peter Hall, Saskia Sassen and Nigel Thrift as honorary founders (see webpage of GaWC). Therefore I want to categorize their approach as an additional point, because – in my eyes – it combines the influences of these ‘honorary founders’ with their own research and therefore are different to the single works of Friedmann or Sassen.

They do not focus on cities as single, independent entities with transnational organizations as the production of globalization and the force behind urban development. In fact, they describe a network, shaped by advanced producer service firms (= APS) and the flows between cities. They use the idea of Castells of the year 1989 where the dominant form of space is no longer the spaces of places but a new kind of space, the spaces of flows where places are defined by their position within the flows of a globalized world (Lai, 2009). Thus they use the network, which is the better approach because it connects globalized centres of different intensities and scales and does not just focus on the cities at the top of the hierarchy (Su and Xue, 2012).

1.5.3.1 The World According to GaWC 2000

In the beginning they defined four categories for their first study for GaWC (according to Beaverstock, Smith and Taylor, 1999). These arguments were based on Saskia Sassen’s The Global City of 1991 who stated, that the advanced producer services (also called corporate services) are the key elements of the world city formation. These four categories of services are being significantly used by multinational firms (after Rossaert, 2001) and the focus, according to Lai (2009), is on location
strategies instead of economic data on corporations. Therefore they used four key services – due to availability of data, after searching in trade directories, professional magazines, internal partner listings and the world wide web – namely accounting, advertising, banking and law. However the authors stated, that they “do appreciate that world cities are much more than service centres” but followed Sassen because “the production of advanced producer services defines a distinguishing feature of cities in contemporary globalization” (Beaverstock, Smith and Taylor, 1999).

These four key services operate different networks with different amounts of offices. Therefore the GaWC-group first identified the key companies in 1999 (accountancy six, advertising top 50, banking ten out of top 25 by assets and legal service the top 30 London and top 100 US law firms with foreign branches). Following this they categorized them into “prime global service centres”, “major global service centres” and “minor global service centres” for all four categories individually. Altogether there were 100 office networks within 315 cities. With this data, they scored all prime centres with three points, all major centres with two points, and all minor centres with one point. Thus they could define “Alpha”, “Beta” and “Gamma” world cities according to the sum of all points. Using this method this shows a complex network system rather than just a hierarchy (Taylor, Catalano and Walker, 2002).

1.5.3.2 The World According to GaWC 2004

For their second survey they tried to repeat the same procedure, which means finding the top APS firms with offices in more than 15 different cities. Again they found 100 office networks within 315 cities but due to changes in importance of individual firms or merges, just 80 firms have been the same than in the year 2000. As a result the data is not completely comparable (Taylor et al., 2009).

1.5.3.3 The World According to GaWC 2008

In contrast to former approaches, in 2008 they chose firms according to their size, not where the offices are located or due to the quality of their websites. They found 175 firms (75 combined of banking, finance and insurance and 25 of accountancy, advertising and management consultancy each), according to rankings (e.g. Advertising age for advertising companies or the Forbes composite index for banking/insurance/finance (Derudder et al., 2012)). Further they increased the number of cities to 525 (cities above two million inhabitants). The categorization was seen as a ‘level of integration’ within the network of cities they wanted to find out (Taylor et al., 2009).

They calculated the importance of the city to a firm by searching for the size of an office as well as extra location functions, e.g. regional HQ. A firms HQ was given five points, a city with no offices of that firm got zero points, a typical office scored two and if something was missing (like no partners in a law office), the score was reduced to one point. If the office was large, it got three points and if it had important extra-territorial functions (like regional HQ) it scored four (Taylor et al., 2012). The added scores were expressed in percentage according to the highest rank (London) and then
categorized (to its rank) to Alpha, Beta and Gamma cities with “plus”, “neutral” and “minus” differentiations within each category (see chapter 1.8.2 for an illustration).

1.5.3.4 The World According to GaWC 2010

The survey for 2010 was done in the same way as for 2008 and they continued to focus on the network between the cities. Therefore, firstly, they calculated the world city network as described above. After that they moved to city-dyads which measure the working flows between any two cities in the world city network. They assume that the higher the importance of an office the higher will be the working flows it generates. This means, that two higher ranked offices will generate a higher level of flows between the two cities (they are located in) than two minor offices. In this way they calculated the aggregated potential working flows for all firms in a city related to another city by adding the multiplied scores for each firm they have calculated before (Taylor et al., 2009). The result is called “city-dyad connectivity” (CDC) and can be seen for 2008 in the table below.

Table 3: Top Ten City-Dyads in 2008

<table>
<thead>
<tr>
<th>City-dyads</th>
<th>Dyad connectivity (score)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London-New York</td>
<td>1731</td>
</tr>
<tr>
<td>Hong Kong-London</td>
<td>1390</td>
</tr>
<tr>
<td>Hong Kong-New York</td>
<td>1372</td>
</tr>
<tr>
<td>New York-Paris</td>
<td>1363</td>
</tr>
<tr>
<td>London-Paris</td>
<td>1356</td>
</tr>
<tr>
<td>New York-Tokyo</td>
<td>1237</td>
</tr>
<tr>
<td>London-Singapore</td>
<td>1234</td>
</tr>
<tr>
<td>New York-Singapore</td>
<td>1219</td>
</tr>
<tr>
<td>London-Tokyo</td>
<td>1193</td>
</tr>
<tr>
<td>London-Shanghai</td>
<td>1132</td>
</tr>
</tbody>
</table>

Source: Taylor et al., 2010

After that they calculated the global network connectivity (GNC). Therefore they summed up all the CDCs for a particular city and expressed the result in percentage to the highest, which was London in the 2010 calculation.

Table 4: GNCs of the 12 Most Connected Cities in the WCN in 2010

<table>
<thead>
<tr>
<th>Global ranking</th>
<th>City</th>
<th>GNC (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>London</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>New York</td>
<td>94.4</td>
</tr>
<tr>
<td>3</td>
<td>Hong Kong</td>
<td>73.0</td>
</tr>
<tr>
<td>4</td>
<td>Paris</td>
<td>68.3</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>67.5</td>
</tr>
<tr>
<td></td>
<td>City</td>
<td>Score</td>
</tr>
<tr>
<td>---</td>
<td>-----------</td>
<td>-------</td>
</tr>
<tr>
<td>6</td>
<td>Tokyo</td>
<td>63.8</td>
</tr>
<tr>
<td>7</td>
<td>Shanghai</td>
<td>62.7</td>
</tr>
<tr>
<td>8</td>
<td>Chicago</td>
<td>61.6</td>
</tr>
<tr>
<td>9</td>
<td>Dubai</td>
<td>61.4</td>
</tr>
<tr>
<td>10</td>
<td>Sydney</td>
<td>61.1</td>
</tr>
<tr>
<td>11</td>
<td>Milan</td>
<td>58.9</td>
</tr>
<tr>
<td>12</td>
<td>Beijing</td>
<td>58.4</td>
</tr>
</tbody>
</table>

Source: Derudder et al., 2012

Even though their approach likewise recognises some parts of the first two approaches, one of the differences is the focus on cities according to their ‘power to’ rather than ‘power over’, like the power to attract service firms (Taylor, 2004).

### 1.6 Difference Between World City and Global City

#### 1.6.1 Importance of Globalization

The term “global city” was introduced by Saskia Sassen in 1984 for describing a difference in the world in that time, a difference to previous times caused through globalization. Globalization however, has so many different aspects which differ from literature to literature, that it is very complicated to define. There could be ecological, cultural, communication-technological or working-organised globalization. The intensification of globalization led to the centralization of management in a certain location: the global city (Bronger, 2000: 276-278).

Furthermore, goods are produced where it is the cheapest and sold, where the highest profit can be made. Globalization means the increment of international connectivity of capital, job markets, trade, traffic and communication (Lienemann and Woywod, 2009: 14). It leads to an increase of the service sector, which means, that cities become more and more important, because services should be formed and consumed at the same place (it cannot easily be globally sold and traded like products).

#### 1.6.2 Differentiation

The following three approaches try to explain the difference between the old term for worldwide important cities (world cities) and the new term (global cities) from three different perspectives:

1.) History

Lienemann and Woywod (2009: 8) mention that “world cities” have been existing since ancient times (e.g. Rome, Athens or Babylon). In their area of influence world history was
written. “Global cities”, however, are focusing on finance and service and are control and distribution centres of world economy; whereas “world cities” are more diverse than that and often possess a manufacturing sector.

2.) Ranking

Robinson (2002: 534) means that cities today are ranked primarily by their economy, which leads to a hierarchy of cities, with “world cities” at the top of worldwide influence. However, the cities on top of this ranking are labelled “global cities”.

3.) Globalization

Sassen (2001) writes that “most of today’s major global cities are also world cities, but that there may well be some global cities today that are not world cities in the full, rich sense of that term” (2001: XIX) (e.g. Miami as global city but not as a world city and Kolkata (Calcutta) the opposite). They are places of production (of new global functions, of APS and global finance), command and control points for international business and commerce, creating a demand for finance and business services which leads to the production and innovation in these sectors and which makes them into markets for these productions. And they are places where the gap between highly paid workers and low-paid support services are widening (Newman and Thornley, 2011; Taylor, 2004; Sassen, 2001, 2009).

Thus world cities are the central places where the work of globalization gets done, where the global operations of APS firms get managed, serviced and coordinated (Sassen, 2009). Another major difference to world cities is that there are no single global cities (like world cities, standing and competing alone against each other like the capital cities of the old empires). Instead they function within a network of strategic places with division of functions among them, rather than competing with each other. Further, the world city has a certain kind of timelessness attached whereas the global city is defined as a specific socio-spatial historical phase (Sassen, 2001: 348-349). The following table summarizes the key differences:

Table 5: Difference between World and Global Cities

<table>
<thead>
<tr>
<th>Category</th>
<th>World City</th>
<th>Global City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using of the term</td>
<td>Since 1915</td>
<td>Since 1984</td>
</tr>
<tr>
<td>Time period</td>
<td>Historically important, even hundreds of years</td>
<td>very quick development in the last few decades, specific socio-spatial historical phase</td>
</tr>
<tr>
<td>Within a global context</td>
<td>Single cities, “city as a place”, major cities of nation-states</td>
<td>Part of a global network, cannot be a single city</td>
</tr>
<tr>
<td>Focus</td>
<td>Every aspect of a city, economy, culture, art, political power</td>
<td>Focusing on economy and finance within a globalized (= worldwide) economy</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013
1.6.3 The Meaning of “World/Global” City for this Study

Many authors acknowledge the approach of the new forces which are influencing cities and which Sassen has labelled “global cities”. However, even when they are solely aware of this, they still use the term “world city” within their books and articles like Newman and Thornley (2011), Breitung and Günter (2006) or Lui and Chiu (2009).

Other authors, like Bronger and Trettin (2011) use both terms (however with a focus on “global city”) and the GaWC-group uses the word “world city” in their name (globalization and world city) but their term implicates the factors of the term “global city”. And others use the term “global city” but also describe some aspects of world cities and use the latter within their publications (e.g. Hill and Kim (2000)). Furthermore, another term that has been used is “globalizing city” (Sassen, 2009: 4-5, Newman and Thornley, 2011). This is a city in the process of becoming a global city and which is used for Shanghai in the book of Chen and Zhou (eds.) called Shanghai Rising of the year 2009.

Due to this complexity in using both terms, I recognise too the difference between the two meanings. However, on the one hand, whenever I cite or use the ideas of others, I will use the term they have been using, so that both terms will appear interchangeably within my study. Whenever I talk about my own research, on the other hand (especially in the second part of this thesis), I will use the term “world city” because I do not want to solely compare the globalized economic activities of Hong Kong and Shanghai but want to use a wider aspect of being a world famous city, which is a “world city”.

1.7 Criticism

Lui and Chiu (in Lui and Chui, 2009: 95 and Chui and Lui, 2009: 7-9) have listed some criticism of world and global cities literature:

1.) They mention the methodological inadequacy of global cities by stating that “ideas are asserted more than demonstrated” (like using inadequate methodology, after Short and Kim). Further they agree with Taylor, who stated that inter-city networks and the existence of an urban hierarchy are not supported by evidence, because he argues for a city-centred approach and rejects the notion of a national urban hierarchy. Conversely he too did not pay much attention on questions concerning global city formation such as occurring processes or the role of the governance.

2.) The global city literature has been criticized for being ahistorical since it is neglecting the diversity in different responses to globalisation of cities across the world. According to King, Ward, Abu-Lughod or Smith, the literature seldomly takes space seriously and neglects the
role of the state-scale transformation. Little has been said about the question how global cities have arisen or how individual cities are able to use the chances a globalized world economy has to offer them.

3.) Criticism was passed on the problem of global city analysis. The focus is laid on global urban hierarchy and intercity relations and linkages but the actors and agents of the making of global cities have been neglected. The focus on global capital has missed the active role of the state and other (local) players which are builders of the global city (Brenner and Keil).

4.) The Euro-American-centric perspective has been criticized as well. It takes structures of city governance as “given” or ignores it at all (Ward), it is closely connected with core-centric functionalism, it is concerned with buildings of rankings, under-emphasise local politics and governmental institutions which pursues a research agenda concerning the processes which enables cities to become (or fail to become) global cities. This means that the urban governance has been neglected.

5.) Global cities as globalizing economies are seen as disembodied from their immediate environment. However, they should be seen within different layers of a broader socio-economic and political structure. The weak empirical basis and over-reliance on structural analysis as well as a tendency of over focusing on the view of the city as a globalizing and autonomous economic unit within a network and flow based economy is another criticism. After all, however, it is to note that Sassen has already included the place-ness of global cities in her theoretical work (2001: 349-50).

Furthermore, Ng and Hills (2003) mention that most world city literature focuses on characterizing and ranking world cities in the global economy but they seldom include other parts like sustainability and quality of life. Cities, even integrated into the global economy, remain diverse in addressing issues of urban sustainability. Hill and Kim (2000) further mention the absence respectively loss of importance of the nation-states in the world/global city theories of Friedmann and Sassen.

The GaWC-research group is upgrading their ideas and methods of discussing and analyzing world cities for more than ten years now. They have already included some of the points of criticism above. Although they have already included some “actors” of making global cities – APS firms – or transforming the hierarchical approach into a network, they still do not include the role of the state or the history of global cities. In the following chapters I will discuss the role of the state as well as different scales and will come back to some of these criticisms in the other parts of my thesis.
1.8 Macro Level: Hierarchies and Networks

1.8.1 World City Hierarchy

The second interrelated theses of Friedmann’s *World City Hypothesis*, mentions that key cities, as producers and markets of global capital, are linked together. This makes it possible to arrange world cities within a complex spatial hierarchy (1986: 71). However, in 2001 he wrote that in his view the true meaning of hierarchy has hardly anything to do with indicators and thereof the numbers of TNCs, financial institutions or high-level business services than with the overall economic power of the city-region where this particular (world) city is located (2001: 2535). Nevertheless, he has produced a famous “Hierarchy of World Cities” in 1986 with different categories of the intensity of connections:

![The Hierarchy of World Cities](image)

*Figure 1. The Hierarchy of World Cities*

Source: Friedmann, 1986: 74

According to Hall (2010: 80-81) cities increasingly tend to compete for inward investment with each other. In this connection, three categories of cities can be listed: global, sub-global and regional. Global cities are defined through production of specialized informational services (e.g. finance, media, education, health, tourism) whereas the sub-global city competes with the global city in some specialized sectors such as banking, government, culture or design. On the other hand, a regional city competes with a sub-global city in some regional contexts. Also Clark (1996: 153) argues that lower order world cities may provide a wide range of corporate and advanced services, but solely on a local consumption level than world consumption. Both authors imply that there is a difference between world cities. Some of them are more important than others and that they can be categorized through certain indicators.
Usually, New York, Tokyo and London are labelled the three major global cities, sometimes with Paris, sometimes without Tokyo. However, these alternating three cities are far ahead of the other following cities. Nevertheless, different authors have different definitions and categorizations of world and global cities. Bronger (2000: 285), for example, labels Tokyo a global city of the first category, Hong Kong a city with partly global commando role/function, and in the third category, cities like Shanghai or Beijing with specialized commando roles, based on the year 1997. Other authors categorize as follows:

**Tabelle 3.2:**
Hierarchisierung der Weltstädte – World Cities – Global Cities in der Literatur (in Klammern: Anzahl der Städte; - = keine Angaben)

<table>
<thead>
<tr>
<th>FRIEDMANN 1986</th>
<th>FEAGIN/SWIM 1987</th>
<th>THRIFT 1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-stufige Hierarchie</td>
<td>5-stufige Hierarchie</td>
<td>3-stufige Hierarchie</td>
</tr>
<tr>
<td>Core:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary City (9)</td>
<td>1. Städte mit weltweiten Kommando-funktionen (3)</td>
<td>1. Globale Zentren (3)</td>
</tr>
<tr>
<td>Secondary City (9)</td>
<td>2. Städte mit spezialisierten Kommando-funktionen (*i)</td>
<td>2. Zonale Zentren (4)</td>
</tr>
<tr>
<td>Semi-periphery:</td>
<td></td>
<td>3. Regionale Zentren (6)</td>
</tr>
<tr>
<td>Primary City (2)</td>
<td>3. Städte mit der Funktion von &quot;Kommando-Unterabteilungen&quot; (*i)</td>
<td></td>
</tr>
<tr>
<td>Secondary City (10)</td>
<td>4. Städte mit staatlichen Kommando-funktionen (*i)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. Städte mit spezialisierten Produktionsfunktionen (*i)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KNOX 1995</th>
<th>FRIEDMANN 1995</th>
<th>BEAVERSTOCK et al. 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-stufige Hierarchie</td>
<td>4-stufige Hierarchie</td>
<td>3(4)-stufige Hierarchie</td>
</tr>
<tr>
<td>1. Primacy Index 1.60-1.8 (8)</td>
<td>1. globale Finanzzentren (3)</td>
<td>1. Alpha Weltstädte (10)</td>
</tr>
<tr>
<td>2. Primacy Index 0.76-1.59 (4)</td>
<td>2. Multinationale Zentren (5)</td>
<td>2. Beta Weltstädte (10)</td>
</tr>
<tr>
<td>3. Primacy Index &lt;0.76 (17)</td>
<td>3. Wichtige nationale Zentren (7)</td>
<td>3. Gamma Weltstädte (35)</td>
</tr>
<tr>
<td></td>
<td>4. Subnational/regionale Zentren (15)</td>
<td>4. Stadt mit Globalisierungsansatz (77)</td>
</tr>
<tr>
<td></td>
<td>Zukunftige Weltstädte (17, davon 7 neu)</td>
<td></td>
</tr>
</tbody>
</table>


3-stufige Hierarchie (2004, Tab. 55)
1. Global Cities (4)
2. Städte mit teilweise globalen Kommandofunktionen (17)
3. Städte mit spezialisierter Kommandofunktion (21)

**Figure 5: Hierarchies of World and Global Cities According to Different Authors**

Source: Bronger and Trettin 2011: 361

According to their definitions, as well as other authors, they calculated different “world city indexes” in order to compare and rank cities. This is a different approach as the one of the GaWC-group, as I have already mentioned in the chapter about GaWC and which I will point out more deeply in the next. However, I have included their “rankings” as well as some other to illustrate the usage of different categorizations among different authors for Hong Kong and Shanghai.
### Table 6: Hong Kong and Shanghai as World/Global Cities According to Different Authors and Studies

| Authors | Hong Kong | | | | | Shanghai | | | |
|---------|-----------|---|---|---|---|---|---|---|---|---|
|         | 1. order | 2. order | 3. order | 4. order | No category | 1. order | 2. order | 3. order | 4. order | No category |
| Olbricht, 1933* |  |  |  |  |  | X |  |  |  |  |
| Friedmann, 1986: 74 |  | X |  |  |  |  |  |  |  |  |
| Dogan/Kaskarda, 1988* |  |  |  |  |  |  |  |  |  | X |
| Thrift, 1989* | X |  |  |  |  |  |  |  |  |  |
| Sassen, 1994* |  |  |  |  | X |  |  |  |  |  |
| Beaverstock et al, 1999* |  |  |  |  |  |  |  |  |  | X |
| GaWC, 2000 | X (α+) |  |  |  |  | X (α-) |  |  |  |  |
| GaWC, 2004 | X (α+) |  |  |  |  | X (α-) |  |  |  |  |
| GaWC, 2008 | X (α+) |  |  |  |  | X (α+) |  |  |  |  |
| ATKearney, 2008** | X |  |  |  |  |  |  |  |  | X |
| GaWC, 2010 | X (α+) |  |  |  |  | X (α+) |  |  |  |  |
| ATKearney, 2012** | X |  |  |  |  | X |  |  |  |  |

**Sources:** Vouk, 2013

* Table found in Bronger and Trettin (2011: 359)

** ranked by author

Note: PRD = Pearl River Delta, is used instead of Hong Kong and includes its hinterland in the Guangdong province of mainland China

For the GaWC: they have Alpha, Beta and Gamma World Cities with the subdivision of Alpha++, Alpha+, Alpha and Alpha-

Within this table, Hong Kong and Shanghai are already mentioned as world/global cities. One can also see that there was a significant improvement within the hierarchy for both cities over time. However, I will make my own analyses with the help of the indicators, defined in the next chapters, and see how Hong Kong and Shanghai fit into the world and global city scheme within China.

### 1.8.2 Networks of Global Cities

Against this traditional approach of categorizing and ranking of cities based on bare indicators (even used in 2011 by Bronger and Trettin), the GaWC-group has stressed their focus on network-
connectivity of world cities instead of the hierarchical-competitive approach. Taylor (2004) describes how these networks function. He considers four key agencies, beginning with

1.) firms which export services beyond the local market to many places.
2.) Their offices are concentrated in cities, where they get
3.) regulatory frameworks from organizations and institutions located within these cities (e.g. courts).
4.) Finally, these organizations and institutions can just work within the next higher instance, the nation-state, which provides the basic framework for companies to settle down and expand (e.g. exclusion of foreign companies in China until the opening-up in 1978).

Therefore he suggests that these four agencies (service firms, city governments, service-sector institutions and nation-states) are the major contributors in shaping the world city network, which are connected and operating with each other (Taylor 2004). He proves this with an example, showing that Japanese and American banks with many offices in London having a huge interest in sustaining the position of London as a major international financial centre, because of their locations there. On the other hand, London too has a huge interest that these companies are doing well.

The network is based on three levels. One being the world economy (network level), the motor and reason behind it. Another being the cities (nodal level), the places where knowledge comes together, where the interactions between different players are taken place, leaving the APC firms (= the third, sub-nodal level) as the key players because they create and provide these services worldwide for their customers. This means that – driven by world economy – these firms provide services to generate new things within places where they have the environment and facilities to do so: cities. Therefore these (world) cities are important, not because of what they statistically contain (hierarchical approach) but because of what flows through them (Newmann and Thornley 2011: 35). For example the flows of information, knowledge, capital, humans and others, generated by these offices. These flows connect cities with each other, meaning, if the competiveness in one city rises, it may lead to a rise in that performance in other cities (in the region) as well.

However there also is a differentiation between these cities. Hence the higher a city is connected, the more important it is in the network. On the one hand, it should be noted, that a huge number of APS firms within a city does not necessarily mean that the city is well-connected. In contrast, many firms can just have a limited global reach (e.g. just operating within the same nation-state) whereas a small number of services firms - but with an extensive global reach - will be well-connected. On the other hand, because this is a network, even though a city might be highly connected, the flows can be circumnavigated around this city through other (important) cities (see chapter 3.1).

In the previous part I have described how the GaWC-group has developed their approach to measure the world city connectivity. Thus the following figure of Alpha cities (done in 2008) shows the most

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As the GaWC-group found out, the many firms located in Dubai do not generate strong links to other cities whereas the fewer firms in Frankfurt have stronger links to other cities (Taylor et al., 2012).
connected cities in the world, not competing with - but supplementing each other. As Sassen (2001) put it, global firms and markets need to operate out of a set of cities, which could not operate if these cities were competing with each other. They need state of the art infrastructure and resources in a network of cities, not in a single city. For her, competition is rather among firms than among cities.

Figure 6: Alpha cities in 2008
Source: GaWC 2008

1.9 Meso Level: The Role of the Region/State

From my point of view, the following three “contributors” are important in shaping world or global cities. They can explain why there are certain world cities in different parts of the world and why there are none of them in other parts. Although I am aware that there are more “contributors”, like natural harbours, historical trade-connections, offshore banking centres or capital functions which are essential in “producing” world cities, the following approach needs to be discussed as it explains the differences between Hong Kong and Shanghai.

1.9.1 Role of the Scale

Bronger and Trettin (2011) argue that the “scale” of a nation is also very important in shaping world or global cities. Small countries cannot “afford” more than one big world city because the required resources are not available (see “Role of the Hinterland” below). Huge countries however, have the
ability of hosting more than one major global city, like the US, the “sub-continental state” of China or India, Brazil and Russia. Taylor (2004) says that China shows a “tri-primate” pattern with Hong Kong, Shanghai and Beijing as important world cities. China is a large state that requires more than one world city to service subnational regions, which are themselves often larger than most other nation-states.

1.9.2 Role of the Hinterland

According to Taylor (2004) the term ‘hinterland’ describes the region around a town or city which provides services for that particular town or city. It can be defined from the centre (e.g. the reach of a city newspaper) or from outside (e.g. trips of rural residents to these places for shopping). On a global scale and in the time of globalization every city’s hinterland overlaps with every other city’s hinterland because of the local offices of global firms in these cities. Further, Sassen (2001) as well mentioned “global city regions”, which are likely to include a cross-section of a country’s economy (= its hinterland). These global city regions include more than just the city itself.

1.9.3 Role of the State

Friedmann (2001) agrees with Hill and Kim (2000) that the world city research has neglected the role of the state as well as historical perspectives which both create significant differences among world cities. Furthermore, Sassen (2001: 358) fully agrees on the role of the state regarding the influence of finance as well as the global capital market on the state. Besides she acknowledges that she did not include politics in her global city model. And Taylor (2004) wrote that “states have been and continue to be powerful shapers of markets if not creators of economies”.

This means, that states are affecting different services in different ways. They are legitimate gatekeepers which can or cannot practice law and other professions in their territories. Besides they ensure that different cities get different impacts of globalizations because of the role of the state (Sassen, 2001). There are weak federal states, like the US, or strong planning states like China or other strong state traditions like in Europe, which are all shaping the importance and possibilities of their cities (Newman and Thornley, 2011). Stallings and Streeck argued that world cities differ from one another in many ways because they are placed within different, non-hegemonic and interdependent world political economies in different (divided) national systems and regional alliances (Hill and Kim, 2000: 2168).

Chiu and Lui (2009: 10-6) broadly discuss the role of the state, which is empowered to define and redefine how global cities are connected with their hinterland. In addition, they can develop new rules and regulations which can expand or restrict global cities interconnections with the regional and world economy. The re-scaling of a global city is connected to the states re-scaling and the global city’s management requires coordination and collaboration that goes beyond its boundaries. The
state also determines how much individual power the city government has in planning and developing its global city functions and thus is very important in shaping global cities.

1.10 Micro Level: The Dual City

Chiu and Liu (2009: 12-14) discuss the problem of the “dual city”, which means the functions, performed by global cities in order to shape their socio-economic structures. This leads to rising social inequalities and social polarisation (see also Sassen, 2001 or Friedmann, 1986) between the global city and its hinterland as well as within the city itself.

Through the critical transformation from the declining of the manufacturing sector to the rise of services (especially producer services), global cities also attract a huge number of low-wage services, working for the new elite (staff in restaurants, hotels, luxury boutiques, entertainment, real estate, domestic services as well as securities). These and growing international tourism and government services seems to have negative consequences for the social equity. These huge income gaps between transnational elites and low-skilled workers, combined with large scale immigration from rural areas, have dispossessed the middle-income. This “dualism” (well and poor paid service jobs) has increased part-time jobs and pushed migrants into the low paid jobs. And the polarization thesis says, that the gap between the top and bottom occupations is widening. This effect seems to result from economic restructuring forces of globalization.

1.11 Definition of World Cities

Until today, there are no clear, internationally defined methods on how to identify a global city. Different authors have defined different indicators, but according to Bronger and Trettin (2011: 43 and 369), indicators for global cities should:

1.) include as many different areas of life as possible (multi causal)
2.) they should be qualitative detectable and quantitative countable with the possibility of international comparison and
3.) the historical dimension should be included (data should be available for at least 30 years)

Friedmann said, that “world cities vary in their importance to the world economy, but all world cities are centres of control for at least important regional economies, and cities influencing larger economic regions are higher in the global hierarchy of world cities” (Ma and Timberlake, 2008: 19). On the very top of this hierarchy, global cities can be found. Their organizations and institutions have the global control and command function for the world’s capitalist economy. Before the early 1990s, these authors further stated that most city system researches were based on comparing attributes
and putting the cities into hierarchies. In the 1990s, the relationship among cities came into the focus of research as cities started to be seen within networks and processes and not just only about place (Ma and Timberlake, 2008: 20). Furthermore, the period of research is very important as world cities can change over time.

1.11.1 Indicators for World/Global Cities from the Literature

The following graph shows some examples of different indicators according to different authors. Some agree on the same categories, some not and others differ within the categories. This shows that there are no clear definitions and every author uses different indicators (see figure 7, next page).

Explanation for Figure 7:

The indicators by Friedmann and Wolff (1982) were cited in Scott (2007: 2) and Lyon and Salmon, Cai, Knox and Rimmer are from Cai and Sit (2003: 436). The indicators of Bronger and Trettin (2011) were chosen instead of the definitions of Bronger (2000: 282).

All the red marked authors have an explanation or definition of the mentioned indicator. All the others (black) just mention these indicators because they are important for the world/global cities, however, they do not define them. Therefore I want to discuss the red, already somehow defined indicators in the next part of this study.
Figure 7: Indicators for Global/World Cities
Source: Vouk, 2013, according to different authors
1.11.2 Indicators and How to Deal With Them

All indicators can be constantly expanded and different questions can lead to different answers in defining a global city. Bronger (2000: 182) introduced ten indicators for a quantitative approach of defining a global city with the expansion of Bronger and Trettin (2011: 43 and 370) in squared brackets [ ], and another expansion of Zeller (2001/2002) in curly brackets { }. The English translation will be in parenthesis ( ). They are as follows:

1.) Firmensitz der Zentralen der 432 größten transnationalen Unternehmen (Headquarters of the 432 major important transnational companies (TNCs)) [500] (at least 10 out of 500)
   a. Nach Anzahl (according to their number)
   b. Nach Umsatz (according to their turnover)

2.) Hauptverwaltungen der 68 größten Banken (headquarters of the 68 biggest banks) [200, just counting their business assets (Betriebsvermögen)] (at least 5 out of the 50 biggest banks, according to their assets)
   a. Nach Anzahl (according to their number)
   b. Nach Umsatz (according to their turnover)

3.) Sitz der größten Börsen (location of the biggest stock exchanges) [50] (should host one of the twentieth best in the world, according to turnover and the number of traded foreign companies)
   a. Umsatz insgesamt (according to their turnover)
   b. Umsatz der akkreditierten ausländischen Unternehmen (according to accredited foreign companies) [not included in the 2011 publication]

4.) Bedeutendste internationale Flughäfen (major important airports) (which is, according to passenger throughput and international flights per week among the thirtieth biggest in the world)
   a. Anzahl der Passagiere (according to passengers) (should also be compared by international flights per week)
   b. Frachtaufkommen (according to their volume of cargo)

5.) Führende Seehäfen nach Umschlag (major ports, according to their throughput) [150]

6.) Sitz bedeutender internationaler/ [politischer und] weltwirtschaftlicher Institutionen (principal office of international [political and] economical institutions) [150] (huge worldwide political and cultural importance)

Although these indicators consider aspects such as the following parts: economic (1), financial (2 and 3), trade and transport (4 and 5) and internationality (6), other aspects such as culture, tourism, politics or a “city image” were not considered. The authors explain this lack of aspects by the difficulty of collecting worldwide comparable data (Bronger and Trettin, 2011: 370-371). However, if the data for these indicators could be collected for a longer period of time (more than 30 years), than the historical dimension would be included and they would be good indicators.
For these indicators, within the division “finance”, Clark (1996: 150) mentioned that global cities host “large numbers of foreign financial institutions and the headquarters of a small number of internationally active banks”. Furthermore, he said that the level of turnover, the number of companies quoted in stock exchanges and the number of overseas companies are important aspects for stock exchanges in global cities (1996: 151). However, he did not mention any numbers for becoming and ranking of global cities.

1.12 Indicators for this Study

According to the world city concept a city can be called a “world city”, if it can provide:

- a high population with a high proportion of the world’s most important businesses
- a high inter-connection between each other through decision-making and finance
- a world-wide system of control over production and market expansion

The main characteristics of world cities are that they are major centres of political power, trade, professionals, hospitals or universities, can also provide radio and television network headquarters and show continued economic strength. They provide a high level of business services (management, banking and financing, legal services, technical consulting, telecommunications and computing, international transportation), services in derived demand service sectors (real estate, construction activities, hotel services, restaurants, luxury shopping, entertainment, private police or domestic services) as well as government services (planning of land use, public housing, basic utilities, transportation services, policing, education, business regulation, urban parks or public welfare).

However, these indicators cannot be compared internationally, because there are no available data on a worldwide scale. It would be easier for the comparison of two cities, but the data is still too much as that it could be done for a diploma thesis. Therefore I have chosen the following indicators for the comparison of Hong Kong and Shanghai:

1.) Economic
   a. Headquarter of the 500 major transnational companies (TNCs) in number and turnover
   b. Number of accountancy firms and offices according to the GaWC method

2.) Finance
   a. Headquarter of the 200 biggest banks according to their assets in number and turnover
   b. Branches of the most important banks according to the GaWC method
   c. Comparison of the stock exchange according to their turnover and accredited foreign companies
3.) Trade and Transport
   a. Comparison of the airports according to passengers and volume of cargo
   b. Comparison of the ports according to throughput

4.) Internationality
   a. Number of embassies and consulates

5.) Legal Service
   a. Branches of major legal service firms according to the GaWC method

6.) Information and News
   a. Number of advertising firms according to the GaWC method

7.) Education and Research
   a. Number of patents per year per 1000 inhabitants

8.) Culture and the Arts
   a. Numbers of international performances per year (classic and modern)
   b. Number of international exhibitions and sport events per year

Most of the indicators are chosen from literature, but a few (4a, 7a, 8a and 8b) are my own choice. As the mind map shows, these additional indicators and many more are mentioned but never defined due to the lack of international comparison. For two cities, however, it should be possible to find data for these and the other indicators.

In their diploma thesis Linemann and Woywood (2009: 49) argue that the number of embassies and consulates could also be an aspect of a (global) city. Capital cities usually have the most, but other important cities will also have a quite high number, which indicates, that a significant number of foreigners get in contact with these cities (indicator 4a).

Concerning indicator 7a, I wanted to include at least one of the two big aspects of education and research as well as social services. I chose the first one because world cities are the hot spots of information and innovations. The number of patents per 1000 inhabitants also implies that the city has good universities and professors and students who try to invent new things and contribute to the status as a centre of innovation.

A vibrant cultural activity within an agglomeration with high professionals is important for a world city. Culture is becoming a more and more important indicator for the world city thesis, which, in the first part, focused on economic aspects and migrants. Urban social theorists in the US have begun to use culture to explain how international mobility and migrants are attracted to world cities, which cannot purely be explained with economic flows and processes (Scott, 2007: 7). Therefore I have chosen the indicators 8a and 8b.

According to the definition of Bronger and Trettin (2011: 43 and 369) – where indicators should include different areas of life (qualitative detectable and countable) with the possibility of international comparison and the historical dimension of at least 30 years – I will try to find these 13
indicators for both cities for three different times: 1982, the year 1997 (return of Hong Kong to China) and 2012. Which indicators I was able to find after visiting both cities, Hong Kong and Shanghai, and why I have chosen these indicators, what they mean to the city and for a worldwide comparison, will be discussed in the second part of my study.

I will try to rank the results, similar to Bronger and Trettin (2011), who put the highest term in comparison (usually one of the best known world cities) to 100 per cent and listed the other cities in a percentage of the highest value (see figure 8 and figure 9 for reference). In some fields I cannot take all ranks into account until I would search for all the indicators in all the cities of comparison. Thus I will try to find the data for Hong Kong and Shanghai as good as possible, nevertheless, I will also try to compare the results with New York, Tokyo and London (if I can find available data), which are usually the highest ranked world cities. They enjoy a favoured location within their countries, they benefit from a rich, diversified and populous industrial hinterland. Moreover, the vast market and aggressive competitors give these cities a continuing dynamism which puts them on top of the world city system (Yusuf and Wu, 2002: 1214). This does not mean that they must have the highest value in every category, but I assume that they show a high value in most of the categories. If I do not get data for the comparison of all five cities, I will try to compare Hong Kong and Shanghai instead.
Figure 8: Global cities in 1980

Source: Bronger and Trettin, 2011: 385

Note: The world highest amount equals 100, the other cities are represented in the share of the highest amount.
### Global Cities in 2009

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### Städte mit teilweise globalen Kommandofunktionen

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**Anmerkungen** - s. Tab. 3.7

**Quellen** - s. Tab. 3.7

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373 Fläche- und Bevölkerungszahlen für die M.R. der Megastädte s. Tab. 1.27; für die übrigen in Tab. 3.11 aufgelisteten Global Cities; s. Tab. 3.11 A (Anhang)

**Figure 9: Global cities in 2009**

Source: Bronger and Trettin, 2011: 385

Note: The world highest amount equals 100, the other cities are represented in the share of the highest amount.
2. Hong Kong and Shanghai: A Quantitative Comparison

Based on the indicators discussed in part one, I want to compare them for Hong Kong and Shanghai in this part of the study. In using a neutral approach, I will mention Hong Kong first because “H” comes first in the alphabet. Whenever possible I try to compare the data also for the leading world cities, London, New York and Tokyo, but in some cases I was only able to find the data for the original two cities. Further I want to mention that for the comparison of both cities one should keep in mind that Hong Kong, even though it belongs to China, is by no means a city within a developing country and should be regarded as a city of the developed world, or the Global North, as Sassen has mentioned (2009: 13). Shanghai, on the other hand, belongs to the Global South like the whole of China. However the east part of China has undergone an enormous economic growth in the last 30 years so that it can be considered as an emerging country whereof Shanghai and Beijing are the most expensive, modern and developed cities which could almost belong in the same category as Hong Kong. Nevertheless, the circumstances, e.g. the political systems which differ between Hong Kong and Shanghai, make a comparison not as easy as between London, New York or Tokyo (democratic systems). I will discuss these differences in the third part of this study.

This part begins with discussion of basic indicators, which also help to define the status of being a megacity or not. Additionally I will look at the GDP as an indicator for the economic productivity of those cities in comparison. After that I will give a geographical and historical overview about Hong Kong and Shanghai before I start to deal with the results for the 13 main indicators within eight categories. Within this part I will write a short introduction to each indicator in the beginning and provide the table of 1982 first, which is always in green colour, followed by a short explanation. After that the tables and explanations for 1997 (red colour) and 2012 (blue colour) will follow. Whenever I solely compare Hong Kong with Shanghai the table is shown in purple colour. Usually at the end of a category I will compare Hong Kong and Shanghai with additional information from the literature and draw a conclusion (resume) in the very end for each category. Only the indicators 1B, 2B, 5A and 6A do not have any data for 1982 and 1997, which I will explain now.

According to Taylor (2004) no corporation wants to reveal their strategy to its competitors but at the same time it wants to show their global presence (public marketing and recruitment policies) to their customers. As a result the GaWC group used web sites of advanced producer service firms to get information about their locations. Considering the four categories – accountancy firms, branches of banks, law firms and advertising firms – I will use the same method but with a little less effort. I will count the office locations in the five cities I want to compare but will not search for ‘extra-locational functions’ like regional headquarter locations or other indicators which highlight the importance of that locations. The reason is because it is very time consuming to find these information for the 80 or so web pages and not every web page shows these additional information.
For the selection of web pages, I used international rankings within these fields to find the top ten companies in each category and then I tried to get the number of offices. However the rankings are different for the years 1997 and 1982. Many companies do not longer exist nowadays and even if there are some leading companies in both, those years and today, the web pages usually do not show when the office was established. I tried to ask the companies directly by writing 32 e-mails to 12 companies but after getting only one response I stopped doing so. As a result, I could not find any data for these four indicators concerning the years 1997 and 1982 within an appropriate effort for a diploma thesis.

Due to this lack of data, I am not able to calculate the connectivity between cities or their “network-ness”. Again, it would have needed too much effort to find out the position of Hong Kong and Shanghai within the network of global cities. This means, that my approach is a truly independent approach. It is an attempt to explore the importance of Hong Kong and Shanghai for China (and the world) by using indicators from different approaches and calculating them with different methods. Thus, my results cannot easily be compared with other, already existing rankings.

### 2.1 Basics and the Question of Being a Megacity

In the following three tables the population data for Shanghai shows the year-end resident population, which is a much higher number than for the year-end registered population. Due to the “hukou”-system in China (= household registration system, see Shen, 2010), every person is registered at his or her place of birth and only entitled to the benefits there. These people are usually excluded from (full) social benefits like access to good schools and hospitals in other places than their place of birth. In general, just people who are able to get a regular job offer or university students (entitled to study within Shanghai), are able to get a Shanghai hukou. This makes the difference of registered people born and entitled to be in Shanghai and the resident people working and living in Shanghai (often migrant worker) for more than half a year but not having the Shanghai hukou.

As the people also need a place to live and to consume goods, they contribute to Shanghai’s GDP. Therefore, I use the year-end resident population instead of the year-end registered population for all three years in comparison. Bronger and Trettin (2011: 71) also agree that at least the number of official migrants should be considered for the total population of a city because they live there the most time of the year. Therefore this leads to an enormous difference of almost ten million people for the year 2011 (registered: 14,193,600 and resident 23,474,600; Statistical Yearbook of Shanghai, 2012. 24). A further argument for including all residents in the statistic is, that Shanghai has pushed its public schools in 2004 to accept children of migrant workers even though they do not have a Shanghai hukou so that they finally got nine years of free, compulsory education since 2010 (Xiaojuan, 2012).
Table 7: Comparison of Hong Kong, Shanghai, London, New York and Tokyo in 1982 (Basic Indicators)

<table>
<thead>
<tr>
<th>1982</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>5,232,900&lt;sup&gt;H1&lt;/sup&gt;</td>
<td>11,860,000&lt;sup&gt;S1&lt;/sup&gt;</td>
<td>6,765,100&lt;sup&gt;L1&lt;/sup&gt;</td>
<td>7,071,639&lt;sup&gt;N1&lt;/sup&gt;</td>
<td>11,676,264&lt;sup&gt;T1&lt;/sup&gt;</td>
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<tr>
<td>Area (km²)</td>
<td>1,065&lt;sup&gt;H2&lt;/sup&gt;</td>
<td>6,185.75&lt;sup&gt;S2&lt;/sup&gt;</td>
<td>1,578&lt;sup&gt;L2&lt;/sup&gt;</td>
<td>777&lt;sup&gt;N2&lt;/sup&gt;</td>
<td>2,156.77&lt;sup&gt;T2&lt;/sup&gt;</td>
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<tr>
<td>Density</td>
<td>4,914</td>
<td>1,917</td>
<td>4,287</td>
<td>9,101</td>
<td>5,414</td>
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<td>City’s GDP</td>
<td>32,290.8&lt;sup&gt;H3&lt;/sup&gt;</td>
<td>17,834.4&lt;sup&gt;S3&lt;/sup&gt;</td>
<td>n.a.</td>
<td>n.a.</td>
<td>193,369&lt;sup&gt;T3&lt;/sup&gt;</td>
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<td>(in millions US$)</td>
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</tr>
<tr>
<td>City’s GDP per capita (US$)</td>
<td>6,170.72</td>
<td>1,503.74</td>
<td>-</td>
<td>-</td>
<td>16,560.9</td>
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<tr>
<td>Nation’s GDP per capita&lt;sup&gt;2&lt;/sup&gt; (US$)</td>
<td>8,718</td>
<td>201</td>
<td>8,718</td>
<td>13,933</td>
<td>9,329</td>
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<tr>
<td>Economic functional primacy&lt;sup&gt;2&lt;/sup&gt; (index value)</td>
<td>0.71</td>
<td>7.48</td>
<td>n.a.</td>
<td>n.a.</td>
<td>1.78</td>
</tr>
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</table>

Sources: Vouk, 2013, compiled after:
H1: Mid-year population, Hong Kong Annual Digest of Statistics 1983, 33
H2: Area, Hong Kong Annual Digest of Statistics 1983, 23
S1: Year-end resident population, Statistical Yearbook of Shanghai 1982, 49
S2: Area, Statistical Yearbook of Shanghai 1982, 51
S3: Statistical Yearbook of Shanghai 2012, 46. 1 US$ = 1.89 RMB
L1: Greater London Authority, population and area as of 2011, ONS mid-year estimates data back to 1961
L2: Jil and Gwyneth 2000, 18. I assume that the area should be similar to the area of 1997, because in 1974 the area was 1,579.50 km² (Greater London Council 1975).
N1: New York State Department of Health, 1999
N2: Livesey, 1983: 16 (“nearly 300 miles?”)
T1: Land Area and Climate, Tokyo Metropolitan Government 1982
T2: Population, Tokyo Metropolitan Government 1982
2: Economic functional primacy = Nation’s GDP per capita divided by City’s GDP per capita (index value)

In the year 1982 all five cities had more than five million inhabitants but not all had a population density of more than 2,000 inhabitants per square kilometre. Therefore Shanghai cannot be called a true megacity according to the indicators defined in part one. However, Shanghai’s administrative boundary has been definitely “over bounded” (the city includes agrarian hinterland, as Bronger and Trettin have mentioned (2011: 73)) which can especially be seen in comparison with Tokyo, which had almost the same amount of inhabitants but with an area of only third of that of Shanghai. In terms of GDP, an indicator for the economical productivity (of the cities), Tokyo can definitely be seen as number one. In fact, its GDP per capita is two and a half times higher than the one of Hong Kong. Nevertheless, Hong Kong has been four times as productive as Shanghai in 1982.

Further, the (economical part of the) functional primacy has been calculated for this table which describes the outstanding, nationwide importance of cities. This was done by calculating the quotient of the city’s GDP per capita divided by their nation’s average GDP per capita. As one can see for
developed countries, the functional primacy for the megacities (meaning the quotient) is not much higher than for the nation as a whole (Tokyo: just 1.78 times higher). For Hong Kong, the primacy is even lower than the nation’s average (which was the UK in 1982). Shanghai, on the other hand, had an outstanding functional primacy, with a 7.48 times higher GDP per capita value than the nation’s average. Thus, Shanghai can be called a megacity within a low income country but Hong Kong, belonging to the UK, not.

Table 8: Comparison of Hong Kong, Shanghai, London, New York and Tokyo in 1997 (Basic Indicators)

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<th>London</th>
<th>New York</th>
<th>Tokyo</th>
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<td>14,890,000&lt;sup&gt;S1&lt;/sup&gt;</td>
<td>7,014,800&lt;sup&gt;L1&lt;/sup&gt;</td>
<td>7,575,000&lt;sup&gt;N1&lt;/sup&gt;</td>
<td>11,823,561&lt;sup&gt;T1&lt;/sup&gt;</td>
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<tr>
<td>Area (km²)</td>
<td>1,095&lt;sup&gt;H2&lt;/sup&gt;</td>
<td>6,340.5&lt;sup&gt;S2&lt;/sup&gt;</td>
<td>1,578&lt;sup&gt;L2&lt;/sup&gt;</td>
<td>800.3&lt;sup&gt;N2&lt;/sup&gt;</td>
<td>2,186.84&lt;sup&gt;T2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Density</td>
<td>5,938</td>
<td>2,348</td>
<td>4,445</td>
<td>9,465</td>
<td>5,407</td>
</tr>
<tr>
<td>City’s GDP</td>
<td>177,401&lt;sup&gt;H3&lt;/sup&gt;</td>
<td>41,481.2&lt;sup&gt;S2&lt;/sup&gt;</td>
<td>226,398&lt;sup&gt;L3&lt;/sup&gt;</td>
<td>n.a.</td>
<td>713,002&lt;sup&gt;T3&lt;/sup&gt;</td>
</tr>
<tr>
<td>(in millions US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City’s GDP per capita (US$)</td>
<td>27,283.6</td>
<td>2,785.84</td>
<td>32,274.4&lt;sup&gt;L3&lt;/sup&gt;</td>
<td>-</td>
<td>60,303.5</td>
</tr>
<tr>
<td>Nation’s GDP per capita&lt;sup&gt;1&lt;/sup&gt; (US$)</td>
<td>UK/China: 23,460/774</td>
<td>China: 774</td>
<td>UK: 23,460</td>
<td>USA: 30,282</td>
<td>Japan: 34,295</td>
</tr>
<tr>
<td>Economic functional primacy&lt;sup&gt;2&lt;/sup&gt; (index value)</td>
<td>UK: 1.16</td>
<td>3.60</td>
<td>1.34</td>
<td>n.a.</td>
<td>1.76</td>
</tr>
<tr>
<td>Density</td>
<td>China: 35.25</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
H1: Mid-year population, Hong Kong Annual Digest of Statistics 1998, 3
H2: Area, Hong Kong a new era: a review of 1997, The Facts
S1: Year-end resident population, Statistical Yearbook of Shanghai 1998, 34
S2: Area, Statistical Yearbook of Shanghai 1998, 36
S3: Statistical Yearbook of Shanghai 2012, 46. 1 US$ =8.29 RMB
L1: Greater London Authority, population and area as of 2011, ONS mid-year estimates data back to 1961
L2: Jil and Gwyneth 2000, 18.
L3: number is the gross value added (GVA) instead of GDP, with the following correlation: GVA + taxes – subsidies = GDP, office for national statistics, 2012
N1 and N2: Mid-year population and land area, New York State Department of Health 1999
T1: Land Area and Climate, Tokyo Metropolitan Government 1997
T2: Population and Households, Tokyo Metropolitan Government 1997
2: Economic functional primacy = Nation’s GDP per capita divided by City’s GDP per capita (index value)

Fifteen years later, all cities have grown in terms of total population. Especially interesting is Shanghai’s growth of about three million people, being number one. It is followed by Hong Kong with an increase of about one million people. Now all five cities can be called megacities with Shanghai having the most people. Hong Kong’s difference in terms of GDP per capita to Tokyo’s has been even less than half the amount and was quite close to the amount of London (however London only got the number of GVA instead of GDP). For this year, Hong Kong can be mentioned together with
London, New York (assumption) and Tokyo within the category of “developed cities” due to their similar amount of GDP per capita. Shanghai, in contrast, only had a tenth of the amount of Hong Kong’s GDP per capita and did therefore not belong to the same category of cities. Even in considering the GDP as a whole, Hong Kong was outperforming Shanghai (even though it just had less than half of its population) the difference between both cities started to shrink. Its GDP was five times larger than that of Shanghai in 1990 but only three times larger in the year 1999 (Hong Kong Business, 2001).

As mentioned in table 1, a functional primacy (here GDP per capita) of a city up to two times higher than the nation’s average (GDP per capita) means that the megacity belongs to a high income country. Therefore London and Tokyo belong into this category as well as Hong Kong, until its handover to China on 1 July 1997. After the handover it belonged to China, which had a much lower GDP per capita in average than the United Kingdom. Thus Hong Kong’s functional primacy became extremely high with 35.25. On the other hand, Shanghai’s functional primacy was much lower than that of Hong Kong’s (3.60) but, according to Table 1, was high enough to be categorized as a megacity in a low income country. As a result, in this year Hong Kong was both, a megacity within a high as well as a low income country.

Table 9: Comparison of Hong Kong, Shanghai, London, New York and Tokyo in 2012 (Basic Indicators)

<table>
<thead>
<tr>
<th>2012</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>7,136,300H1</td>
<td>23,474,600S1</td>
<td>8,204,400L1</td>
<td>8,244,910N1</td>
<td>13,048,873T1</td>
</tr>
<tr>
<td>Area (km²)</td>
<td>1,104H2</td>
<td>6,340.5S2</td>
<td>1,572.15L2</td>
<td>792.02N2</td>
<td>2,187.65T2</td>
</tr>
<tr>
<td>Density</td>
<td>6,464</td>
<td>3,702</td>
<td>5,219</td>
<td>10,4010</td>
<td>5,965</td>
</tr>
<tr>
<td>City’s GDP (2011) (in millions US$)</td>
<td>248,740H3</td>
<td>297,147S3</td>
<td>456,405L3</td>
<td>254,584N2</td>
<td>910,565T3</td>
</tr>
<tr>
<td>City’s GDP per capita (US$)</td>
<td>34,855.6</td>
<td>12,658.2</td>
<td>55,629.3L3</td>
<td>30,337N2</td>
<td>69,781.1</td>
</tr>
<tr>
<td>Nation’s GDP per capita (US$)</td>
<td>China:</td>
<td>China:</td>
<td>UK:</td>
<td>US:</td>
<td>Japan:</td>
</tr>
<tr>
<td>Economic functional primacy^2 (index value)</td>
<td>6.40</td>
<td>2.32</td>
<td>1.43</td>
<td>0.63</td>
<td>1.52</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
H1: Census and Statistics Department, Mid-year population, Hong Kong Monthly Digest of Statistics September 2012
H2: Hong Kong Annual Digest of Statistics 2012, 130.
H3: Hong Kong Annual Digest of Statistics 2012, 130.
S1: Year-end resident population of 2011, Statistical Yearbook of Shanghai 2011, 24
S2: Area, Statistical Yearbook of Shanghai 2011, 26
S3: Statistical Yearbook of Shanghai 2012, 46. 1 US$ = 6.46 RMB
L1 and L2: Greater London Authority, population and area as of 2011, ONS mid-year estimates data back to 1961
In the third comparison, Shanghai had the most inhabitants, almost ten million inhabitants more than 15 years earlier. It is followed by Tokyo, which had an increase of more than one million people compared to 1997. All five cities are megacities by definition with Hong Kong being more developed than Shanghai, which only got more than a third of Hong Kong’s GDP per capita. Hong Kong, however, was falling behind London but overtaking New York’s GDP per capita (2009). Nevertheless, even though Hong Kong is located in a low income country (see next paragraph), its economic output is as high as that of cities in developed countries and therefore has a special status (as an SAR), which will be discussed in more detail in the third part of this study. Tokyo, however, is still number one in terms of GDP per capita.

As one can see for developed countries, the functional primacy for the megacities (meaning the quotient) is not much higher than for the nation as a whole (London, New York, Tokyo). New York even has a smaller GDP per capita than the nation’s (USA) average. Shanghai and Hong Kong, however, have a higher (2.62), respectively significantly higher (6.38) average GDP per capita, which means that their productivity is much higher than the average rest of the nation. This, as defined in the first part of this study, means that both cities are megacities within a low income country, namely China. However, Hong Kong’s functional primacy shrank to almost one sixth to that after the handover in 1997 and Shanghai’s also shrank from 3.6 to 2.62. This indicates that on the one side China’s GDP per capita is rising and on the other side the (economic) functional primacy of the two cities is shrinking and therefore becoming more balanced within the nation’s economy, similar to high income countries.

**Resume: Economic Locomotives**

Solely counting the urbanized area or the area which is not under nature protection, Hong Kong is one of the most densely populated cities in the world with more than 27,000 people per square kilometre within the urbanized area (262 km² or 23 per cent of the total) in the year 2012 (own calculation after ([StatistYearbook of] Hong Kong 2008: 266). Thus Hong Kong would easily outbid New York and all other cities in comparison. This high population density, due to environmental and climate conditions (steep mountains and sub-tropical climate), leads to high prices in land and renting of housing spaces and therefore to several disadvantages and trends for Hong Kong, which will be discussed in the last part of the study.
Hong Kong as well as Shanghai are both megacities in the year 2012, have also been megacities for (almost) the last 30 years and are located in China, a developing country. However, both have an outstanding, very high functional primacy and are economic “locomotives” of their regions. Nevertheless, their functional primacy, especially of Hong Kong, was shrinking compared to 1997, which can be interpreted that both cities are losing their prime position. Furthermore, both are “rich” megacities because they profit from being production/innovation centres (Shanghai more in manufacturing and Hong Kong more in the service sector), which I will discuss in more details in the following chapters as well. They too have their problems with rural migrants (especially in Shanghai) and people living below the poverty line (like the almost 100,000 people living in urban slums and squatter structures in Hong Kong (see Berger, 2012)), but both provide social services and are improving the living conditions of their inhabitants continuously.

2.2 Hong Kong and Shanghai – the Basics

2.2.1 Position

Figure 10a and 10b: China's Geographical Position in the World and the Location of Shanghai and Hong Kong Within China
Source: Vouk, 2013, after Wikipedia (2011) and Luftlinie (2013, based on Google maps)

Both cities are located on China's coastline, separated by more than 1,200 km by beeline with Shanghai facing the East China Sea and Hong Kong the South China Sea. Shanghai is not just bigger than Hong Kong (about six times), it is also flatter, has some major waterways but has a lower average mean temperature and less precipitation. Hong Kong has a subtropical climate whereas Shanghai has four seasons.
2.2.2 Hong Kong

Hong Kong is a Special Administration Region (SAR) within the province level of the hierarchy of administrative divisions in China. Its location is 22° 20´ north latitude and 114° 11´ east longitude (Berger, 2012) with the South China Sea surrounding the peninsula and islands and facing the Guangdong Province at its land boundaries in the north. The Pearl River Delta (PRD), whereof Hong Kong is part of, ends in the west of Hong Kong.

The SAR is 1,104.32 km² big with a land-reclamation area since 1887 of 68.17 km² ([Statistical Yearbook of] Hong Kong 2008). More than 70 per cent (76.26) are non-built up area and more than 400 km² are designated as “protected areas” like country parks, special areas and conservation zones ([Statistical Yearbook of] Hong Kong 2008: 266.) It is divided into three major regions, namely Hong Kong Island, Kowloon and the New Territories (together with other islands), consisting of 18 administrative areas, called districts. The area is very mountainous with the highest mountain called Tai Mo Shan (957 m) located in the New Territories. However, the north-western part of the New Territories is flat with some marsh-land next to the coast. Hong Kong has no major rivers but two natural harbours, the Victoria Harbour between Hong Kong Island and Kowloon and the Tolo Harbour between Tai Po and Sha Tin. It has altogether 262 islands, whereof Lantau Island is the biggest with 147.16 km², followed by Hong Kong Island with about 80 km² (Hong Kong Tourism Board: Fakten & Zahlen, 2007).

Figure 11: Satellite Map of Hong Kong SAR 2013
Source: Google Maps, Hong Kong, 2013
2.2.3 Shanghai

Shanghai is one of the biggest cities in China and is also a municipality directed under the central government at the province level within the hierarchy of administrative divisions of China. The city is located at 31° 14’ north latitude and 121° 29’ east longitude with the Yangtze River Delta (= YRD) to the north, the East China Sea to the east, the Hangzhou Bay to the south and both, the Jiangsu Province (northwest) and the Zhejiang Province (southwest) to the west (Statistical Yearbook of Shanghai 2009).

![Satellite Map of Shanghai 2013](source: Google Maps, Shanghai, 2013)

Shanghai has an area of 6,340.5 km² with a diameter of about 100 km from east to west and 120 km from north to south. The city is divided into 18 administration areas, 17 districts and one county.
(Chongming Island). Contrary to Hong Kong it is not divided into major regions but it can be divided into two major areas: Puxi, meaning “west of the Huangpu River”, housing the famous Bund and Nanjing Road, which are part of the old city centre with the former concessions located there. Pudong, on the other hand, means “east of the Huangpu River”, which is the newly developed area, average four meters above sea level and very flat with only a few hills in the southwest.

There are few rivers within the boundary of the city whereof the Huangpu River with 80 km length and a width of about 400 meters and the Suzhou Creek with 125 km length and 70-80 meters width are the main waterways. Shanghai too has some island, whereof Chongming with 1,041.21 km² is the biggest (and which is the third largest island in China). The next biggest in Shanghai is Changxing Island with only 74.14 km² (Statistical Yearbook of Shanghai, 2009).

### 2.3 History

#### 2.3.1 Mirror Images

“A city can only be understood when she is in front of her mirror’, Shanghai and Hong Kong has long been maintained in this situation, and both are the observer and both the mirror image” (Xu, 2010). The history of these two cities shows indeed that both cities are the mirror of each other. Both have been partners and competitors for over a century. Throughout history both cities alternately assumed leadership in regard of their development. As both wanted to catch up, whenever they fall behind, they pushed themselves as well as each other. Those “mirror-images” can be seen in the following major development phases in the modern history of both cities. If we compare Shanghai (the “Lustrous Pearl of the Orient”) and Hong Kong (the “Pearl of the East”) within those periods, it is clear to see, that both cities alternately had shown a better or more important position regionally and globally. Those four phases, categorized after Wong and Gui (2004), are as follows:

1.) From the beginning until the Second World War

Both cities have been settled for many hundreds, even thousands of years. However they got their importance after the First Opium War (1839-1842), where Great Britain and other Western countries attacked China after the Chinese emperor had banned the selling of opium, introduced by the British to balance their trade imbalance with China. In the Treaty of Nanking (1842), Hong Kong was ceded to Great Britain as colony and at the same time Shanghai was turned into a treaty port and a semi-colony (Wong and Gui, 2004: 1). Shanghai was a well-developed big city with flourishing trade and was even the most modern city in Asia in the 1930s and the seventh largest city in the world by 1936 (Yusuf and Wu, 2002: 1216), whereas Hong Kong was nothing more than a small colony of Great Britain.
2.) Social Revolution in the 1950s
After the establishment of the People’s Republic of China (PRC) in 1949 and the ruling of the socialist party, China closed its connections with the outside world which led to a decrease of innovation and development of Shanghai. With many Chinese investors fleeing the socialist regime and coming to Hong Kong, this city started to grow instead. Hong Kong had the advantage of cheap food, water and industrial raw materials supply from mainland China combined with the democratic rule of the British (laissez faire principle, free trade, many rights and others). This led to an increase in prosperity of Hong Kong’s economy and importance.

3.) Economic reforms during the 1980s
The Chinese leader, Deng Xiaoping, introduced a new policy for China: a policy of opening up to the world with economic reforms in 1978. Due to a better connection between Hong Kong and the mainland, the manufacturing industry of Hong Kong was relocated north beyond the border because of cheap labour and production conditions in China. This led to a big deindustrialization of Hong Kong and a re-orientation to finance, business and real estate (tertiary sectors).

4.) Opening of Shanghai
In the 1990s the Chinese government realized the positive aspects of the “opening-up policy” and tried to develop its most important city: Shanghai. With the policy of opening and developing of the New Pudong Area in an international financial hub, the economy of Shanghai recovered quickly, caught up with Hong Kong and is nowadays competing with it.

Figure 13: Hong Kong and Shanghai as Mirror Images?
Source: Vouk, 2013. It tries to show the “mirror images” during important developing stages for Hong Kong and Shanghai
2.3.2 Hong Kong

Although there were Palaeolithic and Neolithic settlements in Hong Kong, the name did not appear on written records until the Treaty of Nanking in 1842, which, after the First Opium War (1839 – 1842), ceded Hong Kong Island to Great Britain. The British established a crown colony and after the Second Opium War (1856 – 1860) it was enlarged with the Kowloon Peninsula and the Stonecutter’s Island (Convention of Peking in 1860), which have been stated British territories “forever”. Due to the need of more land the British leased the New Territories for 99 years (in 1898) and started to develop Hong Kong, which benefitted from its free port status ([Statistical Yearbook of] Hong Kong, 2008: 417).

Before the Second World War people were allowed to move freely between Hong Kong and the mainland and were even allowed to settle wherever they wanted in Hong Kong (Wong and Gui, 2004: 15). Between 1880s and 1939 more than six million people left China through Hong Kong and another seven million came back this way (after Sinn in Siu, 2011: 132). However, this trend changed during the Second World War. Japanese people occupied Hong Kong, which led to a decline of the population. After the war many people returned (and fleeing the newly established communistic PRC) so that the population increased from 600,000 to 1.6 million. This caused gigantic problems such as infections, poor sanitary circumstances, crime and so on. On Christmas Eve 1953 a big fire broke out in Shek Kip Mei, an area where poor people lived, making 50,000 people homeless. This was the beginning of the involvement of the government in providing subsidised public houses for the poor Hong Kong residents.

Due to the economic embargo for mainland China as a reaction of the Korean War, Hong Kong lost its entrepot trade so that it developed into a manufacturing location (“made in Hong Kong”) due to the manpower, money and knowledge coming to Hong Kong with Chinese migrants (notably from Shanghai). The productions, however, were usually made by small and medium sized companies with little investments in research and development. Still, the GDP grew, education, health, housing and welfare were seen as the four pillars of the society and a strong sense of local identity developed.

With the opening of China in the 1980s, the majority of foreign direct investment (FDI) was transferred into the Pearl River Delta (PRD). Due to its proximity, Hong Kong became the major source of FDI for mainland China and the PRD in particular (“made by Hong Kong”). This led to a big deindustrialisation and a shift from labour-intensive to more technology-intensive manufacturing and finally, going on into the 1990s, Hong Kong transferred into a centre for tertiary services. It became a gateway for doing business with China.

Another major process during the 1980s has been the negotiations between Great Britain and China about the future of Hong Kong’s return after the expiration of the land lease of the New Territories. The Sino-British Joint Declaration was signed in 1984 which paved the way to the handover of Hong Kong in 1997. This declaration guaranteed that the whole territory of Hong Kong, not just the leased
New Territories, will be given back to China on 1 July 1997. The returning of the “forever” British territories of Hong Kong Island and Kowloon were solely done under the conditions that Hong Kong’s democracy, rights, way of life, own domestic affairs, executive, legislature and independent judiciary, own court of appeal, the responsibility for public order, the decision making for its own economic and trade policies and many more remained unchanged. This means that no introduction of the socialist governmental system should occur after the handover and only defence and foreign policy are in responsibility of the PRC for the next 50 years until 2047 (Constitution and Mainland Affairs Bureau, 2005 and Yeh, 2011).

During this process, the legal system in Hong Kong, based on English common law, was improved and all persons of 18 years and older got the right to vote in elections (only) in 1992. However, direct election is solely granted to a limited number of government posts where the total electorate can vote, whereas the Chief Executive is chosen by an election committee of 800 citizens of Hong Kong but in confirmation with the Chinese government. He or she must be a Chinese citizen, living in Hong Kong for not less than 20 years as a permanent resident and has executive and legislative powers with the right to appoint his or her own principal officials (Mapp, 2006: 6-8). This semi-democracy has been established now for more than 15 years. However, Hong Kong is not as independent as it was stated in the declaration, which will be discussed in the third part.

Nevertheless it has a high degree of autonomy under the “one country – two systems” doctrine of the PRC, which is unparalleled anywhere in the world. It is established as an international financial centre, even as a world/global city, as we can see in the rankings of the first part of the study (see table 6). Students from mainland China come here to study business and to get better jobs. Nevertheless there are also some problems concerning environmental pollution and a fast growing elderly population.

**Figure 14: Picture of Hong Kong in 2012**

Source: Own picture, taken at the Central Plaza in October 2012 with sights of Victoria Peak (top left) and the CBD on Hong Kong Island, land reclamation on the right hand side and the newly build government buildings in Tamar (front) can be seen in the lower front.
2.3.3 Shanghai

Similar to Hong Kong, Shanghai was settled very long ago but it was first mentioned much earlier. Shanghai became a market town in 1074 (during the Song Dynasty (AD 960 – 1279) and became a city in 1292. It finally developed to the most important sea port in the Yangtze Delta region during the Qing Dynasty (AD 1644 – 1912). Due to its good location Shanghai was one of the ports which were opened for international trade after the First Opium War and the Treaty of Nanjing (1843). Foreigners were able to trade on Chinese soil and started to build political and jurisdictional independent foreign concessions. Especially the International (British and American) and French Concessions have been seen as the most important. After the Sino-Japanese War (1894 – 1895) Japanese built the first factories in Shanghai. Eventually, Shanghai developed into the most important financial centre in the Far East with the “Bund” as its landmark (Staiger, 2006).

Under the Republic of China (1911 – 1949) Shanghai was given the status of a special city in 1927 which boosted the increase of prosperity. The Chinese Communist Party was founded 1921 in the French quarter in Shanghai and due to its prosperity Shanghai was called the “Paris of the East” or “New York of Asia” during the 1930s (Walcott, 2011, Chen and Orum, 2009). It was by far the most dominant financial, industrial, shipping and cosmopolitan centre in China. By 1936 it hosted half of all banks, money stores and trust companies (foreign and domestically owned) in China. In 1933 it accounted for more than half of China’s total industrial output, handled about half of China’s foreign trade and absorbed one third of total FDI in 1931 (because the rest of China was so underdeveloped) (Chen and Orum, 2009: 239). However, during the Japanese occupation (1937 – 1945) the city was hit by hyperinflation, mass poverty and unemployment. As a result, in 1943, all foreigners lost their right to live (and rule) in their concessions, which has brought so much prosperity to Shanghai in the previous 100 years (Tagscherer, 2000: 125). After the war many migrants from the hinterland came and Shanghai hosted five million people in 1949, who were trying to restart their businesses.

Unfortunately this did not last long. With the arrival of the People’s Liberation Army on May 27th 1949 Shanghai came under communist ruling. In 1956, with the first 5-year plan Shanghai was able to develop its economy but afterwards, within the Great Leap Forward (1958 – 1961), chaos ruled the city, causing rations of food and cloths. During the Cultural Revolution (1966 – 1976) Shanghai was the main base for the Gang of Four and more disaster, like sharp decrease of living standard, denunciations of professors and intellectuals, suspension of classes, the forced displacement to the countryside of about one million high school students or the restraint of building any new housing space within five years, happened (Wong and Gui, 2004: 12). However, because of its economic importance, the state decided to “save” Shanghai during the Cultural Revolution with the slogan “The whole nation protects Shanghai” (“Die gesamte Nation schützt Shanghai”, Holbing, 2006: 39).

Between 1949 and 1979 Shanghai was used as a cash cow, where it had to contribute one-eighth of China’s total industrial output, one sixth to one quarter of the state’s fiscal money with only one per
cent of China’s land area and inhabitants. However, after the Cultural Revolution the city got somehow “punished” (for hosting the Gang of Four). No new factories or infrastructures were built, Shanghai became old and shabby and other cities and regions in China (like the establishing of four special economic zones (SEZs) of Shenzhen, Zhuhai, Shantou and Xiamen in 1979) got favoured and 87 per cent of its tax revenues had to be submitted to the central government (Holbing, 2006). Due to the economic downturn, Shanghai just produced four per cent of China’s GDP in 1990 compared to nine per cent in 1978. At this point it should be noted, that China (after Xu, 2010 and Wei, Leung and Luo 2006) did not want to lose the “goose who lays golden eggs” in risking to establish a SEZ there. Due to the fact that the economic opening of China was something new after a period of 30 years of communist ruling, the Communist Party simply did not know what the results of the opening could be. So they decided to let some parts of China develop first to see what would happen. Therefore they favoured the underdeveloped, remote areas (from the view of Beijing) first, because if it had turned out to be a failure, losses would have been manageable. Furthermore, these SEZs were located next to Hong Kong, Macau and Taiwan, the economic power horses in this area.

Finally, this approach changed during the 1990s when the political powers re-acknowledged the importance of Shanghai and realized the success of SEZs. Deng Xiaoping, the head of state and economic reformist said in 1992, that

*looking back, my one major mistake was not to include Shanghai when we set up four special economic zones. Otherwise, the situation of reform and opening to the outside in the Yangtze River Delta, the entire Yangtze River Valley, and even the entire nation would be different.*

(after Yatsko in Wu, 2009: 126)

In 1990 the area of Pudong was opened to the world and as a result massive urban development, with a huge influx of FDI and state-money, started to transfer Shanghai into a modern city. This favouritism of a truly Chinese city was also done to reduce the importance of Hong Kong after the handover, as suspicion was growing, which developed a growing opposition against China due to the tremendous things happened during the Tiananmen insistence in 1989 (Holbing, 2006: 42). Nevertheless, the state monopoly in education was relaxed in 1992 and health insurance reforms started. Three years later some regulations on unemployment insurance were announced and with China’s entry into the World Trade Organization in 2001 Shanghai was developed into a socialist market economy (Wong and Gui, 2004. 13). However its economic importance for China was not as huge at it was during the 1930s. It “only” accounted for 5.4 per cent of China’s GDP, 9.5 per cent of FDI and 23.6 per cent of China’s total trade in 2003 (Chen and Orum, 2009: 239).

Shanghai was always important for China (“Paris of the East”, cash cow) also because it had good connections within the political elites of China (“Shanghai Clique”). Like all other governing institutions at the mainland, Shanghai has a dual party-government system with the Communist Party of China Shanghai Municipal Committee Secretary being more influential than the mayor of Shanghai. The mayor, however, is very important as well, because of the status of Shanghai as a
municipality in provincial level, both authorities have the same status as ministers of the Central Committee of the PRC (Holbing, 2006: 31). For example, Shanghai mayors have been important people, like Jiang Zemin, who became president in 1989 or Zhu Rongji who was premier of China from 1998 to 2003 (Walcott, 2011: 69).

Shanghai is currently pumping enormous amounts of money in its infrastructure and city planning projects (building the largest subway network in the world) or huge social events like the World Expo in 2010. In 2009 the State Council of China announced its plans for Shanghai in becoming the country’s leading financial centre by 2020 (Siu, 2011: 147 and The Banker, January 2012). Nowadays Shanghai is the rising star in China and competes not only with the capital city, Beijing, but also with the financial centre in the South: Hong Kong.

![Figure 15: Picture of Shanghai in 2012](source: Own picture, September 2012. The picture shows the Mouth of the Wusong River with view to the skyscrapers in Pudong and the beginning of the Bund on the right hand side.)

### 2.3.4 Resume: History Confirms the Mirror-Image

The history has shown the deep-interactions and similarities between these two cities. Both have been nodes for trading empires, colonial encounters, religious traditions, industrial assembly lines and even global finance, media and consumption. Some cross connections are the 1864 established Hong Kong and Shanghai Banking Corporation (HSBC) or Shanghai Tang, a Hong Kong-based fashion chain (Siu, 2011: 133). Since the 19th century, both cities have been establishing deep cross-cultural linkages in business, politics, material and cultural consumption.

Both cities started their international success story with the Treaty of Nanjing in 1842. However, Shanghai had the better location (many prosperous cities along the Yangtze River) and due to the
establishing of the international concessions it developed into the most important city of East Asia ("Paris of the East"). Hong Kong, which the British first thought of as an useless island after the First Opium War, started to develop its entrepot trade with China and flourished as well, but became not as important as Shanghai.

This, however, changed after the Second World War, the following civil war and the communist takeover of China. Shanghai got cut off its international linkages as well as Hong Kong got cut off its trading partners and suppliers in China. However, Hong Kong, as a British colony, could start to re-orientate its economy and developed into a major manufacturing base with the money and people fleeing the PRC (thereof from Shanghai). Shanghai, in the meantime - reoriented to manufacturing as well – had to submit almost all of its income to the central government and therefore lost its former brightness.

With the economic opening of China, Hong Kong had to re-orientate again. Cheap labour was lurking Hong Kong’s entrepreneurs into the newly established SEZs and Hong Kong as a result became a financial centre and the headquarter for manufacturers operating within the PRD. Shanghai, however, had to wait another ten years before it could start again. This time gave Hong Kong an enormous advantage so that it established a worldwide known reputation in linking international economy and finance with mainland China. On the other hand, the huge inflows of money (a large part coming from Hong Kong) pushed Shanghai forward, which even might surpass Hong Kong in the near future!?

2.4 Discussion of World City Indicators

2.4.1 Economy

The traditional approach in comparing (and ranking) cities is in counting the headquarters (HQs) of transnational or multinational corporations (TNCs or MNCs), located within the particular city. This approach, however, as Sassen has pointed out (see part one), has changed over time. On account of globalization, big HQs started to outsource their performance to other companies and the HQs do not have to be located within major cities anymore. Nonetheless, this indicator is still important in the world city literature (e.g. Bronger and Trettin, 2011). However, it is to mention that the top 500 TNCs have changed over time with the loss of HQs in all leading world cities (London, New York and Tokyo). Furthermore, accountancy firms, as a result of the outsourcing process, are regarded important indicators in identifying world cities, because they are offering their services to HQs, regional headquarters (RHQs) or regional offices (ROs).
1A Headquarters of Transnational Companies

Table 10: Headquarters of Transnational Companies in 1982

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>per cent to the highest</th>
<th>Revenue in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Shanghai</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>London</td>
<td>N.A.</td>
<td>64</td>
<td>N.A.</td>
<td>41</td>
</tr>
<tr>
<td>New York</td>
<td>N.A.</td>
<td>100</td>
<td>N.A.</td>
<td>100</td>
</tr>
<tr>
<td>Tokyo</td>
<td>N.A.</td>
<td>85</td>
<td>N.A.</td>
<td>37</td>
</tr>
</tbody>
</table>


Note: The Fortune Magazine does not list the HQ for the International 500 companies (which exclude the US based companies) in their 22 August edition in 1983. However, they provide the HQ for the Fortune 500 (the US based companies) in their May 2nd edition in 1983 so that it is possible to count how many HQ New York City had (34) and how much assets they had (222,003 m$). But the ranking only includes the biggest industrial corporations but no banks. On page 170 (Fortune 22 August 1983) they only list the top 50 industrial corporations in the whole world (with HQ: London 5, New York 3, Tokyo 4) so that it is very difficult to figure out how many of the 55 companies from Great Britain and how many out of 72 from Japan, out of the top 500, had their HQ in London respectively Tokyo. Further, the ranking is 30 years old and many companies do not exist anymore so that it is almost impossible to find the HQs of those companies. The amount of time to figure this out would have been too much for this study so that I decided to take the figures from Bronger and Trettin of the year 1980 instead.

Hong Kong in the 1980s, as a British colony, was just transforming from a manufacturing base into a global finance centre and relocated its industrial outputs into the PRD. Therefore Hong Kong did not host any HQs. Shanghai, on the other side, was not part of the economic opening of China since 1978 but has been a major manufacturing centre for the whole nation. Due to the long-time closure of China to the outside world it did not host any TNCs at that time. New York, however, had the most HQs, followed by Tokyo and London. In regard to its revenue London’s fewer TNCs produced higher revenue than Tokyo’s. However, it was still far behind that of New York’s, whereof Exxon, Mobile and the International Telephone and Telegraph company have been the leading three firms. London’s top three industrial corporations have been the Royal Dutch/Shell Group (The Hague and London), British Petroleum and Unilever Heavy Industries (London/Rotterdam). Tokyo’s top three have been Hitachi, Nippon Steel and Mitsubishi Heavy Industries (Fortune: International 500, 1983).

Table 11: Headquarters of Transnational Companies in 1997

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>per cent to the highest</th>
<th>Revenue in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>1.30</td>
<td>11,521.60</td>
<td>0.58</td>
</tr>
<tr>
<td>Shanghai</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>London</td>
<td>24</td>
<td>31.17</td>
<td>520,774.20</td>
<td>26.12</td>
</tr>
<tr>
<td>New York</td>
<td>25</td>
<td>32.47</td>
<td>591,021.70</td>
<td>29.64</td>
</tr>
<tr>
<td>Tokyo</td>
<td>77</td>
<td>100</td>
<td>1,993,828.00</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after Fortune Global 5 Hundred, ranked by Performance, 3 August 1998
In 1997, China was represented with four transnational companies, three of them located in Beijing and one in Hong Kong which was Jardine Matheson (ranked number 391), one of Hong Kong’s traditional trading houses with strong property interests. Shanghai, again, was not included but Tokyo overtook New York more than three times in both, HQs and total revenue with Misui, Mitsubishi and Marubeni the three leading companies. However, Tokyo did not host so many top companies and banks because of its good location but because of the success of Japanese companies (Newman and Thornley, 2011: 228). New York, which was attracting companies with two billion Dollar tax abatements between 1994 and 2000, and London are almost equally represented with Philip Morris, At&T and the Travelers Group the biggest three in the former and BP, HSBC Holdings and Prudential in the latter. It is interesting to note that the HSBC, which was founded in Hong Kong in 1865, had been very important in Shanghai until the Maoist period. Later, in 1992 it was relocated to London after the purchase of the UK-based Midland Bank (HSBC, 2013). However, its top management was moved back to Hong Kong in 2010 due to the importance of Hong Kong’s location in (East) Asia (Overholt, 2011).

Table 12: Headquarters of Transnational Companies in 2011

<table>
<thead>
<tr>
<th>2011</th>
<th>HQ of TNCs</th>
<th>per cent to the highest</th>
<th>Revenue in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>4</td>
<td>8.33</td>
<td>192,162</td>
<td>6.66</td>
</tr>
<tr>
<td>Shanghai</td>
<td>6</td>
<td>12.50</td>
<td>230,681</td>
<td>7.99</td>
</tr>
<tr>
<td>London</td>
<td>16</td>
<td>33.33</td>
<td>1,109,111</td>
<td>38.43</td>
</tr>
<tr>
<td>New York</td>
<td>18</td>
<td>37.50</td>
<td>968,806</td>
<td>33.57</td>
</tr>
<tr>
<td>Tokyo</td>
<td>48</td>
<td>100</td>
<td>2,552,329</td>
<td>88.44</td>
</tr>
<tr>
<td>Beijing</td>
<td>43</td>
<td>89.58</td>
<td>2,886,081</td>
<td>100</td>
</tr>
</tbody>
</table>


China, which has overtaken Japan as the second largest economy in the world in 2010 (Bloomberg TV, 2010), hosts more Global 500 companies than Japan (73 to 68) but only over half of the US (132) (Fortune: Global 500, 2012). Further, Beijing (hosting less HQs than Tokyo) has overtaken Tokyo in terms of revenue and – due to the capital centred policy – all US cities, which have a very dispersed HQ strategy due to their federal system (for more information see chapter 3.2.2). Hong Kong was represented with four companies with the Noble Group, the number 91 of the global ranking (resources supply chain), number 233 with China Resources National (retail chain enterprise), number 275 with Jardine Matheson and number 362 with Hutchison Whampoa (multinational conglomerate with ports, property, retail, infrastructure, energy and telecommunications). Shanghai also got six HQ with SAIC Motor (130, automotive industry), Baosteel Group (197, steel industry), Bank of Communication (326, banking), China United Network Communications (333, telecommunication), China Pacific Insurance (450, insurance) and Greenland Holding group (483, real
estate) (Fortune: Global 500, 2012). It is noteworthy that Hong Kong’s companies are privately owned whereas Shanghai’s are more or less state owned.

Tokyo was represented with Japan Post Holdings (number 13), Nippon Telegraph and Telephone (29) as well as Hitachi (38) as its top three Fortune 500 companies. London got BP (4), HSBC Holdings (53) and Barclays (121) at the first three with Unilever (139) stated to both, Great Britain and the Netherlands whereas Royal Dutch Shell (1) was clearly located in the Netherlands. New York’s top three have been Verizon Communications (50), J.P. Morgan Chase & Co (51) and Citigroup (60). As a result of globalization, outsourcing, the federal system of the United States as well as the huge size of the country, the formerly located Exxon Mobile (2) is now located in Irving and AT&T (32) in Dallas (Fortune: Global 500, 2012).

1B Accountancy Firms

Table 13: Accountancy Firms in 2012

<table>
<thead>
<tr>
<th>2012</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>PWC</td>
<td>5</td>
<td>9</td>
<td>8</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Ernst &amp; Young</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Deloitte Touche Tohmatsu</td>
<td>1</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>KPMG</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>13</td>
<td>17</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>

per cent of highest

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>52.94</td>
</tr>
<tr>
<td>Shanghai</td>
<td>76.47</td>
</tr>
<tr>
<td>London</td>
<td>100</td>
</tr>
<tr>
<td>New York</td>
<td>58.82</td>
</tr>
<tr>
<td>Tokyo</td>
<td>88.24</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013 after web pages of those companies

Beaverstock, Smith and Taylor (1999) included the top six accountancy firms for their first calculation in 1999. Others were ignored as those leading six were strongly dominating this sector. This still happens until today with the only difference that some of them have merged and even became bigger so that in 2012 the “big four” in accountancy remained, which have a three to six times higher revenue than their next competitors (Accounting Today, 2012). All four are New York based – which would have been some extra points within the calculation of the GaWC-group – but had the most offices in London. Tokyo is on the second place, leading in Asia, followed by Shanghai and leaving Hong Kong on the last place, only one office behind New York.

Resume: China is Catching Up

Among the historical timeline of HQs of TNCs, it can be clearly seen that China is catching up in world economy and becomes a “place to be”. China’s leading TNCs are still state-owned companies, most of them centred in Beijing but leaving six of them in Shanghai (driven by manufacturing) which is better positioned than Hong Kong. Although Hong Kong’s TNCs are privately owned and with a good presence of international accountancy firm’s offices, Shanghai is designated as the city which needs
more offices. Even though both cities are not on the top in this category (economy), Shanghai is
doing better as Hong Kong, which has already a quite good performance. In comparison with Austria, 
a country with a population of about eight million compared to Hong Kong’s seven million, Hong 
Kong hosts four TNCs whereas Austria solely has one (OMV group, no. 210) (Fortune: Global 500, 
2012).

2.4.2 Finance

Within this category, Lai (2009) argues, that Shanghai, Hong Kong and Beijing should not be seen as 
competitors but as collaborators within a global city network. They perform different roles in finance 
within different regions and are complementary to each other. The following data with the support 
of further literature should show if his argumentation is true or if Hong Kong and Shanghai are 
financial competitors. Further, Sassen (2001) states that banks are not as important as they have 
been for indicating international functions and that they are only “mechanism of intermediation” 
while the financial markets are “complex, competitive, innovative and risky” which require vast 
infrastructure of financial centres with highly specialized services (2001: 84). This means that both, 
the number of HQs of banks and the turnover of stock exchanges, should not be regarded as the only 
important indicators for financial centres. Thus the functions these banks and stock exchanges play 
within the nation and globally should also be considered (see further down).

2A Headquarters of Banks

Table 14: Headquarters of Banks in 1982

<table>
<thead>
<tr>
<th>1982</th>
<th>No. of banks</th>
<th>per cent to the highest</th>
<th>Assets less contra accounts in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>5.88</td>
<td>57,132</td>
<td>6.98</td>
</tr>
<tr>
<td>Shanghai</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>London</td>
<td>7</td>
<td>41.18</td>
<td>377,116</td>
<td>46.05</td>
</tr>
<tr>
<td>New York</td>
<td>9</td>
<td>52.94</td>
<td>434,058</td>
<td>53.00</td>
</tr>
<tr>
<td>Tokyo</td>
<td>17</td>
<td>100</td>
<td>818,986</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013 after The Banker, The Top 500 banks in assets less contra accounts, June 1983

In the year 1982, Hong Kong hosted one of the top 500 banks, namely the Hong Kong and Shanghai 
Banking Corporation (HSBC), which changed its HQ to London in 1992, as mentioned previously. 
Shanghai did not host any banks, due to economic closure of China, leaving Tokyo unchallenged at 
the top, both in number and assets. New York has been on the second place for both ranks, followed 
by London, leaving Hong Kong with a mere six to seven per cent to the top.
Table 15: Headquarters of Banks in 1997

<table>
<thead>
<tr>
<th></th>
<th>No. of banks</th>
<th>per cent to the highest</th>
<th>Assets in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Shanghai</td>
<td>1</td>
<td>6.67</td>
<td>112,857</td>
<td>6.27</td>
</tr>
<tr>
<td>London</td>
<td>6</td>
<td>40</td>
<td>1,798,826</td>
<td>100</td>
</tr>
<tr>
<td>New York</td>
<td>6</td>
<td>40</td>
<td>1,327,812</td>
<td>73.82</td>
</tr>
<tr>
<td>Tokyo</td>
<td>15</td>
<td>100</td>
<td>1,661,944</td>
<td>92.39</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after The Banker: eBanker Year 2000, top 500 banks in total assets, April 1998

Due to the location change of HSBC, Hong Kong hosted none of the world’s top 500 banks in 1997 but Shanghai instead gained one among the top 500, namely the Bank of Communication. Beijing was catching up with four banks, but was still behind London and New York with six each but with London being number one in accumulated assets, even higher than Tokyo’s 15 banks. Also New York with its six banks had almost 80 per cent of Tokyo’s share, which, if only taking the numbers of banks, should have been the half.

Table 16: Headquarters of Banks in 2011

<table>
<thead>
<tr>
<th></th>
<th>No. of banks</th>
<th>per cent to the highest</th>
<th>Assets in m$</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>1</td>
<td>11.11</td>
<td>78,733</td>
<td>0.82</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3</td>
<td>33.33</td>
<td>1,261,989</td>
<td>13.21</td>
</tr>
<tr>
<td>London</td>
<td>4</td>
<td>44.44</td>
<td>7,072,579</td>
<td>74.03</td>
</tr>
<tr>
<td>New York</td>
<td>6</td>
<td>66.67</td>
<td>6,291,352</td>
<td>65.85</td>
</tr>
<tr>
<td>Tokyo</td>
<td>8</td>
<td>88.89</td>
<td>8,776,564</td>
<td>91.87</td>
</tr>
<tr>
<td>Beijing</td>
<td>9</td>
<td>100</td>
<td>9,553,442</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after The Banker, Top 1000 World Banks in total assets, July 2012

Hong Kong returned in 2011 with the Bank of East Asia, but with an extremely low share in assets. Similar to the number of HQs of TNCs, Beijing, as China’s capital, got number one worldwide, both in number of banks and accumulated assets. Followed by Tokyo, a close second place, which lost seven banks among the top 500. London lost its top position in assets as well two banks in total. In contrast, New York could remain its six banks but also lost some share in assets. This leaves Shanghai the major gainer with hosting three banks (Bank of Communication, Shanghai Pudong Development Bank and the Bank of Shanghai) and a share of 13 per cent in assets. Even though Beijing is the most favoured place for HQs of (national) banks in China, Shanghai got a clear advance in national banking compared to Hong Kong.
At this point I want to mention, that Chinese banks, unlike US or European banks, are part of a closed system where the government can use them to control the economy and manage any problems. Nobody knows if a package of assets, approved by the banks, is really good or not. It is not clear who carries responsibility (banks or customers), they are exposed to local government debts and the slowdown in the property market. They have a high level of deposits, are reporting profits and healthy margins. Furthermore they have a high level of provisions, the closed system limits risk of global contagion and the state can directly intervene and manage problems (The Banker, April 2012).

2B Branches of Banks

Table 17: Branches of Banks in 2012

<table>
<thead>
<tr>
<th>2012</th>
<th>Assets (m$)</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank</td>
<td>2,800,133</td>
<td>3</td>
<td>3</td>
<td>23</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Mitsubishi UFJ Financial Group</td>
<td>2,664,171</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>HSBC¹</td>
<td>2,555,579</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>2,542,880</td>
<td>3</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>ICBC¹</td>
<td>2,456,295</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Crédit Agricole</td>
<td>2,431,932</td>
<td>8</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Barclays</td>
<td>2,417,369</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>2,329,767</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>JP Morgan Chase &amp; Co</td>
<td>2,265,792</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Bank of America</td>
<td>2,136,578</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>27</td>
<td>59</td>
<td>41</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>per cent of highest</td>
<td>55.93</td>
<td>45.76</td>
<td>100</td>
<td>69.49</td>
<td>57.63</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013 after web pages of those companies, ranked after The Banker, Top 1000 World Banks in total assets, July 2012

Notes:
1: Due to huge imbalances according to office locations (in the case of HSBC more than 100 in Hong Kong, London and New York but only 1 in Tokyo and 4 in Shanghai - or in the case of ICBC with more than 50 locations for Hong Kong and Shanghai to only 1 or 2 in all other cities) I decided to give an inverse rank, starting with 5 points for the highest number to 1 point for the lowest.

Fort this table I tried to use the office information of the global web sites of those companies, because they are the HQ web-sites where all the information should come together. In some cases I knew that there must be more locations than stated on that particular web site (e.g. in Tokyo for Mitsubishi and for London for the Royal Bank of Scotland) but I decided NOT to search in another, more detailed, webpage because than there would have been more imbalances than I already got (see note one). In analysing this table one can see that London hosts the most offices of the top 10 globally operating banks as a validation of its importance as a financial market place, followed by New York, but with some distance. Tokyo is only one office ahead of Hong Kong in becoming Asia’s most wanted location. In contrast, Hong Kong has a good advance over Shanghai with six offices or
more than 10 per cent. This indicates, contrary to the previous indicator, that Hong Kong is favoured as an international financial place over Shanghai.

**2C Stock Exchanges**

The first stock exchange in Hong Kong was formed in 1891, 13 years earlier than in Shanghai (1904). During the period between 1919 and 1939, both Shanghai and Hong Kong have been sub-regional centres (with a region being larger than a country) with Shanghai being the largest. After the establishing of the PRC, Hong Kong became a regional centre whereas in Shanghai all foreign banks and financial institutions have been driven out, private banks nationalized and all financial institutions closed. Due to liberalization and the abolition of all taxes on interest in 1989, Hong Kong became the second largest international financial centre in Asia Pacific and the sixth to seventh largest in the world by 1995. While in the beginning of the new millennia Shanghai’s stock market was smaller than that of Hong Kong’s, except for average daily turnover, the Chinese currency was – and is – still not freely convertible. In contrast, Hong Kong’s currency (Hong Kong Dollar) is fully convertible and Hong Kong does not enforce any exchange controls (Zhu, Lu and Wang, 2004; Jao, 2003).

**Table 18: Stock Exchange in 1982**

<table>
<thead>
<tr>
<th>Year</th>
<th>no. domestic companies</th>
<th>no. foreign companies</th>
<th>per cent foreign c. to the highest</th>
<th>total value of shares trading(^1)</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>273</td>
<td>n.a.</td>
<td>n.a.</td>
<td>7,615(^2)</td>
<td>0.92</td>
</tr>
<tr>
<td>Shanghai(^3)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>London</td>
<td>2357</td>
<td>485</td>
<td>100</td>
<td>109,873</td>
<td>13.28</td>
</tr>
<tr>
<td>New York(^4) (total)</td>
<td>2254</td>
<td>94</td>
<td>19.38</td>
<td>827,258</td>
<td>100</td>
</tr>
<tr>
<td>- AMEX</td>
<td>772</td>
<td>50</td>
<td>10.31</td>
<td>34,192</td>
<td>4.13</td>
</tr>
<tr>
<td>- NYSE</td>
<td>44</td>
<td>1482</td>
<td>9.07</td>
<td>793,066</td>
<td>95.87</td>
</tr>
<tr>
<td>Tokyo</td>
<td>1427</td>
<td>12</td>
<td>2.47</td>
<td>409,753</td>
<td>49.53</td>
</tr>
</tbody>
</table>


Notes:
1: For domestic and foreign companies in millions US$
2: Exchange in US$ with the annual average exchange rate (World Bank, 2012), own calculation.
3: The Shanghai Stock Exchange was closed during the communist era from the establishing of the People’s Republic of China (1949) until the re-opening in 1990.
4: In New York City there have been two exchanges. The AMEX (= American Stock Exchange) and the NYSE (= New York Stock Exchange). The NASDAQ (= National Association of Securities Dealers Automated Quotations) was located in Washington DC and had a fusion with AMEX in 1998, so that it is not included in the tables for 1982 and 1997.

In the beginning of the 1980s, when Hong Kong was only starting to develop its financial sector, Hong Kong’s share on the total value of shares traded was marginal with 0.92 per cent to the highest. This was New York, which hosted two exchanges, the AMEX, the American Stock Exchange, and the NYSE, the New York Stock Exchange. It is ranked first in total value of shares traded, having more than double the amount of Tokyo, but both, 94 and 12 respectively, had very few foreign companies
listed, compared with London (485). This, as it is my assumption, may result from good relations between London and the Commonwealth of Nations. Therefore, it has connections to many countries as well as the location within Europe, a continent with higher numbers of nation-states as compared with North America.

Table 19: Stock Exchange in 1997

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no. domestic companies</td>
<td>no. foreign companies</td>
<td>per cent foreign c. to the highest</td>
<td>total value of shares trading</td>
<td>per cent to the highest</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>638</td>
<td>20</td>
<td>4.28</td>
<td>453,657</td>
<td>7.66</td>
</tr>
<tr>
<td>Shanghai</td>
<td>383</td>
<td>n.a.</td>
<td>n.a.</td>
<td>111,195</td>
<td>1.88</td>
</tr>
<tr>
<td>London</td>
<td>2046</td>
<td>467</td>
<td>100</td>
<td>1,989,498</td>
<td>33.60</td>
</tr>
<tr>
<td>New York</td>
<td>2918</td>
<td>418</td>
<td>89.51</td>
<td>5,920,832</td>
<td>100</td>
</tr>
<tr>
<td>- AMEX</td>
<td>647</td>
<td>63</td>
<td>13.49</td>
<td>143,230</td>
<td>2.42</td>
</tr>
<tr>
<td>- NYSE</td>
<td>2271</td>
<td>355</td>
<td>76.02</td>
<td>5,777,602</td>
<td>97.58</td>
</tr>
<tr>
<td>Tokyo</td>
<td>1805</td>
<td>60</td>
<td>12.85</td>
<td>896,055</td>
<td>15.13</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after World Federation of Exchanges, 1997 and Shanghai Stock Exchange, 2012 (for Shanghai)

Notes:
1: For domestic and foreign companies in millions US$
2: 383 is the number of listed companies and the value of shares is the market value for stocks. The exchange in US$ is an own calculation with the annual average exchange rate (World Bank, 2012) for 1997.
3: In New York City there have been two exchanges. The AMEX (= American Stock Exchange) and the NYSE (= New York Stock Exchange). The NASDAQ (= National Association of Securities Dealers Automated Quotations) was located in Washington DC and had a fusion with AMEX in 1998, so that it is not included in the tables for 1982 and 1997.

After the re-opening of the Shanghai Stock Exchange in 1990, Shanghai started to grow but still was marginalized compared to the other big stock exchanges. Even though Hong Kong had four times the amount of shares traded than Shanghai, it had only half the amount of Tokyo’s or only 7.66 per cent of the highest, New York. Further, Hong Kong only had a third of the number of Tokyo’s foreign companies or 4.28 per cent of the highest (London). Although the amount of domestic companies was higher this time in New York, London still had the most foreign companies listed.

Table 20: Stock Exchange in 2011

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no. domestic companies</td>
<td>no. foreign companies</td>
<td>per cent foreign c. to the highest</td>
<td>total value of shares trading</td>
<td>per cent to the highest</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1472</td>
<td>24</td>
<td>2.94</td>
<td>1,444,712</td>
<td>4.70</td>
</tr>
<tr>
<td>Shanghai</td>
<td>931</td>
<td>0</td>
<td>0</td>
<td>3,670,156</td>
<td>11.94</td>
</tr>
<tr>
<td>London</td>
<td>2280</td>
<td>598</td>
<td>73.19</td>
<td>2,825,662</td>
<td>9.19</td>
</tr>
<tr>
<td>New York</td>
<td>4171</td>
<td>817</td>
<td>100</td>
<td>30,750,600</td>
<td>100</td>
</tr>
<tr>
<td>- NASDAQ OMX</td>
<td>2383</td>
<td>297</td>
<td>36.35</td>
<td>12,723,520</td>
<td>41.38</td>
</tr>
<tr>
<td>- NYSE Euronext (US)</td>
<td>1788</td>
<td>520</td>
<td>63.65</td>
<td>18,027,080</td>
<td>58.62</td>
</tr>
<tr>
<td>Tokyo</td>
<td>2280</td>
<td>11</td>
<td>1.35</td>
<td>3,986,204</td>
<td>12.96</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after World Federation of Exchanges, 2011
Fourteen years later, Hong Kong was losing in both categories, the number of foreign companies as well as total shares traded, compared to the number one, which was clearly New York. However, Hong Kong could attract more foreign companies than Tokyo or Shanghai (which did not list any foreign company at all). As China’s economy grew and gained more importance in TNCs and top banks, its value of shares traded was higher than that of London. Besides it was almost as high as that of Tokyo, which might be overtaken in the near future, but with New York remaining on top position. After New York and London as favoured places for foreign companies, Hong Kong remains the most attractive among the compared Asian stock exchanges. However it was far behind the top of the region (Asia Pacific), which was Singapore with 311 foreign companies. This is followed by the Australian Securities Exchange (96 foreign companies), Taiwan SE Corp. (52) and then Hong Kong (24) before the Korea Exchange (17) and Tokyo SE Group (11) (World Federation of Exchanges: Number of Listed Companies, 2010). Additionally, Chinese stock exchanges have grown dramatically. In the year 1990, Hong Kong’s stock exchange only had one 37th than that of Tokyo’s but grew to a sixth of Tokyo’s stock exchange in the year 2000. Shanghai, however, already got 1.3 times the amount of Tokyo’s exchange in the year 2009 (Bronger and Trettin, 2011: 394).

Historically seen, Hong Kong profited more when Shanghai was also doing well. Reed (in McCauley and Chan 2007: 2-3) counted the number of locally headquartered banks and their international links for 16 selected years between 1900 and 1980. Using this data, McCauley and Chan draw a chart for Hong Kong, Tokyo and Shanghai, which is as follows:

**Figure 16: Ranking of International Financial Centres**

Source: McCauley and Chan 2007, online version page 3, after Reed.

Note: A rank of 11 is assigned to Shanghai whenever it does not make it into the top ten. Tokyo and Yokohama are considered as one centre.

In the beginning of the century, Hong Kong was behind Shanghai; Tokyo became predominant in the 1960s and Shanghai was no competitor for Hong Kong during the Second World War and any longer...
after the founding of the PRC. However, McCauley and Chan found out, that Hong Kong ranked higher whenever Shanghai was within the top ten, scoring an average 5.8 rank between 1900-1935 and in 1947, when Shanghai was active and higher ranked than Hong Kong, which happened in 1925, 1935 and 1947. In contrast, Hong Kong lost some points and was only scored 7.1, whenever Shanghai was inactive (1940 and 1955-1980) (McCauley and Chan, 2007).

Furthermore, in 2007, Hong Kong – as a financial centre – benefited from its legal and regulatory institutions and its attraction of stock market listings from the mainland. In comparison, Hong Kong almost always outscored Shanghai in 2002 and 2005 (e.g. in deposits, loans, interbank market turnover, foreign and domestic depository institutions, foreign exchange daily turnover, market capitalisation, equity funds raised or bond and stock markets). However, overall, the gap between Hong Kong and Shanghai became smaller during that period. Nevertheless, mainland authorities have still been willing to continue to list shares in Hong Kong despite the higher costs compared to listing in Shanghai (or Shenzhen). Furthermore, McCauley and Chan (2007) suggest, that the high share of Hong Kong in China’s international banking assets and liability indicates that a further international opening would benefit Hong Kong. Thus they point out, that the return of Shanghai into the international financial market and the integration of China into the global economy would “[...] bulk up Hong Kong’s balance sheet more than that of any other centre outside the Mainland” (McCauley and Chan, 2007: 16). Additionally, Shanghai was narrowing down the gap between itself and Hong Kong but also the gap between Hong Kong, New York and London.

In 2010, Hong Kong was ranked as the number three global financial centre after London and New York, followed by Singapore, Tokyo and Shanghai (ranked number six). Even though Hong Kong’s equity market capitalization was still smaller than that of Tokyo’s and similar to Shanghai’s, it was much more important in a global scale because it was closely working together with London and New York and therefore acting as their Asian counterpart (Overholt, 2011). In terms of equity issues (in 2009), Hong Kong was ranked third after NASDAQ OMX and Shanghai, but it’s bond market was much smaller, even just having one fortieth of Shanghai, which by itself was only half of the Korean market (Overholt, 2011).

Since 2004, Hong Kong banks were allowed to take RMB deposits, Chinese citizens could exchange RMB for Hong Kong dollars, their credit cards have been valid in Hong Kong and Hong Kong banks could issue and cash RMB checks. Hong Kong’s internationalized markets will benefit Shanghai, as it is assumed by the Chinese government. Additionally, Hong Kong’s financial experts have influenced Chinese accounting, payment, clearing, custodial, risk management and corporate government systems together with market regulation and monetary policies, making Hong Kong more valuable for the Chinese financial system (Overholt, 2011).

Another major difference between both financial places is their legal system. Hong Kong, as former British colony, uses the Anglo-American system, which is dominated by securities markets while the Continental system, used by mainland China, South Korea and Japan (after the German system) is
mostly bank-centred. The former one as it is more flexible, may encourage financial innovations and relies on the ethical standards of bankers whereas the latter tends to develop dogmas for operations and regulations which lead to hamper the development of the markets (Zhao, 2010).

The following statements are from Zhu, Lu and Wang (2004, *), The Banker (January 2012, **), Jao (2003, ^) as well as Tian (2007, _), which I have listed to show the different responsibilities and functions of Hong Kong and Shanghai as financial markets:

**Hong Kong**
- acts as an important source of (foreign) funds for state-owned enterprises in China*
- links the equity market in mainland China to the global economy*
- is used as a “testing place” for the opening of the Chinese market**
- is an offshore bond market (“dim sum market”)**
- 81 per cent of all payments in October 2011 in RMB were processed by financial institutions in Hong Kong**
- is a place for China to become international, because Hong Kong companies with subsidiaries in China and Chinese companies with Hong Kong subsidiaries have been the first to adopt Renminbi payments**
- is a fully integrated financial centre with unlimited freedom in transacting of all kinds of financial businesses in Hong Kong Dollars and foreign currencies*
- centre for hard currencies (Hong Kong Dollar)*
- Mainland China nor Taiwan allow banks or non-bank financial intermediaries to operate full-service branches within their territories, but Hong Kong, with its special status, hosts facilities from both sides equally*
- Is the only Chinese city which serves simultaneously as financial centre for Greater China (PRC, ROC, Hong Kong and Macau) as well as an international finance centre within Asia Pacific*
- functions as a leading market within Greater China since 1998 – Hong Kong influences the Taiwanese market with one day delay^*

**Shanghai**
- national centre^*
- centre for RMB^
- is a segregated centre, because foreign banks are only limited to RMB business^*

Shanghai’s disadvantages are manifold, compared to Hong Kong. Its capital is not yet fully mobile, a fully “national treatment” is not granted to foreign banks, or it has no liberal banking and finance. Further it does not have a good framework for a prudential supervision for its stability, the rule of law, free flow of information, a business-friendly tax regime or a widespread use of English (Jao, 2003: 25). As China joined the WTO, it had to grant all foreign banks “national treatment” by the end
of 2006. Therefore 115 foreign banks got permission to provide RMB services with a total share of 1.8 percent of banking assets in China. However, these permissions are still regarded as restrictive in the view of Western societies. Even though China gave foreign banks the abilities to do the same businesses like local banks, but regarded foreign banks to have a high capitalization and other conditions. This made it commercially unviable or unattractive for many foreign banks to be represented in China. Chinese banks, on the other hand, thought it unfair if foreign investors were given the same rights in all segments of the market before they could fully prepare and develop themselves onto the same level than that of foreigners. Therefore only 21 foreign banks tried their business in China’s retail banking sector (Lai, 2011). On the other hand, compared to Hong Kong, Shanghai’s advantages are its much larger bond market, its position as national financial centre, its well diversified industrial structure, large pool of R&D and a much higher GDP and foreign trade growth (Jao, 2003: 33).

Nevertheless, a close co-operation between the three exchanges is practiced within China. For example, the basics regulations of Shenzhen’s Stock Exchange was modelled after Hong Kong’s and got further adapted to the Chinese market. After the opening of the Shanghai Stock Exchange, all three exchanges signed a memorandum of regulatory co-operation in 1993. This was followed by a second memorandum in 1995 which included further points such as both should protect investors, maintain an open, efficient and harmonised securities market and keep each other’s laws and regulations (Lin, 2012: 149).

**Resume: Global Versus National**

Many authors state – so does Sassen (2009: 11) – that Shanghai is emerging as a predominantly national market whereas Hong Kong remains internationally important. However, even though Shanghai might be a national market, its influence in the world is granted. The fast growth of the Shanghai Stock Exchange led to overheating on 28 February 2007 when the composite index fell 8.8 per cent which also led to a downturn with the Dow Jones as well as other global stock markets and marks the first time that New York stock market and others were driven by Shanghai and China (Sassen, 2009: 13).

The figures show, that China is becoming an important global player. Most of the top important banks in 2011 have been located in China and the Chinese stock exchanges (Shanghai, Shenzhen and Hong Kong) have been the second largest national stock exchange-group worldwide after the US. Nonetheless a differentiation can be seen between the Chinese markets of Hong Kong and Shanghai. Hong Kong attracts more offices of internationally banks, its global 500 banks are privately owned and its stock market plays an important role for China: it is its gateway to the global market. Shanghai, in contrast, is a major national centre, with a huge stock market capitalization and HQs of big state-owned banks, but its international connections within the above three indicators remain
weaker, compared to Hong Kong (e.g. no foreign company listed in its stock exchange). Therefore, concerning finance, **Shanghai is a national centre** whereas **Hong Kong is an international one**.

Further, as Zhao (2010: 20) suggests, China’s financial centre landscape can be divided among Beijing, Shanghai and Hong Kong. The first being the policy, control and banking regulation centre, the second the trading operator and the last could be responsible for asset management. They have their own hinterlands, dealing with North, East and South China, similar to Germany’s eight separate financial markets coexisting and therefore developing their own specializations.

### 2.4.3 Trade and Transport

Both, Hong Kong and Shanghai have been engaging in trade since their opening to foreigners in the 19th century. In the early 20th century Shanghai, as a centre of economic power, was able to deal with more than half of China’s trade between 1933 and 1936. In the year 1933 Shanghai’s participation within the world trade was even higher than that of Hong Kong and Japan together, but lost its share during the Maoist era (Schüller, 2006: 54).

Nowadays, almost 40 per cent of the value of world trade goes by air (Kasarda, 2009: 53). Furthermore, he mentions business travellers benefitting from access to hub airports, which offer greater choice of flights and destinations, a higher frequency, more flexibility in rescheduling, lower travel-related costs and which are usually very well connected with the city (city region). These – in large centres often “quadramodal” (air, highway, rail and water), as Kasarda (2009) named it – connections to the cities are crucial for being or becoming a world class city.

### 3A Airports

Ma and Timberlake (2008: 26) argue, that air traffic data are more than only data for infrastructure because they support ‘flows of people’, people who travel to do business, to find employment, engage in cultural exchanges or for communal motives. The more air passengers a particular city has, the higher is its importance on a number of theoretically significant dimensions.

<table>
<thead>
<tr>
<th>Airports</th>
<th>Passengers Throughput</th>
<th>per cent to the highest</th>
<th>Volume of Cargo (tonnes)</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>7,439,368</td>
<td>14.81</td>
<td>305,757</td>
<td>23.84</td>
</tr>
<tr>
<td>Shanghai</td>
<td>920,000</td>
<td>1.83</td>
<td>27,776</td>
<td>2.17</td>
</tr>
</tbody>
</table>
New York\textsuperscript{H1} & 50,239,274 & 99.98 & 1,282,590 & 100  
(1984) &  &  &  & 
Tokyo\textsuperscript{T1} & 21,897,304 & 43.58 & 254,937 & 19.88  
(1984) &  &  &  & 

Sources: Vouk, 2013, compiled after:

H1: only arrivals and departures of passengers, Hong Kong Annual Digest of Statistics 1983, 145 and 146.
S1: Shanghai Statistical Yearbook 1983, 192.
L1: Figures for 1986 (passengers) and 1987 (freight), which are the combinations of six airports in the greater London area, including Heathrow (31 million passengers and 0.5 million tonnes), Gatwick (16 million passengers and 0.19 million tonnes), Luton, Southend, Stansted and London City. Civil Aviation Authority, UK Airport Statistics: 1991 – annual.
N1: Figures for 1984 and for both airports, John F. Kennedy International Airport (29 million passengers and 1.2 million tonnes of cargo) and LaGuardia Airport. The Port Authority of New York and New Jersey, 1997 Annual Airport Traffic Report.

Notes:
Due to the reason that the numbers for London are from the year 1986 (respectively 1987), the figure for 1982 should be smaller so that the highest figure for passengers throughput should be that of New York, not of London.

Even though passenger throughput numbers for London and New York are quite similar, the number for London should be smaller, when comparing the same years, for which no data was found. Nonetheless, both would still have much higher numbers than the other three cities in passenger throughput as well as in volume of cargo. Focusing on Tokyo, passenger throughput is three times higher as the number for Hong Kong but smaller in volume of cargo. Shanghai is the least with a rough two per cent for both categories, indicating Shanghai’s economic exclusion in that period.

Table 22: Airports in 1997

<table>
<thead>
<tr>
<th>1997</th>
<th>Passengers Throughput</th>
<th>per cent to the highest</th>
<th>Volume of Cargo (tonnes)</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong\textsuperscript{H1}</td>
<td>21,774,230</td>
<td>23.07</td>
<td>1,787,000</td>
<td>73.17</td>
</tr>
<tr>
<td>Shanghai\textsuperscript{S1}</td>
<td>6,730,000</td>
<td>7.13</td>
<td>480,000</td>
<td>19.65</td>
</tr>
<tr>
<td>London\textsuperscript{L1}</td>
<td>94,400,997</td>
<td>100</td>
<td>1,574,984</td>
<td>64.49</td>
</tr>
<tr>
<td>New York\textsuperscript{N1}</td>
<td>52,964,879</td>
<td>56.11</td>
<td>1,724,951</td>
<td>70.63</td>
</tr>
<tr>
<td>Tokyo\textsuperscript{T1}</td>
<td>75,477,212</td>
<td>79.95</td>
<td>2,442,245</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:

H1: only arrivals and departures of passengers, Hong Kong Annual Digest of Statistics 1998, 147 and 157.
S1: only passengers departing, Shanghai Statistical Yearbook 1998, 256.
L1: Figures are the combinations of six airports in the greater London area, including Heathrow (57 million passengers and 1.1 million tonnes), Gatwick (26.8 million passengers), Luton, Southend, Stansted and London City. Civil Aviation Authority, UK Airport Statistics: 1997 – annual.
N1: Figures for both airports, John F. Kennedy International Airport (31 million passengers and 1.7 million tonnes of cargo) and LaGuardia Airport. The Port Authority of New York and New Jersey, 1997 Annual Airport Traffic Report.
T1: Figures include Haneda (49 million passengers and about 700,000 tonnes), Narita (25 million passengers and 1.7 million tonnes) as well as Chofu, Oshima, Miyake, Hachijo, Nijim as well as Kozushima Airport. Tokyo Metropolitan Government, Tokyo Statistical Yearbook, Transportation by Air 1993-1997.

Hong Kong, compared to 15 years before, has almost doubled its share to 23 per cent of that of highest “airport city” (which was London), regarding its passenger throughput. However it has more than tripled its share in cargo, becoming second after Tokyo. The city’s Kai Tak airport, located in Kowloon (city centre, closed in 1998), was operating far over its capacity and would have been number one in handling freight if only compared with single airports and not a city wide statistic.
Although Shanghai has developed fast and its share grew for both, passengers and cargo, it was still far behind the other cities. London, followed by Tokyo, was number one in terms of passengers and Tokyo was number one in terms of freight, displacing New York from its first position in 1982.

Table 23: Airports in 2011

<table>
<thead>
<tr>
<th></th>
<th>Passengers Throughput</th>
<th>Passengers per cent of highest</th>
<th>Volume of Cargo (tonnes)</th>
<th>Cargo per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong H1</td>
<td>59,900,000</td>
<td>44.83</td>
<td>3,938,025 H12</td>
<td>100</td>
</tr>
<tr>
<td>Shanghai S1</td>
<td>74,560,100</td>
<td>55.80</td>
<td>3,560,000</td>
<td>90.40</td>
</tr>
<tr>
<td>London L1</td>
<td>133,627,000</td>
<td>100</td>
<td>1,802,940</td>
<td>45.78</td>
</tr>
<tr>
<td>New York N1</td>
<td>71,806,007</td>
<td>53.74</td>
<td>1,394,622</td>
<td>35.41</td>
</tr>
<tr>
<td>Tokyo T1</td>
<td>95,323,257</td>
<td>71.34</td>
<td>2,990,172</td>
<td>75.93</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
H1: Only arrivals and departures of passengers have been 35.5 million people (Hong Kong Annual Digest of Statistics 2012, 327). However the total passenger throughput (with connecting flights) was 53.9 million (Hong Kong International Airport, 2012).
S1: Figures are for both, Pudong (41 million passengers and 3.1 million tonnes) as well as Hongqiao airport (Airports Council International, World Airport Traffic 2011, 10). Shanghai Statistical Yearbook 2011, 276 and 278.
L1: Figures are the combinations of six airports in the greater London area, including Heathrow (69 million passengers and 1.4 million tonnes), Gatwick (33.6 million passengers), Luton, Southend, Stansted (18 million passengers) and London City. Civil Aviation Authority, UK Airport Statistics: 2011 – annual.
N1: Figures for both airports, John F. Kennedy International Airport (47 million passengers and 1.3 million tonnes of cargo) and the LaGuardia Airport. The Port Authority of New York and New Jersey, 1997 Annual Airport Traffic Report.
T1: Figures include Haneda (64 million passengers and about 820,000 tonnes), Narita (30 million passengers and 2.1 million tonnes) as well as Chofu, Oshima, Miyakejima, Hachijojima, Niijima as well as Kozushima Airport. Tokyo Metropolitan Government, Tokyo Statistical Yearbook, Transportation by Air 2006-2010.

Hong Kong’s share in passenger throughput almost doubled again, compared to 1997, but was overtaken by Shanghai and thus only landed on the last position, even though its capacity almost tripled in real terms. However, the new airport Chek Lap Kok, now located in the New Territories next to Lantau Island, was number one in terms of cargo worldwide, even displacing all other cities from the list which are all operating with multiple airports instead of a single one like Hong Kong. Furthermore, Shanghai has grown enormously – after the opening of the new Pudong airport in 1999 – and was now placed second in terms of cargo with almost double the capacity of London and New York. London’s six airports handled most people of all cities in the world and even its biggest – Heathrow – was number one in this list, followed by Haneda, Chek Lap Kok, John F. Kennedy and Pudong. However, in 2011, the busiest airport in terms of passengers enplaning and deplaning has been Atlanta (92 million), followed by Beijing (77 million) and London Heathrow (69 million). Hong Kong was number ten with Shanghai Pudong on place 21 (Airport Council International, 2012). In terms of cargo, Hong Kong was placed number one, followed closely by Memphis with Shanghai Pudong ranked third.

In comparing Hong Kong and Shanghai, it is to mention that Hong Kong’s airport almost grew to its limit again. Shanghai, however, has its goal to become the top level air traffic destination in the Asia Pacific region with 100 million passengers and seven million tons of cargo handling in 2015 (Shanghai
Planning Exhibition Center, 2012). Its older airport, Hongquiao, is located in the west within the urbanized area but is an excellent transportation hub with an integrated high speed railway station. The second airport in Shanghai, Pudong international airport, located in the east, was opened in 1999, with the second runway opened in 2005 and the second terminal in 2008. In the end it should have four runways (five according to Shanghai Planning and Exhibition Center) and a capacity of handling 80 million passengers alone every year by 2015 (Kasarda, 2009: 67). However Shanghai’s logistics practices are far behind those of most competitor cities and nations because they are done by state-run monopolies with ‘state favoured’ private firms which often operate with inefficient and higher handling prices and low performance (Kasarda, 2009: 69). Hong Kong, on the other hand, leads in international flights, serving 192 foreign destinations in 2011, compared to 128 destinations in Pudong and 100 in Hongqiao, within 48, respectively 31 and 29 countries (TheAirDB, 2012). One disadvantage in Shanghai is that international air rights are tied to complex bilateral negotiations between nations so that Shanghai has to lobby through Beijing to attain additional international frequencies whereas Hong Kong, as a SAR, has the power to do its own negotiations about air service agreements (Mapp, 2006 and Kasarda, 2009).

3B Ports

Ports are very important indicators, as Ducruet and Notteboom mentioned (2010), especially container shipping and handling at the ports, because this kind of transport is a complex combination of end-to-end, line-bundling and pendulum services which are overall connected within extensive shipping networks. This network has improved by using specific hubs, cooperation between shipping lines as well as through the usage of larger ships (e.g. from 4,500 twenty-foot equivalent units (TEUs) in 2,000 to over 7500 TEU in early 2010). As a result, deep-water ports were demanded.

Table 24: Ports in 1982

<table>
<thead>
<tr>
<th>1982</th>
<th>Total cargo traffic per cent to the highest</th>
<th>Total TEU (pieces) per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>37,096</td>
<td>41.33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,659,943</td>
</tr>
<tr>
<td>Shanghai</td>
<td>89,760</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>66,000</td>
</tr>
<tr>
<td>London</td>
<td>46,939</td>
<td>52.29</td>
</tr>
<tr>
<td></td>
<td></td>
<td>374,000</td>
</tr>
<tr>
<td>New York</td>
<td>39,485</td>
<td>43.99</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,909,000</td>
</tr>
<tr>
<td>Tokyo</td>
<td>59,092</td>
<td>65.83</td>
</tr>
<tr>
<td></td>
<td></td>
<td>671,419</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after Institut für Seeverkehrswirtschaft und Logistik, e-mail of Mr. Stockmann (16 October 2012)

Even though Shanghai did not host SEZ in 1982, it had the most cargo traffic in that year, followed by Tokyo, London, New York and Hong Kong. In terms of TEUs handled, New York was ranked first, followed by Hong Kong and with about one million pieces less followed by Tokyo. London’s TEUs
handled were about half the amount of Tokyo’s and Shanghai had merely three and a half per cent of New York’s.

Table 25: Ports in 1997

<table>
<thead>
<tr>
<th>1997</th>
<th>Total cargo traffic in 1000 tons</th>
<th>per cent to the highest</th>
<th>Total TEU (pieces)</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>169,229</td>
<td>54.43</td>
<td>14,567,231</td>
<td>100</td>
</tr>
<tr>
<td>Shanghai</td>
<td>163,970</td>
<td>52.74</td>
<td>2,527,317</td>
<td>17.35</td>
</tr>
<tr>
<td>London</td>
<td>55,726</td>
<td>17.92</td>
<td>1,193,440</td>
<td>8.19</td>
</tr>
<tr>
<td>New York</td>
<td>51,748</td>
<td>16.64</td>
<td>2,456,886</td>
<td>16.87</td>
</tr>
<tr>
<td>Tokyo</td>
<td>93,131</td>
<td>29.96</td>
<td>2,382,622</td>
<td>16.36</td>
</tr>
<tr>
<td>Rotterdam</td>
<td>310,900</td>
<td>100</td>
<td>5,495,000</td>
<td>37.72</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after Institut für Seeverkehrswirtschaft und Logistik, e-mail of Mr. Stockmann (16 October 2012) and National University of Singapore 2001/2002 for the data of Rotterdam

In 1997 Rotterdam was the world’s busiest port in terms of total cargo handled, with almost double the amount of Hong Kong, which had a tight win over Shanghai but a huge head start over all other ports in terms of TEUs handled, followed by Rotterdam as a second far behind. In terms of TEUs, New York and Tokyo have been close up to Shanghai (which was ranked third), with leaving London in just handling half of their amount. In terms of total cargo, New York has been last, with only a third of Hong Kong or Shanghai. This was followed closely by London but with a wider gab by Tokyo (ranked number four). In this year, Rotterdam was clearly leading in total cargo traffic, followed by Singapore, Hong Kong’s long term rival and then followed by Hong Kong and Shanghai, as mentioned above. For TEUs, however, Hong Kong was leading the statistics for years, closely followed by Singapore (14.136 million) in 1997. It was far ahead of all other ports in the world, even surpassing major ports such as Kaohsiung in Taiwan, Pusan in Korea and Rotterdam with all of them “only” handling five million TEUs (National University of Singapore, 2001/2002).

Table 26: Ports in 2011

<table>
<thead>
<tr>
<th>2011</th>
<th>Total cargo traffic in 1000 tons</th>
<th>per cent to the highest</th>
<th>Total TEU (pieces)</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>277,444</td>
<td>49.26</td>
<td>24,384,000</td>
<td>76.92</td>
</tr>
<tr>
<td>Shanghai</td>
<td>563,200</td>
<td>100</td>
<td>31,700,000</td>
<td>100</td>
</tr>
<tr>
<td>London</td>
<td>48,796</td>
<td>8.66</td>
<td>890,755</td>
<td>2.81</td>
</tr>
<tr>
<td>New York</td>
<td>86,058</td>
<td>15.28</td>
<td>5,503,485</td>
<td>17.36</td>
</tr>
<tr>
<td>Tokyo</td>
<td>83,395</td>
<td>14.81</td>
<td>4,554,000</td>
<td>14.37</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013 after Institut für Seeverkehrswirtschaft und Logistik, e-mail of Mr. Stockmann (16 October 2012)
In 2011 Shanghai was the world’s busiest port, outperforming all other ports by far, leaving Hong Kong at the second place in this table. In terms of total cargo it left Singapore on the second rank, followed by Rotterdam and the Chinese ports of Guangzhou, Tianjin, Ningbo and Qingdao before Hong Kong in 2010 (Lemper, 2011: 319). The other three ports shown in the table have lost their share and are no real competitors for Shanghai (or Hong Kong) anymore. Even in total TEUs handling, Shanghai had outperformed Hong Kong in the year 2007 and was at the top of the world since 2010, overtaking Singapore. In 2011 Shanghai grew further, as well as Singapore (29 million), with leaving Hong Kong in a further distance and Shenzhen (22 million) catching up with Hong Kong (Port of Hamburg, 2013).

At this point I want to mention, that Shanghai operates two harbours now. One is located at the mouth of the Yangtze (more than 100 km altogether) and on the Huangpu River (more than 60 km) (Ziehm, 2008: 8). The other is the newly build Yangshan deep water port opened in the end of 2005, which is positioned about 30 kilometres offshore of the southern coast of Shanghai, already locating in the neighbouring province of Zhejiang. It has 50 berths and is connected with a 30 km bridge to Shanghai’s Nanhui District (Leman, 2002: 13). Those factors are a great advantage compared to the port in Hong Kong which cannot easily grow further. Today Shanghai harbour coordinates most export goods of the Yangtze River delta (YRD), the east coast and partly of the area north of YRD.

However, as I will discuss in the third part of the study (Pearl River Delta, see chapter 3.2.3.1), if both, Hong Kong and Shenzhen ports were calculated together (because of their active cooperation), as it is done in Shanghai, they would become the world’s number one port-network with handling 46 million TEUs. Yet, Hong Kong has been a free port since the 1840s which means that most of the cargo is free to enter and leave Hong Kong territorial waters without customs duties (Mapp, 2006: 21). Further it has the best natural harbour for hundreds of kilometres along the coast of China; it is privately operated and controlled by franchises and, according to Mapp, its long-time rival, Singapore, “is too far away to serve the same market that Hong Kong serves” (Mapp, 2006: 25), which is mainly southern China.

Moreover, Lu and Yang (2006) compared investment preferences for international logistics zones in Kaohsiung (Taiwan), Hong Kong and Shanghai ports from Taiwanese manufacturers’ perspectives. Responses revealed that Hong Kong’s port international logistics zone was better evaluated than the other two in 14 out of 29 criteria. These were:

Best fields for Hong Kong:
- labour quality and skilled labour force
- communication facility
- information system
- simplified customs procedures
- efficiency of port operations
- frequency of sailings and flights
- guarantee of foreign investment policy
- relaxation on foreign exchange
- political stability
- local regulatory environment
- government administration efficiency
- openness of foreign labour policy
- per capita income
Disadvantages for Hong Kong:
- agglomeration effect
- relevant firms’ support
- proximity to raw material source

Even worst in:
- labour cost
- cost of land acquired
- corporate tax incentives
- port charge

Therefore Hong Kong was best in port activity, policy and political risk dimensions but Shanghai was very competitive in cost related dimensions (best in labour cost, cost of land acquired, energy cost, corporate tax incentives and port charge) in the market-related dimension (economic growth and market size) as well as the agglomeration effect (relevant firms’ support, proximity to raw material source and agglomeration effect). However, Shanghai had many weaknesses in port activity, policy and political risk dimensions when compared with Hong Kong and Kaohsiung (Lu and Yang 2006: 44-45).

Resume: Hong Kong is the World’s Busiest Airport in Terms of Freight

Due to its excellent natural harbour and good location, Hong Kong was rated the world’s busiest container port for 11 years out of 12 between 1991 to 2002 (only overtaken once by Singapore) (Mapp, 2006: 254), whereas Shanghai was far behind during this period. Nonetheless, Shanghai caught up and even surpassed Hong Kong with its newly build deep water port. However, both port-locations should be seen as complementary, as stated in the Hong Kong Business (2001: 38), because Shanghai has an edge in shipping cargo to North America and North Asia and Hong Kong is the most efficient port in shipping to the rest of the world with a quick turnaround time as its key advantage.

Even though the weight of goods exported via Hong Kong by air was only a minimal share of that done by shipping, its value was enormous because only high-value goods are transported by air. In concerning this issue, Hong Kong was definitely a worldwide leader, even though it only had one single airport whereas the other cities could accumulate their score via two or more airports. And Hong Kong’s almost 60 million passengers for a single airport are enormously, overtaking Shanghai’s Pudong airport not only in the amount of passengers but also in its variety of destinations. Furthermore Skytray (2012) ranked Hong Kong’s airport number three in their world airport awards, doing best in airport dining and airport terminal cleanliness, only overtaken by Singapore (number two) and Incheon (number one) in the year 2012. However, Hong Kong was eight times the overall winner of these awards within the last ten years. Shanghai’s Hongqiao airport was ranked number 16 with Pudong not being under the top 20 airports worldwide.

Both locations have been grown dramatically over the 30 years, with Shanghai overtaking Hong Kong in both, port and airport activities, except freight handling via air. However, Hong Kong’s quality has improved more than Shanghai so that it still has an edge in terms of quality, reliability or turnaround time, even though the operating cost is higher in Hong Kong. Additionally, both locations are serving different regions so that they should not be seen so much as competitors but complimentary.
2.4.4 Internality

Embassies and Consulates are one kind of transnational organizations, namely comprehensive transnational organizations\(^6\), which are involved in stabilizing diplomatic relations between countries as well as promoting commercial cooperation and cultural communication (Su and Xue 2012). Therefore they play a major role in promoting the city’s global function and attraction. In general one can say that the more institutions the more issues need to be dealt with.

4A Embassies and Consulates

Table 27: Embassies and Consulates in Hong Kong and Shanghai in Comparison for 1982, 1997, 2012

<table>
<thead>
<tr>
<th></th>
<th>No. in 1982</th>
<th>per cent to highest</th>
<th>No. in 1997</th>
<th>per cent to the highest</th>
<th>No. in 2012</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>20(^{H1})</td>
<td>100</td>
<td>45(^{H2})</td>
<td>100</td>
<td>122(^{H3})</td>
<td>100</td>
</tr>
<tr>
<td>Shanghai</td>
<td>5</td>
<td>25</td>
<td>31</td>
<td>68.89</td>
<td>71</td>
<td>58.20</td>
</tr>
</tbody>
</table>

Sources and notes: Vouk, 2013, compiled after:
H2: Yellow Pages for Consumers: Hong Kong & Outlying Islands 1998, 72.
H3: The five officially recognised bodies in Hong Kong (Bank for International Settlements Representative Office for Asia and the Pacific, Office of the European Union, International Finance Corporation Regional Office for East Asia and Pacific, the World Bank Private Sector Development Office for East Asia and Pacific, International Monetary Fund Hong Kong SAR Sub-Office and the United Nations High Commissioner for Refugees Sub-Offices) are not included due to comparison reasons with the other cities. Source: Protocol Division Government Secretariat of Hong Kong, 2012.

Looking on the last 30 years, Hong Kong always had an edge over Shanghai. Shanghai is not the capital city of China, which host the political power and is the first choice for foreign embassies and consulates. Hong Kong, on the other hand, was a British colony, also not the capital city of a state, but the British – and therefore Western – base concerning China and even East and Southeast Asia. Therefore it attracted many businessmen (and –women) doing business with China but who wanted to be located in a democratic system. Although the number was still not very huge (20), it was four times that of Shanghai in 1982. Fifteen years later, the gap between both cities narrowed down to Shanghai having almost three quarters the amount of Hong Kong but widening again another 15 years later in 2012 to only over half of Hong Kong’s total number. Political worries about a smooth handover of Hong Kong in 1997 might have been a reason for a comparatively smaller number of official foreign contacts as well as the economic growth of the PRD, where many foreign political representatives have moved their contact offices to the PRD (for more information see the third part of the study, chapter 3.2.3.1). On the other hand, China’s opening and the importance of Shanghai as

\(^6\) The others are: Technical Transnational Organizations (TTOs) like Foreign Chambers of Commerce (e.g. the Austrian Trade Commission in Hong Kong and Shanghai respectively) and cultural and media institutions. They can be distinguished according to their function into Economic Technical Transnational Organizations (ETTOs) (like Chamber of Commerce) and Culture Technical Transnational Organizations (CTTOs) (like media/culture). For more information see Su and Xue 2012.
a production and financial centre have attracted more foreigners doing business there. As a result it also needed more political and official representatives helping them doing their business there (e.g. the opening of Austrian Trade Commissions in both, Hong Kong and Shanghai).

### Table 28: Number of Embassies and Consulates in 2012

<table>
<thead>
<tr>
<th>2012</th>
<th>Number of embassies and consulates</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong(^{H1})</td>
<td>122</td>
<td>77.22</td>
</tr>
<tr>
<td>Shanghai(^{S1})</td>
<td>71</td>
<td>44.94</td>
</tr>
<tr>
<td>London(^{L1})</td>
<td>158</td>
<td>100</td>
</tr>
<tr>
<td>New York(^{N1})</td>
<td>113</td>
<td>71.52</td>
</tr>
<tr>
<td>Tokyo(^{T1})</td>
<td>158</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:

H1 and S1: The same as H3 and S1 in Table 27
L1: The London Diplomatic List 2012, e-mail of Mr. Courtney Roots (5 November 2012)
N1: Mayor’s Office for International Affairs of New York City, 2012

In comparison of Hong Kong and Shanghai with the three top world cities, Shanghai ranks last and Hong Kong third after London and Tokyo but doing better than New York. Both, London and Tokyo are capital cities and therefore naturally attract more foreign representatives, both with the same number in 2012 (158). New York – even though not scoring so high – hosts one of the three HQs of the United Nations and should therefore be seen as more important. Bronger and Trettin (2011: 385 – see figures eight and nine in part one) have therefore given New York a head start against the other cities. Hong Kong, as an independent agent within the WTO, the World Trade Organization, and many other international organizations (e.g. concerning air flight rights or the Olympic committee) attracts additional foreign representatives for negotiations between this political entity and other nations. This might explain the outstanding number of embassies and consulates, even overtaking New York.

![Figure 17: 10$ Stamp of the Year 2011 with Hong Kong’s Special Status as "Hong Kong, China"](image)

Source: Own Collection. The stamp shows the Tamar Development Project, the design and construction of the new Chief Executive’s Office, the Central Government Office, the Legislative Council Complex, an extensive open space and two elevated walkways (Hong Kong Postal Service, 2011: 43).
Resume: Serving the Country’s Interest

As the mayor’s office for international affairs of New York City has posted (2012), the main purpose of a consulate or embassy is to serve its country’s interest in a foreign country and should take care about its inhabitants living there. Additional to their duties as legitimate ambassadors of all political and judicial concerns, they are promoters of their countries to raise awareness and understanding of one of each other and therefore contribute to a better living together. Thus they are important agents in making a city more globally open, which can be seen in Hong Kong’s open and mixed culture. Shanghai, however, is only beginning to re-establish its open culture, as it has been seen during the 1930s (“Paris of the East”). It has already started, for example in hosting a Western style bar district (Xintiandi), international chain stores such as McDonald’s, Starbucks or Carrefour, selling of Western products and gourmet food or even Weight Watchers, but it does not have the history and legitimacy of Hong Kong’s colony status, where this was almost continuously introduced since 1842.

2.4.5 Legal Service

Due to the widespread use of English Law and New York State Law, 35 out of the top 40 law firms in 1992 were American or British (the remaining were Australian and Canadian), as mentioned by Beaverstock, Smith and Taylor (2009). For their first comparison they used the top 30 London law firms and the top 100 in the US. In this part, I will show the top 40 law firms (all with a gross revenue over 750 million US-Dollars) of the 2012 ranking by the American Lawyer (2012).

5A Law Firms

Table 29: Legal Service Firms in 2012

<table>
<thead>
<tr>
<th>Ranked after Gross Revenue (G.R)</th>
<th>G.R. (m$)</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backer &amp; McKenzie</td>
<td>2,313</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>DLA Piper</td>
<td>2,247</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Skadden, Arps, Slate, Meagher &amp; Flom</td>
<td>2,165</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Latham &amp; Watkins</td>
<td>2,152</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Clifford Chance</td>
<td>2,090</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Linklaters</td>
<td>1,936</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Allen &amp; Overy</td>
<td>1,898</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Freshfields Bruckhaus Deringer</td>
<td>1,827</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Kirkland &amp; Ellis</td>
<td>1,750</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Hogan Lovells</td>
<td>1,665</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Jones Day</td>
<td>1,651</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sidley Austin</td>
<td>1,415</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>White &amp; Case</td>
<td>1,331</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Norton Rose</td>
<td>1,321</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Greenberg Traurig</td>
<td>1,243</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Weil, Gotshal &amp; Manges</td>
<td>1,229</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Gibson, Dunn &amp; Crutcher</td>
<td>1,166</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Morgan, Lewis &amp; Bockius</td>
<td>1,160</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Company</td>
<td>Number of Firms</td>
<td>Shanghai</td>
<td>Hong Kong</td>
<td>London</td>
<td>New York</td>
<td>Total</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------</td>
<td>----------</td>
<td>-----------</td>
<td>--------</td>
<td>----------</td>
<td>---------</td>
</tr>
<tr>
<td>Mayer Brown</td>
<td>1,134</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Cleary Gottlieb Steen &amp; Hamilton</td>
<td>1,125</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Sullivan &amp; Cromwell</td>
<td>1,113</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>CMS Legal Services</td>
<td>1,110</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>K&amp;L Gates</td>
<td>1,061</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Wilmer Cutler Pickering Hale and Dorr</td>
<td>994</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Reed Smith</td>
<td>993</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Morrison &amp; Foerster</td>
<td>963</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Simpson Thacher &amp; Bartlett</td>
<td>963</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Davis Polk &amp; Wardwell</td>
<td>910</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ropes &amp; Gray</td>
<td>903</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Paul Hastings</td>
<td>884</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bingham McCutchen</td>
<td>868</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Orrick, Herrington &amp; Sutcliffe</td>
<td>846</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>McDermott Will &amp; Emery</td>
<td>825</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>King &amp; Spalding</td>
<td>781</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Paul, Weiss, Rifkind, Wharton &amp; Garrison</td>
<td>780</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>O’Melveny &amp; Myers</td>
<td>779</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Herbert Smith</td>
<td>770</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Akin Gump Strauss Hauer &amp; Feld</td>
<td>770</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Winston &amp; Strawn</td>
<td>754</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Shearman &amp; Sterling</td>
<td>750</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>29</strong></td>
<td><strong>43</strong></td>
<td><strong>38</strong></td>
<td><strong>27</strong></td>
<td></td>
</tr>
<tr>
<td><strong>per cent of highest</strong></td>
<td><strong>81.40</strong></td>
<td><strong>67.44</strong></td>
<td><strong>100</strong></td>
<td><strong>88.37</strong></td>
<td><strong>62.79</strong></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, ranked after the American Lawyer (2012) with the information from web pages of those companies

Due to the reason that within the top ten law firms the difference between the cities would have been minimal (HK: 11, SH: 10, LO: 11, NY: 10, TO: 9) and similar would have been happening by considering the companies with general revenue above one billion US$ (HK: 21, SH: 19, LO: 25, NY: 21, TO: 16) I have chosen to include all the companies with a general revenue of more than 750 million US$ to see a clear difference between the cities. Thus I can figure out London as prime location for international law companies, followed by New York and Hong Kong, leaving behind Shanghai and Tokyo. In this field, Hong Kong being ranked first in Asia is no surprise because Hong Kong, as a former British colony, still has English as one of its official languages. This is a huge advantage over Shanghai and Tokyo, maybe only challenged by Singapore, another former British colony but which does not lay in the interest of my comparison. Furthermore it is to state, that most of these firms only have one location in a particular city with smaller firms saving office locations in Asia by not having a representative in all three compared cities of Hong Kong, Shanghai and Tokyo.

**Resume: English is the Key**

Hong Kong’s widespread use of English, even as an official language, privileges this city over the other Asian locations of Shanghai and Tokyo even considering that they might have a different focus, e.g. serving the Japanese economy alone and not the Asia Pacific region. How far Hong Kong functions as a regional centre for law firms for East Asia or not, needs further investigation, which is not part of my concern now. However, Hong Kong’s importance as office location for international law firms is given, enabling it to have an edge over Shanghai and Tokyo. It can be argued that Hong Kong is seen as almost as important as New York in terms of represented offices.
2.4.6 Information and News

Advertising firms are an example to show how cities are connected and how they are working within a network. Not only their headquarters are important, also where they have offices – where these firms think it is important to be represented. Furthermore, according to Taylor (2004), capital cities are the leading cities in advertising of a country, because all major media centres are located there. However, huge countries such as the USA or China can have more than one national media centre because the regional markets are important as well.

6A Advertising Firms

Table 30: Advertising Firms in 2012

<table>
<thead>
<tr>
<th>2012¹</th>
<th>Revenue (m$)</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>London</th>
<th>New York</th>
<th>Tokyo</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - WPP</td>
<td>16,053</td>
<td>61</td>
<td>161</td>
<td>146</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>2 - Omnicom Group</td>
<td>13,873</td>
<td>8</td>
<td>11</td>
<td>17</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>3 - Publicis Groupe</td>
<td>8,086</td>
<td>24</td>
<td>45</td>
<td>54</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>4 - Interpublic Group ofCos.</td>
<td>7,015</td>
<td>10</td>
<td>27</td>
<td>53</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>5 - Dentsu Inc.</td>
<td>4,067</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>57</td>
<td></td>
</tr>
<tr>
<td>6 - Havas</td>
<td>2,291</td>
<td>9</td>
<td>24</td>
<td>30</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>8 - Aegis Group</td>
<td>1,821</td>
<td>7</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>10 - Epsilon</td>
<td>847</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>13 - Daniel J. Edelman</td>
<td>629</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>15 - Aimia</td>
<td>574</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>90</td>
<td>127</td>
<td>291</td>
<td>316</td>
<td>133</td>
<td></td>
</tr>
<tr>
<td>per cent of highest</td>
<td>28.75</td>
<td>40.19</td>
<td>92.09</td>
<td>100</td>
<td>42.09</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013 after Advertising Age 2012 for the ranking and web pages of those companies.

Notes:
1: Due to difficulties in finding data (e.g. too many companies with their own web-pages for Hakuhodo DY Holdings [rank number 7] or no data about Hong Kong, Shanghai and Tokyo [for MDC Partners, rank number 9]), 10 out of the top 15 companies are included. Their ranking position in the year 2011 is stated.

Taylor’s statement, that capital cities are the leading cities in advertising, might be right for London, which has a good second place after New York, but cannot be applied easily for Tokyo, which is only performing a little bit better than Shanghai (a non-capital city). New York has been established as one of the top media centres in the world, raking number one, also as a non-capital city. Hong Kong however is last, almost half the amount of Shanghai. It lost its share to the “Chinese headquarter for consumer-products” (Shanghai) with the HQs of Coca-Cola, Pepsi, Nike, Adidas, Visa, McDonald’s, Starbucks and so on. Hong Kong lost more than half of its employees in its advertising firms until 2007. These firms did no longer solely manage whole Chine from their “China” department in Hong Kong, but opened new offices in Beijing, Shanghai or Guangzhou. Thus Hong Kong can be easily bypassed (Normandy, 2007). Even though it is a regional centre for the Cantonese speaking
population of South China – where it has to share its dominance with the long standing capital of Guangdong province (Guangzhou) – Shanghai, as economic powerhouse with Mandarin as official language, attracts more national and international firms. One example regarding the location which firms consider as important is the Austrian advertising firm of Montfort (HQ in Klaus in Vorarlberg). They have established an office in Shanghai to serve the estimated 5,000 Western companies in the greater Shanghai area. Although there are about 3,000 advertising companies in Shanghai, they are not competitors for Montfort as most of them serve local companies. This company did not establish an office somewhere else in Asia but serve their customers from the Shanghai office. They did not open an office in Hong Kong, because there is no production sector as it is in Shanghai, where the main source of customers in their B2B business comes from (Lorenz, 2012 and Montfort, 2012).

Furthermore telecommunication connections and infrastructure increase the competitiveness with Hong Kong having one of the most open telecommunication markets in the world, being one of the major telecommunication and internet hubs in the region with six submarine cable landing stations or a connection to seven regional and trans-Pacific submarine cable systems. It further hosts all three telecommunications operators in the Mainland and has one of the world’s highest mobile service penetration rates with 14.9 million mobile service subscribers - or 210 per cent - as in December 2011. With regard to internet, 87 per cent of the households use fixed broadband service, which is among the highest rates in the world. Hong Kong is also at the forefront in broadband service quality with speeds up to 1,000 Megabits per second. In addition the city has more than 10,300 public Wi-Fi hot spots and in 2012 it had more than 400 free Wi-Fi services in government premises (Information Service Department of Hong Kong: The Facts – Telecommunication 2012). This gives Hong Kong a distinctive advantage, which cannot be seen solely when considering the number of represented office of advertising firms.

Resume: Cantonese Versus Mandarin

Both cities, Hong Kong and Shanghai, are located within China, but Hong Kong’s advertising industry, economic infrastructure and income (US$ 27,670 in 2007) is more advanced than that of Shanghai (e.g. income US$ 3,311 in 2007). Advertising must consider the local culture (and income levels) and shape its advertisement to fit the local’s values and culture (Jozsa et al., 2010). However, the (advertising) firms’ orientation and its customers have also to be considered, as the example of Montfort advertising has shown. Even though Hong Kong is generally more advanced than Shanghai in providing infrastructure for advertising firms (among them free market, no government intervention or free flow of information) the possible pool of customers has also to be considered. For example, as Mandarin is wider spread than Cantonese, Shanghai – operating in Mandarin – has much more potential customers. As a result, Hong Kong is locally important but Shanghai is superior to Hong Kong in a nation-wide comparison. However, I might also argue that both cities are complementarily; one serving the (much bigger, up to 800 million native speakers) Mandarin-
speaking population whereas the other deals with the (much smaller, about 50 million native speakers) Cantonese speaking part of China (Meyers Atlas China, 2010: 192).

2.4.7 Education and Research

During my research in Hong Kong and Shanghai I found out that the indicator “patents” is not a good indicator because the international standards for granting a patent are recognised in Hong Kong but not in Shanghai. This means, it is much easier to get a patent in Shanghai than in Hong Kong (or other industrialized countries). Since the handover of Hong Kong, the SAR has its own patent law and patent system with standard patents (up to 20 years) and short term patents (up to 8 years) and can be granted by either the State Intellectual Property Office of the People’s Republic of China, the European Patent Office or the United Kingdom Patent Office (for standard patents) (Census and Statistics Department: Patent Statistics for Hong Kong, 2009: FC5). However, for example in 2008, approximately one third of the 13,662 standard patent applications were granted (4,001), whereas the number in Shanghai is unproportional higher (80,215 for the year 2011) with more than half of the applications got granted (47,960 in the same year) (Census and Statistics Department: Patent Statistics for Hong Kong, 2009: FC6 and Shanghai Statistical Yearbook 2012, 347).

Furthermore, both Austrian Trade Commissioners in Shanghai and Hong Kong (Mr. Gradt and Mr. Schierer) have told me, that the legal security is not given in China but in Hong Kong. Therefore, even if a company gets a patent in mainland China, there is no guarantee that the arbitration court will protect the rights of the patent owner. In Hong Kong, however, which has a free trade agreement with mainland China, the court will also grant legal protection to companies doing business in China. This protection leads to an enormous number of patent applicants of international companies. For example: in 2008 more than 5,600 applications came from the US, more than 1,800 from Japan, 900 from Germany, 800 from Switzerland, 400 from UK and only 173 from Hong Kong (as well as some 3750 others) (Census and Statistics Department: Patent Statistics for Hong Kong, 2009: FC8).

As Shanghai shows legal imbalances and patents are easier granted, I decided not to consider this indicator. On the one hand, patents in Shanghai are not fully protected by (not fully) independent courts in China. On the other hand, Hong Kong can score with strict rules and legal security. So I replaced this indicator within the field ‘education and research’. The new indicators consist of the number of higher education students per 10,000 inhabitants as well as professors in this field. Those aspects seem to be good indicators because it can be argued that a high number of students leads to a high number of professionals and a high number of professors leads to a high amount of innovation and research.
7A Students and Professors

For these indicators I want to mention that it was most difficult to find data. Beginning with Hong Kong, there is no single authority which counts all higher education students and professors working there. When I was in Hong Kong, I got some data but back in Austria I found out, that these data did only cover the universities, covered by the University Grants Committee (UGC). This is not a good representing number for the whole of Hong Kong, because it leaves out all private and not UGC-funded institutions. Therefore I did some further research and asked at the UGC directly, so that I could – at least – get the data for the universities and UGC-funded programmes for all the years. I also wrote an enquiry to the Education Bureau, which gave me the numbers of total students for 2011/2012 and 2000/2001 but not for the previous years. They also did not have any data for university professors so that I decided to take the numbers from the UGC, acknowledging that these numbers only represent eight out of 17 degree-awarding higher education institutions in Hong Kong (Education Bureau, 2013), however, which are usually the best known and established institutions.

Figures for Shanghai and Tokyo have been easily accessible via their statistical yearbooks, but for New York and London the same problem as for Hong Kong occurred. No single institution was able to provide the data going back to 1982 for both, students and professors. And if some institution provided some kind of data, than they did not include both, public and private institutions of higher education. The same happened with the number of professors for New York. However, I was able to find the number of students for both, private and public institutions. As for London, the data I could find was only for all government funded higher education institutions for the academic year 2011/2012, because for 1997/1998 the data was only given for the whole nation.

Nevertheless, I decided to include the data I could find. I will discuss the difficulties in comparison between the cities below the tables for the particular years. For a better comparison I broke down the numbers for 10,000 inhabitants and showed these results in percentage to the highest.

Table 31: Students and Professors in Higher Education in 1982/1983

<table>
<thead>
<tr>
<th></th>
<th>1982/1983</th>
<th>Inhabitants¹</th>
<th>University Students</th>
<th>Students per 10.000 inhabitants</th>
<th>per cent to the highest</th>
<th>University Professors</th>
<th>Professors per 10.000 inhabitants</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong⁴¹</td>
<td>5,232,900</td>
<td>37,154</td>
<td>71.00</td>
<td>13.49</td>
<td>2,211</td>
<td>4.23</td>
<td>8.43</td>
<td></td>
</tr>
<tr>
<td>Shanghai⁴¹</td>
<td>11,805,100</td>
<td>83,918</td>
<td>71.08</td>
<td>13.50</td>
<td>2,473</td>
<td>2.09</td>
<td>4.18</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>6,765,100</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>New York⁴¹</td>
<td>7,071,639</td>
<td>372,266</td>
<td>526.42</td>
<td>100</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Tokyo⁴¹</td>
<td>11,676,264</td>
<td>613,108</td>
<td>525.09</td>
<td>99.75</td>
<td>58,505</td>
<td>50.11</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
1: see sources for inhabitants at table 7
H1: numbers provided by Mrs. Chiu (2012/2013), Executive Officer of the University Grants Committee Secretariat of Hong Kong. These
numbers only include public funded institutions which have been three universities in Hong Kong in 1983. Namely: the Hong Kong Polytechnic, University of Hong Kong and the Chinese University of Hong Kong; Hong Kong Annual Digest of Statistics 1983, 194-195; 199 S1: Shanghai Statistical Yearbook 1983, 276 and 278 N1: Office of Higher Education: Degree Credit Enrolment, Fall: 1982 (2013) T1: Education and Culture, Tokyo Metropolitan Government 1982

For the academic year 1982/1983, I was not able to find any data for London or any data for New York’s professors. Regarding Hong Kong, the data only includes the universities and programmes funded by the UGC with only three universities in that year. Therefore the number was definitely higher, when counting the private and non-UGC funded institutions. With this kept in mind, Hong Kong was as good as Shanghai in terms of students attending higher education with about 70 per 10,000 inhabitants. Even if estimating the missing numbers, Hong Kong would have been far behind the leading world cities of that time, New York and Tokyo (and I assume as well as London), which had almost a seven times higher penetration rate than Hong Kong and Shanghai. As for the difference concerning professors working in those institutions, both cities even cannot reach one tenth of the amount of Tokyo with just four and two compared to 50 professors per 10,000 inhabitants. Nonetheless, it is to mention that Hong Kong had twice as many professors per 10,000 as Shanghai with almost having the same total number.

Table 32: Students and Professors in Higher Education in 1997/1998

<table>
<thead>
<tr>
<th>1997/1998</th>
<th>Inhabitants</th>
<th>University Students</th>
<th>Students per 10,000 inhabitants</th>
<th>per cent to the highest</th>
<th>University Professors</th>
<th>Professors per 10,000 inhabitants</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>6,502,100</td>
<td>186,700</td>
<td>287.14</td>
<td>52.03</td>
<td>12,735</td>
<td>19.59</td>
<td>57.70</td>
</tr>
<tr>
<td>Shanghai</td>
<td>14,890,000</td>
<td>153,804</td>
<td>103.30</td>
<td>18.72</td>
<td>8,127</td>
<td>5.46</td>
<td>16.08</td>
</tr>
<tr>
<td>London</td>
<td>7,014,800</td>
<td>369,800</td>
<td>527.17</td>
<td>95.52</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>New York</td>
<td>7,575,000</td>
<td>405,975</td>
<td>535.94</td>
<td>97.11</td>
<td>n.a.</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tokyo</td>
<td>11,823,561</td>
<td>652,537</td>
<td>551.90</td>
<td>100</td>
<td>40,137</td>
<td>33.95</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
1: see sources for inhabitants at table 8
H1: Number provided by Mrs. Wong (2013), Senior Statistical Officer of the Education Bureau of HK for the academic year 2000/2001.
H2: University Grants Committee (2013). This number only includes public funded institutions. Namely: eight universities and colleges in Hong Kong in 1983 (City University, Hong Kong Baptist University, Lingnan College, Chinese University, Institute of Education, Polytechnic University, University of Science and Technology, University of Hong Kong); Hong Kong Annual Digest of Statistics 1998, 211
S1: Shanghai Statistical Yearbook 1998, 320 and 324
L1: Focus on London 2000, 85
N1: Office of Higher Education: Degree Credit Enrollment, Fall: 1997 (2013)
T1: Education, Culture and Sports, Tokyo Metropolitan Government 1997

In the academic year of 1997/1998 the numbers might not all be comparable, because some cities include all students whereas others, e.g. London, only include public funded institutions for higher education. Moreover, the numbers for Hong Kong, which would include all, are three years later than all others. Despite this, one clear trend can be seen. Hong Kong has been catching up enormously, having more than half of the numbers compared to the top three, which are very close to each other. Shanghai, however – also catching up – was still far behind, not only in percentage to the number one but also in total number behind Hong Kong. Tokyo lost its high number of university professors
but still had about double the number per 10,000 inhabitants than Hong Kong and six times than that of Shanghai.

### Table 33: Students and Professors in Higher Education in 2011/2012

<table>
<thead>
<tr>
<th>2011/2012</th>
<th>Inhabitants</th>
<th>University Students</th>
<th>Students per 10,000 inhabitants</th>
<th>per cent to the highest</th>
<th>University Professors</th>
<th>Professors per 10,000 inhabitants</th>
<th>per cent to the highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>7,136,300</td>
<td>303,800²¹</td>
<td>425.71</td>
<td>67.54</td>
<td>21,435²¹</td>
<td>30.04</td>
<td>63.55</td>
</tr>
<tr>
<td>Shanghai</td>
<td>23,474,600</td>
<td>511,300</td>
<td>217.81</td>
<td>34.56</td>
<td>39,626</td>
<td>16.88</td>
<td>35.72</td>
</tr>
<tr>
<td>London</td>
<td>8,204,400</td>
<td>402,500²¹</td>
<td>490.59</td>
<td>77.83</td>
<td>38,060²¹</td>
<td>46.39</td>
<td>98.15</td>
</tr>
<tr>
<td>New York</td>
<td>8,244,910</td>
<td>519,690</td>
<td>630.32</td>
<td>100</td>
<td>38,967²¹</td>
<td>47.26</td>
<td>100</td>
</tr>
<tr>
<td>Tokyo</td>
<td>13,048,873</td>
<td>729,422</td>
<td>558.99</td>
<td>88.68</td>
<td>47,911</td>
<td>36.72</td>
<td>77.69</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:

1: see sources for inhabitants at table 9
H1: Number provided by Mrs. Wong (2013), Senior Statistical Officer of the Education Bureau of HK for the academic year 2010/2011.
H2: University Grants Committee (2013). This number only includes public funded institutions. There have been eight universities and colleges in Hong Kong in the academic year of 2010/2011 (City University, Hong Kong Baptist University, Lingnan College, Chinese University, Institute of Education, Polytechnic University, University of Science and Technology, University of Hong Kong)
S1: Shanghai Statistical Yearbook 2011, 377 and 381
L1: Higher Education Statistics Agency: Staff employed (2013)
N1: Office of Higher Education: Degree Credit Enrollment, Fall: 2011 (2013)
N2: City University of New York (2010). Note: this number only include the staff for the city university of New York (CUNY) and not the staff working for the state university of New York (SUNY)
T1: Figures for 2010, Education, Culture and Sports, Tokyo Metropolitan Government 2010

In the last comparison, New York is definitely leading in both, students and professors per 10,000 inhabitants, even though not all professors have been included. Tokyo became second in terms of students and third, behind London’s second place (which only counted public institutions) in terms of professors. Hong Kong was further growing – as was Shanghai – and almost catching up with London. However, London’s numbers did not include private institutions. Shanghai was just a little bit more than half the amount of Hong Kong for both categories and therefore shrinking its distance to Hong Kong in the previous years. To sum up, both are quite far behind the top three cities.

### Resume: Chinese Cities Are Catching Up

Global cities are attractive to firms because of the (usual) higher percentage of diverse and highly skilled labour there (Findley et al., 1996: 50). Therefore an excellent school system will be needed. In this category I have tried to compare the five cities in regard to students in higher education and professors teaching and doing research there. A huge amount of people having higher education does not necessarily mean that the workforce is highly skilled (if the universities do not provide good, state-of-the art research and knowledge, which can be taught to the students), but it can be supposed.
Hong Kong and Shanghai are both far behind the numbers of students and professors per 10,000 inhabitants of that of London, New York or Tokyo. Nevertheless, the two Chinese cities have been catching up, with Hong Kong much more doing so than Shanghai. With the focus on tertiary industry and knowledge-based economic markets, both cities will need more highly educated inhabitants doing business in finance or R&D, so that I assume that both numbers will rise in the future.

2.4.8 Culture and the Arts

These two indicators are more complicated to find than I have expected, because there is no official data about (international) cultural events for the cities as a whole not to mention international comparable data. There are many websites which list cultural events but they do not include all possible events. For example: on the Shanghai China Travel Website (2012) there are 98 listed cultural and touristic events and festivals for the year 2012. China Ticket Online (2012) listed 37 events for October to December 2012 with a range from pop concerts (13 events, with Jennifer Lopez, Elton John, Blue or Backstreet Boys) via dance and ballet (five), acrobatics and magic show (four) and others. However it only shows the current and upcoming events. And the Shanghai Oriental Art Center (2012) lists 42 events for the whole year, whereof more than 30 are international.

The same happened with Hong Kong. The Hong Kong Ticketing (2012) lists the current and upcoming events with 25 concerts and star performers (about one third to one half of them are international), 11 music drama dance and comedy events, eight family festivals and theme parks or two parties (which of one is the German Bierfest) for the period November to December 2012 (altogether 57 events). The Hong Kong Convention and Exhibition Centre (2012) had 30 events on its web page for November and December and the Hong Kong Tourism Board (2012) listed 81 events within all categories (events calendar, Hong Kong highlight events (whole year) and “M”-mark events (whole year)).

There are no available international comparable data for cultural or sport events as well as no coherent and reliable source for such events in one city (Hong Kong or Shanghai). Despite some statistics, it is hard to get a full picture as most of them do not cover all international events. In Shanghai there is a Cultural Statistic Yearbook, which lists two international music performances, six international sport performances and 36 exhibitions and other events for the year 1986 (Shanghai Cultural Statistical Yearbook, 1987). For the year 1997 it lists six music and dance performances, 12 sport events and 50 exhibitions and other international events (Shanghai Cultural Statistical Book, 1998). In Hong Kong there are similar statistics so that there have been more than 26 international events (from the Stuttgart Chamber Orchestra to German Film Festival or Japanese Contemporary Pottery) and 26 international sport projects and events (Hong Kong Urban Council Annual Report, 1982/83). Further, for 1997 the report lists 20 cultural events and 10 sport events like the women’s world taekwondo championship, the 22\textsuperscript{nd} Hong Kong Special Olympics Inter-cities Invitations Games
or the 1st Men’s Asian hockey Federation Cup (Hong Kong Urban Council Annual Report 1997/98 and Hong Kong Regional Council Annual Report 1997-98). However, the statistics in both cities just list major events and not all events during that year. Especially in Hong Kong, the Urban, respectively Regional, Council did not get the information for all the events, namely all which are not organized by these government organizations.

This is the reason why I chose the three following “cultural” indicators (library stock books, attendances at museums and art performances) because they are the only indicators I could find in both statistical yearbooks of Hong Kong and Shanghai for comparison. In the statistical yearbook of Shanghai (2011: 115) there is a number of 227 international exhibitions, but no comparative data for Hong Kong is available and therefore not comparable. The following “sport” indicators (sport facilities, quantity of playground) are the only two indicators available for both cities as well. Furthermore, because it was difficult enough to find these indicators for comparison, I did not look for the same or similar indicators for London, New York or Tokyo.

8A Culture

Table 34a: Culture Indicators for Hong Kong and Shanghai in 2011

<table>
<thead>
<tr>
<th></th>
<th>Inhabitants (10,000)</th>
<th>Library stock books</th>
<th>Per 10,000 inhabitants</th>
<th>% to highest</th>
<th>Attendances at Museums</th>
<th>Per 10,000 inhabitants</th>
<th>% to highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>707.16</td>
<td>12,644,397</td>
<td>17,880.53</td>
<td>100</td>
<td>4,473,405</td>
<td>6,325.87</td>
<td>100</td>
</tr>
<tr>
<td>Shanghai</td>
<td>2,347.46</td>
<td>26,047,200</td>
<td>11,095.91</td>
<td>62.06</td>
<td>11,650,000</td>
<td>4,962.81</td>
<td>78.45</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
H1: Hong Kong Annual Digest of Statistics 2012 Edition
S1: Shanghai Statistical Yearbook 2011

Table 34b: Continuing

<table>
<thead>
<tr>
<th></th>
<th>Inhabitants (10,000)</th>
<th>Art performances</th>
<th>Per 10,000 inhabitants</th>
<th>% to highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>707.16</td>
<td>5,833</td>
<td>8.25</td>
<td>60.89</td>
</tr>
<tr>
<td>Shanghai</td>
<td>2,347.46</td>
<td>31,801</td>
<td>13.55</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
1: art performances: various events like circus, theatre, concerts, plays, film shows, sport performances and so on.
H1: Hong Kong Annual Digest of Statistics 2012 Edition
S1: Shanghai Statistical Yearbook 2011

These indicators show that Shanghai is leading in all categories – library stock books, attendances at museums and art performances – but this is no surprise because its population is more than three times that of Hong Kong. However, if the numbers are broken down to 10,000 inhabitants, than Hong Kong is leading in library stock books and attendances at museums, but not at art performances. Shanghai is the city in China which now has money to spent (e.g. it attracted ten per cent of the
nation’s FDI between 1990 and 2005 by only one per cent of the population (Wu 2008: 247)) to spend and to attract artist in art performances. Nonetheless, I argue, that library stocks or good and well equipped museums, are not so easily bought and established only within a few years but needs more time. Hong Kong having been under British rule and practicing its enormous freedoms as a SAR, was not restricted in arts as Shanghai has been during the Maoist period. Further, Hong Kong did not experience the “Cultural Revolution”, where books have been burnt, museums destroyed and cultural traditions forbidden. Therefore Shanghai could only re-start developing form 1990s onwards with the disadvantage of a setback of decades compared to Hong Kong.

Furthermore, Hong Kong is already constructing a cultural district of 40 hectares in Kowloon (the West Kowloon Cultural District), which will house 15 performing arts venues, a cultural institution, an exhibition centre and an open space area of 23 hectares, used for leisure. This major project, which is transforming almost a whole city district, will also host integrated offices, shops, apartments, art education facilities and transportation links (e.g. a new high-speed railway station) (Berger, 2012: 160). This will further enhance the cultural diversity and importance over Shanghai.

8B Sport

Table 35: Sport Indicators for Hong Kong and Shanghai in 2011

<table>
<thead>
<tr>
<th></th>
<th>Inhabitants (10,000)</th>
<th>Sport Facilities¹</th>
<th>Per 10,000 inhabitants</th>
<th>% to highest</th>
<th>Quantity of Playgrounds²</th>
<th>Per 10,000 inhabitants</th>
<th>% to highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong¹</td>
<td>707.16</td>
<td>2,518</td>
<td>3.56</td>
<td>100</td>
<td>696</td>
<td>0.98</td>
<td>100</td>
</tr>
<tr>
<td>Shanghai¹</td>
<td>2,347.46</td>
<td>4,845</td>
<td>2.06</td>
<td>57.96</td>
<td>324</td>
<td>0.14</td>
<td>14.02</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013, compiled after:
1: Include fitness centres, sport centres and grounds, roller skating rinks, swimming pools, holiday camps, beaches and so on
2: For Hong Kong it is the number of children’s playgrounds, for Shanghai the number of community public playgrounds
H1: Hong Kong Annual Digest of Statistics 2012 Edition
S1: Shanghai Statistical Yearbook 2011

Regarding sport, I could only find the categories of “sport facilities” and “quantity of playgrounds”, which I also broke down to 10,000 inhabitants. The overall number for sport facilities in Shanghai is bigger than in Hong Kong, but Hong Kong has in average one facility more per 10,000 inhabitants than Shanghai. From my own experience, I always got good information from an English speaking staff when I visited some swimming pools, fitness centres or ice skating rinks in Hong Kong. Unfortunately I have not been to any public sport facilities in Shanghai, but due to my overall experience there, I assume that most of the staff there cannot speak English and therefore it would be much more complicated to get access to them. Furthermore, concerning the quantity of playgrounds, Hong Kong has more than double the amount than Shanghai in real terms (with just one third of Shanghai’s inhabitants) and about a five times higher rate compared to facilities per 10,000 inhabitants. One reason for that might be the huge amount of public housing estates (almost 50 per cent) in Hong Kong, where they have a playground next to most estates.
Resume: Can Culture Be Bought?

Hong Kong is leading in almost every aspect concerning the categories of culture and sport except for art performances. My assumption is that this is because of a more stable development in Hong Kong (more political and economic freedoms, especially since the handover in 1997) and a longer history in doing so. Shanghai is catching up, it already attracts some world class performers (see introduction to this sub-chapter) and it has already build some multi-use cultural and sport facilities (e.g. the Mercedes-Benz arena, which is used for cultural and sport performances, exhibitions, press conferences and which host a cinema (own experience)). However, it still has a long way to go meanwhile Hong Kong is leading in these categories.

2.5 Synthesis of the Comparison

2.5.1 Shanghai is No Competitor

Table 36: Summary of all Indicators for 1982

<table>
<thead>
<tr>
<th>Indicators (in percentage to the highest)</th>
<th>HK</th>
<th>SH</th>
<th>LO</th>
<th>NY</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A HQ Companies - Number</td>
<td>0</td>
<td>0</td>
<td>64</td>
<td>100</td>
<td>85</td>
</tr>
<tr>
<td>1A HQ Companies - Revenue</td>
<td>0</td>
<td>0</td>
<td>41</td>
<td>100</td>
<td>37</td>
</tr>
<tr>
<td>2A HQ of Banks - Number</td>
<td>5,88</td>
<td>0</td>
<td>41,18</td>
<td>52,94</td>
<td>100</td>
</tr>
<tr>
<td>2A HQ of Banks - Revenue</td>
<td>6,98</td>
<td>0</td>
<td>46,05</td>
<td>53</td>
<td>100</td>
</tr>
<tr>
<td>2C Stock Exchanges - Foreign</td>
<td>n.a.</td>
<td>-</td>
<td>100</td>
<td>19,38</td>
<td>2,47</td>
</tr>
<tr>
<td>2C Stock Exchanges - Shares</td>
<td>0,92</td>
<td>0</td>
<td>13,28</td>
<td>100</td>
<td>49,53</td>
</tr>
<tr>
<td>3A Airports - Passengers</td>
<td>14,81</td>
<td>1,83</td>
<td>100</td>
<td>99,98</td>
<td>43,58</td>
</tr>
<tr>
<td>3A Airports - Freight</td>
<td>23,84</td>
<td>2,17</td>
<td>62,97</td>
<td>100</td>
<td>19,88</td>
</tr>
<tr>
<td>3B Ports - Cargo</td>
<td>41,33</td>
<td>100</td>
<td>52,29</td>
<td>43,99</td>
<td>65,83</td>
</tr>
<tr>
<td>3B Ports - TEU</td>
<td>86,95</td>
<td>3,46</td>
<td>19,59</td>
<td>100</td>
<td>35,17</td>
</tr>
<tr>
<td>4A Embassies and Consulates</td>
<td>100</td>
<td>25</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>7A Students - per 10,000 inhabitants</td>
<td>13,49</td>
<td>13,50</td>
<td>n.a.</td>
<td>100</td>
<td>99,75</td>
</tr>
<tr>
<td>7B Professors - per 10,000 inhabitants</td>
<td>8,43</td>
<td>4,18</td>
<td>n.a.</td>
<td>n.a.</td>
<td>100</td>
</tr>
<tr>
<td>Summary all cities (without 4A)</td>
<td>202.63</td>
<td>125.10</td>
<td>540.40</td>
<td>869.30</td>
<td>738.20</td>
</tr>
<tr>
<td>Summary HK and SH with 4A</td>
<td>302.63</td>
<td>150.10</td>
<td>738.20</td>
<td>738.20</td>
<td>738.20</td>
</tr>
<tr>
<td>Rank</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013

Table 36 shows the result of all indicators for the year 1982. The sum for all five cities is made without indicator 4A, because there was no data available for London, New York and Tokyo in that
year. A separated summary, including 4A, is made for Hong Kong and Shanghai. However, the overall result is the same. New York got the highest score, followed by Tokyo and London, all losing more than 100 points to each other. After those “big three” there is a wide gap with more than 300 points, followed by Hong Kong, which had almost double the points than Shanghai. Even though Shanghai was able to get the highest score in one category (3B) and Hong Kong could not (in a five-city comparison), Shanghai was at the last rank. This indicates that both cities were not part of the top world cities in 1982 as they had less than 50 per cent of the lowest score of those three cities.

2.5.2 Hong Kong: Best in Trade and Transport

Table 37: Summary of all Indicators for 1997

<table>
<thead>
<tr>
<th>Indicators (in percentage to the highest)</th>
<th>HK</th>
<th>SH</th>
<th>LO</th>
<th>NY</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A HQ Companies - Number</td>
<td>1,30</td>
<td>0</td>
<td>31,17</td>
<td>32,47</td>
<td>100</td>
</tr>
<tr>
<td>1A HQ Companies - Revenue</td>
<td>0,58</td>
<td>0</td>
<td>26,12</td>
<td>29,64</td>
<td>100</td>
</tr>
<tr>
<td>2A HQ of Banks - Number</td>
<td>0</td>
<td>6,67</td>
<td>40</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>2A HQ of Banks - Revenue</td>
<td>0</td>
<td>6,27</td>
<td>100</td>
<td>73,82</td>
<td>92,39</td>
</tr>
<tr>
<td>2C Stock Exchanges - Foreign</td>
<td>4,28</td>
<td>n.a.</td>
<td>100</td>
<td>89,51</td>
<td>12,85</td>
</tr>
<tr>
<td>2C Stock Exchanges - Shares</td>
<td>7,66</td>
<td>1,88</td>
<td>33,6</td>
<td>100</td>
<td>15,13</td>
</tr>
<tr>
<td>3A Airlines - Passengers</td>
<td>23,07</td>
<td>7,13</td>
<td>100</td>
<td>56,11</td>
<td>79,98</td>
</tr>
<tr>
<td>3A Airlines - Freight</td>
<td>73,17</td>
<td>19,65</td>
<td>64,49</td>
<td>70,63</td>
<td>100</td>
</tr>
<tr>
<td>3B Ports - Cargo</td>
<td>100</td>
<td>96,89</td>
<td>32,93</td>
<td>30,58</td>
<td>55,03</td>
</tr>
<tr>
<td>3B Ports - TEU</td>
<td>100</td>
<td>17,35</td>
<td>8,19</td>
<td>16,87</td>
<td>16,36</td>
</tr>
<tr>
<td>4A Embassies and Consulates</td>
<td>100</td>
<td>68,89</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>7A Students - per 10,000 inhabitants</td>
<td>52,03</td>
<td>18,72</td>
<td>95,52</td>
<td>97,11</td>
<td>100</td>
</tr>
<tr>
<td>7B Professors - per 10,000 inhabitants</td>
<td>57,70</td>
<td>16,08</td>
<td>n.a.</td>
<td>n.a.</td>
<td>100</td>
</tr>
<tr>
<td>Summary all cities (without 4A)</td>
<td>374.22</td>
<td>146.50</td>
<td>617</td>
<td>622.80</td>
<td>846.70</td>
</tr>
<tr>
<td>Summary HK and SH with 4A</td>
<td>474.22</td>
<td>215.38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rank</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013

In the year of the handover of Hong Kong, this city was doing already much better than 15 years before but was still far behind the top: Tokyo. Japan’s capital got the most points, overtaking New York, leaving London – again – at a third rank, but very close behind New York. Shanghai is still at the last place, even losing some points towards Hong Kong, which has shortened its distance to the top world cities by gaining more than the half score of London. This time Hong Kong got two 100-scores (in a five-city comparison, 3B Cargo and TEU), stating it as a cargo centre. Shanghai, however, did not score any 100 but was a very close second behind Hong Kong in terms of cargo handling at the port.
But still, Hong Kong was more than twice as successful as Shanghai, generally speaking, with – and without considering another leading edge of Hong Kong: Embassies and Consulates.

### 2.5.3 Shanghai Overtaking Hong Kong

<table>
<thead>
<tr>
<th>Indicators (in percentage to the highest)</th>
<th>HK</th>
<th>SH</th>
<th>LO</th>
<th>NY</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1A HQ Companies - Number</td>
<td>8.33</td>
<td>12.5</td>
<td>33.33</td>
<td>37.5</td>
<td>100</td>
</tr>
<tr>
<td>1A HQ Companies - Revenue</td>
<td>7.53</td>
<td>9.04</td>
<td>43.45</td>
<td>37.96</td>
<td>100</td>
</tr>
<tr>
<td>1B Accountancy Firms</td>
<td>52.94</td>
<td>76.47</td>
<td>100</td>
<td>58.82</td>
<td>88.24</td>
</tr>
<tr>
<td>2A HQ of Banks - Number</td>
<td>11.11</td>
<td>33.33</td>
<td>44.44</td>
<td>66.67</td>
<td>88.89</td>
</tr>
<tr>
<td>2A HQ of Banks - Revenue</td>
<td>0.82</td>
<td>13.21</td>
<td>74.03</td>
<td>65.85</td>
<td>91.87</td>
</tr>
<tr>
<td>2A Branches of Banks</td>
<td>55.93</td>
<td>45.76</td>
<td>100</td>
<td>69.49</td>
<td>57.63</td>
</tr>
<tr>
<td>2C Stock Exchanges - Foreign</td>
<td>2.94</td>
<td>0</td>
<td>73.19</td>
<td>100</td>
<td>1.35</td>
</tr>
<tr>
<td>2C Stock Exchanges - Shares</td>
<td>4.7</td>
<td>11.94</td>
<td>9.19</td>
<td>100</td>
<td>12.96</td>
</tr>
<tr>
<td>3A Airports - Passengers</td>
<td>44.83</td>
<td>55.8</td>
<td>100</td>
<td>53.74</td>
<td>71.34</td>
</tr>
<tr>
<td>3A Airports - Freight</td>
<td>100</td>
<td>90.4</td>
<td>45.78</td>
<td>35.41</td>
<td>75.93</td>
</tr>
<tr>
<td>3B Ports - Cargo</td>
<td>49.26</td>
<td>100</td>
<td>8.66</td>
<td>15.28</td>
<td>14.81</td>
</tr>
<tr>
<td>3B Ports - TEU</td>
<td>76.92</td>
<td>100</td>
<td>2.81</td>
<td>17.36</td>
<td>14.37</td>
</tr>
<tr>
<td>4A Embassies and Consulates</td>
<td>77.22</td>
<td>44.94</td>
<td>100</td>
<td>71.52</td>
<td>100</td>
</tr>
<tr>
<td>5A Law Firms</td>
<td>81.40</td>
<td>67.44</td>
<td>100</td>
<td>88.37</td>
<td>62.79</td>
</tr>
<tr>
<td>6A Advertising Firms</td>
<td>28.75</td>
<td>40.19</td>
<td>92.09</td>
<td>100</td>
<td>42.09</td>
</tr>
<tr>
<td>7A Students - per 10.000</td>
<td>67.54</td>
<td>34.56</td>
<td>77.83</td>
<td>100</td>
<td>88.68</td>
</tr>
<tr>
<td>7A Professors - per 10.000</td>
<td>63.55</td>
<td>35.72</td>
<td>98.15</td>
<td>100</td>
<td>77.69</td>
</tr>
<tr>
<td>8A Culture - Books</td>
<td>100</td>
<td>62.06</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>8A Culture - Museums</td>
<td>100</td>
<td>78.45</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>8A Culture - Art</td>
<td>60.89</td>
<td>100</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>8B Sport - Facilities</td>
<td>100</td>
<td>57.96</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>8B Sport - Playgrounds</td>
<td>100</td>
<td>14.02</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

**Summary – all cities (without Culture & Sport)**

|                | 732.90 | 770.25 | 1098 | 1113.58 | 1077.08 |

**Summary – HK & SH with Culture & Sport**

|                | 1193.79 | 1082.74 |

**Rank**

|                | 5   | 4   | 2   | 1   | 3   |

Sources: Vouk, 2013

For the last comparison with numbers from the years 2011 and 2012 a significant change had appeared. Not only Hong Kong and Shanghai have managed to shorten the distance to the “top three” world cities, which themselves have come very close to each other with New York being
number one, Shanghai has also overtaken Hong Kong by 38 points. Hong Kong’s two top 100-scores in 1997 have been transferred to Shanghai now, which has also came close to airport freights, where Hong Kong got the top position. Shanghai is leading in the first five categories, in the fields of economic and finance, and outscored Hong Kong in 10 out of 17 categories for these years. The “Hong Kong – Shanghai ratio” further down shows the strengths and weaknesses of each city more clearly.

In contrast, if also comparing the fields of culture and sport, despite the fact that data is only available for Hong Kong and Shanghai, then Hong Kong is still outsoring Shanghai by more than 100 points. Then, Hong Kong has more points than Shanghai in 11 out of 22 categories and Hong Kong has a ten per cent higher score than Shanghai. However, without culture and sport Shanghai has a five per cent higher score than Hong Kong. This change in the interplay of these two cities and the shortening of the distance to the top three can be seen in the chart below (figure 18).

![Figure 18: Percentage of all Five Cities for All Three Years in Comparison](image)

Source: Vouk, 2013

Note: Hong Kong is in green and Shanghai in red colour for better illustration

In the comparison shown in figure 18 the following trends can be seen:

1.) The clear top position of one world city in 1982 and 1997, out of the “big three” has narrowed down to a very close position to each other in 2011/2012.

2.) The difference between Hong Kong and Shanghai was not very big in 1982, but more than double in 1997 and later even narrowed down to a mere five per cent in 2011/2012.

3.) Shanghai has overtaken Hong Kong in the most resent comparison.

4.) The gap between Hong Kong’s and Shanghai’s score and the scores of the “big three” has extremely narrowed down in the last 30 years. Especially Shanghai, which’s score was 14 per cent out of that of New York’s in 1982, got 69 per cent in 2011/2012.
2.5.4 Hong Kong and Shanghai Ratio for 2012

I only list up the ratio for 2012 because in 1982 there were just three comparable categories (where data for both cities was available, namely trade and transport, internationality and education and research) and in 1997 four (finance, trade and transport, internationality and education and research). In 1982 Hong Kong was leading in all three categories, doing 2.26 times better in average than Shanghai. Fifteen years later, Hong Kong was leading in the same categories but was not as good in finance as Shanghai and thus doing twice as good as Shanghai. As for 2012, it is possible to compare all eight categories with Hong Kong are both, doing better than Shanghai in four categories and being worse in the other four. The advantage of Hong Kong to Shanghai shrunk to 1.17 in average, which can be seen in the following table.

Table 39: Hong Kong - Shanghai Ratio for all Eight Categories in 2011/2012

<table>
<thead>
<tr>
<th>Categories (sum of all %)</th>
<th>Hong Kong (point)</th>
<th>Shanghai (points)</th>
<th>HK-SH Ratio (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Economics</td>
<td>67.93</td>
<td>96.96</td>
<td>70.06</td>
</tr>
<tr>
<td>2 - Finance</td>
<td>75.50</td>
<td>104.24</td>
<td>72.43</td>
</tr>
<tr>
<td>3 - Trade and Transport</td>
<td>271.01</td>
<td>346.20</td>
<td>78.28</td>
</tr>
<tr>
<td>4 - Internationality</td>
<td>77.22</td>
<td>58.20</td>
<td>132.68</td>
</tr>
<tr>
<td>5 - Legal Service</td>
<td>81.40</td>
<td>44.94</td>
<td>181.13</td>
</tr>
<tr>
<td>6 - Information and News</td>
<td>28.75</td>
<td>40.19</td>
<td>71.54</td>
</tr>
<tr>
<td>7 - Education and Research</td>
<td>131.09</td>
<td>70.28</td>
<td>186.53</td>
</tr>
<tr>
<td>8 - Culture and the Arts</td>
<td>460.89</td>
<td>312.49</td>
<td>147.49</td>
</tr>
</tbody>
</table>

Sources: Vouk, 2013

This table and the following graph (figure 19) show the advantages and disadvantages of both cities. The term “ratio” means the proportion between Hong Kong and Shanghai. In dividing the sum of all percentages of each category of Hong Kong by the sum of the Shanghai category, the Hong Kong – Shanghai ratio is generated. For example in the category “economics”, dividing 67.93 points (means the sum of all percentages of indicator 1A and 1B) of Hong Kong by 96.96 points of Shanghai equals 70.06 per cent. This percentage means that Hong Kong only got 70.06 per cent of the total points of Shanghai within this category. If the number, however, is higher than 100 this means that Hong Kong was doing better than Shanghai, e.g. 1.3 times doing better than Shanghai in the category of “internationality”. The “line of equality” (= 100 per cent) means that both cities would have the same performance within a particular category. They would have been equal.

With this ratio one can easily see the best categories for Hong Kong (being above the “line of equality” or 100 per cent, meaning doing better than Shanghai) as well as the opposite. Thus Shanghai is doing better in the combined category of economics as well as finance, trade and
transport and information and news. In contrast, Hong Kong is doing much better in internationality, legal service, education and research as well as culture and the arts. Generally speaking, Hong Kong is doing in average 30 per cent less as good as Shanghai in the fields mentioned above (below the “line of equality”) but it is 30 to 80 per cent better in the fields where it is leading (above the “line of equality”). The leading fields, however, are the fields which are not in the forefront when comparing a global financial and economic market, but which stand for a good social environment. The top three leading world cities are even doing better in these “social environment” fields than Hong Kong, which shows the importance of these indicators. What these “soft indicators” (like rule of law, international connections, good education or cultural activities) mean in becoming or being a world city will be discussed in the last part of this study.

![Figure 19: Hong Kong - Shanghai Ratio Visualization for all Eight Categories in 2011/2012](image)

Source: Vouk, 2013
3. Hong Kong and Shanghai: A Qualitative Comparison

The history of both cities has shown a close interplay between Hong Kong and Shanghai and together with the quantitative results of part two a clear conclusion can be drawn (Shanghai is doing better than Hong Kong now). In this part of the study, however, I want to use a more qualitative approach by including the information collected during my four months stay in China. I collected information from university lectures from Beijing, Shanghai and Hong Kong as well as supplementary literature so that I am able to give a deeper and complementary conclusion than just from the analysis of statistical data. Here I will include my own experiences, conversations with people and other opinions of expatriates in order to investigate the topic of world cities from a broader perspective. With this I aim to provide a good conclusion which does not only include (economic) measurable indicators. More crucially, this analysis tries to consider the main factor which makes a city liveable: the people.

However, before I discuss the circumstances of the people living in world cities I want to discuss the “macro” and “meso” levels, which refer to the circumstances that enable a city to become a world city. After that I want to list the advantages and disadvantages of Hong Kong and Shanghai and focus on their complementarities. Following this I also want to list opinions of Central European long-term expatriates in China. With this broadened background I hope to come to a good conclusion, consisting of both, the quantitative as well as the qualitative comparison of Hong Kong and Shanghai.

3.1 Macro Level: World City Network

As mentioned in part one, even though a city might be connected within a network, the flows can be circumnavigated through other cities within this network. That means that both cities, Hong Kong and Shanghai, although having many advanced producer service firms (APS) and thus being well connected to other cities, both have to deal with different approaches by these globalized firms regarding Chinese cities. Following Hennemann and Derudder (2012), many firms use a three-tiered approach to China’s economy, which means that they establish offices with (slightly) different functions in each of China’s major cities. This leads to the effect, that the Chinese cities can be easily bypassed, for example via Singapore or Tokyo within Pacific Asia. In contrast, these cities have a more crucial position in the network structure than Hong Kong, Shanghai or Beijing.

Regarding Hong Kong’s and Shanghai’s position within Asia Pacific, the global network connectivity shows that Hong Kong, Tokyo and Singapore are the pre-eminent Asian Pacific cities in 2006 with Hong Kong ranked above Tokyo. The reason is that “although Hong Kong does not house headquarter functions and therefore its ‘command and control’ powers are much less than Tokyo’s, it compensates for this by being the ‘place-to-be’ for servicing clients into the fast growing Chinese
market” (Taylor, 2006). Furthermore, Singapore is seen as a gateway to Southeast Asia and Hong Kong as the ‘place-to-be’, as a gateway to the Chinese market. In contrast, Shanghai is seen as a second tier city, together with Beijing, sharing the same global reach as Hong Kong but with a lower connectivity (Taylor, 2006).

Global cities are physically located within nation-states and are dependent on their nation’s level of development and its position in the global system. There are some special nodes in the world which are quite important. As Zhou and Chen have stated (2009: 148-150), data packages going from London to Australia are transmitted via New York. Whereas New York is depending on San Francisco and Seattle for internet links to Asia. This network is depending on Washington D.C. for connection to Europe as well as to Latin America (together with Miami). In Europe, London is not the only link to America, because Amsterdam and Frankfurt are also popular alternative locations. Tokyo, on the other side of the globe is the major international internet backbone hub in Asia with Soul as its rival. Besides, Hong Kong and Singapore are competing for becoming regional internet hubs and centres of international internet providers as well. This share of transmission indicates the importance of a network (or group of information-producing centres).

In Shanghai, the central government limits foreign investment in telecommunications and remains the most powerful player until today. The Chinese state’s monitoring and control of the internet has been effective in blocking access to many sites that express critical opinions on politically controversial and sensitive issues (Zhou and Chen, 2009: 161), which is called the “great firewall”. The influence of the state limits the competition among local private internet and telecommunication providers. Furthermore, the lack of e-commerce and e-government development keeps Shanghai behind other global cities and gives Hong Kong a clear advantage over it.

3.2 Meso Level: Different Regions, Different Scales

In this chapter I want to discuss the “meso level” of influences in forming a world city. As mentioned in part one, the scale of the state has to be considered in asking if only one or more world cities can be supplied in the Chinese nation. In the next step I will show the different influences of the state in helping to develop or to oppress a city in becoming a world city. Finally, I will consider the hinterlands of Hong Kong and Shanghai in more detail.

3.2.1 The Influence of the Scale

The fact that China is among the biggest countries in the world, similar to the size of Canada, the USA or Europe, combined with the world’s highest population calls for the need of more than one world city. In comparison to the US and Europe, which have ten, respectively 16 world cities in the
categories Alpha++, Alpha+, Alpha and Alpha- (Globalization and World Cities, 2010), China should also have more than one world city, just because of its size. In fact, it already got three, namely Hong Kong, Shanghai and Beijing. However, these cities fulfil different functions within China, as mentioned in the previous chapter.

3.2.2 The Influences of the State

3.2.2.1 System of Government: Federal or Unitary

After concerning the size of a state I also want to consider its system of government. The US, Austria or the European Union have a federal system where the different subnational units (e.g. states, Bundesländer, provinces) share the sovereignty with the central government, which cannot enforce laws on them without their political approval. A unitary state however has a central government which rules supreme over its subnational units and which gives them laws they must follow. In this regard, the PRC is officially a unitary state which is politically centralized but economically decentralized (Yijia, 2012). However, I argue that Hong Kong is within a kind of federal system because, even though the central government has granted Hong Kong enormous freedoms under the “one country – two systems” doctrine, it also could remove these powers. As it is the situation now (2013), Hong Kong and Macau are own political entities, acting differently on a worldwide scale and do not have to execute the laws and rules given to them by the central government. Thus they are acting similar like being within a federal state.

This means that the power structure of a nation is very important for world cities. A nation-state which is centralistic organised usually leads to preferring the capital city (e.g. Tokyo) and it is very difficult for a second centre to become a global city (of the first order). In contrast, within a federal system, it is more likely that additional cities become world cities (in a lesser degree, e.g. second order) because global functions are decentralized (Bronger, 2000). As an example I want to mention Germany, which has Frankfurt among Alpha cities within the research done by the GaWC-group for 2010 (Globalization and World Cities, 2010), Munich within the Alpha- [minus] category, Düsseldorf, Hamburg and Berlin as Beta+ and Stuttgart and Colon as Beta- [minus] cities. This does not mean that unitary states only have one world city (which is usually the capital). However it is not as frequent because the central government channels the development whereas in a federal system all subnational capital cities want to outperform other cities within the system and develop their own strategy in becoming a world city. Therefore there are more, but not as high ranked world cities in Germany instead of Great Britain (London Alpha ++, followed by Manchester (Beta) and Birmingham (Beta-)) or France (Paris Alpha+, followed by Marseilles (Gamma -)).

The following table shows the differences of the political influence in Hong Kong and Shanghai. These differences help to explain what distinguishes both cities from each other:
Table 40: How Politics Influences Hong Kong and Shanghai

<table>
<thead>
<tr>
<th>Category</th>
<th>Hong Kong</th>
<th>Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Democracy</td>
<td>Socialism/Market Socialism</td>
</tr>
<tr>
<td>Regime</td>
<td>Multi party</td>
<td>Single party</td>
</tr>
<tr>
<td>System of Government</td>
<td>Federalism?</td>
<td>Unitary State?</td>
</tr>
<tr>
<td>International boundary to the neighbouring province(s)</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Cross-city development</td>
<td>Restrictions, Hong Kong similarly treated as a foreign country</td>
<td>No difficulties</td>
</tr>
<tr>
<td>Coming to power of the head of the city</td>
<td>Election of the Chief Executive (but appointed by the central government)</td>
<td>Party Secretary and mayor are appointed by the Chinese Communist Party</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013

3.2.2.2 Governmental Approaches of Cities Within Their State-Systems

Different regions/states in the world have different policies for their cities. In North America, different levels of government (province, county, state and so on) have impact on the planning of cities with a strong interest for the private sector and strong mayors. In the polycentric European Union – with mainly medium sized cities – there is a unique scale of urban and regional policies which has to be met by these cities. This means that cities are influenced by different national institutional and political differences. In Pacific Asia the nation-state has a very strong presence for decision-making in cities but this has already started to change with many cities getting more autonomous. This, the beginning of decentralization, can be observed (e.g. SEZs in China with Shenzhen having a sub-provincial status which is usually just granted to provincial capitals). However, this stage of decentralization is also characteristic for a low level of public participation in cases of decision-making. To sum up, in the US the state level rather than the federal level plays a dominant role in governing cities, in Europe there is a mixture between national and sub-national scales in a polycentric network of cities and in Asia the top-down decision-making of strong states, especially the city-state of Singapore, are having the most influence (Newman and Thornley, 2011: 272-280).

Furthermore, Wu (2009: 141) argues that global cities are not autonomous agents themselves because they are just as strong as the state they are located in. His example is that the importance of New York in international financial markets is linked to the US economy and the ability of defining

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7 For example, centralized Great Britain limits the power of the London mayor and the stronger welfare tradition in France leaves the Paris mayor more independent and with a larger budget (Newman and Thornley, 2011: 277).
the rules of the game and that Shanghai is bound to the nation’s well-being and overall growth. Therefore, I would say that Shanghai, within the top-down decision-making Chinese state, is limited in its own development, as we have seen in the chapter about Shanghai’s history (chapter 2.3). Even though it has quite a high status of self-government, it is decision-bounded to the central government. This could have been observed in 2006 when Mr. Chen Liangyu, the Party Secretary of Shanghai, was removed after he did not follow the direction of the central government to cool down the property market in Shanghai (Wu 2009: 139).

In contrast, Hong Kong as a SAR but without being a separate state has unique political freedoms, not seen elsewhere in the world. Thus I want to follow Berger (2012) and call it a “quasi-city state”, due to its high degree of freedoms (except diplomatic and defence affairs). However, this status keeps Hong Kong (as well as Macau) out of the national planning framework. This means, that all provincial/regional governments on the mainland are not allowed to seek any official engagement with Hong Kong SAR due to the “one country – two systems” policy. Any relations with Hong Kong need to be dealt with the Hong Kong and Macau Office of the State Council in Beijing, which cuts off the relations between the SAR and many regions in the PRD (Shen, 2003). Nevertheless, this has already changed with the ‘Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)’ of the National State Council (published in 2008) which stated that both jurisdictions (SAR and province of Guangdong) should start working together. Guangdong will be given greater scope in developing its service sectors which forces Hong Kong to give up some of its laissez-faire principles for a greater governmental involvement in the cooperation with the PRD (Newmann and Thornley, 2011: 250-251). This, on the one hand, undermines the high level of freedoms Hong Kong possesses, but on the other hand enables the city to get better access and cooperation to and with its hinterland (see next sub-chapter “PRD”).

3.2.2.3 Asia’s World Cities

Hill and Kim (2000: 2175) give an example of Japan’s ministry of Finance who blocked the direct flow of funds from households to firms and finally strictly regulated bond issues (requiring firms to obtain funds through bank loans). This is in big contrast to the Anglo-American system where funds for the industry are collected through bonds or stock markets. I see in their acknowledgement of the influence of the state a similarity to the influence of the Chinese state in Shanghai. China has a more similar approach/tradition like Japan (Tokyo) in comparison to Hong Kong, which, according to its history, follows the Anglo-American system and therefore is more similar to New York or London than Shanghai. Furthermore I want to apply Hill and Kim’s world city types on Hong Kong and Shanghai with the former following the market-centred and bourgeois type of New York and the latter the state-centred, political-bureaucratic type of Tokyo or Seoul.

Thus, I argue that China’s approach is similar to that of Japan or South Korea and thus different to the US. It
has the largest number of cities of different sizes and developmental stages located in geographically and economically diverse regions with uneven physical access to the outside world [...] [with] the state’s policies of targeting and favouring sets of cities in different regions for fast and focused growth in a stage and incremental fashion. (Chen, 2006: 21-22)

So Shanghai as well as the PRD were favoured by the Chinese state by making them being seen as local and global at the same time with multiple influences of central and local governments alike. In the year 2000 Tokyo had more than a quarter of its labour force working in manufacturing (New York only has ten percent, Hong Kong even less), it had little foreign-born population (1.8 percent instead of 28 per cent in New York). Those factors were a national incentive for global operations of Japanese TNCs (Hill and Kim, 2000). This is similar to Shanghai, with its huge manufacturing sector (compared to Hong Kong) and state owned enterprises being the top companies operating in this city. Without pushing Shanghai in that direction, without channelling money and resources into Pudong and without the favour of the central government (the state), Shanghai would not have been that important and developed as it is today (in 2013).

3.2.3 Hinterland

3.2.3.1 Pearl River Delta (PRD)

The Pearl River Delta, as a polycentric city-region, according to Bronger and Trettin (2011), should be considered as a separate megacity due to its population density, area and functional integration. The urbanized area (purple colour) can easily be seen on the map of figure 21. However they do not count the area of Shanghai-Suzhou-Wuxi in the YRD because (in 2007) its population density was too low considering their standards (below 1,500 inhabitants per square kilometre). The PRD hosts more than 56 million people (in 2010), with more than 79 per cent of its area being urbanized (in 2006). Additionally, it accounts for more than nine per cent of China’s GDP and almost 30 per cent of its exports in 2010 (Zhang and Kloosterman, 2012). It consists of the municipalities within the province of Guangdong and the two SARs of Hong Kong and Macau, which are surrounding the mouth of the Pearl River as can be seen in figure 22.
From a historical focus, Guangzhou, the capital city of Guangdong province, was more developed than Hong Kong in the late 19th and early 20th century. This changed in 1949 with the establishment of the PRC and the embargo following the Korean War. As policies changed again in 1978 (economic opening) many Hong Kong industries started to relocate their manufacturing to the PRD due to the availability of cheap labour and land (Yeh, 2001: 2). They first subcontracted their (labour-intensive) manufacturing work to Chinese partners in the delta which were mainly located as village enterprises in townships. This labour-intensive works, done in small and medium sized industries which produced for the export-oriented manufacturing sector, led to a decline in the primacy of Guangzhou and other traditional centres of the PRD (Zhang and Kloosterman, 2012). However, due to the land reform in 1987, where land became valuable again in China, more and more rural areas were converted into industrial land and the real estate market started to boom with Hong Kong as the largest property investor in Guangdong province since then (Yeh, 2001: 4). The term ‘front shop, back factory’ was introduced and the label ‘made in Hong Kong’ changed to ‘made by Hong Kong’, with Hong Kong remaining the management and control centre (Yang in Wu 2006). This significance can be seen during the early 1990s, when a total of 63,000 companies (half of all Hong Kong-based manufacturers and importers-exporters) employed for each employee in Hong Kong some additional 24 employees in China. Of those, more than 53,000 were located in Guangdong province and two-
thirds thereof in Dongguan and Shenzhen, the closest cities to the border with Hong Kong (Yang, 2006: 128-129). However, in the beginning of the new millennium, with the rise of labour costs, inflation and rising costs of raw materials, the PRD started to change again with its FDI shifting from manufacturing to producer services (Zhang and Kloosterman, 2012).

![Figure 21: Boundary of the PRD Open Economic Zone in 1994](image)

Source: Yang, 2006: 128

The cross-border regional production system of Hong Kong and the PRD region (or the Indonesia-Malaysia-Singapore growth triangle and the US-Mexico border), according to Shen (2003), has emerged due to the international division of labour. He mentions that a border in general has two functions: a dividing line (separation) and a contact zone for exchange and co-operation with both functions may not be in conflict at all. This can be seen in a tight border control for mainland people going to Hong Kong, but which has been open to most residents in Hong Kong for free movements to the mainland since 1978. The cross-border interaction has emerged because one part (Hong Kong) was well developed and the other underdeveloped. Therefore the border region becomes a new growth centre for the less developed economy with a higher growth rate than the rest of the nation (China). Nevertheless, the border still functions as a separation line for different political, economic and social systems (socialism/market socialism and capitalism).

However, boundary crossing rose dramatically in the last 30 years, from 0.5 million mainland visitors in 1987 to 6.8 million in 2002 to more than 28 million in 2011 (Yang, 2006: 130; Census and Statistics Department, Hong Kong Annual Digest of Statistics, 2012). The ‘Closer Economic Partnership Arrangement’ between mainland China and Hong Kong allowed mainland visitors to come to Hong Kong individually instead of coming in groups. This was first allowed to the permanent residents of
Foshan, Zhongshan, Jiangmen and Dongguan (in the PRD) on 28 July 2003, followed by others, including Shanghai on 1 September 2003 (Yang, 2006: 130-131). As for migrants from the mainland settling down in Hong Kong, there is a restriction of 150 people per day (one way permit for spouses) which became effective in 1995 (Shen, 2003).

Due to the differences of living standards and prices on both sides of the border, many people buy houses in the PRD, e.g. living in Shenzhen, and commuting to Hong Kong for work or study. There are several border crossings which channel the flows of population, goods, vehicles and services, whereof the Lo-Wu border is the busiest with ten million registered crossings in 1983, 40 million in 1994, 86 million in the year 2000 (Yeh, 2001: 10) and about 94 million in the year 2010. In total, 184 million were crossing the whole border in the same year (Hooi, 2011). In the year 2000 an average of 240,000 people crossed the border a day, making it one of the busiest borders in the world with a peak of 350,000 people on major public holidays such as Easter (Yeh, 2001: 12). In this regard, cross boundary shopping became very popular with Hong Kong visitors going to the mainland for cheap shopping and mainland tourists coming to buy original and high value products such as jewellery, gold, electronics and high quality clothes (Yang, 2006: 142). However, still sixty per cent of all passenger trips from Hong Kong in 2001 have been business trips. Nevertheless, this border crossing does not offer a full regional integration with a 24-hours operation. Out of the ten checkpoints, only Huang Gang (name on the Shenzhen-side) or Lok Ma Chau (name on the Hong Kong-side) is open 24 hours (Startinchina, 2011). The opening of all border crossings for 24 hours has been considered not to be beneficial for Hong Kong’s economy, because housing prices in the PRD are only one tenth to one fifth of the prices in Hong Kong and many would decide to rather live there and work in Hong Kong given a fully operating border (Shen, 2003).

In summary, there is a free movement of capital goods and investors in cross-border regional development but an asymmetry in immigration control. The border still functions in separating the two economies with Hong Kong controlling great parts of the production system in the PRD but facing strong competition in expanding its service sector to the mainland. These cross-border relations were mainly driven by bottom-up forces by local people and local investors. Further, the government on the Hong Kong as well as the mainland side and the need of cheap labour have been other important forces. However, the Hong Kong government only played a limited role in further opening the border (Shen, 2003).

The future role of Hong Kong within the PRD will be discussed in the following paragraphs. Article 116 of the Basic Law specifies that Hong Kong SAR shall be a separate customs territory and the central government shall not interfere with the affairs of the Hong Kong SAR and people from other parts of China must apply for entry into Hong Kong SAR (Yeh, 2001: 8). However, this has already started to change. In June 1999 the People’s Congress of the PRC interpreted the Basic Law in that way, that only children whose mothers or fathers were permanent residents of Hong Kong at the

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8 A worker in the PRD earned US$65 a month in the year 2001, in Hong Kong however US$641 (Yeh, 2001).
time of birth have the right of abode in Hong Kong (Shen, 2003). A few years later, in June 2003 Hong Kong and China signed a bilateral free trade agreement (as two separate WTO members) (Yang, 2006: 142), which started the beginning of stronger cross-border relations.

Yeh (2011: 193-196) writes about the ‘Hong Kong 2030’ plan, which was released in October 2007 and should enable Hong Kong to be part of a world city region (PRD) with Guangzhou, Hong Kong and Macau as major centres. In this plan Hong Kong should balance social, economic and environmental needs for a better quality of life for present and future generations. It should provide a good living environment to its residents, conserve natural landscapes and enhance Hong Kong’s hub functions by strengthening its role as a global and regional financial and business, international trading, transport and logistics centre. Furthermore Hong Kong should meet its housing and community needs, use economically viable and environmentally friendly transportation systems, promote arts, culture and tourism and strengthen links with the mainland. Therefore new development areas were identified with a rail-based development strategy, a ‘two-hour living’ circle, cross-border transport infrastructure, including the Hong Kong-Zhuuhai-Macau Bridge (completion in 2016) and others.

Moreover, in 2006 the first strategic planning study carried out by both jurisdictions of the PRD, the Province of Guangdong and Hong Kong (and Macau) SAR, stated that both cities represent an important world city-region. Finally, the cross-border development plan (see chapter 3.2.2.2) was introduced in 2008, which should enable both entities to build modern infrastructure, new CBDs, technical parks, logistic centres and other ways to attract higher-end business services until 2020 (Zhang and Kloosterman, 2012). The Guangzhou-Shenzhen-Hong Kong Express Rail Link (142 km, completion in 2016), for example, will connect Hong Kong to the major High-Speed Railway links to Wuhan (from Guangzhou) and to Xiamen (from Shenzhen) and enables passengers to easily travel to these major cities of the mainland (Yeh, 2011). This plan further set out a spatial division with Hong Kong focusing on becoming ‘an international metropolis in Asia’, Macau becoming the ‘world’s most attractive tourism and recreational center’ and the rest of the region a ‘world-class base of advanced manufacturing and modern service industries’ (Newman and Thornley, 2011: 250).

This rise of importance of the PRD and the close interplay between Hong Kong and its hinterland can be seen in the German Chamber of Commerce, which was firstly located in Hong Kong but relocated to Guangzhou. It was considered not to be convenient to be located in Hong Kong and to deal with their members’ trading issues in the PRD before 1997 (when Hong Kong was still a British colony). So they set up an extra office in 1995 in Guangzhou, which was subordinated to the Hong Kong office. However, the Hong Kong office lost its prime position and in 1999 the Guangzhou office was upgraded into a regional office and stayed at the same level with the Hong Kong office from then on (Su and Xue 2012).

Summing up these aspects, the PRD is recognized as an emerging global city-region with Hong Kong as the most important source of FDI and as control and marketing centre whereas the PRD function as its hinterland (Yang, 2006: 125-126). Both entities are highly integrated and mutually dependent.
on each other (Yeh, 2011: 188), with a well-developed highway and railway network which increased Guangzhou’s importance within the PRD. However, Hong Kong is also strengthening its position with new infrastructural projects (e.g. the Hong Kong-Zhuhai-Macau bridge). Nevertheless, Hong Kong is losing its exclusive role by hanging over some functions to the PRD as well as Shanghai. Nonetheless, top functions will remain in Hong Kong as boundaries are getting blurred whereas the middle range will be located in Shenzhen and Guangzhou as well as elsewhere in the region (Breitung and Günter, 2006: 104).

This region (Guangzhou – Shenzhen – Hong Kong) is increasingly becoming a city region (Ma and Timberlake, 2008: 339), with 80 per cent of Hong Kong’s water and 60 per cent of its food supply coming from the PRD (Yeh, 2001: 15). The region will have to share their responsibilities and strengthen different niches to become a strong, consistent global player. The five international airports within the PRD (within an area of 200 km², see figure 21), with four of them within a radius of 25 kilometres of Hong Kong (Hong Kong, Shenzhen, Macau and Zhuhai) as well as the major ports (e.g. with Shenzhen for direct exports and Hong Kong as distributor or “post office”) will have to learn to share their responsibilities and work together to strengthen their position as a whole (Yeh, 2001). According to Zhang and Kloosterman (2012), Shenzhen and Guangzhou also have to learn to work together and not to compete with each other. Guangzhou, the long standing cultural centre in southern China, for example hosts 65 universities and colleges whereas Shenzhen, the 25th ranked global financial centre in the world and the third in mainland China after Shanghai and Beijing (in 2010), only hosts eight universities and colleges.

3.2.3.2 Yangtze River Delta (YRD)

The Yangtze River Delta accounts for 1.05 per cent of the total area of China with 6.66 per cent of its population but achieves 18.2 per cent of its GDP, 24 per cent of the country’s financial revenues or 44 per cent of FDI used in China in 2007 (Zhao and Tang, 2010). The total area is about 111,000 km² with 52.5 per cent classified as urban in the year 2000. In these urbanized areas there live 88 per cent of the 87.4 million people of the YRD (Walcott, 2011: 78). Walcott further classified three layers with three triangles, anchoring in Shanghai, Nanjing and Hangzhou (see figure 23). She mentions, that a further distance to Shanghai leads to greater economic development and openness. However, if these other administrative entities are close for commuting to Shanghai but far enough to enjoy regulatory freedom than Shanghai is beneficial for them (2011: 79). The YRD consists of 15 major cities (which can be seen in figure 22 and 23 with Shanghai, Nanjing and Hangzhou being capital cities of the provinces of Shanghai, Jiangsu and Zhejiang.

The study of Zhao and Tang (2010) revealed, that Nanjing and Shanghai have the highest information relation among all cities, followed by Hangzhou and Shanghai with Zhousan being the last, which did not even have any relations with four of the other 14 cities between 1993 and 2007. It appears that
Shanghai is the dominant centre in the YRD, which distributes the flows of information to the other cities, followed by inner-provincial relations and least the cross-provincial ones.

Figure 22: Yangtze River Delta

Figure 23: The Yangtze Delta Metropolitan Region
The second-tier metropolis in the Yangtze River Delta are Suzhou, Wuxi and Changzhou near Shanghai which have manufacturing industries, a huge increase in FDI, a lack of local R&D and producer services and a dependence upon Shanghai (Chen, 2006: 252). Suzhou, however, is the second most important city in the YRD in terms of GDP after Shanghai and which has directly to report to Beijing instead of its provincial capital due to its importance (Hernig, 2012). Nevertheless, Shanghai became the largest investor in Suzhou with over 35 per cent of the total capital investment in 2004. In the year 2005 Suzhou’s GDP was ranked fifth in the country and its industrial output was on the second place behind Shanghai (Chen and Orum, 2009). The Suzhou-Wuxi-Changzhou region has more than 13 million inhabitants, an area of more than 17,500 km² (about 742 inhabitants per km²) and has made a shift from textile industry to electronic and electric machinery manufacturing since the 1990s. The proximity to Shanghai is very important for this region. Main factors which attract investors are cheaper labour and living cost but still well educated people combined with a safe and comfortable society. These investors, who were coming to Shanghai first, are now going a step further and look into its hinterland (or even other parts of China, e.g. Chongqing). They come primarily from Hong Kong, Japan and Taiwan and open industrial parks and development zones in the YRD. This region has been designated as the National Torch Belt of High-tech Industry by the Ministry of Science and Technology. It is closely linked with Shanghai, which is the R&D centre with well-known universities (e.g. Fudan), and reaches about 60 to 150 km outwards of Shanghai (Chen, 2006).

There has been a long cooperation with Shanghai, e.g. the development of Township and Village Enterprises (TVEs) up to the 1980s with the help of a “trickle-down effect” of Shanghai’s industry and the “Sunday engineers” of Shanghai, who worked on Sundays in those TVEs in that region. Shanghai is thought to be the major finance centre with the second-tier cities as modern manufacturing cities but with their HQs located in Shanghai (Chen, 2006: 266-267). After the development of Shanghai in the 1990s, a shift of FDI and economic development has occurred from the PRD to the YRD. Shanghai has become the most important manufacturing centre in China and with the opening up of the country it is a better location to handle Chinese trade than Hong Kong (Ma and Timberlake, 2008: 33).

Shanghai lies in the largest regional market in East Asia with more than 100 million people living within a one-day drive from Shanghai, more than twice the size of Tokyo’s or Jakarta’s one-day drive, two- and-a-half times the size of Seoul’s, triple the size of Manila’s and four times that of Bangkok’s. The highly urbanized ‘corridor’, which is about 250 km long and 50 km wide, includes Hangzhou, Suzhou, Wuxi and Nanjing. Moreover, it is the largest megalopolis in China with a population of more than 55 million people. Furthermore, within a two-day drive by transportation trucks from the ports in Shanghai a potential market of over 600 million Chinese can be reached whereas ‘only’ 350 million people can be reached within two days from Hong Kong and the PRD (Leman, 2002: 8-9).
For Shanghai a new problem has arisen. Some of its labour-intensive industries have been removed from the cities in the YRD due to pressure of rising land and labour costs in Shanghai. Therefore the city tries to keep enough manufacturing jobs to keep unemployment low while it wants to upgrade into a more technology and knowledge-intensive based manufacturing as well as strengthening its service sectors (Ho, 2009: 81). Further, Shanghai tries to keep its importance in hosting world famous events such as Formula One or the World Expo in 2010 where 4.3 billion US-Dollars were invested, 800 million more than for the Olympics in Beijing. Despite the high costs, the expo attracted more than 70 million visitors. The changes, initiated by hosting the expo have been enormous. Not only got Shanghai promoted and gained worldwide attention, it also opened six new metro lines between 2008 and the start of the expo. However, 18,000 families and 270 factories have been removed from the expo sites, including a shipyard that employed 10,000 people (Ong, 2011: 224 and Newman and Thornley, 2011: 255). Moreover, Shanghai tries to attract more visitors and to gain more international attraction in order to be viewed as a more global oriented city. One examples for this intention is the building of the sixth Disneyland in the world (the fourth outside of the US and the third in Asia, after Tokyo and Hong Kong) which will be located in Pudong and finished in 2015 (Shanghai Disneyland Resort, 2013).

3.3 Micro Level: Quality of Life

3.3.1 Lifestyle

Analysing the lifestyle of people living in world cities, Breitung and Günter (Wu 2006: 86) argue, that the “role and international contacts of global cities produce certain non-economic traits [...]” like temporary immigration or a mix of cultures and lifestyles. A main feature is the “global city culture” in (mainly) CBDs, which is often different to local characteristics with a quality of life that fits foreign experts, managers and diplomats. As examples I want to mention Lan Kwan Fong in Hong Kong, the bar- and entertainment district which is a major meeting place for foreigner, expatriates and tourist alike. Another example is Xintiandi in Shanghai, with the same flair and life-style. However, these places can also exclude the lower and even some middle-class population of these cities due to high prices (for drinks and amusement) and also because of their life-style. Those (rich) Chinese who want to be “Western” will be there, others, who lack the money and who do not want to have contact with Westerners so much, will not be there.

Another aspect regarding foreigners is the widespread use of English in Hong Kong. This makes Hong Kong more attractive to live in than Shanghai, where English is just spoken by highly educated people. I further want to stress the Western culture in Hong Kong, which makes it much easier for Westerners to settle down in Hong Kong instead of Shanghai. Finally, the long-opening times of the
subway lines in Hong Kong (until half past midnight or one in the morning) are also more convenient than the closing time in Shanghai, which starts already at 10 p.m.

3.3.2 Polarization

Regarding another problem of world cities, I want to have a closer look on their immigrants. There are highly qualified ones as well as cheap labourers, which leads to social polarisation and segregation (Breitung and Grünter, 2006). High society and Westerners can primarily be found in places such as Stanley or the Peak in Hong Kong Island, which are the most expensive places in Hong Kong. Furthermore, there are Lamma Island and Discovery Bay, both known as living-places for Westerners as well as the ‘European style villages’ or ‘Fontainebleu Villas’ in Shanghai (for more information see Giroir 20069). These villas – with rents of up to 15,000 dollars per month (Giroir, 2006: 212) – and the former concessions in Shanghai attract the same clientele as in Hong Kong: rich Chinese (from the mainland, Hong Kong or Taiwan, familiar with Western lifestyle) and Western people.

The global city, according to Breitung and Günter (2006: 97) is run by people with little time but enough money to support their exclusive lifestyles by employing domestic helpers which have a weak legal status as foreigners. The majority of them are (usually) Filipinas who have to leave the city when their work contract expires. This low-income immigration goes hand in hand with a low legal status which leads to a rise of Hong Kong’s Gini coefficient (the measurement of inequality of values, e.g. distribution of income and wealth with zero being total equality) from 0.43 in 1971 to 0.53 in 2001. This happened due to the strong growing spatial segregation (highly skilled, good-earning professionals at the one side and unskilled or low skilled rural migrants on the other end) and the rise of the real estate market as well as of the general price level. The same happened with Shanghai, where about three million labourers from the provinces came into the city in the 1990s without having legal rights of residents (= Shanghai hukou) and had to live in the periphery of the city (Newman and Thornley, 2011: 257).

Chiu and Lui (2009) dedicated a whole chapter to polarization in Hong Kong. They found out, for example, that the number of managers grew by 40.3 per cent between 1991 and 2001 as well as professionals and associate professionals by 81 respectively 78.2 per cent (2009: 83). Both absolute

9 These villas show a great spatial differentiation as being a kind of gated community with international schools and golf courses making them to ‘clubs in a club system’ (Giroir, 2006: 209). Interestingly, Hong Kong (like Hutchinson Whampoa) and Taiwan property developers played a major part in constructing these luxury housing areas, starting around the Hongqiao Airport and moving to Pudong New International Airport. On the other side, in Guangdong province, Chinese developers rebuilt the world cultural heritage site of Hallstatt (in Austria) as another gated community with Western architecture. Giroir (2006: 217) argue that Chinese were not allowed to travel for a long time so that they associate everything that comes from abroad as a mean for escapism and dreams. Therefore they implant foreign elements in China, which enables them do have everything that does not exist in China next to them.
numbers, occupational groups at the bottom and top, have increased with the service and sales workers experiencing a lower than average income growth with a widening gap to the highest income group. The worsening income inequality primarily concerns women at the bottom occupational groups, like elementary occupations, where they are overrepresented. The gap for top occupations between men and women however, has even narrowed down. Another trend, showed the rapid growth since the 1990s of three kinds of migrant workers: the migrant workers from mainland China, the highly skilled workers with employment visas and foreign domestic helpers from developing countries like the Philippines, Indonesia, Thailand and South Asia (2009: 92 and 96). This led to the effect that the majority of migrant workers in elementary occupations are foreign domestic helpers, which are usually live-in servants (unlike in other global cities), just earning the minimum salary. The same happened in Shanghai with the only difference that most servants (low skilled migrants) come from other provinces of the mainland instead of other countries (Lorenz, 2012).

3.4 Hong Kong and Shanghai: Advantages and Disadvantages

3.4.1 Hong Kong

3.4.1.1 The Importance of Regional Headquarters for Hong Kong

According to Yusuf and Wu (2002: 1215) Hong Kong is the most centrally located city compared to other capitals in East and South-East Asia. In a survey, the city hosted 35 per cent of all 8,000 North American, European and Japanese regional headquarters (RHQs), compared with 30 per cent in Shanghai and nine per cent in Tokyo in 2001. RHQs are important because they function “as transmitters of power and control” (Breitung and Günter, 2006: 90). Thus they can choose their location flexibly according to location factors rather than history, as it is common for the HQs of their mother companies (see chapter 1.5.2.). Their main functions are to analyse regional markets, to do strategic planning, to organise networks and production chains, to do the financial control, technical support and communication between HQs and employees in the region (Breitung and Günter, 2006).

Mapp (2006) starts his book *Hong Kong: The World City and International Business Centre* with the question if companies should or should not locate a RHQ or regional office (RO) in a particular city or country. Usually they would start with a SWOT analysis (to list the strengths, weaknesses, opportunities and threats with regard to the proposed market in a city) but in the case of Hong Kong will end with the conclusion that “being based in Hong Kong provides them with definite strategic advantages” (Mapp, 2006: 4). Thus Hong Kong enables them to take full advantage of the market developments of China and Southeast Asia. Hong Kong is the traditional place where East meets West and has recently be seen as the place where East meets East because of information networks
and access to product and service sourcing in the whole world. Furthermore, it is the gateway for the world to China and vice versa.

The Census and Statistics Department of Hong Kong (Companies in Hong Kong, 2012) has found out, that Hong Kong hosted 1,367 RHQs, 2,516 ROs and 3,367 local offices (LOs) until 1 June 2012. This survey, however, did not cover all foreign companies doing business in Hong Kong due to different reasons but it covers the majority (see page six on their survey). In their definition a RHQ is an office which has managerial control over other offices in the region (e.g. Hong Kong plus one or more other places) whereas a RO is an office which coordinates offices and/or operations in the region on behalf of their parent companies located outside of Hong Kong. A LO, finally, only takes charge of the business done in Hong Kong but nowhere else whereas the parent company has final management control over its offices in any region in the world.

In all three categories (RHQs, ROs, LOs) these offices were mainly engaged in import/export trade; wholesale and retail; professional, business and education services; financing and banking as well as transportation, storage and courier services. For them, the tax system and a low tax rate were the most important factors for operating an office in Hong Kong (73 per cent), followed by other “soft skills” (e.g. political stability, see next chapter). However, about 39 and 38 per cent of the RHQs, ROs and LOs declared the availability and cost of residential accommodations as the most unfavourable factors. Regarding the origin of these offices, the US was operating the largest number of RHQs in Hong Kong (333 companies, followed by Japan (212) and the United Kingdom (122)) as well as of ROs (526 companies, followed by Japan (456) and the United Kingdom (210)). For local offices, however, the largest number was operated by mainland companies with 595 locations, followed by Japan (543) and the US (519).

The European Chamber of Commerce in China together with Roland Berger (Strategy Consultants) (2012) calculated 319 RHQs for Shanghai in the year 2010 compared to 1,252 for Hong Kong in the year 2009. This comparison shows the importance of RHQs (and further ROs and LOs) for Hong Kong and its superiority over Shanghai in this respect. Thus Hong Kong is a strategic place, favoured by many companies to set up their offices there. Which kind of office are rather profiting from a location in Hong Kong and which kind of offices are found in Shanghai are described in the following chapters.
### 3.4.1.2 Hong Kong’s Strengths and Weaknesses

#### Table 41: Advantages and Disadvantages of Hong Kong

<table>
<thead>
<tr>
<th>Source</th>
<th>Category</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yeh, 2001</td>
<td>Border</td>
<td>Keeps Hong Kong international</td>
<td>Difficult cooperation with the hinterland (PRD)</td>
</tr>
<tr>
<td>Mapp, 2006</td>
<td>Commercial and financial centre</td>
<td>In 2006 second largest stock market in Asia, eighth in the world, third largest banking centre, seventh largest foreign exchange market in the world, eleventh biggest trading entity in 2003</td>
<td></td>
</tr>
<tr>
<td>Mapp, 2006, Census and Statistics Department (Companies in HK, 2012)</td>
<td>Institutional strengths (&quot;software&quot;)</td>
<td>Rule of law, free and fair competition, clean and corruption free government, political stability and security, rule of law and independent judiciary, free flow of information, simple and low tax, efficient and effective market regulation, high calibre talent, to large extent bi-literate, people who are familiar with Chinese and Western culture, management, business operations, mindset and social practices</td>
<td></td>
</tr>
<tr>
<td>Berger, 2012: 197, Mapp, 2006: 247</td>
<td>Internationality</td>
<td>High connectivity for national and regional markets, third most connected city in the world in 2012 with well established international trade links and financial services</td>
<td></td>
</tr>
<tr>
<td>Siu, 2011: 138</td>
<td>Knowledge-based economy and income inequalities</td>
<td>People with good education can earn a lot of money</td>
<td>People without specific education or professional skills face declining incomes and structural unemployment</td>
</tr>
<tr>
<td>Mapp, 2006</td>
<td>Location</td>
<td>Very good for East Asia and southern China</td>
<td>Not so good for north and east China</td>
</tr>
<tr>
<td>Yeh, 2001: 12</td>
<td>Prices</td>
<td></td>
<td>High average rent prices, property prices and rentals, wages, cost-of-living</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013, compiled after different authors mentioned in column one

Hong Kong’s topography and its border are its biggest disadvantage. Due to the limited land area because of the large mountain-regions, developing space is very limited, which led rent prices ranking among the top in the world for many years (even in 1998 it was US$954/m² in the CBD, which was much higher than US$659 in Tokyo (Yeh, 2001:13)). The border cuts Hong Kong off the development in the PRD but it is also its biggest advantage, because it keeps Hong Kong, almost without influences of the communist system of China, internationally oriented.

Another disadvantage is Hong Kong’s “narrowness”. Siu (2011: 135) speaks of the “young generation’s perception of immobility” which I want to expand further. People from Hong Kong are not free to move and live wherever and work whatever they want to. The border with China, the fear
of a strange, difficult communist system and the language barrier outside of Guangdong province (speaking Mandarin instead of Cantonese) are main reasons for Hong Kong people to remain voluntarily in Hong Kong, if they do not want to migrate elsewhere\textsuperscript{10}. Hong Kong is primarily a place for doing business and trade – everything else is regarded as inferior. For example, if someone wants to work as a historian or engineer, the opportunities are very limited. If he or she wants to find a job in accountancy however, it will be easy to do so. In other countries such people would have the chance to go to other cities within the same country; with the same customs, language, mentality or way of living and which do not focus so much on economy and finance. However, Hong Kong people have no other cities to go to. Therefore, from my own experience, Hong Kong people are reluctant to leave their territory.

Its major advantages, on the other hand, are its internationality, with established trade links, as well as its soft skills or “software”, which means the way of doing business, the rule of law, its well trained work force and the mixture between Western and Chinese culture. Further advantages are its corruption free government, the low taxation, its geographical location within East Asia, where half of the world’s population can be reached within five hours of flight (see figure 24). Hong Kong has a very cosmopolitan society which leads to people queue up for the subway (in contrast to Shanghai), and language and cultural interchanges are common and seen as beneficial (Mapp, 2006).

![Figure 24: Hong Kong - Gateway to China?](source: Tichauer, 2012: 9)

\textsuperscript{10} In almost any other city in the world (except city-states) people can easily move to other cities within the same country where they can find the (almost) same circumstances than in their city of origin; with the same customs, behaviours, rule of government or the way of doing business. Because the differences are so huge between the PRC and the SAR, for Hong Kong people it seems, moving to a Chinese city is like moving into another country (in comparison with Western people).
3.4.2 Shanghai

3.4.2.1 Shanghai’s Centre of Power: Pudong

Without the announcement of the political decision on 18 April 1990 (Xuebing 2007: 1), to develop Pudong, the right-hand side of the Huangpu River, into the economic “powerhouse” of Shanghai, the city would not have been able to rival Hong Kong as it does nowadays. The district has an area of 1,210.41 km² (19 per cent of the total area) with 5,175,000 year-end residents (36 per cent of all year-end residents) and another 2,146,400 floating population (23 per cent of the total floating population) in the end of the year 2011 (Shanghai Statistical Yearbook 2011: 26). Until the opening, Pudong remained strongly underdeveloped. In the 1980s serious problems such as infrastructure construction lagging far behind, increasing development space, worsening living conditions, regular traffic congestions and sever environmental pollutions in Puxi, led to the change and new development of the whole district of Pudong. The downtown area of Pudong, for example, has grown eight times since the 1990s (from 40 km² to 270 km² in 2007).

The district hosts the second (and biggest) airport of Shanghai (Pudong International Airport), the Pudong Waigaoqiao Harbour area, modern economic factories, the Shanghai Stock Exchange, Future Exchange, Property Rights Exchange and many headquarters of branches of banks and TNCs. It has high-tech industries which are focuses on microelectronics and bio-pharmaceuticals. Additionally, it promotes a sustainable and fast economic growth and attracted world-famous companies such as General Motors, Intel Corporation, Hewlett Packard or Siemens. Together with more than 13,000 foreign enterprises from more than 100 countries, more than 381 financial institutions (196 from overseas) and more than 72 multinational corporations with their RHQs there, it is Shanghai’s powerhouse (Xuebing, 2007: xi). It was the major side of the World Expo in 2010, host the Benz-Arena, a multi-functional event centre, some museums and some of the highest buildings of Shanghai with the Shanghai Tower being the highest with more than 600 metres when finished.

In the year 2007, Xuebing (2007: 8) said that “[...] the development of Pudong was 140 years behind Puxi and 10 years behind Shenzhen due to a combination of historical, economic, and institutional factors [...]”. However it is catching up rapidly. The new economic zone of Pudong got more special rights than other economic zones in China, e.g. tax reductions or tax exemption as well as the possibility of long-term land use rights. Foreign investors easier got permissions for a location in an industrial zone in Pudong as well as reduced tariff rates and so on. Pudong’s share of Shanghai’s GDP rose from 10.8 per cent in 1993 to 41 per cent in 2005 (Schüller, 2006: 63). Furthermore, with the opening of Pudong New Area in 1992, the central government reduced the percentage of Shanghai’s revenue submission, allocated generous financial resources to Shanghai. Additionally, the government provided preferential policies (economic opening) which led to rapid inflow of FDI and therefore attracting most of the major investments in Shanghai (Wei, Leung and Luo 2006: 237).
### 3.4.2.2 Shanghai’s Strengths and Weaknesses

#### Table 42: Advantages and Disadvantages of Shanghai

<table>
<thead>
<tr>
<th>Source</th>
<th>Category</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ma and Timberlake, 2008</td>
<td>Competition</td>
<td>Overtook Beijing as leading Chinese world city in 2005</td>
<td>Still high competition with Beijing, the PRD (Guangzhou, Shenzhen) as well as Hong Kong</td>
</tr>
<tr>
<td>Chen, 2009: XV</td>
<td>FDI</td>
<td>More FDI flew into Shanghai alone than into any developing country every year, even twice as much of India</td>
<td></td>
</tr>
<tr>
<td>Chan, 2006: 240-241</td>
<td>Government</td>
<td>Shanghai has a lot of political backup; is own province (many rights); less corruption and bureaucracy than other Chinese cities</td>
<td>Many state or half-state owned enterprises (SOEs); gov. involvement in real estate development; restricted regarding relations with the outside world (it has to follow the CCP) or lack of transparency and complex local regulations</td>
</tr>
<tr>
<td>Chan, 2006: 240-241</td>
<td>HQs</td>
<td>Place for HQs of TNCs in China</td>
<td>But indigenous enterprises not strong enough to compete in international markets</td>
</tr>
<tr>
<td>Yusuf and Wu, 2002: 1233</td>
<td>Labour force</td>
<td>Wide range of skills (compared with other industrial cities in China)</td>
<td>Few professionals and technical personnel compared to other global centres</td>
</tr>
<tr>
<td>Leman, 2002: 9-10</td>
<td>Manufacturing</td>
<td>Strong in motor vehicle, computer, telecommunications equipment, circuit manufacturing, packaging</td>
<td>Low value-added manufacturing outside Shanghai, medium value-added in suburban towns</td>
</tr>
<tr>
<td>Chan, 2006: 240-241</td>
<td>Location</td>
<td>It has a very good central location for China with a vast hinterland</td>
<td></td>
</tr>
<tr>
<td>Yusuf and Wu, 2002: 1233</td>
<td>Population</td>
<td>People are living longer</td>
<td>Population is aging, about 20 years ahead of national trend, has a low birth rate, most temporary migrants do not have the same rights than permanent residents</td>
</tr>
<tr>
<td>Wu, 2008: 251 and Walcott, 2011: 82</td>
<td>Temporary migrants</td>
<td></td>
<td>Often live in poor conditions inadequate sanitation and overcrowded housing Not equal labour rights and benefits of urban residents (e.g. welfare, urban amenities, employment opportunities)</td>
</tr>
</tbody>
</table>

Source: Vouk, 2013, compiled after different authors mentioned in column one

Shanghai’s biggest advantages are its geographical location, its consumer market and vast hinterland, its political backup, better trained labour force and good infrastructure, compared to other Chinese cities. Some disadvantages, on the other hand, are its investment driven economic growth, its weak...
competitiveness of its indigenous enterprises and the huge importance of the government and SOEs as well as its limited relations with the outside world (Chan, 2006). “Shanghai must be at the leading edge of innovation in finance, law, logistics, trade, science and technology, governance, urban management, and environmental protection if it is to compete successfully on a global scale” (Leman, 2002: 14).

According to Ma and Timberlake (2008) Shanghai was a major financial centre in the Far East before 1949. After the opening up of China’s economy some politicians in the central government are eager to see this position again. However, the capital city is Beijing and the central government also wants to see this city as the leading Chinese (world/global) city, which leads to a kind of competition between both cities. “Put simply, people go to Beijing to engage in political networking but to Shanghai to do real business. Shanghai is favoured by foreign-owned bank branches, and Taiwanese investors, who tend to keep low profiles, do not favour politically sensitive cities like Beijing” (Ma and Timberlake, 2008: 24). Even though Shanghai surpassed Beijing in international importance due to airline passenger flows in 2005, according to both authors, Beijing remains the most important city within China as global capital investment decisions for China have to pass through Beijing first.

Further, there is a tight competition with the PRD, especially with Guangzhou, which was the most important Chinese economic city before the 1990s and one of the most prominent cities in the national system. Another challenger for Shanghai is Shenzhen, with the second major financial centre in China and thus hosting the second largest stock exchange on the mainland. I only got the experience from the Baoan Foreign Language School in Shenzhen, where the teachers told me that they came to Shenzhen from all over China because of the good salary there. The same happens with Shanghai and Beijing, but because China is so huge I could find a “diversification” among the source of people coming to the cities. In Beijing and Shanghai I met a lot of people from the northern and eastern part of China, in Hong Kong and Shenzhen many of them came from the southern part. Shenzhen had 25,000 people in 1980 and about 14 million in 2010. It is known for its ‘Shenzhen speed’, its flexible assembly lines, its ‘high-speeding’ due to its proximity to Hong Kong and its migrant workers, who are the symbol of Shenzhen (for more information see: Roy, 2011, 315-320).

According to Susan Walcott (2011: 80) Shanghai is a reglobalized post-socialist city, similar like in the ‘golden 1930s’ along the lines of Budapest or Berlin. Even though she notes that its current position within China is roughly equivalent to that of New York City in the US (in terms of internal national rankings and position as a financial centre of the country), she sees Shanghai “[...] at least as China’s best (or, after Hong Kong, next best) candidate” for the title of ‘global city’. More than 23 per cent of China’s total FDI since 1992 floated to Shanghai, which led to a construction boom of more than 4,000 modern high-rises. Furthermore, many Hong Kong accounting professionals are moving or travelling to work to Shanghai due to its high local demand and competitive salaries. Many regional HQs were established (55 between 2003 and 2009), chipmaker Advanced Micro Devices (AMD) moved its South Asia Pacific HQ from Hong Kong to Shanghai in 2002, IBM its Asia Pacific HQ from
Tokyo to Shanghai as well as automobile parts maker Visteon Corp in 2003 (Chen, 2009). Shanghai’s subway will probably surpass the world’s largest and busiest subway systems of New York, London, Moscow and Tokyo in the near future. Hong Kong and Taiwan’s film industries began to shift their operations there and Shanghai started to widen its influence. Shanghai-themed restaurants and nightclubs became popular in Taipei as well as TV series about history, culture and romance of old Shanghai (Chen, 2009).

3.4.3 Hong Kong and Shanghai: an Interplay

“The dominant business and government personalities in Hong Kong are Shanghainese, and everywhere in Shanghai one sees Hong Kong businesses profiting from Shanghai’s success” (Overholt, 2004: 45). This statement is still valid in 2013 because both cities have their advantages and disadvantage and are also increasingly working together. Hong Kong is Shanghai’s largest FDI provider and has already developed some prestigious projects in Shanghai, such as Xintiandi or the Sun Hung Kai Properties in building luxury hotels, malls and other landmarks (Siu, 2011: 148).

3.4.3.1 Manufacturing and Service

Both cities can work together quite well, because they have different functions. Hong Kong is almost an exclusive service centre (with more than 90 per cent of its GDP accumulated by this sector), whereas Shanghai is more balanced between manufacturing and services. Hong Kong’s edge is the role as a trading and transit trading hub, with some relocation such as R&D, design, prototype manufacturing and logistics to the PRD, where Hong Kong’s entrepreneurs own many factories. This resulted in leaving the high-level services such as advanced R&D, manufacturing management and offshore trade in their Hong Kong HQs (Lui and Chiu, 2009: 112-113). However, the secondary sector also plays an important role for Hong Kong, because its manufacturing firms are re-classified as import and export firms and therefore statistically shown within the tertiary sector, even though they actually trade their own products (Breitung and Günter, 2006: 92).

On the other hand, Shanghai has also relocated some low-value production into its hinterland, the YRD. Even though it has a high percentage of its GDP accumulated in the service sector (58 per cent in 2011 (Shanghai Statistical Yearbook 2011: 11)), its secondary sector (41.3 per cent in 2001) is still very high, compared to other global cities, such as Hong Kong. Thus Markusen and Yu (2009: 42-44) think that Shanghai resembles Chicago more than New York, because Chicago has a diversified economic base with strengths in services but also has upgraded and retained its manufacturing sector with a broad mix of high-tech activities. This is contrary to New York’s manufacturing sector, which has already been relocated.
3.4.3.2 Being Complementary

As the Hong Kong Trade Development Council has stated (The two cities, 2001), both cities, are regarding as trading hubs. They are complementary; with the Hong Kong port serving the southern part of China and the Asia Pacific region, Europe and Australia, whereas Shanghai mainly serves the eastern part with special links to North America and North Asia. Shanghai is also Hong Kong’s most important trading partner in terms of air cargo. As financial centres, Hong Kong’s prime role is to serve the region and its second role to channel foreign inflows to the mainland whereas Shanghai’s prime task is to mobilise domestic funds to fuel the mainland’s economy. Thus Shanghai can be seen similar to domestically-oriented Tokyo and Hong Kong more than the internationally-oriented New York or London. As for the knowledge-base economy, Hong Kong has free access to information but is also focusing on new technologies whereas Shanghai is doing better in industrial and supporting industrial R&D. In the category of “talents”, Hong Kong has more entrepreneurs, professionals, management and commercial talents in various sectors while Shanghai has a pool of industrialists, industrial engineers and relatively well-educated skilled workforces. Furthermore, many foreign companies in the mainland recruit managers from Hong Kong, Taiwan and Singapore and Hong Kong investors do not only bring capital but also talent to the cities, thereof Shanghai. Thus both, competition and opportunities will grow.

Figure 25: Influences and Interplays for Hong Kong and Shanghai

Source: Vouk, 2013 according to different authors
3.4.3.3 Different Enterprises – Different World Cities

In 2004, Overholt (2004) took seven weeks long interviews in Hong Kong and Shanghai with the result, that both cities are important – but to different customers. For an individual or small and medium sized company it can be better to deal with Hong Kong, whereas big foreign companies can use their political and market weight to overcome risks or adverse business conditions and are doing well with Shanghai. He mentioned that most Fortune 500 companies focusing on the Chinese domestic market belonged to Shanghai whereas most exporters and sophisticated services belonged to Hong Kong. Shanghai has a very good “hardware” (location, port, airport, subway system and so on) whereas Hong Kong has the “software” (e.g. rule of law, low taxation or corruption free government) bonus.

In 2004, American executives warned that nowhere on the mainland outside Shanghai a contract can be enforceable due to the weak status of the written law. However, compared with Hong Kong the legal system in Shanghai is far less developed. This can be confirmed by Mr. Königlehner, the technical director of Asia Pacific, Geberit Shanghai Trading Co. Ltd, who stated that the first sentence of the law on advocacy in China says that “the lawyer is bound to the well-being of the Communist Party” (“Der Anwalt ist dem Wohl der Kommunistischen Partei verantwortlich”) (Königlehner, 2012).

However, in terms of developing soft skills, Shanghai is catching up and even surpassing Hong Kong in some areas. Overholt (2004) further describes that a taxi driver or clerk will speak English in Hong Kong and will not in Shanghai, but Hong Kong just performs better in all levels below the top. In contrast, Shanghai schools and universities are more exactly and prove higher education to a wider range of people (in total numbers). Thus US business operators can find highly qualified English-speaking top executives more easily in Shanghai than in Hong Kong (who often writing “Chinglish” and speaking with Cantonese accents). Therefore both cities are also complementary in this regard, because medium-sized exporters need a large English-speaking staff with modern business experience, who can be found in Hong Kong, whereas large Fortune 500 companies which need a national presence will make use of the international-calibre executives in Shanghai.

Another point is that much of domestic banking has already shifted to Shanghai whereas higher-level banking functions, which need sophisticated legal systems, convertible currencies as well as the ability of managing complex transactions in wholesale and retail, mixed equity, debt and derivatives – all done in real time – will stay in Hong Kong. Furthermore, Shanghai has an edge in engineering, R&D, design-sectors and heavy industries (petrochemicals, steel, information technologies and so on) with domestic-oriented marketers like Coca Cola prospering there. Hong Kong however, will be superior in logistics and global market connections, which will be needed by e.g. toys and fashion manufactures which require large numbers of English-speaking mid-level employees. In addition,
Hong Kong attracts Western firms with large numbers of expatriates who will be more comfortable living in the Hong Kong culture than in the Chinese (e.g. “Shang-low”\(^{11}\)).

From a cultural point of view, many Western manufacturing companies may be culturally more comfortable living in Chinese-Westernized Hong Kong and manufacturing in the PRD whereas Taiwanese entrepreneurs, having historical and cultural ties with China, are doing quite well in both places, Hong Kong and the mainland. However, Hong Kong is the cultural bridge, enabling mainland companies to move their business overseas and foreigners, including Taiwanese companies, moving to the mainland. Nevertheless, Hong Kong’s business climate is very tough, more competitive and money-driven and less interested in the environment and quality of life than Shanghai’s businessmen. Shanghai people characterizes Hong Kong as executive, controlling, more interested in short-term profit making than long-term investments. In addition, Hong Kong businesses are firing their workers more frequently to avoid an increase in wages (Overholt, 2004).

### 3.4.3.4 Future Development

Regarding their future, Hong Kong’s economic flows are no longer one-way but already two ways between Hong Kong and the mainland and “instead of being disembedded from the larger national and regional contexts, Hong Kong is becoming a Chinese global city” (Lui and Chiu, 2009: 115). Even though it has already begun to do so (see chapter 3.2.3.1) it has a long way to go. Shanghai in contrast, has never stepped out of the national economic and political environment but became instead increasingly regionalized within the YRD. Hong Kong’s “inward” turn with the broader support from the mother country, is likely to benefit its position without losing its global connectivity. Thus Hong Kong has to “move in” whereas Shanghai should “go out” to become a more globally important world city (The two cities, 2001). Until now Shanghai has not been as international as Hong Kong, because it has to follow Chinese laws which are more restricting to foreign businesses than Hong Kong’s (Yeh, 2011). Nevertheless, the future of both cities may lay in being complementary in order to gain “customers”:

> One successful Asian business leader compares Shanghai to an IBM mainframe and Hong Kong to a network of small computers. For a large, focused longterm project like running a big credit card operation or a car factory, a powerhouse IBM mainframe (Shanghai) may be perfect. For a rapidly evolving, possibly risky operation with fast-changing products, a flexible, variable-cost network with a good cross-platform operating system (Hong Kong) may work better. (Overholt, 2004: 47)

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\(^{11}\) A term (opposite of “Shanghigh”) used by many expatriates in Shanghai to indicate a period of time during their stay, where they cannot come clear with the cultural differences and where they would like to leave the city and even the country (after Lorenz, 2012).
3.4.4 Trends and Opinions

3.4.4.1 Nylonkong

The *Time Magazine* on its 28 January 2008 edition, announced a new era in global finance and economy, fed through globalization and led by three cities: Nylonkong, an invented term (acronym), consisting of New York, London and Hong Kong (instead of Tokyo). Elliot (2008a and 2008b) wrote, that in the early 1980s, when the Hong Kong stock exchange lost a quarter of its value (September 1982), London had some of the most bitter riots within a century (1981) and New York went almost bankrupt in 1975 (with its streets potholed, filthy and dangerous in the early 1980s), nobody knew that these three cities should lead the global economy by 2008 (according to Time Magazine). These three shared the same history, having been major manufacturing centres but were able to shift their economic focus to the service sector; all have been (are) great ports, which made them open to trade. Furthermore, they are cities of immigrants with 31 per cent of all Londoners born outside Great Britain, 34 per cent of all New Yorkers and even 40 per cent of all Hong Kong people born outside the SAR. The author calls these three cities the ‘wheels of trade and development’. Nylonkong (all three cities) is where great banks have their HQ or key RO, massive agglomeration of talents and culture, with being among the most expensive housing rents in the world (Hong Kong 1\textsuperscript{st}, New York 3\textsuperscript{rd}, London 6\textsuperscript{th} in 2008), all driven by one force: Globalization.

![Figure 26: Cover of the Time Magazine, 28 January 2008](image)

Source: Time Magazine, 2008

However, as Zhao (2010: 16) mentions, Nylonkong was an application of the time zone theory, which is based on humans who are still unable to work 24-hours and therefore need work-rest cycles. People simply cannot bear the burden of long-term overnight work and frequent cross-continent commuting. Therefore, as it has been proved, New York and London are substituting each other’s functions because they are located in different time zones (Zhao, 2010). However, there is also a need for a third location somewhere in Asia to enable an almost 24-hour operation. Thus London and New York are competing with Hong Kong, Singapore, Tokyo and other cities in Asia; but still need each other and maintain their own advantages due to their locations within the different time zones.
3.4.4.2 Hong Kong: Asia’s World City

Chiu and Lui (2009: 130) argue that Hong Kong’s economy is “[instead of] becoming more deeply integrated into the global economy by a loosening of Hong Kong’s attachment to the nation-state, its economic development is increasingly embedded in China’s grand national marketization and ‘going global’ projects [...]” and thus becoming a Chinese global city. They also mention that Hong Kong is increasingly depending on China for its economic growth. As Chinese globalizes, there are a growing number of cities which start to compete with Hong Kong, which will only be one of several Chinese global cities, together with Shanghai, Beijing and perhaps Tianjin, Shenzhen and others (2009: 161). The authors, however think that Hong Kong should be both, embedded within China and Chinese culture as well as autonomous and integrated within the global economy losing one of this two would bring troubles for Hong Kong.

This can be confirmed by Mr. Davis (2012), Associate Director-General of Invest Hong Kong, a government organisation which promotes inward investment and helps people to start up or expand in Hong Kong. He said that Hong Kong is the “right place and the right time” for investments. It is part of China and it is not part of China at the same time. It is the world’s freest economy, it is home to 73 of the world’s top 100 banks, the platform for RMB trade and has a cosmopolitan lifestyle (with beaches or hiking places only 20 minutes away from the centre). With a tax of only 16.5 per cent (Austria has 40 to 50 per cent) and 42 million overnight guests (with a per capita spending of 8,220 Hong Kong Dollars) it is also a big data centre for China because it is outside the “great firewall”. In Hong Kong it is possible to outsource everything a company do not need or want to do by itself. However, at the same time it has a hard-working population, thereof a lot of young professionals and long-term expatriates living there. Hong Kong is the New York of Asia, as Mr. Davis has put it.

Nevertheless, Brand Hong Kong (2013) created the following logo for Hong Kong in the year 2001 (modified in 2008/2009 to its present shape) with the aim to create a brand or a symbol which makes it known worldwide and which should help to attract foreign businesses to Hong Kong. Brand Hong Kong is an umbrella agency for Hong Kong as a whole and is designed to encompass many facets of Hong Kong in trade, finance, technology, tourism, arts, sport and others (Yu, 2003). The symbol consist of a dragon whose smooth shape represents movement, speed and change and is an icon for meeting East and West. This symbol can be seen everywhere in Hong Kong, on ferry boats, light poles, exhibitions or museums. The “ever-changing” city (Brand Hong Kong, 2013) chose its brandline by asking its population, which is, according to Mr. Stephen Lam Sui-Lung “a crystallisation of collective wisdom” (Yu, 2003: 4) and stands for the spirit of Hong Kong: Asia’s world city.

Figure 27: Hong Kong - Asia’s World City
Source: Brand Hong Kong, 2013, Bilingual Version
3.4.4.3 The Central European Points of View

During the Austrian-Chinese summer school (2012), organized by the University of Salzburg and the Eurasia-Pacific Uninet, I was able to get some good points of view about the position of Shanghai and Hong Kong within China as well as an insight into the world of long-term expatriates living in China. This programme was enriched with the participation in the “Marktsondierungsreise: Information und Consulting in Shanghai und Hongkong” (exploration of the Chinese market and getting information and consulting in Shanghai and Hong Kong) of the Austrian Trade Commission in 2012. During these two activities I got valuable information for my research via attending lectures and presentations, visiting companies and performed interviews. With these insights I can say that:

Austria has some 400,000 corporations whereof ten per cent are exporters. Of this ten per cent only 16 per cent do some business with overseas. China was Austria’s 11th most important country for exports (with 2.9 per cent of all exports) and is its fourth most important country of import (with 4.9 per cent of all Austrian imports) in the year 2011 (Tichauer, 2012: 17). According to both Austrian Trade commissions in Hong Kong and Shanghai (Kronhofer, 2012 and Lindner, 2012) Austria had 170 companies located in Hong Kong mainly in the fields of trade and commerce; industry; advisory services and services; transportation, traffic and telecommunication; banking and insurance as well as retail in the year 2012. In Shanghai, on the other hand, there have been more than 350 Austrian companies in the greater Shanghai area and 70 more which are in the stage of establishing an office there. In the whole mainland there are more than 600 locations of 500 different Austrian companies.

Christian Schierer, the Austrian Trade Commissioner for Hong Kong, explained that four years ago, in 2008, there were only 97 Austrian companies in Hong Kong but in 2012 there have been 170 (Tichauer, 2012: 20). For Austria, a Hong Kong location is important in establishing a sign of quality. Due to the huge number of mainland tourists (almost 30 million in 2011) who buy quality products, every company which can establish their brand in Hong Kong will also do quite well in China too. He mentioned that Swarovski (doing business in crystal production and sells) has the highest concentration of outlets worldwide in Hong Kong. Hong Kong’s strengths are its market economy which is among the fastest in the world in reacting to new influences, its speed and flexibility as well as its huge hinterland. Austrian corporations have their cash cows in Hong Kong, as Mr. Schierer formulated it. Everyone who wants to invest in China has to raise local money. He further argues that

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12 The interviews were held in Beijing, Shanghai and Hong Kong between 18 August and 28 September 2012. The Interview partners with Central European background have been:
- Thomas Auböck, Austria, sales manager of Engel Machinery (Shanghai) Co.Ltd. for China and Southeast Asia
- Raymund Gradt, Austria, Austrian Trade Commissioner for Shanghai
- Marcus Herning, Germany, head of the Goethe-Institut “Villa Kamogawa” in Kyoto
- Manfred Königslehner, Austria, technical director of Asia Pacific, Geberit Shanghai Trading Co. Ltd.
- Christian Schierer, Austria, Austrian Trade Commissioner for Hong Kong
- Janis Vougioukas, Germany, East Asia correspondent for the German magazine “Der Stern”
- Andreas Werner, Austria, manager of Raiffeisen Bank International (an Austrian bank)
Hong Kong is the ideal place to do so because in this city the Chinese non-convertible currency (RMB) gets internationalized (Tichauer, 2012: 20-23).

Following this, I want to mention the statements and opinions of long-term expatriates from Austria and Germany, all working in Beijing, Shanghai or Hong Kong. As entrepreneurs, commissioners of the Austrian Trade Chamber or reporters, living and working in China for many years, they can give a more detailed insight into the Chinese economy and the position of Shanghai and Hong Kong within this system. Their answers in alphabetical order are as follows:

Mr. Auböck, explained the story of his company (Engel machinery) as follows: During the 1980s, Hong Kong was that gateway for China and his company and therefore they established their Asian HQ there. However, due to the opening of China, all their customers within the injection moulding industry but one have removed there HQs from Hong Kong and therefore they followed. The office in Hong Kong made no profits any longer, so that they closed it and moved to Shanghai in 2007, which doubled their capacity in 2012. Shanghai became one of the two production centres in East Asia (the other is Pyongyang) as well as the location which is dealing with East China (for North China they have an office in Beijing, for West China in Chengdu and for South China Shenzhen instead of Hong Kong) (Auböck, 2012).

Mr. Gradt mentioned that Hong Kong is no longer the gateway for foreigners to China. In fact, it changed to be the gateway for Chinese to go abroad. If someone wants to do business with China, they have to be in the country (not in a SAR). He sees Shanghai’s importance for the **domestic** market and as a financial centre for China. There is a huge competition between Beijing and Shanghai, e.g. all banks having their HQ in Beijing but an office in Shanghai which is shown to be the more important office as accumulating more volume of sales than the Beijing HQ. However, all major foreign companies have their affiliated company in Hong Kong, because as an international financial place trading RMB they can bring their revenues out of the country, which is almost impossible from a location within China (Gradt, 2012).

Mr. Herning emphasised the division of labour between both cities. Hong Kong, in his opinion, is the gateway for South China and Southeast Asia, which is not the prime interest for businesses which are run in Shanghai. Shanghai focuses more on the east coast and other East Asian countries. Furthermore, he sees more linkages between these cities than competition. Hong Kong people have invested heavily in Shanghai and bought luxury villas. He thinks that instead of Hong Kong, Beijing is the true competitor for Shanghai (Herning, 2012).

Mr. Königslehner told me, that the HQ of his company (Geberit from Switzerland) was located in Hong Kong until 1997. It was much easier to get access to China via Hong Kong, which was more Westernized. Later they transferred their HQ – even for Asia Pacific – to Shanghai, because Shanghai is the production centre of China and about 50 per cent of their business with Asia Pacific is done with China. They chose Shanghai because it was (and still is) the most developed city within China.
with the best law regulations, financial institutions and infrastructure. Hong Kong is still regarded as a foreign country from a Chinese point of view. As a result, it is not as easy to do the business with China if located in Hong Kong. Moreover, Shanghai is the better location for their kind of business (production and dealing with the Chinese inland market). Although they opened another office in Guangzhou for doing business with South China in particular, they still kept the Hong Kong office in a reduced form which only deals with business concerned with Hong Kong (as a LO) (Königslehner, 2012).

Mr. Schierer on the other hand thinks that the competition between Hong Kong and Shanghai is not that important. Hong Kong people think Singapore is a bigger competitor than Shanghai. Shanghai is regarded as a national centre and important for doing business with China but Hong Kong is seen as being more international and the gateway to the world. He mentioned that Hong Kong is the most liberal market economy in the world and one of the service centres with 92 per cent of its GDP accumulated from various service industries. Hong Kong is one of the few cities where it is possible to have seven appointments a day, which indicates the efficiency of Hong Kong – its people and transportation system/infrastructure alike. This city, so he said, is doing even so well that it got so much budget surplus last year (2011) that every citizen of Hong Kong got 6,000 Hong Kong Dollars from the government. From his point of view he said that Shanghai is now irrelevant on an international scale because the Chinese currency is not convertible. Further, Hong Kong is somehow protected by the Chinese government because they want to give the world an example how China can deal with a democratic system within their territory. Thus Hong Kong should be an example for Taiwan and the reunion with the PRC (Schierer, 2012). Therefore the PRC boosts the Hong Kong economy and tries to enable Hong Kong to be a world city on a high global level (e.g. establishing an offshore RMB centre there and giving Hong Kong a better access to its hinterland).

Mr. Vougioukas mentioned that Shanghai is no threat for Hong Kong, because China is big enough to host two financial and service centres. He thinks, China’s (and Shanghai’s) legal security is continuously improving which will benefit Hong Kong. Due to the growing prices in Shanghai (e.g. high social security tax) its cost advantage is shrinking which is benefiting Hong Kong as well. In his opinion, Shanghai thinks of Hong Kong as an ideal of a city which it wants to become whereas Hong Kong thinks of Shanghai as competitor (Vougioukas, 2012).

Mr. Werner explained that Hong Kong is important as an offshore RMB trading location and therefore important for all affairs dealing in a wider range outside of China. Shanghai, so he said, is a national centre. However, there is fierce competition with Beijing in terms of location for banks. His company (Raiffeisen International, an Austrian bank), for example, decided not to have their RHQ in Shanghai but in Beijing, because Shanghai is totally overbanked. Thus they do not have any offices in Shanghai but in other cities of China, thereof Hong Kong (Werner, 2012).

To summarize, the interviewed persons in general do not think that there is a competition between Hong Kong and Shanghai but they should be seen in collaboration with each other. Both cities are

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even complementary and have their focus on different regions and functions. Thus Shanghai is more important for doing business in China, especially for the manufacturing sector and finance, whereas Hong Kong is specialised in services and global finance.

3.4.4.4 The View of the European Chamber of Commerce

In a survey, done by the European Chamber of Commerce in China together with Roland Berger (2012: 18-21) it was mentioned, that Hong Kong is regarded as an attractive location for regional headquarters due to its favourable business environment, its highly transparent legal and regulatory conditions as well as its competitive corporate tax levels. Its proximity to China, stable and mature financial market, tax advantages, convenient administrative process (especially uncomplicated handling of visas and working permits for foreigners) are Hong Kong’s major advantages compared to Shanghai’s highly regulated business environment. However, Hong Kong is becoming too expensive in terms of operating and living costs, faces a shortage of a skilled workforce, has a very bad air quality and a border with the PRC, which does not allow Hong Kong to become a truly sustainable gateway to the mainland. The following figure shows the strengths and weaknesses of both cities, additionally compared with Singapore. The numbers are the top ten criteria of choices for the location of the Asia Pacific regional headquarters for 67 European TNCs.

Figure 28: Performance Assessment of Singapore, Hong Kong and Shanghai


Note: The research question was: “Please evaluate how Singapore/Hong Kong/Shanghai is performing on the following criteria” with the numbers indicating the ranking of the most important criteria starting with 1.
Shanghai, on the other hand, after the European Chamber of Commerce in China and Roland Berger (2012), was the most attractive city in regard of a possible locations for an Asia Pacific headquarter. Even though it was ranked behind Singapore and Hong Kong in four out of five criteria. Its main advantages are its location within China as its wealthiest municipality, largest business hub and designated financial centre, with optimal manufacturing and market access as well as access to clients and distribution channels in mainland China. It is highly attractive to well-educated young professionals from China and abroad and thus hosts one of the top labour markets in Asia Pacific, making it to the “frontrunner in China”.

However, its disadvantages are manifold. Among them are the complicated legal and regulatory environment, the high level of bureaucracy, disadvantage in access to information, difficult visa and work employment process, comparable high level of corporate and individual income taxes (up to 30 per cent income tax for foreign invested enterprises compared to 16.5 per cent in Hong Kong) as well as the limited convertibility of the RMB. Further, some companies still think it is necessary to deal with their financial functions outside of the mainland. Another disadvantage is the “war for talent” between local and multinational companies in attracting the same group which leads to huge increase in labour costs. The next are the hukou-system, which provides restrictions for non-Shanghai residents in travelling to neighbouring countries such as Japan or Korea and the disadvantage that the decision-making process, especially for the finance industry, is done in Beijing and not in Shanghai. Rigid market access restrictions for foreign companies, e.g. for foreign banks, life insurance, fund management and securities companies are further disadvantages. This survey also mentions that Shanghai’s port is a “non free port” because foreigners are excluded in businesses such as trans-shipment and “feeder services”. Additionally, its strong status (high turnover) mainly comes from domestic shipping. Regarding regional HQs, companies must have more than 400 million US-Dollars of total assets of their parent companies, the paid-in capital investments in China must be at least 10 million US-Dollars and the registered capital of the managed company must be two million at least, which can act deterrent in attracting more regional HQs.

However, compared to other Chinese cities in the mainland it is very convenient to do business in Shanghai because it is culturally welcoming, the English-speaking population is increasing and international products, restaurants and recreations are widely accessible.
4. Conclusion

4.1 Summary

In this thesis I used two approaches: a quantitative and a qualitative one. After discussing the world city literature and different approaches within, I tried to find the 13 defined main indicators within the quantitative approach. Internet research, statistical yearbooks, material in libraries in Hong Kong, Shanghai, Beijing and Graz as well as well trained librarians helped me a lot in gathering the data necessary for my research. Thus I can summarize, that Hong Kong has been a megacity in the years 1982, 1997 and 2012 due to its population of more than five million people and its density of more than 2,000 inhabitants per square kilometre. Shanghai, on the other hand, could not be called a megacity in the year 1982 because of its low density, but in 1997 and 2012. A characteristic of the historical development regarding the megacity question was the reduction of the functional primacy for both cities. Shanghai shrunk from an index value of 7.48 in 1982 to 2.62 in 2012 and thus was only twice as “important” than the nation in average (measured in GDP per capita). Hong Kong, first under British rule, did not have a high primacy in 1982 or during the first half of 1997, but after its handover it was 35 times more “important” than China on average. However, this big advance shrunk to a “mere” 6.40 index value for its functional primacy in 2012. Additionally, both cities are still megacities in a low income country but also “rich” megacities due their profit as production centres (manufacturing as well as services).

Regarding both cities as world cities, their functional importance has been considered on a worldwide scale and thus part two showed their global importance. According to Friedmann and Sassen both represented cities should have global control functions, a high percentage of professionals, usually many migrants within class polarizations and income gaps if regarding them as world or global cities. They should be centres for distribution of information and news and due to globalization, HQs should outsource central functions to highly specialized service firms, which cluster together and form a network of global cities. Thus they are highly concentrated command points of the world economy, sites of production and innovation as well as key locations for finance.

Within this diploma thesis I tried to address these functions. However, I was not able to find the flows of information between the cities by myself using the full methods of the GaWC-group, because it would have been too much effort to do this work. On the other hand, within a reduced version, I tried to get similar information as the GaWC-group by the assumption that the more offices of special service firms a city has the higher it is connected to other cities within a network.

Further, I tried to address some of the criticism shown in world city literature. Therefore I included the historical development and the different socio-economic and political structures of Hong Kong and Shanghai. As the role of the scale and state are important issues for China, I discussed them within this study. The country is so huge, similar to the size of the USA, Canada or Europe, that the
scale is a major influence in the process of shaping world cities. The state with the communist rule in China and the democratic (or semi-democratic) rule in Hong Kong is also crucial in finding the position of both cities within the country.

The difference between world and global cities was not considered during the discussions in part two and three but is outlined in this conclusion by exploring the original meaning of both terms. To recap, a world city is a historically grown, single-important city which includes many different aspects of a city such as economy, political power as well as culture and the arts. A global city however, is something new, originated from globalization and focuses on finance and services within a network of similar cities.

Part two, the quantitative comparison, also included the historical development of both cities with the result that Shanghai was one of the biggest and most important cities in the 1930s, with a vibrant and cosmopolitan life, which Hong Kong was aiming to become as well. However, due to the political exclusion of the PRC following the Korean War, Shanghai lost all its relations to other parts of the world and Hong Kong, under British rule, took the lead instead (the era of “made in Hong Kong”). After the economic opening of China in the 1980s, Hong Kong transferred its manufacturing into the nearby Perl River Delta (“made by Hong Kong”) and Shanghai began to attract huge sums of FDI (with Hong Kong being the number one investor) to regain its former glory.

During the discussion of the indicators, I was able to find out that in the field of economy and finance China was catching up enormously. More and more Global 500 companies are now located in China with Beijing leading in the number of banks worldwide. Shanghai is also gaining importance so that its stock exchange has already overtaken Hong Kong in total shares traded but not in the number of listed foreign companies, where it did not list a single one. Shanghai also overtook Hong Kong in the field of trade and transport, even though Hong Kong was eleven times the top port during 12 years between 1991 and 2002 in terms of TEUs handled. Nevertheless, Hong Kong gained the world’s top rank in handling airport fright in 2011. Furthermore it also got an edge over Shanghai in terms of embassies and consulates ever since and was even outperforming New York in 2012 due to its high degree of political autonomy with the status as a special administrative region in China. Additionally, its legal service is superior to Shanghai due to the rule of law, which is not performed in China. On the other hand, Shanghai was doing better in information and news because many advertising firms want to be close to their (manufacturing) customers. These customers are doing business with China in one of Chinas most important centres of manufacturing, R&D as well as finance: Shanghai and the Yangtze River Delta.

Even though some foreign companies think it to be easier to find highly qualified English speaking staff in Shanghai than in Hong Kong, the general population lacks this skill. Hong Kong, with English as an official language, is doing better in terms of students and professors per 10,000 inhabitants, even though both are still behind the top three world cities: London, New York and Tokyo. For the last comparable category, culture and the arts, Shanghai was just leading in art performances whereas
Hong Kong was leading in all other categories. As Shanghai still has a long way to catch up, it was not leading in fields which cannot be bought from money just “overnight” but which needs time to be established (e.g. library books, attendance at museums or sport facilities).

All in all, in the year 1982 Hong Kong and Shanghai have been far behind the three other leading world cities and could hardly be called world cities at all. Both cities, however, have been catching up, establishing themselves amongst other world cities and reduced the gap to the third ranked from 39 per cent in 1982 (Hong Kong behind London) to a mere 27 per cent gap in 2011/2012 (Shanghai behind Tokyo). Hong Kong was performing better than Shanghai in 1982 and it was more than twice better than in 1997 but ranked three per cent behind Shanghai in the last comparison. Nevertheless, Hong Kong was doing better in the “social environment” fields and thus the “soft indicators”, as I called them, which have been internationality, legal service, education and research as well as culture and the arts. Shanghai, on the other hand, was leading in the “hard indicators”, which are easily measurable (focus on economic values) and which have been economics, finance, trade and transport as well as information and news.

Together with the more qualitative approach in part three, it can be mentioned, that Hong Kong is more similar to other market-centred and bourgeois types of world cities (e.g. New York and London) whereas Shanghai is more similar to other state-centred, political-bureaucratic types (e.g. Tokyo and Seoul). Actually, if not ranked and compared, but under a rather holistic view, I found out that Hong Kong and Shanghai are quite complementary to each other. Hong Kong functions as an international financial centre, being important in the Asia Pacific region as well as the gateway for Chinese companies to go global, whereas Shanghai’s role is to accumulate local money for these Chinese companies (RMB centre) and thus being nationally important. Due to the huge area of the country, Shanghai is primarily responsible for the eastern part of China whereas Hong Kong is involved in the southern part. Shanghai has more business in manufacturing and shipping goods to the north and east of Asia as well as to North America, whereas Hong Kong is mainly a service provider and trade centre for the southern part of Asia and the rest of the world.

In short: Both cities are important and strategic locations for different reasons and needs. If a company is a huge Fortune 500 company, which wants to primarily do business with the Chinese market, then Shanghai will be the better choice, especially if some manufacturing is involved. However, if the company in question is a small or medium sized company, which cannot easily overcome the bureaucratic and political restrictions of the mainland, it will be more comfortable in the tax-heaven and English-speaking Hong Kong. Especially if it is dealing with services which need quick and not restricted access to the whole world (information and people alike), such as advanced banking or media.

Regarding the lifestyle, both cities are multi-national, global (thus less Chinese in general) but also exclusively-polarizing with more and more high income professionals and more and more lower income (migrant) workers on the bottom of the scale in both cities. Nevertheless, expatriates will be
comfortable with both cities, because they offer a global lifestyle with many (Western) amenities. However, they usually would prefer Hong Kong due to its huge Western cultural influence resulting from the British period (e.g. English-speaking taxi-drivers), as I experienced by myself as well. Nonetheless, the rent prices in Hong Kong are among the highest in the world, which is its biggest disadvantage.

When I asked the expatriates I have met during my second stay in China, they think that, if a company wants to produces for the mainland market, Shanghai would be the better choice. If they, however, focus on services and look at the region (e.g. Southeast Asia), than they would be doing better in Hong Kong. Shanghai is an important domestic market and financial centre for China whereas Hong Kong is regarded as a gateway for Chinese business to go global. Due to the border it is not a real part of China, people act and think differently (they are more “Westernized”), but this will become more significant the more expensive Shanghai gets. Then Shanghai’s cost advantage is shrinking compared to Hong Kong. Hong Kong, as an offshore trading location, is ideally located to reach half the world’s population within a five hours flight-circle whereas Shanghai, which is already overbanked, is not seen as globally linked as Hong Kong: “Asia’s world city”.

4.2 China’s World City

During my research I was looking for the answer which of both cities could be called a “Chinese world city”. Chiu and Lui (2009: 249) believe that Hong Kong should be called a “Chinese global city” due to its increasing economic integration with the mainland and the increasing number of mainland Chinese tourists visiting Hong Kong. However, after considering quantitative and qualitative indicators and aspects, I can conclude as follows:

- By area and population China is huge enough to host more than one world city.

- According to literature, Shanghai should only be seen as a megacity, instead of a world city because it lacks the worldwide connections, compared to Hong Kong. However it has some internationally important aspects as well, e.g. the busiest port in the world (even though it handles a lot of domestic products and is restricted to foreigners) and is therefore in a stage of becoming a global city. Thus I also want to call it a “globalizing” city, as Sassen (2009) put it. Hong Kong, on the other hand, is already a global city due to its position within a network of financial centres (e.g. Nylonkong).

- As for world cities: Considering their history, Shanghai was a world city in the 1930s and both, Hong Kong and Shanghai are world cities in different stages nowadays due to their economic, political and cultural global importance (which I have tried to calculate in part
two). Thereof Hong Kong is politically and culturally more important whereas Shanghai leads in the economic and historical dimension.

- Thus, also due to political differences, China has many world cities with different responsibilities. Beijing is seen as the political-administrative centre, Shanghai as economic and financial centre for China (to do “real business” there, according to Ma and Timberlake, 2008: 24) and Hong Kong as global centre and dealing with business connecting China and the world on a global scale. Some authors (e.g. Lai, 2009 and Newman and Thornley, 2011: 234) mentioned that most foreign banks adopted a ‘dual headquarters strategy’ with an office in Shanghai for most business transactions but also an office in Beijing for negotiations with Chinese officials. Hong Kong, on the other hand, is attractive to internationally oriented companies which are concerned about their international reputation and which want to expand overseas.

- Therefore these cities should be seen as collaborators, not as competitors.

- Regarding the future, Hong Kong has to become more local and Shanghai has to get more global to keep their status within China and the world.

To summarize, both cities are world cities within China, however, because Shanghai is in a stage of becoming global (“globalizing city”), even though it was performing better than Hong Kong in economic and finance, I see Hong Kong in a stage of becoming more Chinese, thus a “Chinese-ing” city (e.g. closer cooperation with the PRD). Due to the huge political and social differences, diverse frameworks and institutions as well as the border, which separates Hong Kong from China and keeps it global at the same time, I think Hong Kong is too globally, its people and lifestyles too different to the mainland, to be called a truly “Chinese” world city.

On the other hand I also want to follow Tagscherer’s statement (2000: 134) that Shanghai is everything but not a typical Chinese city. She mentions that many people think it is a ‘foreign body’, cut off from its hinterland or, on the other hand, a place where two cultures (East and West) meet. Whereas another group of people think it is an Asian metropolis or only “the other China”, as Marie-Claire Bergère called it (Staiger, 2006: 28).

With this in mind, I can conclude that both cities are world cities and global cities – in different stages. Although it is to mention that Hong Kong is globally more active whereas Shanghai is nationally more important (different responsibilities), neither city is a true and typical Chinese city. However, both are world cities in China and thus can be called “China’s world cities” as London can be called a “British world city” and New York an “American world city”.

Nevertheless, as a final word of this study I want to recite Samanta Leese’s (2012) opinion, where she wrote: “Maybe, when all the data is counted and all possible rubrics considered, the only thing that really makes or breaks a great city is whether or not it has soul [additional highlight].”
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