Production, Creative Firms and Urban Space in Shanghai

By Sheng Zhong

Abstract
This paper examines the firms in Shanghai’s official “Creative Industry Clusters (CICs)”. It aims to contribute to the creative city debate by unveiling the relationships between the production of new economy firms and the reconstruction of urban space in the Chinese context. Based on questionnaire surveys conducted in 2009, the paper finds that Shanghai’s creative firms are new, small and flexible and this image conforms to the prototypical “creative firms” described in widely cited Western literature. The paper argues that Shanghai’s CICs represent a market-oriented, fluid, and risk-taking production culture that is a break from the city’s socialist past. However, Shanghai’s new economy spaces in the making are faced with many constraints and contradictions. On the one hand, although market and neoliberalized urban spaces are providing critical resources for firms to grow at a time of state retreat, they also imposes risks, such as career instability, confusion for creative talents and cost pressure for new firms. On the other hand, the state’s ideological control reinforces the market’s homogenizing effect on cultural production. Therefore, Shanghai’s trajectory toward greater innovation and creativity are far from guaranteed despite fast proliferation of creative clusters in the city in the past decade.

Keywords: Shanghai, creative industries, new economy spaces, inner city, market, the state
Production, Creative Firms and New Urban Spaces in Shanghai

In the early 20th century, Shanghai was known as China’s most important industrial and financial center. It was also a glamorous global metropolis with a thriving consumer culture (Cochran 1999). The communist takeover of the country in 1949 fundamentally transformed the city into a socialist production base when finance, consumerism and markets, which were ideologically tied to capitalist decadence, were rejected with great contempt. In the art world, professional artists were bureaucratized to serve the propaganda needs of the Party while the popular commercial culture of cities was destroyed. Art consumption was homogenized and “once obvious distinctions among elite, popular, and folk culture became blurred as officials treated all art forms as administratively equivalent” (Kraus 2004: 37).

When market forces were allowed to reign again in the reform period, Shanghai saw a revival of finance and commerce but at the same time experienced a wrenching decline of its traditional manufacturing sector that was built at the peak of state socialism. In the 1990s, more than 1,000 industrial firms, mostly located in the cramped inner city, were either closed down or relocated to the suburbs (SEC and SCPHRO 2002: 96). Amidst this decline, a number of freelance artists and cultural professionals, who wanted to stay away from the state control or seek alternative means of financing from the burgeoning market, helped revalorize the old industrial spaces in Shanghai. Initial sporadic actions were later followed by concerted and deliberate efforts in the “making” of such new economy spaces. The most notable of these are over 80 so-called Creative Industry Clusters (CICs) accredited by the Municipal Government, who view CICs as a solution to the woes of bankrupt state companies and a means to invigorate derelict inner city industrial spaces.

The revalorization of urban spaces by employing cultural and creative narratives is not unique to Shanghai. Similar cases have been well documented around the world by Zukin (1982, 1995), Hamnett (2003), Ley, (1996), Hutton (2004, 2008), Indergaard (2004), Lloyd (2006), and Fujita and Hill (1993), although the trajectory of each city is subject to its historic path and local contingencies (Barns & Hutton 2009). As an emergent urban phenomenon, cultural districts and creative clusters in China have caught the attention of many researchers (see Keane 2007; Currier 2008; Zhong 2009a, 2009b; Wang 2009). A critical review suggests that most of this research has focused on the institutional players involved in space provision (such as the local state, developers, the restructuring state-owned enterprises) while very little is said about the space users. This research gap is particularly problematic as creative clusters, which emerged as the production site for fine arts in the first place, are increasingly attuned toward creative industries, a heterogeneous collection of productive activities. Although research on Shanghai’s CICs in the Chinese language (see Xiang 2005; Zhang 2006; He 2006; Yu 2007) somehow touch on space users, most of the discussions have been provided
from the abstract level, and have failed to produce sufficient empirical details on tenant firms, for example, who they are, what they do, how they conduct businesses and so on. In fact, theories of industrial agglomeration have been mistaken by several researchers for actual empirical reality.

To address this research gap, the paper presents a profile of creative firms in Shanghai’s CICs based on questionnaire surveys and interviews. The paper hopes to illustrate how creative firms, a big collective player in Shanghai’s latest inner city transformations, are shaping Shanghai’s “city-ness” within a new socio-economic context. It is argued that the creative industry firms represent a break from Shanghai’s state-dominated industrial past. However, Shanghai’s trajectory toward greater innovation and creativity are not guaranteed as several contradictions within its creative industries remain. The paper comprises of five substantive parts. The first section discusses the meaning of “creative industries” in the Shanghai context. The second part situates this research within a scholarly debate on cultural/creative clusters. The third section presents empirical data on creative firms in Shanghai and the fourth section provides a discussion on the relationships between creative firms and new urban spaces as well as their dilemmas. The last section concludes the paper.

Defining Creative Industries in Shanghai

The term “culture industry”, a closely related term to “creative industry”, was first used by Adorno and Horkheimer of the Frankfurt School in a critical tone to suggest mass culture’s affinity to industry rather than to culture, which had historically been separated from commerce (Adorno 1990; Garnham 2005). Later, French sociologists (e.g., Miége 1987) used the plural form, “cultural industries”, to indicate the diversity and complexity in the sector (Hesmondhalgh 2002). Unlike the term “cultural industries”, which is a conceptual construct, Pratt (2005) thinks that “creative industries” is a political term which was employed by the British New Labour Government since 1997 to distance themselves from the Old Labour. However, some researchers use the two terms interchangeably (e.g., Hall 2000; Drake 2003) while others make differentiations. For example, Garnham (2005) suggests that creative industries also incorporate information technology industries, which are not generally included in cultural industries. Meanwhile, Hesmondhalgh (2002) adds craft-based industries to creative industries, but not to cultural industries. In the Chinese policy discourses, “culture industries” emerged out of the old cultural sector in which market forces had been restrained while “creative industries” fall within the new domain of economic development and are less amenable to ideological controls.

The most widely circulated definition of “creative industries” was given by the British Department of Culture, Media, and Sports (DCMS) as “those activities which have their origin in individual creativity, skill, and talent, and which have a
potential for wealth and job creation through the generation and exploitation of intellectual property.” Key sectors include content, design, heritage and tourism, and performing arts (Hall 2000; Jeffcutt and Pratt 2002; UK Creative Industries Task Force website). While this definition stresses both the inputs (creativity, skills, and talents) and outputs (intellectual property) of the industries, it does not adequately conceptualize the exact products at hand.

In this paper, it is more important to examine the meaning of “creative industries” within the local context. Originated in the West and travelling worldwide, the concept has been repeatedly rephrased and reinterpreted. Kong et al. (2006) suggest that creative industry discourses in Asia exhibit substantial local variations. In a vast country like China, the localization of creative narrative is a natural outcome. The official wording and meaning chosen by individual cities is not only dependent on interpretations by multi-disciplinary academics who participate in policy making, but also on local power struggles, development contingencies as well as collective learning experiences. In the national power center of Beijing, the fear of losing control of ideologically-charged cultural production combined with an imperative for economic development has resulted in the use of the term “cultural and creative industries” (wenhua chuangyi chanye) in the policy documents while in the more open and modernization-conscious Shanghai, the term “creative industries” was directly translated into Chinese as changyi chanye and circulated in public policy statements from the very start (Hui 2006; Keane 2007).

In Shanghai, creative industry ideas and policies were influenced by both global creative discourse and indigenous creative industry development (see Keane 2007; Zhong 2009a). When the Municipal Government realized that the sector’s enormous wealth-generating potential was accompanied by only a minimum chance of regime instability, it started to promote the sector with great enthusiasm. To facilitate public policy making, around 2005, Shanghai Economic Commission and Shanghai Statistical Bureau officially designated the following five sectors as creative industries: (1) research, development, and design; (2) architectural and related design; (3) cultural activities, creation, and media; (4) consultancy and planning, and (5) fashion, leisure, and lifestyle services. The five sectors have been further subdivided into 38 categories and 55 segments (Shanghai Creative Industry Center, 2006). The official endorsement and designation of creative industry sectors provided guidance to Shanghai’s CIC managers who wanted to attract new economy firms to their sites.

Production, Agglomeration and Urban Space

In post-industrial societies, cultural and creative firms are often characterized as small, specialized, flexible and dependent on spatial proximity even when transportation and communication costs have been substantially reduced (Scott 2000, 2006b). The demand for creative goods is quite unpredictable as they are valued
for their symbolic features (Garnham 1987, 2005; Hesmondhalgh 1996; Caves 2000). Flexible specialization and spatial agglomeration can help firms reduce production risks in many ways. First, with geographical proximity to other trans-
action-related firms, creative firms are able to respond to the changing circum-
stances swiftly without overstretcing their resources (Scott 2006b). The fact that the whole production process cannot do away with material support even if final products are immaterial means that the transaction-cost thesis always remains relevant to creative industries (Pratt 2000). Second, spatial proximity also provide firms with advantages of “untraded dependencies” (Storper 1995, 2000), such as talent pools, public institutions, rules, customs, conventions, common language, values and so on. These non-transaction-based dependencies are particularly im-
portant for creative firms because tightly-knit clusters help firms build synergies and trust, ease the transfer of tacit knowledge and encourage collective learning, all of which are keys to modern innovation (Feldmen 1994; Pratt 2000). Re-
searchers have conceptualized the aggregation of such creativity-enhancing local factors as “innovative milieu” (Camagni 1991), “buzz” (Storper & Venables 2004) or “creative field” (Scott 2006b).

The benefits of production networks suggest that creative firms tend to locate in places where other creative firms concentrate. In addition to this “relational” per-
spective, scholars have also pinpointed locational features that serve as magnets to creative talents. For example, some marginal spaces are attractive to creative workers because of their affordability, functionality and uniqueness (Zukin 1982). Spaces may also have high symbolic values for creative workers. Drake (2003) argues that “places” can be viewed as subjective, imagined and emotional phe-
nomena in addition to their objective and physical beings. Raw location attributes (history, architectural styles, natural environment, everyday life etc.) which affect the subjective emotions of creative workers can serve as stimuli, prompts, ideas or “raw materials” in individualized aesthetic or cultural creation. Recent studies on location features and creativity also show that creative firms follow creative tal-
ents to where physical and social amenities abound and where social milieu is open, diverse and tolerant to differences (Clark et al. 2002; Florida 2005). Influ-
enced by such ideas, attracting the so-called “creative class” (Florida 2005) has increasingly become incorporated into the policy discourses of local governments around the world. Although the creative-class thesis has been criticized by schol-
ars as mechanistic, neglecting social justice and methodologically problematic (Peck 2005; Scott 2006a; Pratt 2008), there is less controversy that an open and tolerant urban culture is welcomed by creative talents as well as common citizens in their own right.

Economic production, space and urban culture are always entwined with one another. Economic production is one of the main functions of cities and produc-
tion agglomerations constitute part of the urban socioeconomic fabric. The “rela-
tional” perspective of agglomeration theories stresses the place-based communi-
ties as “not just the foci of cultural labor in the narrow sense, but also active hubs of social reproduction in which social cultural competencies are maintained and circulated” (Scott 2000: 33). The casual, tolerant and non-hierarchical culture of Silicon Valley, which distinguishes it from Fordist manufacturing agglomerations and state dominated research centers, has been shaped by the large number of interlinked hi-tech start-ups who value flexibility, openness and a risk-taking attitude (Saxenian 1994). On the other hand, the “locational feature” perspective of agglomeration theories stresses local characters (such as space, everyday life, social norms and so on) that are independent of production networks but can nevertheless influence or be drawn into the productive process. Through the creative synthesis of cultural workers, these unique locational details may get embodied in the final product. It is not uncommon that cultural or creative products bear the feel or “odour” of the local cultural tradition (Iwabuchi 1998). In many cases, the mental associations between cities and local products can become so strong that cities and products define each other. Paris is a synonym for fashion design while Hollywood a substitute for film production. Here city names, as a highly desirable brand for local producers, are transformed into valuable cultural and symbolic capital of the localities (Scott 2000; Molotch 2002; Mommaas 2004).

Understanding Creative Industry Firms in Shanghai

John Friedmann (2007) argues that urban space becomes meaningful only after being lived in. This section provides an overview of firms that inhabit Shanghai’s creative spaces. Questionnaire surveys of creative firms were conducted at four CICs in Shanghai from February 16 to 27, 2009, including M50, Red Town, Tianzifang and Creative Factory. In addition, information gathered in 14 in-depth interviews with workers in the creative industries provide complementary information as well as a cross-check on survey data. As this paper is primarily concerned with creative firms in general, questionnaire surveys are the primary source of information.

Before presenting any data, it is necessary to provide a sketch of each survey site. M50 is located on the bank of Suzhou Creek and was originally occupied by a state-owned textile factory. After the company was shut down at the turn of the millennium, some freelance artists who had been displaced by upscale condominium projects moved there to take advantage of its cheap rents and functional spaces. The site had been under serious threats of demolition for several years. Nevertheless, it was finally kept intact after urban conservation crusaders used both their voices and networks to boycott redevelopment pressure. In 2005 it won government recognition as a prominent art district.

Red Town, which is located along one of the city’s commercial thoroughfare and connected by a subway line, enjoys unmatched locational advantage. It was once occupied by a state-owned steel factory that also went out of business. In
2005, the site was chosen by the Municipal Government to host the city’s flagship cultural project—Shanghai Sculpture Space (SSS). The project, which was based on architectural rehabilitation, was implemented under a public-private partnership arrangement and the chosen developer was allowed to develop a substantial quantity of commercial space to subsidize the SSS and other public cultural activities held on the site (Wang 2009).

Tianzifang is located in Taikang Road, a prime area in the middle of the old French Concession where traditional lilong houses mingle with small-scale street factories that can be traced back to the 1930s. When the factory spaces had fallen into disuse by the late 1990s, a few well-known artists arrived at the site, including the late Chen Yifei, whose oil paintings command one of the highest prices among contemporary Chinese painters. Soon, a number of art shops, galleries, some less well-known artists, and a few foreign art studios followed the “masters” to the site. In the next a few years, due to space constraints in the old factories, some lilong houses were also converted into commercial spaces. Meanwhile, commercial activities burgeoned, replacing some early arrivals who could not sell enough of their work to afford the escalating rents.

Creative Factory has a large number of construction-related design firms. It is located in the vicinity of Tongji University, which has one of the best architecture, urban planning, and civil engineering programs in China. The Research Institute for Ocean Fishing Machinery used to occupy the Creative Factory site and is still the de facto owner of the land. In the 1990s, the Institute moved to suburban Songjiang and began leasing the vacated office spaces to the burgeoning construction-related design firms in the area, most of which were in one way or another connected to Tongji University. Creative Factory can be considered a pure production site, as commercial activities are largely absent. In the following, I will summarize information on the creative firms at the four sites in terms of business profiles, location decisions and cluster features.

Business Profiles

Firms at the four sites consisted of relatively new establishments. Among the 104 firms that provided information on the year of establishment, 86.5% were less than 10 years old, 56.7% less than five years old, and 25% less than three years. One can infer that the birth of new creative firms came hand-in-hand with the formation of CICs in Shanghai. In general, all four sites were dominated by small firms, as the median size of all firms was 7.2 formal employees. Firms at M50 and Tianzifang were even smaller, with median size stood at only 3.5 formal employees for both (Table 1). Among the firms that provided relevant information, 70.1% (N=118) did not have subsidiary or other branches at the time of the survey, and 16% had only one subsidiary or other branch. On the other hand, 77.2% (N=120) were not a subsidiary or a branch of another company. These data suggest the independence of creative firms at the four sites.
Table 1: Number of Formal Employees in the Firms

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Grouped Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>27.3</td>
<td>33</td>
<td>31.0</td>
<td>4.0</td>
<td>150.0</td>
<td>16.4</td>
</tr>
<tr>
<td>M50</td>
<td>8.3</td>
<td>29</td>
<td>14.9</td>
<td>2.0</td>
<td>75.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Red Town</td>
<td>39.8</td>
<td>22</td>
<td>61.2</td>
<td>2.0</td>
<td>200.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>5.2</td>
<td>32</td>
<td>5.1</td>
<td>2.0</td>
<td>25.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>18.8</td>
<td>116</td>
<td>34.6</td>
<td>2.0</td>
<td>200.0</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Table 1: Number of Formal Employees in the Firms

It is important to understand the production that firms were engaged in. The questionnaire contains a number of questions in this regard. The firms were asked to evaluate the descriptions of the products/production in terms of applicability to their company. Table 2 indicates that the first four descriptions more accurately reflected the production of firms surveyed than the rest. The last two descriptions were the least accurate, although over half of the firms still agreed with these descriptions. In particular, firms in the four sites tended to produce high-quality, unique, and custom-made products. In comparison, price competitiveness was less important and standardization of products was less prevalent.

Table 2: Products and Production of Firms (N=95)

<table>
<thead>
<tr>
<th>Product/Production Description as Described on Questionnaire</th>
<th>% of Firms Agreed or Strongly Agreed</th>
</tr>
</thead>
<tbody>
<tr>
<td>K) We compete by providing high-quality products.</td>
<td>89.2%</td>
</tr>
<tr>
<td>E) We provide custom-made, individualized or one-off products.</td>
<td>83.5%</td>
</tr>
<tr>
<td>H) Our work involves a lot of artistic work.</td>
<td>82.8%</td>
</tr>
<tr>
<td>L) We compete by providing unique products.</td>
<td>80.9%</td>
</tr>
<tr>
<td>F) Our work is comprised of different projects.</td>
<td>71.6%</td>
</tr>
<tr>
<td>I) Our work is knowledge-intensive.</td>
<td>67.7%</td>
</tr>
<tr>
<td>A) We provide totally different products from our competitors.</td>
<td>66.3%</td>
</tr>
<tr>
<td>B) We need constantly try new methods in our production.</td>
<td>65.2%</td>
</tr>
<tr>
<td>G) Our production is reliant on inputs from our clients/ customers.</td>
<td>63.7%</td>
</tr>
<tr>
<td>D) Our products are produced in small batches.</td>
<td>63.0%</td>
</tr>
<tr>
<td>C) We produce according to pre-set product standards.</td>
<td>58.9%</td>
</tr>
<tr>
<td>J) We compete by providing cheaper products.</td>
<td>56.0%</td>
</tr>
</tbody>
</table>

Table 2: Products and Production of Firms (N=95)
Firms in the surveys were also asked about the value of their products and were allowed to choose more than one answer. Among the 118 firms that provided answers to this question, only 13 firms (11%) answered that their products offered only utilitarian value to users. Most firms provided products with certain symbolic values (such as aesthetic, artistic, cultural, recreational value, and so on) or a combination of utilitarian and symbolic values. Figure 1 summarizes the percentage number of firms that provided products of certain values. Clearly, a very high proportion of firms (79.7%) offered products with aesthetic or artistic value. Utilitarian value and cultural value had the next two highest proportions at 56.8% and 50.8%, respectively. Therefore, although firms generally did not provide products only for their utilitarian value, the “usefulness” of the products remained an important feature of the firms’ products. This utilitarian feature also means that most products are not items of political sensitivity.

![Figure 1: Value of Products offered by Firms (N=118)](image)

Note: Figures in the graph represent the percentage number of firms that offered products of a certain type of value.

**Location Decisions**

One of the most important issues addressed in the survey is the location choice of firms. Companies at the four clusters were asked why they chose to locate in Shanghai rather than other cities. A number of location factors were listed on the questionnaire and firms were asked to rate these factors in terms of their relative importance. Figure 2 illustrates the relative importance of different factors for their decision to locate in Shanghai.
Referring to Figure 2, all but one location factor were deemed important or very important by more than half the firms. In comparative terms, however, Factor F [accessibility to external (domestic or international) markets], stood out as Shanghai’s top location advantage (with 75.8% firms regarding it as either important or very important). It is also interesting to discover that, although Shanghai is the largest city in China, Factor E (its local market size) was not considered as important as Factor F. This implies that Shanghai today still maintains its historic role as a link or gateway to other parts of China, as well as to the world.

Factors B (the city’s openness to new ideas and differences) and A [high concentration of talents (artistic, technological, and managerial)] were also considered as important or very important by approximately three-quarters of the firms. According to Florida (2005), these two factors (“tolerance” and “talents”) are directly related to the creativity of cities. Factor T (technology) as argued by Florida, was not ranked so high (as Factor L, for example) perhaps because the sample included many small art studios and galleries that were not very dependent technological sophistication of the city. In Figure 2, Factor K (amenities) appears as fourth and this is one of Florida’s highly valued assets, as he thinks that amenity attracts footloose creative talents to certain cities. In addition, factors such as G (ease of finding business partners), E (i.e., huge market size), and D (city as a

Figure 2: Why Locate in Shanghai?

Note: Figures in the graph represent percentage of firms that considered a certain location factor as “very important” or “important”.

<table>
<thead>
<tr>
<th>Location Factors</th>
<th>Percentage (All Samples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accessibility to external market</td>
<td>75.8%</td>
</tr>
<tr>
<td>2. Openness to new ideas and differences</td>
<td>75.6%</td>
</tr>
<tr>
<td>3. High concentration of talents</td>
<td>74.6%</td>
</tr>
<tr>
<td>4. Ease to find business partners</td>
<td>69.7%</td>
</tr>
<tr>
<td>5. City amenities</td>
<td>67.3%</td>
</tr>
<tr>
<td>6. City’s huge market size</td>
<td>67.2%</td>
</tr>
<tr>
<td>7. City’s tolerance to outside influences</td>
<td>66.6%</td>
</tr>
<tr>
<td>8. Accessibility to knowledge and technology infrastructure</td>
<td>61.4%</td>
</tr>
<tr>
<td>9. Local culture and technology development</td>
<td>59.8%</td>
</tr>
<tr>
<td>10. The rest of the firm’s (family)</td>
<td>55.8%</td>
</tr>
<tr>
<td>11. Overall business cost</td>
<td>54.1%</td>
</tr>
<tr>
<td>12. The major of the firm (company)</td>
<td>52.4%</td>
</tr>
<tr>
<td>13. The rest of the firm’s (family)</td>
<td>42.9%</td>
</tr>
</tbody>
</table>

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brand-name for firms and products), though not as important as the four factors previously mentioned, were considered as very important or important by approximately two-thirds of the firms.

Another interesting issue revealed in the data is that overall business costs, which are usually considered one of the major concerns of business management, were not very highly regarded compared to most factors listed. Factor C (preferential policies for firm), related to business cost cutting, was also not ranked very high. The firms in the sample considered value-creation, which depends on creativity, far more important than single-minded cost-cutting by the firms. Such a result conforms to the discussion of Scott (2000) on creative firms in advanced economies that generally have higher business costs than those in developing countries, but nevertheless excel and win through innovation, creativity, and product differentiation. Therefore, creative firms may have chosen to stay in Shanghai not to reduce business costs (indeed business costs were higher in Shanghai than most other cities in China); but rather, to seek the creative impulses the city provided.

On the other hand, firms were also asked why they had chosen the specific cluster where they had leased space as opposed to other locations in Shanghai. Figure 3 shows the relative importance of different factors for a firm’s decision to locate in their respective cluster.

![Figure 3: Why Locate in that Cluster](image)

Note: Figures in the graph represent percentage of firms that considered a certain location factor as “very important” or “important”. 
The listed location factors can be divided into two types: location attributes and cluster dynamics (Drake 2003). Cluster dynamics can be further divided into “traded interdependencies” and “untraded interdependencies” (Storper 1995). Referring to Figure 3, among the top seven factors that over 60% of the firms considered very important or important, four factors can be categorized as major location attributes, including L (prestige of the location), J (aesthetics and cultural meanings of locality), M (public attention and visibility of firms), and R (official designation of creative industry cluster). Among top factors, three can be categorized as “untraded interdependencies,” including F (networking opportunities), E (concentration of talents), and D (cohesion of the cluster).

In comparison, factors that can be categorized as “traded interdependencies” and are directly related to business costs were not ranked very high. These factors include B (accessibility to inputs or intermediate products), C (closeness to business partners), and A (closeness to customers/clients). In addition, Factor H (rental level), which had been one of the most important considerations for earlier occupants of Shanghai CICs (see Zhong 2009a), had lost its relative importance. The ranking of different location factors demonstrates that, in relative terms, direct business cost-cutting factors were less important than factors that had greater direct impact on creativity, such as location attributes or specific factors related to cluster dynamics. This does not, however, suggest that cost-cutting factors have become irrelevant. Over half of the firms regarded rental level as an important or very important factor in selecting business locations in the city.

### Cluster Features

Talents are a major competitive edge for today’s creative industry firms. With the *hukou* policy still in effect, human resources is a far less mobile factor of production than capital in today’s China. In the survey, the firms were asked to estimate the proportion of their employees from different geographic areas, including: Shanghai, China (excluding Shanghai) and overseas. Incorporating answers about the total number of formal employees, the percentage number of employees from different geographic areas can be calculated for each cluster. The results are presented in Table 3.

<table>
<thead>
<tr>
<th>Cluster Name</th>
<th>from Shanghai</th>
<th>from China (not SH)</th>
<th>from Overseas</th>
<th>Total</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative Factory</td>
<td>47.8</td>
<td>51.8</td>
<td>0.4</td>
<td>100</td>
<td>31</td>
</tr>
<tr>
<td>M50</td>
<td>40.7</td>
<td>57.0</td>
<td>2.3</td>
<td>100</td>
<td>22</td>
</tr>
<tr>
<td>Red Town</td>
<td>43.3</td>
<td>51.5</td>
<td>5.2</td>
<td>100</td>
<td>18</td>
</tr>
<tr>
<td>Tianzifang</td>
<td>40.9</td>
<td>43.3</td>
<td>15.8</td>
<td>100</td>
<td>23</td>
</tr>
<tr>
<td>All Samples</td>
<td>45.0</td>
<td>51.7</td>
<td>3.3</td>
<td>100</td>
<td>94</td>
</tr>
</tbody>
</table>

*Table 3: Average Percentage of Employees from Certain Geographic Areas*
It needs to be noted that it is difficult to define whether a person is from Shanghai. Some people came to Shanghai to attend university from another part of China, but found a job in the city after graduation and remained there (usually obtaining a local *hukou* in the process). Some people may regard these people as coming from Shanghai, but others may regard them as immigrants from other part of China. To standardize the answers, I define people from Shanghai as having a Shanghai *hukou*. However, this tends to overestimate the number of people or talented employees who were Shanghai citizens from the start (i.e., those raised in Shanghai before attending tertiary educational institutions) and underestimate those from elsewhere in China. Referring to Table 3, the majority of employees (55%) in the firms that had provided answers came from outside of Shanghai. Given the potential bias of the data just mentioned, the real proportion of “outside talents” could be even higher. This means that creative industries in Shanghai were very reliant on human resource from elsewhere, despite restrictions on *hukou*. In other words, creative industries in Shanghai served as a pull to talents from across the country, even from overseas. Although employees from overseas did not comprise a large proportion of the total (only 3.3% for all samples), they were present in all four clusters surveyed. And the proportion of firms that employed foreigners in four clusters ranged from 6.5% in Creative Factory to 37.5% in Tianzifang.

Firms were also asked about their methods of recruitment. Among the 96 firms that answered this question, 57.3% used “ads in the public media.” Also notable is that over half of firms (51%) recruited employees through informal means, such as personal networks. This demonstrates that new economy firms do use traditional methods in running their businesses. In addition, approximately one-third of the firms had potential employees first knocking on their doors and sending in their resumes (another informal way of recruitment), instead of these firms needing to formally post job vacancy ads to attract applicants. So many firms had access to a ready pool of talent even before recruitment needs arose. Job-hopping is a common phenomenon among employees of creative firms (Saxenian 1994). This was also the case for the firms surveyed. They were asked to estimate the percentage of firms in their respective business area that frequently faced job-hopping problems. The average figures for the four clusters were 46.20% (N=92).

To evaluate the institutional thickness of the four clusters, the survey asked firms to choose the types of organizations that they thought could benefit them (but might not be accessible) and the types of organizations that they had access to. The listed organizations included educational or training organization, business associations, regulatory bodies, promotional organizations, R&D institutions, professional organizations, workers’ associations and other types. It was found that firms in general did not think very highly of the role of supporting institutions, with the highest regard given to educational and training institutions (though only 32.4% of firms thought it important). The low appeal of supporting institutions differs from popular opinion in the literature. On the other hand, the percentage of
firms that judged certain institutions as important was consistently higher than the percentage of those that actually had access to such an institution. This indicated the gap between what was useful and what was available. The gap was wider for those institutions that could provide less visible and long-term support (such as educational and training organizations, and R&D institutions) than those that had more conspicuous and short-term impacts (such as business associations, regulatory bodies, or promotional organizations that tended to have direct effect on firms’ financial/economic performance). The lack of “institutional thickness” in Shanghai’s CICs is suggestive of the immaturity of Shanghai’s creative clusters. Formed within the past ten years, CICs are still production agglomerations in the making.

Rents constituted a big cost component for creative firms. Rents in a cluster usually varied depending on many factors, such as the location, levels in a building, building quality, types of uses—commercial or office, art studios or design firms, among others. The surveys revealed that the rental levels ranged between 1.5 RMB/m²/day and 10 RMB/m²/day in the four clusters. Taking into consideration the rental level for offices in Shanghai at the time, the lower end was quite reasonable. However, most firms at the four clusters were start-ups with very limited financial resources. Rent was therefore a heavy burden for them. Among the possible planning interventions that the questionnaire listed (such as checking rental increase, enhance accessibility, marketing the cluster, etc.), preventing rental increase stood out as the most widely supported measure, with 92.4% of the firms regarding it as "very important" or "important."

A Brief Summary

The surveys helped unveil the faces of Shanghai’s creative firms. On general, they were new and small, offering products with significant creative components. Although the official categorization of creative industry in Shanghai may be quite arbitrary and lacks theoretical justifications, in terms of the current state of affairs, a substantial number of firms at these four clusters did conform to the prototypical "creative firms" described in widely cited Western literature (e.g., Scott 2000, 2005). Location constituted an important business decisions for these firms and in making locational choices, they were generally more concerned with value creation than with cost reduction, although the latter remained important. In addition, firms derived great benefit from physical contact with other productive entities and were quite dependent on talents that the city attracted from the outside. However, the data do not suggest significant institutional thickness of the clusters and production networks are yet to mature in the coming years. Adding to that challenge is the increasing pressure of commercialization and rent escalation, which leaves a great deal of uncertainty over the future of Shanghai’s creative startups.
Creative Firms and Shanghai’s Spatial Transformation

During the past several years, creative industries in Shanghai have registered phenomenal growth. Aggregate GDP for creative industries shoot up from RMB49.3 billion in 2004 to RMB114.8 billion in 2009, translating into an annual increase of 18.4%, far exceeding the pace of growth for the whole economy. As a result, the proportion of creative industry sectors in the whole economy increased from 5.8% to 7.7% during the period. By 2010, Shanghai’s 81 CICs hosted over 4,000 businesses and more than 80,000 employees.14

Firms at Shanghai’s CICs today represent a break from city’s socialist past. In the socialist period, the spaces at all four sites were ultimately serving manufacturing production, the pillar of the national economy. With the central planners dictating every detail of production, including what to produce, when to produce, how to produce and where to produce, the industrial firms, organized in cellular work-unit (danwei) systems, were reduced to an appendage to the state. Physical labor enjoyed moral superiority over intellectual work and quantity of industrial products, rather than quality and sophistication of products defined the socialist term of modernity. Under the “big rice pot” system (daguofan, the excessively egalitarian remuneration system), workers strived to be average rather than exceptional or innovative on the shop-floors. Serving as agents of the state, employees were also rewarded with “iron rice bowls” (tiefanwan), the guaranteed lifelong employment supplemented by work-unit administered welfares. Although China’s open-door policy was launched in the late 1970s, Shanghai’s work-unit socialism (Womack 1991) has persisted long into the 1990s as the city’s strategic position in the national economy prevented it from becoming China’s frontline of reform and marketization. It was not until the late 1990s that industrial restructuring swept Shanghai and the old socioeconomic contract between the state and industrial employees began to disintegrate. In the subsequent years, the city’s economy became diversified, although due to its heavy socialist legacy, state still exerted quite a strong influence on the economy.15

Shanghai’s CICs can be read as an articulation of city’s structural changes in the past two decades. State-owned or collectively-owned companies have been replaced by foreign companies, joint ventures or private enterprises, whose primary concern is profit, rather than state building. And new types of economic activities focusing on generating knowledge, ideas and meanings are not only encouraged and promoted by the pro-growth local governments, but also are handsomely rewarded by the new market institutions. While the state cannot dictate production any longer, it also assumes no responsibilities for business failures. Creative firms must cater to or lead the market demand by exploiting their creative capital. To survive and then thrive, they must draw everything that is available to them in their environment. CICs are a type of support system for Shanghai’s creative firms. Whether it is locational attributes (e.g., low rent, functional space, industrial heritage, etc.) or cluster social networks, these factors help build and strengthen the
muscles of Shanghai’s new economy firms at a time of state retreat. However, the contradiction is that CICs are by and large sites for market competition and therefore, they offer no guarantee to firms’ success. If enterprises are not able to make profit fast enough to keep pace with the escalating business cost, say rents, they have no choice but to be shut down.

Human resources are the most important factor of production for creative industries. Today, the old manufacturing workers are nowhere to be found at Shanghai’s inner city production sites. The surveys demonstrate that today’s space users are fundamentally different from their proletarian predecessors. While old manufacturing workers followed instructions of their superiors, creative professionals today, working in flatter organizations, enjoy considerable work autonomy. Also different from their predecessors who usually remained loyal to only one organization, creative workers today are quite restive and mobile. Not only talents from all over China and even overseas are flowing into Shanghai with increasing ease but also those with exceptional skills can use their great bargaining power to get the best deal for their special aptitude. However, this increased mobility also comes with greater risks of job instability, particularly for those not at the top. As creative industries are notorious for their winner-takes-all property (Frank and Cook 1996), the development of creative industries clearly has ominous implications for China’s alarmingly large social inequalities.16

Firm and people mobility are intricately linked to urban place-making. Unlike old state firms that could not make independent spatial choices, creative firms today are able to exhibit their location preferences. The formation of new economy spaces and the revitalization of Shanghai’s old industrial sites are attributable to this newly gained locational freedom by private enterprises. As active agents, firms and creative talents on the one hand draw nutrients from their environment by dexterously weaving spatial elements into their production processes; and on the other hand, they also help reconstruct urban space by undertaking physical renovations and forming new socioeconomic relations. However, the freedom, or in other words, the footloose nature of independent firms also means a risk for Shanghai’s creative clusters. If conditions turn unfavorable, whether it is high rents or loss of appeal because of space homogeneity, firms can exit the site just as fast as they agglomerate. Mobility is both a boon and bane for Shanghai’s CICs and Shanghai’s creative industries (firms might exit the city as well).

As in other creative centers of the world, Shanghai’s creative startups are facing increasing rental pressures. If spaces at CICs are still considered affordable in a comparative sense, we can expect more strains on firms that are located outside of the so-called “creative industry incubators”. It is true that new economy firms can mitigate the impact by better tapping their creative potential, but excessive concern over business costs may push firms to choose “safe” products instead of trying innovative ones that may or may not turn out to be marketable. And high rents also disproportionately penalize smaller firms or freelancers as rents constitute
their primary business costs. What makes Shanghai’s situation grimmer is that rents may reach unaffordable levels before the city can accumulate enough creative capital to join the world’s “creative city” club, the city’s economic and cultural ambition. Now, Shanghai is still a far cry from global creativity centers such as New York, Paris or Tokyo. Even within China, Shanghai is nowhere close to challenge Beijing’s position as the country’s creative and cultural capital. Shanghai not only lags far behind in terms of densities of cultural institutions but also the size of creative communities such as fine artists (Kong 2007). The immaturity of Shanghai’s creative industries and creative clusters means that firms are in great need of nurturing and protection from highly commercialized space bidders. This situation is different from the one that is faced by New York or Paris, both of which already possess a critical mass of creative capital as well as a worldwide reputation. Higher rents in these cities serve more as a filter for highly successful firms than as an obstacle for creative firms to proliferate, although the latter is true too some extent.

Although creative industries have introduced new norms into China’s largest socialist bastion, adding to the diversity of Shanghai’s production ecology, in recent years, neoliberalism has unfortunately become a homogenizing force in the city. Inundated with commercialization fervor and material fetishism, the city seems to be seeking an urban modernity defined solely by economic success and profit generation. The logic that underpins the development trajectory of Shanghai CICs is a telling example (Zhong 2010). Development boosters may argue that Shanghai cannot be over-commercialized as commercial culture was one of the city’s traditions. Indeed, “haipai” culture, which literally means Shanghai style or Shanghai school and which thrived in the concessionary period, was commercially oriented (Cochran 1999). At that time, commercial culture represented a cultural innovation in Chinese cities. By challenging conservatism, traditions and officialdom represented by jingpai (Beijing style/school) culture, the commercial component of “haipai” was perceived as vibrant, liberal and modern (Lu 1999).

When commercial culture resurfaced in the post-reform period, it again provided an alternative to political art that dominated much of the Socialist era. But the context is different today. When profit-seeking has become the dominant ideology, commercial culture no more possesses the kind of “edginess” that it did in history. “Creativity” implies nonconformity to conventions or distance from the mainstream society. The fact that capitalist creative industries in the advanced economies always need to seek creative energy from marginal or liminal spaces of cities (such as Neo-Bohemian communities) underpins this logic (Frank 1997; Lloyd 2006). Whenever something is established as the mainstream, the aura of cultural coolness around it is gone.

The great dilemma facing Chinese cities is that alternative cultures or values, on which creative industries depend for nutrients, are deprived of living space. Haipai culture thrived in Shanghai’s concessionary period when different social val-
ues and political dissidents were allowed to co-exist with the orthodox mainstream (Gamble 2003). An illustrative example is the birth of the Communist Party of China in 1921 in the French Concession, in which bourgeois culture burgeoned. However, cultural pluralism is far from the reality today. Censorship on cultural production and consumption, although attenuated in the reform period, has never fallen out of sight (Kraus 2004). And in recent years, China’s cultural institutional reforms, which resulted in the formation of many colossal state-owned or state-linked cultural conglomerates, are putting a straightjacket on smaller private firms in the same businesses. At a time of *guojin mintui* (the state advances while the society/private sector retreats), party ideological tentacles are extended, although in more nuanced ways. Recall that “openness to new ideas and differences” is the second most valued factor for firms to choose Shanghai. Political control measures simply discount the advantage that Shanghai has developed historically. As Jing Wang trenchantly asks, “[h]ow do we begin to envision a parallel discussion of something like creative industries in a country where creative imagination and content are subjugated to active state surveillance?” (2004: 13). The new signs of ideological dominance by state power in the cultural field may reverse Shanghai’s creative trajectory. For creativity to flourish in the city, the party state needs to let go its tight grip.

**Conclusions**

In the past decade, Shanghai’s CICs have grown in tandem with the economic restructuring of the city. Behind the changing landscapes on Shanghai’s old industrial sites are China’s evolving socioeconomic relations. CICs represent a market-oriented, fluid, and risk-taking production culture that is a break from the city’s socialist past. While the demise of traditional manufacturing sectors made Shanghai’s inner city spaces obsolete, the dynamism in the new economy helped restore the city’s vigor and vitality. The surveys show that Shanghai’s CICs are still new economy spaces in the making. The production agglomerations are yet to mature and the socioeconomic relations among firms need to further develop. At the current stage, creative enterprises are not yet exerting a strong cultural influence on the city as the state manufacturing firms once did in the central planning period. Although creative clusters are mushrooming in the city, the name of Shanghai is still far from being associated with the notion of creativity. In recent years, the city has articulated its ambition to develop into an “Asian Creative Industries Hub” and then a “Global Creative Industries Hub” within a quarter century’s time. But as both the market and the state may cripple the fledgling new industries, it is still too early to tell how transformative the current creative momentum will be and how far Shanghai’s creative impulse will thrust into the future.
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Notes

1 The original concept of the “new economy” is associated with the rapid rise of information and communication technologies (ICT) in the 1990s although some scholars question the differentiation between the “old” and the “new” (Hutton 2004). And the dot.com crash at the turn of the Millennium added further critical insights into these volatile industries. In geographic and urban development literature that focuses on urban spaces and agglomerations, the “new economy” concept has gone beyond the narrowly defined IT industries so as to include a broader economic sector that is dependent on creativity, knowledge and technology for input (see Scott 2000; Pratt 2000; Barnes and Hutton 2009). This may include a lot of “old” industries that has been transformed by ICT technologies, such as mass media or architectural design. In this perspective, the new economy sector is usually characterized as a combination of culture, technology and commerce and has its own spatial features and manifestations (e.g., favouring inner city sites with a creative milieu) (Hutton 2004). This understanding echoes widely-circulated term of “creative industries” or “cultural industries”. In this paper, the term “new economy” assumes this broad meaning.

2 When the fieldwork was done in 2009, there were 75 such CICs in Shanghai.

3 “Creativity” and “innovation” in this paper mainly refer to those found in the economic productions or more specifically in the “creative industries” that the municipal government is trying to promote. It should also be noted that creative energies of a city go far beyond its economic sector and a clear line between creativity embodied inside and outside of the economic sector are usually hard to draw. Despite this messiness, burgeoning creative industries are usually an important component of a contemporary creative city.


5 Artists in CICs had produced sensitive art works that were incomprehensible to state bureaucrats or antagonized the authority. By exerting censorship (e.g. permission systems for putting up a performance), the Municipal Government managed to put cultural production under control.

6 If the paper does not specify, “production” means economic production; that is, the production of marketable goods or services by firms or enterprises.

7 As most of Shanghai’s CICs were closed to visitors and many others were reluctant to get involved in the research, the selection of the four sites was very much reliant on the cooperative attitude of the property managers of CICs. The four selected sites all had substantial publicity in the past and were more open to researchers. The researchers (me and an assistant) tried to send a survey questionnaire to all the firms that remained open on the day of survey at the four sites except for Tianzifang that does not have a clear boundary. In the end, 229 firms were contacted and 127 completed questionnaires were collected.

8 For details of the M50 case, see Zhong (2009a).


11 Art studios and galleries were asked to skip these questions as the features of their production were straightforward.

12 Although the restrictions on granting *hukou* (an official household registration document for Chinese nationals) to migrants had been relaxed in recent years, the policy is still in existence in China. As migrants without *hukou* are less able to obtain social security protection or social services from the local government, *hukou* restriction could become a barrier for people to move to other places of the country. Although well-educated people have better chances of getting Shanghai *hukou*, the annual quota, as well as the complicated procedure of obtaining Shanghai *hukou*, could still become an obstacle for talents from other parts of China to settle in Shanghai.

13 At the end of 2008, roughly the period when the surveys were conducted, the average rental level for A-grade office in Shanghai was 8.1 RMB/m²/day. See Liu, Xiuhao (January 15, 2009): “Shanghai’s Office Rents Returned to 2007 Level”, Wenhui-Xinmin United Press Group website at http://www.news365.com.cn/wxpd/ls/sydc/200901/t20090115_2166199.htm, accessed May 12, 2009; However, for commercial spaces, which usually occupy lower floors, the rates could be several times higher.

Data from http://www.scic.gov.cn; http://www.stats-sh.gov.cn/2003shtj/tjnj/nje10.htm?d1=2010tjnje/E0304.htm; http://baike.baidu.com/view/4897607.htm, accessed March 1, 2011. For example, the most CIC land was still controlled by the old state industrial institutions that had been restructured with greater commercial orientation.

14 About a decade ago, China’s Gini Coefficient surpassed 0.4 and has been climbing since then. In 2010, it was estimated to be 0.47. See Chen Jia, “Country’s wealth divide past warning level”, *China Daily*, 12 May 2010, http://www.chinadaily.com.cn/china/2010-05/12/content_9837073.htm, accessed 31 March 2011. The enlarging gap between the rich and the poor is feared by the Chinese authority as a destabilizing factor of the country’s political system and economic growth.

In the reform era, commercialization is taking place at almost every realm of urban life, such as land use, housing, public space, education, healthcare, and so on.

15 It must be noted that state cultural conglomerates, although supposedly run under market principles, are in fact under the surveillance of the state. The large number of people enlisted to sing the communist revolutionary songs recently is orchestrated by state-controlled media

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