Red Finance: The Substantive Nature of Shanghai’s Finance Industry

Master’s Thesis

Presented to
The Faculty of the Graduate School of Arts and Sciences
Brandeis University
Graduate Program in Global Studies
Richard Parmentier, Advisor

In Partial Fulfillment
of the Requirements for the Degree

Master of the Arts
in
Global Studies

by
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May 2014
ABSTRACT

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A thesis presented to the Graduate Program in Global Studies
Graduate School of Arts and Sciences
Brandeis University
Waltham, MA

by Aneil Tripathy

Although finance is increasingly described as a global phenomenon, this global network exists because of infrastructure and framework provided by political and socioeconomic substantive localities. As a discipline, global studies attempts to understand the workings of supposed global phenomena, and how such perceptions arise in social discourse. To gain a clear picture of the global dynamics of finance, and to critique such supposed dynamics, one must understand the substantive realities in which centers of finance emerge. Such study is critical in the present, with the legacy of the 2008 financial catastrophe. As anthropologist Hayao Miyazaki reflects in Arbitraging Japan, “In the aftermath of … global financial crisis of unprecedented scale, an ethnographically informed analysis of the workings of financial markets and their
sociocultural consequences is an urgent anthropological task” (Miyazaki 2013: 9). One important part of this work is to understand the development of financial markets.

This thesis begins such analysis through interpreting the rise of global finance in Shanghai, China. Shanghai’s communist government-run financial center is a case study that highlights the importance of political influences in the success or failure of financial markets. This thesis finds Shanghai’s financial industry to be a result of China’s Communist party’s economic ambitions that simultaneously engage other financial markets, such as those in the United States and Europe, while remaining a unique manifestation of Chinese political, social, and economic culture.
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Chapter 1 – Introduction 介绍

The effects of global ideas of finance are manifest throughout the world, particularly in urban areas such as London, New York City, and Tokyo. However, while ideas may be presented as global, each existence of supposed global phenomenon exists as an assemblage of local understandings and interpretations of the phenomenon. Similarly, finance emerges in China through the creation and interpretation of Chinese society. The impetus for the creation of

Fig. 1. Pudong Fields, Thomson 1946
Chinese financial markets was undoubtedly influenced by perceptions of the West. As anthropologist Ellen Hertz in *The Trading Crowd* states, “The Chinese government’s decision to create stock markets was guided by its comparative study of American, western European, and east Asian economic systems” (1998: 5). However, while the West may have been the initial inspiration for China’s financial markets, China and Shanghai’s financial markets are fundamentally Chinese.

As an anthropologist through training, I believe that presentations of the global and the local, while useful at times as a division, must be understood through holistic analysis that both constructs and deconstructs these divisions. As human actors, people are constantly interpreting the world around them through personal perspectives that attempt to maximize potentials for their identities. Through anthropological analysis of Shanghai’s financial markets, one also gains insights into society at large. As Hertz writes, “A fully sociological – or anthropological – perspective … asks not what social science can tell us about financial markets but what financial markets tell us about society” (1998:19). Thus, in understanding financial markets we must both begin with an analysis of the society in which they exist as well as end with the society.

In this creation, the power of each person is fundamental in structuring social order. Ellen Hertz argues, “If the systems paradigm – ‘native’ or ‘global’ – produces a flawed description of the way in which people-in-culture live their own particularity, this is because it overlooks a phenomenon of primary sociological importance: power” (1998: 8). Although the West’s financial might was a powerful motivator in the Chinese government’s impetus to fund Shanghai’s financial industry, the Chinese government and Shanghai’s local political leaders, worked to put finance on its own terms in the city, in order to access the power the West’s financial markets symbolized.
Thus, Shanghai’s financial sector gains access to the vast financial resources of the Chinese state, a privilege the Chinese government refuses Hong Kong out of suspicion that this city is too Western. While Shanghai is prone to the whims of the Chinese government, the city’s financial sector also benefits from its access to the tremendous funds of the state. As Hertz’s Shanghai informants explain to her, “virtually all of my… informants told me, generally during our very first interviews, that one could not study economics in China without studying politics” (1998: 148). The development of the financial sector in Shanghai was from the beginning an impetus of the Chinese government in what is seen as a logical next step by the country’s leaders after the manufacturing boom of the last thirty years. This first step was indeed a response to the power represented by the financial markets of the West, and in particular that of the United States, with 33.1% of the world’s securities market. As the table below from Investments (see Fig. 2), a finance textbook written by Bodie, Kane and Marcus, demonstrates, the West has propelled the development of financial industries.

<table>
<thead>
<tr>
<th>Stock market capitalization in USD (billion)</th>
<th>Percent of World</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>27,473</td>
</tr>
<tr>
<td>US</td>
<td>12,900</td>
</tr>
<tr>
<td>Japan</td>
<td>3,140</td>
</tr>
<tr>
<td>UK</td>
<td>2,566</td>
</tr>
<tr>
<td>France</td>
<td>1,278</td>
</tr>
<tr>
<td>Emerging Mkt</td>
<td>1,067</td>
</tr>
<tr>
<td>Brazil</td>
<td>107</td>
</tr>
<tr>
<td>India</td>
<td>180</td>
</tr>
<tr>
<td>Russia</td>
<td>44</td>
</tr>
<tr>
<td>China</td>
<td>13</td>
</tr>
</tbody>
</table>

Although China still has a comparatively low level of stock market capitalization, its financial industry continues to expand at a robust pace within the country. The goal of the state is
that financial markets will propel the overall GDP of China, much as the country’s manufacturing industry already has. Bodie, Kane, and Marcus echo this sentiment. They state that “we expect that development of equity markets will serve as a catalyst for enrichment of the population, that is, that countries with larger relative capitalization of equities will tend to be richer” (2011: 867). Hernando de Soto in the *Mystery of Capital*, also supports this claim, arguing that “capital is the force that raises the productivity of labour and creates the wealth of nations” (2001: 5). This claim is substantiated when Bodie, Kane and Marcus show the correlation between market capitalization and a country’s GDP (see Fig. 3).

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>Mkt cap % of GDP</th>
<th>2005</th>
<th>2009</th>
<th>2005</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>44,433</td>
<td>57,530</td>
<td>80%</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>12,486</td>
<td>14,270</td>
<td>112%</td>
<td>86%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>4,280</td>
<td>5,049</td>
<td>97%</td>
<td>65%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>3,723</td>
<td>3,235</td>
<td>44%</td>
<td>39%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>2,572</td>
<td>2,635</td>
<td>80%</td>
<td>69%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Emerging Mkts</td>
<td>8,097</td>
<td>13,691</td>
<td>39%</td>
<td>44%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>2,225</td>
<td>4,758</td>
<td>7%</td>
<td>12%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>793</td>
<td>1,482</td>
<td>51%</td>
<td>78%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>766</td>
<td>1,255</td>
<td>60%</td>
<td>55%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>775</td>
<td>1,243</td>
<td>53%</td>
<td>80%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fig. 3. Market Capitalization of Stock Exchanges and GDP, Bodie, Kane, and Marcus 2011: 865-6
While Bodie, Kane, Marcus, and de Soto’s data and argument may be compelling, one must remember that correlation does not imply causation. The cause of market capitalization may be a byproduct of wealthier nations, or market capitalization may create wealth; the causation can go either way.

In order to understand the substantive dynamics of Shanghai’s and China’s financial industries one must analyze how the Chinese people interact with the market, as well as the efforts of the government to control and manage the country’s financial markets. As Hertz states, “clarifying the nature and degree of the Shanghai stock market’s ‘Chinese characteristics’ means assigning a weight to the ‘native point of view’ in relation to the global discourse of capitalism” (1998: 11). In order to weigh the “native point of view” it is instrumental to understand how Chinese perceptions of finance developed.

This thesis begins to interpret China’s perceptions of finance through looking at the history of Shanghai from its existence as a commercial center under European domination.

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Fig. 4. Per Capita GDP and Market Capitalization as Percent of GDP, Bodie, Kane, and Marcus 2011: 867
through World War II to the establishment of the People’s Republic of China in Chapter 2. Chapter 3 goes on to describe the large-scale development of Chinese manufacturing and the beginning of the government’s backing of financial markets under Deng Xiaoping. Chapter 4 looks at the global impact of Shanghai’s financial markets and their relation to other financial centers in Asia, with a particular focus on Hong Kong and Singapore. Chapter 5 analyzes the cultural impact and change that has been brought about by finance in Shanghai.

As Hirokazu Miyazaki argues, there is tremendous need to contextualize financial markets in order to better understand their dynamics and how to adjust finance in order to be the most productive for society (Miyazaki 2014). As economics Nobel Laureate Paul Krugman argues, “economic models studied in universities and published in leading academic journals are still largely based on a simplifying concept … which effectively assumes that ‘everyone in the economy is the same’” (Kaletsky 2014). This thesis complicates this model of sameness through presenting the substantive existence with all tensions and contradictions of Shanghai’s financial markets.
Chapter 2 – History 历史, The Opium Wars to the Rise of the PRC

The history of Shanghai’s commercial markets goes hand in hand with the political history of China. Shanghai seems destined to be a financial hub, with its history similar to Hong Kong due to Western influence and trade development. However, the city’s position in the

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2 Fig. 5. The Bund 1946, Thomson: 1946.
middle of the Middle Kingdom makes its financial markets prone to interference from the Communist party. As Shanghai’s recent history attests, this halfway point between the Chinese government and the rest of the world can be a strength as government policies liberalize and the government seeks to utilize the city’s cosmopolitan history to develop China’s own financial might.

In one manner, Shanghai has always existed in such similar tensions since its inception, being a zone where China came to terms with the West. Similarly to Hong Kong, the finance industry in Shanghai began through Western influence after the First Opium War. However, while Hong Kong was completely controlled by Great Britain, Shanghai came into exist in a liminal state as a treaty port, that is, as a Chinese territory open for Western business and control. As Y.C. Jiao writes, “modern Western-style banking and finance was introduced into the two cities at approximately the same time after the end of the First Opium War, when Hong Kong was ceded to Britain, and Shanghai was declared a ‘treaty port’” (2003: 3). The Opium War itself could be seen as being primarily a war of finance. The British Empire was hemorrhaging silver to China due to the English desire for tea and porcelain and to the need for a way to balance its checkbook. Opium, with its extreme addictiveness, came to be seen as a way to do this.

In these circumstances, Britain, as well as other European powers ranging from France to the United States set up commercial districts in Shanghai. As Rhoads Murphey states in Shanghai: Key to Modern China, “Modern Chinese banking and finance, manufacturing, and commercial organization … all got their start” in Shanghai (1953: 3). Shanghai was the first city in which China came to deal with the West in all of its force. The West not only influenced China economically, but also influenced the country politically with its show of force. “In the city [Shanghai] China for the first time learned and absorbed the lessons of extraterritoriality,
gun-boat diplomacy, foreign ‘concessions,’ and the aggressive spirit of nineteenth century Europe” (1953: 3). With the current fears of China as a balance against the West, much of China’s aggressiveness was born from the aggressiveness of the West in the 1800s. This response began in Shanghai.

Shanghai was where Chinese culture both evaluated and responded to Western influences. The response was both economic as well as political. Along with the development of a market and financial economy in the city, ideas of Chinese nationalism started to take root. As Murphey writes, “China’s economic revolution, as fully as Chinese nationalism, struck its first modern roots beside the Whangpoo, and these two have between them made the contemporary picture” (1953: 3–4). As a result of the West’s infiltrating Shanghai through the unfair treaties following the Opium War, “China’s response, began primarily at Shanghai, and there modern China was born” (1953: 3). Thus, from the beginning of Shanghai’s financial industry the commercial activities were a source of strength for China as well as recognition of inferiority to the ways of the West; a source of power but also a source of humiliation for what would become a nation.

Indeed, the financial industry in Shanghai was extremely successful under Western control and nominal Chinese sovereignty. Throughout the 1800s and into the 1900s Shanghai was a commercial center that far surpassed Hong Kong. “By 1936, Shanghai had 47 foreign banks, of which 33 came from UK, US, and Europe, 4 from Hong Kong, 3 from Singapore and Malaysia, and one from the Philippines” (Jiao 2003: 7). During this period, the Bund developed in the center of the city, as a locus of financial transactions. As Hertz describes, “The Bund – a row of small but elegant skyscrapers constructed along the Huangpu River at the beginning of the century by foreign merchants, industrialists, and financiers – is incontestably the best known
symbol, in the Chinese-speaking world and beyond, of mainland China’s economic influence and sophistication” (1998: 33). Shanghai became a hotbed of commercial activity in the region despite mounting political fracturing in the rest of China. However, politics would eventually come to hit the city hard.

This initial prominence as a financial center fell apart completely, first with the Japanese invasion of the city and later with the rise of Mao Zedong and the Communist party in China. Political stability came with the establishment of the Communist party in China under Mao Zedong, but this stability came with a death knell for Shanghai’s finance industry.

While in the early years of the Communist government there was some hope that Shanghai would remain a commercial and financial hub, these hopes quickly fell apart with increased global sanctions against China due to its support for North Korea. “After the establishment of the People’s Republic of China (PRC), there were hopes for a gradual reemergence of Shanghai as a regional financial centre. But China’s involvement in the Korean War, and the subsequent UN and US embargoes against China, dashed completely such hopes” (Jiao 2003: 9). With its financial markets cut off from the rest of the world, Shanghai subsequently suffered greatly, as did the rest of China with Mao’s Great Leap Forward and Cultural Revolution. “Like other cities, Shanghai had had to endure some catastrophic political movements, especially the ‘Great Leap Forward’ of 1958-60 and the Cultural Revolution of 1966-76” (Jiao 2003: 10). The Great Leap Forward devastated the country financially with the dismantling of former businesses and the improper management of millions of people. Similarly, the Cultural Revolution tore down much of the fabric of society.

Mao’s financial planning was equally deleterious for Shanghai’s financial sector. In his working paper on Shanghai’s financial sector, “Shanghai and Hong Kong as International
Financial Centres,” Y.C. Jiao describes the communist government’s initial backlash to the Shanghai financial sector. He writes “the ideologues, then in ascendancy in Beijing, regarded Shanghai’s financial services industry as a hotbed of speculation and other capitalist iniquities and vices, that needed to be curbed rather than promoted” (2003: 9). Financial services also did not have a place in the party’s planned economy. As Jiao explains, “China had already enthusiastically embraced the Soviet model of planned economy, and the associated development strategy of inward-looking industrialization, with special preference to the heavy industries” (2003: 9). Perhaps the most salient reason for Beijing’s distrust and scorn of Shanghai’s financial industry is Marxist ideology itself. Jiao states, “Marxist economics and ideology tend to downgrade and neglect the role of the service sector, especially financial services” (2003: 9). Indeed, the only role of finance in Marxist philosophy is as a part of a bourgeoisie system that will inevitably fall.

Paradoxically, through the writings of Lenin this role does create a conception that a banking system should exist in the socialist state. The idea behind this was that China had to develop as a capitalist society first in order to complete the dialectic proposed by Marx that the proletariat would rise to overthrow an overgrown bourgeoisie class. Of course, one first requires an overgrown bourgeoisie class to overthrow. As Zhaojin Ji states in A History of Modern Shanghai Banking, “The Chinese nationalization of private banking and industry was based on the assumption of building a national capitalist system before building a socialist society. The initial plan for building Chinese socialism did not bypass the assumption that a socialist society must be built upon a developed capitalist society” (2003: 254). Thus, while Mao and other communist leaders saw finance as a building block for the nation, the industry was also seen as an evil that would in the long run be destroyed.
In practice the Chinese government under Mao nationalized and consolidated the banks in China into a central system. “The centrally planned banking system became a closed banking system that was isolated from the rest of the world for three decades” (Ji 2003: 255). While Mao’s policies were initially deleterious for the financial sector in China, these conflicting notions with regards to finance still lay the possibility for government support of capital markets. LeBaron and Carpenter reflect on Mao’s philosophy’s conciliatory aspects that leave space for the resolution of contradictions. They write that “Mao went further: ‘There isn’t anything that is not mutually transformable …. Life and death are mutually transformable.’ With and from this perspective, some Chinese could entertain the idea of communism transformed into capitalism while remaining politically communist” (2002: 250). While China’s dramatic leap in productivity and economic development preceding Mao may seem to be an anomaly, LeBaron and Carpenter’s reflection on the ability of Chinese culture to absorb and mediate conflicting ideas suggests such a leap is not unprecedented for the society.

As the delegation leader of Taiwanese finance and securities experts visiting Shanghai in 1992 states, “Marx’s critique of capitalism, he continued, was a reaction to the social injustices existing in England at the time he was writing. Marx did not oppose securities markets. Rather he worried about abnormalities. It is not enough to let the market govern the market, he urged; one needs laws and regulations” (Hertz 1998: 35-36). This delegation leader’s interpretation of Marx contradicts Hernando de Soto’s perception of Marx in The Mystery of Capital: “Although Marx’s analysis of how assets become transcendent and serve greater social uses when they become exchangeable is fundamental to understanding wealth, he was not able to foresee to what degree legal property systems would become crucial vehicles for the enhancement of exchange value” (2001: 228). Thus we have two contrasting narratives, one reconciling Marx with the
development of financial markets, and another noting Marx’s theoretical value while dismissing him on a flawed understanding of legality.

However, both narratives lead to the same outcome for the Taiwanese delegation leader as well as de Soto, namely, the support and development of financial markets. As Hertz argues, “What is distinctive about the Shanghai stock market results from a combination of these internal and external pressures, and from the contradictions they generate” (1998: 15). Thus, even under Mao, when finance seemed to be wiped out in China, there still existed an ideological base within the government to support its development, albeit with a very different ideology from that of the West.

However, before this possibility was unleashed, there would have to be at the least a change of leadership within the Communist Party of China, to shake the prevailing economic plans of the government. Such a possibility would arise with the ascension of Deng Xiaoping, an economically liberal member of the party; yet before this time, for three decades Shanghai’s once bustling port was cut off from the world. The city’s financial industries would exist in little more than memory only before their revitalization under the new political regime.
With the end of Mao Zedong, turnover in the Chinese government led to economic reform, and the government sought to revitalize and renew Shanghai’s financial legacy. “In 1976, Mao died and the Cultural Revolution ended. Two years later Deng Xiaoping was

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3 Fig. 6. Pudong, Tripathy 2013.
reinstated, and he started steering China on a path of reform and openness” (Zha 2011: 21). In a sense Mao’s extreme policies lay the groundwork and the space for Deng Xiaoping to implement large-scale economic reform and development. As Schell and Delury argue, “in Mao, China had a leader who managed not only to uproot society from its deeply rooted traditional past but also to inject into it a certain new, dynamic pragmatism that, going forward, allowed it to reimagine and re-create itself in surprisingly innovative ways” (2013: 255). Indeed, China was thoroughly shaken by Mao’s socioeconomic policies and was ready to embrace the economic reforms of Deng Xiaoping.

Deng Xiaoping traveled widely before solidifying his power in China, and he was impressed by the positive economic results of foreign investment combined with manufacturing skill in other Asian countries. Coase and Wang write, “visiting Singapore in November 1978, Deng inquired in detail about the working of foreign direct investment and its contribution to the rise of Singapore’s economy. To the surprise of his host, Deng openly admitted mistakes the Communist government had made” (2013: 33). Under Deng, the Communist party took a step back from its fierce obstinacy to the capitalist system and recognized that the economic policies of the past had failed with a willingness to attempt new ideas, no matter how antithetical to communist principle.

However, this engagement with liberal economics would not extend to the political sphere. While China’s political establishment would liberalize the economy, increased economic freedom would not imply political freedom. Deng “had a … chance to reform the economy, which he tried to do by initiating a package of extreme economic measures that he dubbed the Second Revolution. During this revolution, Deng told… his country that the party aimed to liberalize the mechanisms of commerce rather than the politics of government” (LeBaron and
Carpenter 2002: 203-4). China would benefit both from the prosperity of economic freedom as well as from the security of stable governance. Such political distance also helped keep communist ideology in tact, as “economic ‘reality’ had led the Communist government to adopt the world’s only functional development model – that of Western capitalism – but ‘politics’ and ‘ideology’ prevented these leaders from acknowledging what they were really doing” (Hertz 1998: 10-11). With such a framework secure, Deng Xiaoping began his “Second Revolution.”

While Deng Xiaoping began his first experiment with economic reform in Shenzhen, through setting up the city as a special economic zone (SEZ) open to foreign investment across from the still British controlled Hong Kong, he later expressed in public that it was a mistake to not extend these economic innovations to Shanghai earlier on. “Deng Xiaoping … referred to the failure to include Shanghai as one of the centers for opening up to the outside world, along with the SEZs, as a mistake. He then urged the city to accelerate its development to regain its former status as a major center of finance, trade, and manufacturing” (Tian 1996: 53). With visions of a past financially strong Shanghai, the Communist government began to take measures to revitalize the city’s financial industry to a level rivaling the West that had first introduced its banking system to China.

The push to develop the financial sector in Shanghai began due to the plans of the Central Committee as well as the efforts of the local Shanghai government. In Shanghai's Role in the Economic Development of China Gang Tian writes “Shanghai took an initial role in China’s banking and financial reform in the mid-1980s. The city set up an interbank lending market in 1986 and inaugurated a foreign exchange swapping market in 1988” (1996: 53). Taking these steps to reinvigorate finance in Shanghai based on past images of economic grandeur, the local
city government then gained support from the central committee once economic reforms began to move beyond the preliminary SEZs.

The Communist Party neither immediately nor fully accepted Deng Xiaoping’s policies. Retrenchment of anti-market philosophy created reaction against Deng’s reforms. Thus, due to uneven policy implementation, some price controls and other policies that encouraged unfair competition remained in effect. William Byrd explains in *The Market Mechanism and Economic Reforms in China*, “there was some pullback from market-oriented industrial reforms with the macroeconomic retrenchment and investment cutbacks of 1981, along with an unevenly enforced freeze on the prices of industrial producer goods” (1991: 48). The efforts by the local Shanghai government to develop the financial sector were immediately affected by economic policy changes in Beijing. As Byrd notes, “The effect on markets for the means of production was immediate—transactions at the Shanghai market plunged sharply starting from the second half of 1980, and numerous goods could no longer be traded due to price controls or other restrictions” (1991: 48). While the policy changes from the Chinese government were hopeful, Shanghai finance initially developed under constant fear of a change in the Party’s stance towards finance.

After years of slow improvement, especially in comparison to China’s soaring manufacturing initiatives, development in Shanghai’s financial sector became grounded through the central committee’s Pudong Policy. Jiao explains that, “It was not until 1990 that a real impetus was given to Shanghai’s re-emergence as a financial centre. In that year the Chinese Government formally announced the policy of developing the Pudong New Area, within which preferential treatment of foreign investors … would be applied” (2003: 10). Pudong, located right across from the Bund, the old commercial heart of Western controlled Shanghai, was a largely undeveloped area at the time of this decision. “In the early 1990s, the Pudong area of
Shanghai was still dominated by rice fields” (Ren 2013: 56). However, with the full disposal of the Chinese government’s resources, this agricultural landscape was transformed into a high-rise studded symbol of China’s financial might and national aspirations. In *Shanghai Pudong*, Yawei Chen argues, “large-scale works in metropolitan cities perform the function of linking individual localities to the global economy. Shanghai, seeking to rediscover its lost glory in a global context, selected Pudong to fulfill its ambitious plan for the city’s nirvana” (2013: 91). Thus, through the Pudong New Area, Shanghai’s idealization of its past commercial power became reinvented in global finance.

The implementation of Pudong’s development policy gave the Shanghai government authority to carry out a number of economic and financial reforms that had been earlier blocked by Beijing. Tian writes that “Pudong policy brought Shanghai the authority to implement several special policies it had long hoped for, such as the authority to issue stocks to overseas investors: to set up stock, bond, currency, and commodities markets; and to allow branches of foreign banks to open in the Shanghai area” (1996: 53). Far from blocking financial reform, the central government poured funds into the Pudong project. As Chen states,

> Public finance made a major contribution to the development of infrastructure in Pudong … Another point to be noted is the special effort made by central government, which considered the success of Pudong a matter of national importance. Central government agreed to allocate an annual 300 million yuan (US$ 36.23 million) in the eighth and ninth five-year periods … In the ninth five-year period, the amount of public finance actually reached 10 billion yuan (US$ 1.21 billion) (2007: 150).

Increased financial freedom from the political center of the country gave Shanghai the go ahead to reengage the old commercial ties the city once had.

> With money pouring in from Chinese manufacturing, Shanghai became a nexus through which the communist government wished to highlight the full potential of China’s economic miracle. The backing of the Chinese government with all of its resources almost made Shanghai
a sure financial success no matter what the state of the world economy. “After a decade of massive investment and construction, by the mid-2000s, Pudong had already acquired the look of a financial center, with dozens of sleek skyscrapers overlooking the historical Bund” (Ren 2013: 86). Looking down on the old European commercial sectors on the Bund, Pudong’s financial skyscrapers mark both national and global aspirations. The size and magnitude of Pudong’s skyscrapers and office buildings supports geographer David Harvey’s claim that globalization causes “Central cities [to] compete with how tall and glamorous their office towers and iconic cultural buildings might be, mega-shopping malls galore proliferate in city and suburb alike” (2014). Thus, the Chinese government responded resoundingly against other centers of global power in establishing Pudong.

The magnitude of the city’s financial institutions also matched the size of the buildings in which they were housed. As Hertz notes,

The trading floor had grown from an initial forty-five seats to 212 in August 1992, but the SSE, confident in its ascending star, was busy arranging for another 900 seats, and had already contracted for a new ‘Shanghai Securities Exchange Mansion’ to be built in Pudong that would house 2,000 traders, making it the biggest trading floor in all of Asia. (1998: 34)

While these financial platforms do have a practical purpose in conducting the everyday motions of trading, the magnitude that the government-backed institutions decided to construct is a symbolic gesture of power against the world’s other financial centers.

For those nostalgic for the Shanghai of the 1920s, the current wave of financial development suggests both a resurrection of the past as well as an assertion of the present power of China and the Chinese government. Through building up Pudong as a financial hub, “the symbolism of place is legible to everyone even superficially familiar with Shanghai’s pre-revolutionary history” (Hertz 1998 32). This symbolism not only reinforces Shanghai’s
commercial history, but also empowers China as a country on the world stage. Zhaojin Ji writes that as “China enters the World Trade Organization, Shanghai banks will play an important role in international trade and finance. Shanghai banking stands at a new historical point, in which banking globalization is a critical dimension of the new cycle” (2003: 268). Banking globalization will be important to Shanghai’s financial district. However, through Shanghai’s history the political situation in Beijing has been a much greater factor in determining the robustness of financial activities in the city.

Overall, Shanghai exists in suspension by numerous tensions. From the view of the Communist party there is prosperity and advancement to be had by developing financial markets, but on the other hand, there are the vices and the contradictions of capital accumulation in a socialist regime. While the Chinese government wants to control to some extent the financial markets in Shanghai, the government also wants to portray Shanghai as a global city, establishing China as a fully modernized country. As Xuefei Ren argues in Urban China, in the development of Chinese finance districts, “What mattered more was that the final master plan resulted from ‘international’ design competitions and therefore was a ‘global’ product” (2013: 91). This teleological outcome of globalized financial markets is very different from the one dictated by Marx, the triumph of the proletariat is now the triumph of financial spreadsheets on par with New York City, London, and Singapore. The teleological triumph of finance is equality in access to financial services amongst countries, but not necessarily amongst all the people within these countries.
Chapter 4 – Teleological Finance 金融

The recent success of Shanghai as a financial hub reflects the power of its commercial history to weigh into the city’s present, through the efforts of the communist party. While the Chinese government has also sought to establish robust financial markets in Beijing, its market has not been nearly as successful as Shanghai, which is seen to have more potential due to its experience as a commercial center in the past. Financial markets in Beijing may be too close to the center of the government to have the degree of freedom from strict party of control that allows such markets to develop. Thus, the success of Shanghai rests not only on its history, but

4 Fig. 7. Bund 2013, Tripathy 2013.
also on its political present as both within China and to a degree apart, similar to when the city was established as a treaty port.

However, the impetus behind developing these financial districts seems to reflect global aspirations that seek to ignore the substantive political realities that determine the success of these financial centers. As Yusuf and Nabeshima write in *Two Dragonheads*, both “the Beijing and the Shanghai municipal governments have designated a part of the city as a financial district and have strongly championed the development of the financial sector and its affiliated services because each sees these steps as necessary to acquiring the status of a global city” (2010: 4-5). This notion of a global city puts Shanghai into a different competition against the financial centers beyond China. While Shanghai’s strength within China is its past connections to the financial trade networks initially established by the European powers, these networks are arenas of competition and rivalry almost as fierce as Chinese politics.

The teleological triumph of the proletariat over the bourgeoisie has been replaced with capitalist rivalry between financial centers in another teleological race to be the most advanced in finance. Written at the Hong Kong Institute of Economics and Business Strategy, Y.C. Jiao’s working paper continuously presents Hong Kong and Singapore as more advanced cities to which Shanghai is eager to catch up. Jiao cautions that “Shanghai would be well-advised … to tackle its NPL [non-performing loans] problem as a priority task, and to fulfill other essential conditions for an IFC, before attempting to catch up with Hong Kong or Singapore” (2003: 41). Jiao’s critique of Shanghai’s financial sector is in effect a political problem, as high levels of NPLs tend to occur in markets with low transparency and government regulation, as we have seen in the subprime mortgage collapse of the United States’ financial markets. However, while the US financial collapse occurred without government collusion, in Shanghai the embeddedness
of the public sector within the financial markets may allow for high NPL levels without any financial repercussions. China’s debt markets with other countries such as the United States fuels much of Shanghai’s financial sector, and as long as China remains politically stable these debts will remain.

Perhaps Jiao’s concerns reflect the fears of Hong Kong’s financiers that despite the city’s longstanding financial markets, with the city falling more and more under the influence of the mainland, it will not have the political leverage that Shanghai does, being closer to the government. The Chinese government itself has stated in its plans for Shanghai that Beijing wants Shanghai to be on par with Hong Kong in the future. Jiao writes “the stated objective of the Chinese government is to develop Shanghai into a leading international industrial, financial, and commercial centre by the year 2010. Specifically, Shanghai is to catch up with Hong Kong and Singapore as an IFC by the same year” (2003: 11). The initiatives of the Chinese government have not only increased direct competition between Shanghai and other Asian financial centers, but also between other centers such as Hong Kong and Singapore. Xiangming Chen states in *Shanghai Rising*, “competition among the most powerful Asian world cities such as Singapore and Hong Kong, fueled by and in response to Shanghai’s rise, has become increasingly fierce” (2009: XXIV). While on the surface this is a battle of financial incentives for companies and information technology, the political structures behind all three cities will weigh in heavily to determine the outcome of this competition.

Since gaining independence from Great Britain, Singapore has been run by the People’s Action Party. This party has long offered generous state incentives to companies and banks willing to establish headquarters and operations in the city. While Hong Kong has implemented many policies similar to Singapore, the political environment of the city is slightly less stable,
with the government consisting of numerous parties. There is also the threat of future plans by the Chinese government to fully absorb Hong Kong politically once the Sino-British Joint Declaration comes to an end in the next several decades. With the Chinese government promoting Shanghai as a financial hub, Hong Kong may have trouble navigating politically.

On top of these city rivalries, exists the continued influence of various financial cultures coming from the West. In her ethnography *Liquidated*, Karen Ho describes how the culture of Wall Street is projected increasingly onto the power centers of the rest of the world. As Jianying Zha describes in the *Tide Players*, rubbing shoulders with American investment bankers provides credibility and prestige in China. While Huang Guangyu eventually fell on corruption charges, at the height of his popularity as a businessman he “had a reputation of being a mystery genius, Reporters … noted his liaisons with high rollers such as Bear Stearns and Goldman Sachs, his shrewdness in debt financing, and his growing interest in financial instruments” (Zha 2011: 17). The authority of American investment banking in China reflects some of the prevailing past colonial order, but with much of the money involved now is in the hands of the Chinese.

As noted in previous chapters, financial markets are increasingly seen as a necessity in developing countries, as a pinnacle of development required for any modern economy. As Bodie, Kane, and Marcus note, “the contemporary view of economic development … holds that a major requirement for economic advancement is a developed code of business laws, institutions, and regulation that allows citizens to legally own, capitalize, and trade capital assets” (2011: 867). This view, with the power of the world’s developed countries behind it, lends authority to this ideology and thus empowers Chinese institutions that adopt such a bottom line. However, the Western institutions that are able to make connections with developing countries adopting a capitalist perspective also gain much from these relationships.
The power dynamics within the global interactions between American investment banks and international businessmen increases the prestige of the banks involved. As Karen Ho notes, having access to the globe is now seen as a perk of working in American investment banks. An attendee at an investment banking recruitment event explains, “speakers emphasized the access to power offered by a Goldman Sachs position. ‘Our analysts can go anywhere in the world … We’ve got Hong Kong, we’ve got Sydney, we’ve got London’” (2009: 49). The investment banks also then gain prestige from facilitating global transactions. As Ho describes the Goldman Sachs representatives, “‘they talked about how they managed the privatizations of the largest corporations in China and Spain, to name a few’” (2009: 51). The emphasis on closing deals in Wall Street culture transfers over to China, as the case of Huang Guangyu demonstrates, who despite fraudulent dealings was able to continue in business through the sheer size of his transactions. However, the control of the government, as shown by Huang’s arrest, could in this case be a strength for China’s finance industry.

Despite enticement by American investment banking to relax investing regulations, Shanghai’s financial district is protected to a degree from Wall Street’s excesses due to the strong level of government control in the industry. As Hertz notes, “The single most important aspect of China’s stock market design which insulated it from international finance capitalism was the creation of distinct markets for company shares, one for domestic investors (‘A’ shares) and another for foreigners” (1998: 12). This policy, as well as other governmental regulations works to buffer the Chinese market against the larger fluctuations of the global economy.

Gross political corruption continues to be a financial concern for the Chinese government. However, the Chinese government’s policies of storing foreign reserves to keep the renminbi at a low level also helped the country and Shanghai survive the Asian financial crisis
relatively unscathed compared to neighboring economies. As Ji notes, “China’s strong foreign reserves and capital controls prevented speculative attacks on the Chinese stock markets and the renminbi during the Asian financial crisis in 1997” (2003: 267). While “poverty and unemployment increased rapidly … throughout East and Southeast Asia, only China and Taiwan and (barely) Singapore avoided negative growth” (Ip, Tracy, and Tracy 2000: 1). While state controlled economic policy and free market finance do not seem to be likely bedfellows, the success of China demonstrates that socialism with a Chinese twist delivers results.

Once Pudong was firmly established as a financial district, Shanghai benefited greatly from the rising economy through the first decade of the 21st century. As Yusuf and Nabeshima write, “Shanghai leads other cities in financial development. The value added of the financial industry in 2008 was Y 144.3 billion, a 15 percent increase from 2007. Shanghai also has the largest number of financial institutions: 124 banks, 291 insurance companies, and 94 security companies” (2010: 5). Even with China’s increased exposure to global finance markets, the 2008 financial collapse in the United States did not damage its financial sector to the degree that other nations were hurt, similarly to the Asian financial crisis. It is true as Zha reminds us that in 2008, “within one year the Chinese stock market’s value had shrunk by 70 percent” (2011: 18). At the same time, the value of the debt markets and other financial industries within Shanghai largely under public control buoyed the Chinese economy against its exposure to the West. Now several years past 2008, Orville Schell explains in an interview with the Institute for New Economic Thinking that China has done remarkably well in handling the financial crisis sparked by incompetent regulation on Wall Street (Schell 2013).

China’s particular form of finance taking root in Shanghai reflects the ambition of China and its people to take the institutions and model of the West and put these in Chinese terms.
Thomas Friedman describes this ambition in his conversation with Xia Deren, the mayor of Dalian, a booming industrial city in northern China that has benefited from numerous government economic policies. In *The World is Flat*, Friedman writes that the Mayor of Dalian Xia Deren explains his ambitions for China in the form of a metaphor. The Mayor argues that China’s rise “is like building a building. Today, the U.S., you are the designers, the architects, and the developing countries are the bricklayers for the buildings. But one day I hope we will be the architects” (Friedman 2005: 36). Since the Chinese economy has benefitted and perfected forms of production and manufacturing adopted form the West, entering into financial markets is the next step for the country’s economic rise.

Shanghai’s unique position in China, as being close but not too close to the heart of the country’s political infrastructure, provides the city with the space to negotiate these financial public and private divisions and relationships. As Ji explains, by “virtue of its history and present reality, Shanghai will once again become a major international banking and financial center, or ‘Wall Street in Asia.’ This new banking and financial center will serve the world’s largest population and foreign customers alike in the globalized world” (2003: 268). As was the case in the 19th and early 20th century, Shanghai will be the nexus where China negotiates with the world, except now the political structure of the Middle Kingdom is much more robust and knowledgeable of the world’s current dynamics.

While the parallel between Shanghai’s past commercial success and the present is enticing, these political differences shape two very different types of financial markets, albeit connected to one another through time. Shanghai’s early commerce was protected under the political might of the West contemptuously against the traditionalist Qing dynasty. Now, the Chinese government is first and foremost involved in the financial transactions of Shanghai,
negotiating the terms of business while allowing for outside influences to tweak and alter some degree of business. As LeBaron and Carpenter note, with regards to financial policy, “the official line in China was ‘loose on the outside, tight on the inside.’ That meant the government wanted both to increase its political control and to speed up economic growth and reform” (2002: 250). The growth of Shanghai’s stock market was even viewed positively when its size surpassed government direct control. Hertz writes that “the fact that, by the end of the year, neither big players nor the State had the capital to influence price on the market is an indication of increasing ‘perfection’ in the economic sense” (1998: 185). While the market itself was able and encouraged to move to a size beyond direct government control, the Chinese government’s regulatory control on the ability of investors to get into the market through A and B shares continues to secure the communist party’s authority in Shanghai’s finance. However, this authority may not extend completely into the social reactions to access to equities markets.

Indeed, despite its control the Chinese government cannot prevent dynamics of change to develop within Shanghai from the people participating in the financial markets. As the next chapter reveals, Shanghai’s financial markets create new social categories as well as impact the fabric of society at large.
Chapter 5 – Cultural Impact 文化

As with much of China’s recent growth, finance influences the culture of society. The rising prestige of pure capital, money, as opposed to other forms of cultural capital such as poetry, family values, and others has altered Chinese society. At once, the ability to achieve

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5 Fig. 8. Shanghai Teahouse, Tripathy 2013
prosperity through finance creates a social vacuum that can be both empowering, as the case may be with combating racism and ethnic tensions, as well as destabilizing to past social forms.

In some ways an increased value for money can actually improve social freedom and mobility, eliminating to a degree racial barriers at least through stated ideals. As Ho states, “the money meritocracy posits that the only color Wall Street sees is green, and because its lust for money is even greater than that of most institutions, it is inadvertently ‘less racist and sexist’ than society at large” (2009:107). Finance is understood to be beyond racism and class divisions, though tremendous wealth inequality can and has developed through finance and development in China. In the ethnography *Shanghai in Transition*, Jos Gamble interviews a Cantonese teacher who “stated that until recently Cantonese were looked down on in Shanghai. He felt that money had now become the main criterion for judging people’s worth, and that since Cantonese are rich Shanghainese no longer look down on them” (2003: 91). Through monetary wealth, minority communities can gain an equal footing within urban settings.

Finance represents another avenue in which the highly liquid Chinese upper-class, wealthy from manufacturing profits, can increase the productivity of their assets. The transformation of Zhang Dazhong from electronics mogul to financier is an example of such a trend. As Zha describes, “leaving the field a cash billionaire, Zhang immediately registered a new company, Dazhong Investment, and repositioned himself as a venture-capitalist-cum-investment-financier” (2011: 16). The influx of the private funds of increasing numbers of Chinese into financial markets will transform the still largely publicly controlled financial markets in Shanghai as well as the world as Chinese capital increases in other countries.

Looking at the cultural impact of careers in finance, there are similarities in the West’s understanding of the almost anti-cultural effects of money and finance, increasing social
alienation. As Hertz’s informants argue, reaching prosperity in finance through the stock market is one of the few ways to do so without navigating the structures of Chinese society. Hertz writes that, “the stock market, it was argued by both ‘large’ and ‘small’ investors, was one of the few, perhaps the only, truly egalitarian forums for making money in Shanghai society” (1998: 124). Through the market, dahu, or big time stock market investors, circumnavigate the most important institutions of Chinese society, the family and the state. Hertz states, “[t]he dahu gains prestige by earning his money without support from the two basic institutions of Chinese society: the state and the family” (1998: 131). Thus, through their prosperity, “dahu symbolically disrupt the social landscape … they respect the obligation neither to receive nor to give” (Hertz 1998: 33). The manifestation of dahu within Shanghai financial markets reflects the new spaces being created in urban China and the different social characters emerging. Hertz argues that “earning one’s living on the stock market is one of the ‘career tracks’ now open in contemporary urban China which requires the least possible institutional involvement” (1998: 135). A new order is created in urban spaces through the interaction of different power structures, namely the state and global financial markets, which creates new paths of achievement in society.

While finance may be understood as disembedded from Chinese culture, it is a subculture of its own. As Caitlin Zaloom writes in Out of the Pits,

The modern individual is often described as endowed with the properties of economic reason and competitiveness. But these are not innate predispositions that need only to be set loose. Even in the peak places of the quest for pure profit, individuals and environments must be shaped, managed, honed, and reconstructed to create the competitive situations that anchor capitalist practice (2006: x).

Finance creates a culture with its own morality within different societies, a morality particularly defined by work and personal effort.
While securities as stocks and bonds may not be considered as production in a Marxian sense, the effort of the individual traders themselves is used to signify productivity. The *dahu* themselves, as well as other Chinese investors in Shanghai’s stock markets emphasized their personal effort in justifying financial gains made. As Hertz notes, “the considerable investment of self required to invest in the stock market was frequently emphasized when people discussed with me the ideological contradictions posed by profiting from capital in a ‘socialist market economy’” (1998: 139). The effort that individual investors make to analyze different securities legitimizes their gains in a Marxian sense as well in their perspectives. For Chinese investors, “in their arguments, this investment of time and energy disproved the Marxist notion that profiting from capital meant exploiting the labor of others. In Shanghai… one must labor to make one’s capital fructify” (1998: 139). Similarly to how Chinese politicians reconcile financial markets and Marxist theory, Chinese investors must do the same.

This argument of the effort involved in financial investments parallels Ho’s analysis of Wall Street’s work ethic, and the experience of long hours and job insecurity that causes investment bankers to view their work in downsizing corporations as improving efficiency. Ho writes that on “Wall Street, overwork is a normative practice. One is not initiated into investment banking life until one has experienced its rigorous hours” (2009: 99). Investment banker Andrew Wong “used his notion of the investment banking work ethic to frame the industry as the cutting edge of efficiency, slicing through the mediocre wastes of ‘the real world’” (Ho 2009: 103). The attitude of investment bankers like Wong legitimizes Wall Street’s role of cutting down corporations to supposedly boost profitability and shareholder value. Ho argues, “the culture of hard work legitimates Wall Street investment bankers’ roles as spokespeople for, and embodiments of, the financial markets” (2009: 107). Through lived experience, people become
ideological subjects and interpret the world through their reality. In Shanghai as well as on Wall Street, people involved in finance both justify and create their lives through action and reflection.

Within Shanghai society, finance both opens up new spaces of possibility as well as influences existing social frameworks. While some Shanghai traders in their quests for wealth may disregard the state and the family, the industry itself is fundamentally a product of the Chinese government’s intervention and financing. However, the space financial culture creates from its heritage in other places such as Wall Street in the United States, allows for new characters to emerge in the urban space of Shanghai.
Chapter 6 – Conclusion 总结

Along with its tumultuous past, Shanghai’s financial sector has continued to weather a series of ups and downs since the Chinese government initially revitalized the sector. At the present moment China continues to push for financial markets to be more open to foreign investment. As a Wall Street Journal article from April 2014, "China Opens Door Wider to Its Stock Markets,” writes that “China made one of its biggest moves yet in opening up its stock

6 Fig. 9. Shanghai Tower Pudong, Tripathy 2013.
markets to allow more foreign cash in, while opening the door further for domestic investors to head to Hong Kong” (Li, Curran, Deng 2014: 1). Progress in China has become ever tied to expanding financial markets, and the relaxation of monetary constraints between Shanghai and Hong Kong promise to make international investment flow even smoother.

The rising value of money and finance in China will change society, as has already occurred, but as we have seen through the history of Communist China, change is by no means an exception: change is the rule and the norm of modern China. With its legacy as a melting pot of cultures and ideas, as well as setting the standards for China’s negotiation of Western influence, Shanghai plays a key role in the future change of China, as the city has in the past. Through Shanghai the Communist Party is attempting to put finance on its own terms, a strategy that might be beneficial even to the rest of the world, as the country’s experience of the 1997 Asian crisis suggests. Economist Hernando de Soto argues that capital creation is an art from the West that must be taught to the rest of the world, as “governments in the global south have failed to introduce the legal arrangements and financial mechanisms that are the unnoticed secret… of the success of capitalist development in the West” (Mitchell 2007: 250). However, China’s experience argues the opposite: the West itself can learn from the pragmatism and the conservatism of China’s government in its development of and participation in financial markets.

Shanghai’s financial markets represent a substantive manifestation of a global phenomena that is itself a projection of localized Western social structure emanating from Wall Street. Further ethnographic research will be of utmost importance in determining the validity of the arguments made here that Shanghai’s financial industry is an assemblage of government intervention, urban space, and Shanghai culture interacting with other localized global financial markets from London to New York City. Through experiencing and living the physical and
social manifestations of finance one will better understand the role of this industry in human society.

Throughout the city’s history under Communist China, Shanghai’s financial sector has been scorned and dismantled as well as lauded, supported, and even funded by the Chinese government. While Shanghai is increasingly portrayed as a global center of finance, to understand the complexities and the foundations of such a depiction one must first understand the political influence and infrastructure that creates such a “global” center. At the heart of Shanghai’s global success is a nationalist spirit driven by the Chinese government’s efforts to put the instruments and institutions of the West on Chinese terms. The most powerful agents of globalization and its centers are nation-states and national governments. Whatever the future holds for the ever-changing dynamics of China, Shanghai and its global finance will be tied to the movement of the Chinese state.
Fig. 10. Shanghai Children, Thomson 1946
Bibliography


