

Shanghai business environment

Business, Business Environment



Enterprises that want to invest in China can stumble over an array of regulations that do not give them free choice of where they wish to locate. This situation has been changing, and China's membership in the World Trade Organization (WTO) should act as another catalyst to make the investment climate freer in several industries. Enterprises can look forward to making decisions on where to locate within China based on factors that they would use in the more-familiar open environment. To appeal to businesses, cities need a good IT infrastructure, strong leadership, incentives, and "livability" (see Figure A).

Figure A The size of China's market and Western enterprises' desire to get close to it means that Chinese cities do not generally compete for foreign investment with cities in other Asia/Pacific countries. Outside the manufacturing sector, most enterprises locate in China because they want to sell to China. Of all China's cities, Shanghai has gone furthest toward the success factors for a global "smart city." Its ambition to become a major financial center and player on the international stage by 2015 has fueled this drive. History has also given Shanghai many advantages.

It is probably the most outward-looking of any Chinese city and has a strong political voice in Beijing. The latter has allowed Shanghai to lead the way in many initiatives because China's political leaders often use the city to test out new ideas. As a result, many initiatives that started in Shanghai have now spread elsewhere in China. Shanghai's characteristics Livability To most Western expatriates, Shanghai is perhaps the most livable of Chinese cities. The city continues to make strides to improve (e. g. , announcing new rules to allow foreigners to buy property for the first time).

Measured against other big cities such as Singapore, Hong Kong, or Sydney in the Asia/Pacific region, Shanghai still scores low. From a global perspective, livability is one of Shanghai's weakest areas. However, livability has a large subjective component, and what appeals to Western tastes may not rank as important to the skilled Chinese workforce that an enterprise might want to attract. Incentives Shanghai has traditionally enjoyed a sizable chunk of foreign investment into China, in part because of its position as a testing ground for reform.

In some cases, China has forced foreign investors to set up in the city first. This advantage will diminish, and Shanghai will need to learn to play on a more-level playing field. The city has committed to spending, by 2005, 150 billion yuan (one-third of its total industrial investment) on expanding its high-tech sector. This investment targets software and integrated circuit manufacturing, and the city will provide some tax breaks for new operations and help for self-employed software designers. Keeping costs low is key in attracting new business.

Shanghai will have to balance the inevitable rise in labor costs with suitable business incentives. Leadership Shanghai's leaders know where they want to go during the next 10 or 15 years and what basic things they need to do to get there. However, they did not develop this vision in partnership with business or the community. Rather, as a command economy, decisions have been made by a select few behind closed doors. Thus, its leaders have greater ability to get things done quickly than leaders in democratic societies often have.

Cities such as Shanghai can complete projects without long internal or public debate over infrastructure projects that might take years in the planning stages in other countries and involve a myriad of agencies. Shanghai has benefited tremendously (certainly compared to the rest of China) from the pedigree of its leaders. President Jiang Zemin and Premier Zhu Rongji are former leaders of Shanghai and have strongly supported the city. However, Shanghai knows that spending does not necessarily produce results.

Ten years ago, it started pouring money into redeveloping the riverside Pudong district into an area of towering skyscrapers, designed to be China's version of Manhattan. Within a city of 16 million people, Pudong ended up as a ghost town. Slowly, occupation levels have risen, but largely because the central government has "twisted the arm" of foreign enterprises rather than use real incentives. Infrastructure Many of the city's hopes revolve around an ambitious project to link all of Shanghai to a giant high-speed data network, known as the Shanghai Infoport.

Scheduled for completion in 2010, the project stands out not just for its scale but also for its attempt to bring together many strands of existing infrastructure (telecommunications and cable television especially) into one cohesive network. If it succeeds, Shanghai will be among the few cities in the world to have achieved such a feat. Five main projects will rely on the Infoport's high-speed infrastructure: 1. Shanghai Information Interchange Network: A "giant intranet" for Shanghai with links to many kinds of information 2.

Shanghai Society Security Network: Designed to offer e-payment and checking and to facilitate the use of smart cards 3. Social Electronic Data

Interchange Network for Foreign Trade: An export/import data exchange for foreign trade 4. SocialCommunity ServiceNetwork: Focused on the residential community 5. Gold Card and Commercial Value-Added Network: Linking banks' automated teller machines (ATMs) and payment systems With 3. 2 million users, Shanghai claims to have the largest cable TV network of any city in the world, and this local-access network has a central part in Infoport.

Shanghai's connections in national government played an important role in keeping the project on track. Although cable TV networks in the rest of China were barred for a period from offering Internet or telecommunication services, Shanghai received a special dispensation to upgrade its cable TV networks to do just that. The municipal government claims that 1 million residents can now reach interactive services through their televisions. It wants the entire network to be interactive by 2004.

In addition, Shanghai Telecom (part of China Telecom) is rolling out digital subscriber line services and installing the necessary in-building cabling to offer Ethernet broadband access. Mayor Xu Kuangdi talked recently of every home having broadband access by 2004. At the same time, Shanghai Telecom has worked on improving the quality of the core network to be ready for the deluge of new data traffic the Infoport will bring. By year-end 2000, it completed work on what it claims is the world's largest local ATM network. Shanghai now uses a total of 320, 000 kilometers (198, 848 miles) of fiber-optic cable, with more than 4, 000 optical nodes.

Shanghai Telecom says it has deployed optical fiber in more than 90 percent of the city's residential areas. Shanghai's challenges Building an infrastructure represents only part of making the Infoport work. The real test

is whether people will use it. Only in the last few months have the first real customers logged on, so it's a little early to tell what the response will be. Cost may prove one prohibiting factor, and the local government may have to consider deep subsidies to encourage more than just the wealthiest people to sign up. Content also remains a question.

Experience from elsewhere in the world, especially Singapore, a world-class smart city where government has tried to link itself to all the people, shows that the bulk of a city's population generally does not have much interest in such projects. They may want video-on-demand, but filling out tax documents online doesn't really excite them. Bottom line Other Chinese cities, notably Beijing, have begun some of the initiatives under way in Shanghai and are rapidly improving their information infrastructure. Shanghai will likely continue to stand out as China's smartest city, according to Gartner's success factors.

Shanghai's early start and its ability to exploit openings created by the central government's policies will likely keep the city at the forefront of innovation for some time. Shanghai's advanced, if incomplete, IT infrastructure makes it a good place for Western enterprises to locate central operations in China. In addition, Shanghai is a good place in which to experiment with business-to-business and business-to-consumer projects requiring advanced IT infrastructure in hopes of rolling them out to the rest of the country when the infrastructure permits.