

1. Background

Development and Findings of Business Victimisation Surveys

The United Nations International Crime against Business Survey

Since its inception in 1989, the United Nations International Crime Victims Survey (UNICVS) has provided comparative information on the victimisation of individuals, but there is limited comparable information at the international level on crime and corruption affecting business, particularly in terms of direct experiences as opposed to perceptions. A new focus on business crime arose from a growing concern about the impact of crime, especially organised crime and corruption in developing economies, and the rising costs of crime prevention for government and the private sector (Doerner and Lab 1998; Eigen 2002; Kaufman et al. 2000; van Dijk 1999). The first national victimisation survey—conducted among a sample of businesses in the Netherlands in 1990—confirmed that businesses were the victims of a range of crimes, from common crimes to extortion and fraud (van Dijk and Terlouw 1996). Crime increases operating and insurance costs and causes significant damage to business in terms of reduced profit, increases in prices paid by consumers and loss of jobs and income. Persistent and serious crime can also result in the loss of trust in business and confidence in the economy, and at worst lead to financial instability. Exposure to crime affects business investment strategies and can slow economic development. As potentially attractive targets, many businesses have evolved strategies that seek to minimise the risk of crime from external and internal offenders. The relative success of such prevention efforts, however, and the costs involved are less well understood. Prevalence studies such as the ICBS provide contextualised baseline information about the scale and nature of such risk-minimisation strategies. The development of a strong crime-free business community needs reliable knowledge about the nature of crime risks that vary with the situational and socioeconomic environment in which businesses operate.

During the 1992 Rome Conference on the International Crime Survey, the possibility of extending studies of crime victimisation from individuals and households to businesses using an international survey mirroring the ICVS was raised. The first International Commercial Crime Survey (ICCS) was conducted in

1993 in Australia and in 1994 in eight European countries:¹ the Czech Republic, France, Germany, Hungary, Italy, the Netherlands, Switzerland and the United Kingdom. Surveys based on the ICCS questionnaire were also conducted in Finland (1994–95; see Aromaa and Lehti 1994), Estonia (1997) and South Africa (1998; see Naudé et al. 1999). The ICCS explored experiences of crime, perceptions of safety and pollution, security precautions and their cost, and attitudes towards police. Common crime and crime by staff surfaced as the main problems for businesses, but only a small proportion of respondents mentioned incidents of corruption.

Using a comparable methodology, surveys focusing on issues of security (particularly that of foreign investors) were conducted between 1995 and 1999 in St Petersburg, Latvia and Lithuania. There, corruption and extortion emerged as major problems. To explore these problems further, the UN Office on Drugs and Crime (UNODC) and the UN Interregional Criminal Justice Research Institute (UNICRI) revised the questionnaire to include new questions that measured the extent of corruption, extortion and fraud, and assessed whether these were seen as obstacles to doing business.² In 2000, the survey was renamed the International Crime against Business Survey (ICBS) and carried out in the capital cities of nine Central Eastern European countries.³ Alvazzi del Frate (2004) argues that the ICBS instrument offers great potential to study business victimisation. Her study showed that despite some reluctance by businesses to discuss and disclose events that might damage their public image, there was great interest among businesses which participated in the survey. Limited funding constrained the scope of the Central Eastern Europe ICBS—for example, data collection was restricted to capital cities and sample sizes were small. Most of the resources available for the ICBS were spent on fieldwork rather than on analyses and the publication of a comprehensive report, and few researchers and policymakers are aware of the survey and its results (Alvazzi del Frate 2004).

In 2005, following a cooperative agreement between the UN Industrial Development Organisation (UNIDO) and UNODC, work began on developing the ICBS further to produce the standardised International Crime and Corruption Business Survey (CCBS). The questionnaire addresses bribery, corruption, fraud, extortion and several other forms of crime against business and industry. Pilot studies were carried out in Bulgaria and Canada in 2005–06, with small samples of businesses, and the revised CCBS was conducted in Cape Verde (2006; see Alvazzi del Frate 2007) and Nigeria (2007; see Nigerian NBS 2009, 2010).

1 For details on the development and methodology of the ICCS, see van Dijk and Terlouw (1996), and Walker (1995a, 1995b) for Australia.

2 Questions on perceptions of institutional obstacles to doing business, including crime, and corruption and bribery practices, were taken from the World Bank's Private Sector Survey (Alvazzi del Frate 2004).

3 These were: Albania (Tirana), Belarus (Minsk), Bulgaria (Sofia), Croatia (Zagreb), Hungary (Budapest), Lithuania (Vilnius), Romania (Bucharest), Russia (Moscow) and Ukraine (Kiev).

Other Business Crime Victimization Surveys

At the same time as the ICBS was being developed, a number of other surveys and studies focusing on the victimisation of businesses took place (see AIC 2004 for a review). The majority was conducted in the developed world by academic institutions, criminal justice organisations and private companies. In the United Kingdom, there were small local surveys on crimes against business (Hopkins 2002). The scope and wording of the questionnaires varied, but the most comprehensive ones, such as the Australian Crimes Against Small Business Survey (Perrone 2000) and the British Commercial Victimization Survey (Shury et al. 2005), tended to include similar questions to the ICBS. Others focused on a single type of crime—for example, fraud (Ernst and Young 2010), economic crime (Global Economic Crime Survey: PWC 2007a, 2009), or a single economic sector, most often retail (for example, US National Retail Security Survey: Hollinger 2010; British National Survey of Retail Crime: Centre for Retail Research 2000; Global Retail Theft Barometer: Bamfield 2010).⁴ All the studies found that criminal victimisation was a significant problem for business, with serious consequences in terms of costs and loss of profitability. They also indicated that generally businesses were victimised at a higher rate than individuals or households. Few of these surveys looked at bribery and corruption; those that did reported a low prevalence, which is perhaps not surprising since most were conducted in Western Europe and other industrialised countries where high standards of governance and the rule of law tend to prevail. It was an assumption of this study that, because of the long-established English common-law system in Hong Kong, a similarly low level of bribery and corruption would also be found in Hong Kong when compared with mainland cities. (See Appendix B for a list of business victimisation surveys identified by our research.)

Findings of Business Crime Victimization Surveys

Table 1.1 presents the findings from three business victimisation surveys with a similar design to the China UNICBS and a comparable sample size. Two were conducted in developing countries—the Central Eastern Europe ICBS, in 2000 (Alvazzi del Frate 2004), and the Nigeria CCBS, in 2007 (Nigerian NBS 2009, 2010)—and one in Western Europe (in 1994) and Australia (in 1993), which,

⁴ The ICBS and many of these other studies also included a section on workplace violence. Workplace violence is not examined in the China UNICBS. The prevalence of and problems associated with violence at work are fully discussed by Chappell and Di Martino (1999), who reported the results of a 1996 EU survey about violence at work. With a sample of 15 800 respondents, the research showed that 4 per cent of workers had been subjected to physical violence in the previous two years; 2 per cent to sexual harassment; and 8 per cent to intimidation and bullying. The survey showed, for example, that young women engaged in precarious work were at high risk of workplace violence.

for brevity, we call the Western Europe ICBS (van Dijk and Terlouw 1996).⁵ The lowest prevalence of victimisation by common crime during the 12-month reference period was recorded in Eastern Europe (27 per cent) and the highest in Western Europe (at least 60 per cent for theft by customers, employees and outsiders).⁶ While the overall prevalence of victimisation in the Nigeria CCBS was lower than in the Eastern Europe ICBS (48 per cent and 27 per cent respectively), rates of victimisation by specific crimes were consistently higher than those of both sweeps of the ICBS. This indicates that businesses in Nigeria were particularly prone to multiple victimisations by different types of crime, during the same or different incidents. The three surveys found that larger firms (that is, those with a larger workforce) were more likely to be victimised than smaller ones.

The prevalence of corruption was much lower in Western Europe (3 per cent; this figure included incidents of extortion as well as bribery) than in Central Eastern Europe (19 per cent) and Nigeria (34 per cent).⁷ In both Nigeria and Eastern Europe, businesses were often asked to pay bribes to obtain services from officials as a way of 'greasing the wheels'. Nigerian businesses were most likely to pay a bribe when dealing with the police or with customs. About 8–9 per cent of businesses in Eastern Europe and Nigeria reported incidents of extortion or intimidation.

The proportion of criminal incidents that was reported to the police varied greatly depending on the type of crime and the seriousness of the incident. In the three surveys, theft of a vehicle and burglary had high reporting rates, which were linked to insurance requirements. The main reasons invoked by respondents for not reporting to the police were that the incident was too minor or that it was an internal matter. Overall, theft by employees had the lowest reporting rates and businesses were more likely to deal with such incidents through disciplinary rather than judicial measures.

5 Although the Western Europe survey was conducted just more than 10 years prior to the China ICBS, we expect that in countries with a stable political and economic system, crime rates have changed relatively little over this time. The survey was also conducted in the Czech Republic and Hungary, but we do not include these countries.

6 When comparing the results of these surveys, variations in rates of victimisation might also be partly due to the composition of the samples (for example, business sectors and size), the mix of crimes that was included, the way in which questions were asked and the survey methodology. For example, the proportion of retail businesses in the Western Europe ICBS was more than 68 per cent, but only 25 per cent in the Eastern Europe ICBS.

7 The measurement of corruption differed between the ICBS and the CCBS. In the ICBS, respondents were asked whether someone had tried to obtain bribes from the company. In the CCBS, respondents who had contact with public officials/agencies were asked whether the company did pay a bribe.

Table 1.1 Selected Findings from Three Business Crime Victimization Surveys

	ICBS Western Europe	ICBS Eastern Europe	CCBS Nigeria
Year of victimisation	1993	1999	2006
Mode of survey	Telephone	Telephone/ face-to-face	Face-to-face
Sample size (N)	7558 ^a	4322	2203
Victimised at least once per annum by:			
Any common crime (%)	-	27	48
Burglary (%)	29	9	30
Vandalism (%)	10	4	10
Theft of vehicle (%)	6	4	7
Theft from vehicle (%)	13	7	11
Theft by employees (%)	}60	4	22 ^b
Theft by customers (%)		5	-
Theft by outsiders (%)		13	17 ^b
Robbery (%)	3	3	12
Assault and threats (%)	9	1	14
Corruption and bribery (%)	}3	19	9 ^c
Extortion/intimidation (%)		9	8
Reported to police ^d (%)	> 90 (burglary) to 33 (crimes by employees)	19 (employee theft) to 67 (burglary)	46 (outsider theft) to 85 (robbery)

Sources: International Crime against Business Survey (ICBS), Central Eastern Europe (Alvazzi del Frate 2004); International Crime against Business Survey (ICBS), Western Europe (van Dijk and Terlouw 1996); Crime and Corruption Business Survey (CCBS) (Nigerian NBS 2010).

Notes: ^a This figure includes businesses in the Czech Republic and Hungary; except for Australia (N = 1000), sample size by country was not provided; ^b includes theft as well as fraud; ^c this is the percentage of businesses that did pay a bribe to an official; it does not include requests for bribes that were not paid; ^d for all common crimes except theft of a vehicle.

It is worth mentioning the PriceWaterhouseCoopers (PWC) Global Economic Crime Survey, conducted in 2007 in 40 countries from all regions of the world (PWC 2007a), although it focuses only on economic crime.⁸ The economic crimes that were surveyed covered similar acts to the ICBS but were categorised differently. They included

⁸ The PWC survey has been conducted every two years since 2001 and has included an increasing number of countries. The latest survey was carried out in 2009 but we use the results of the 2007 sweep, as it is the closest in time to the China ICBS. The companies surveyed are selected randomly and for each country the sample size is determined according to the country's GDP. The 2007 sample included 47 per cent of respondents from Western Europe, 16 per cent from the Asia-Pacific, 15 per cent from Central and Eastern Europe, 11 per cent from North America, 6 per cent from South and Central America, and 5 per cent from Africa.

- asset misappropriation: the theft of company assets such as monetary assets, cash, supplies and equipment by company directors, others in fiduciary positions and employees
- accounting fraud: the falsification or misrepresentation of the company accounts in such a way that they do not truly reflect the value of the company or its activities
- corruption and extortion: the unlawful use of an official position to gain an advantage and the use of intimidation or blackmail
- money laundering: acts intended to legitimise the proceeds of crime by disguising their origin
- IP infringement: illegal copying, counterfeiting and illegal distribution of fake goods in breach of patent or copyright.

Of the global sample of 5428 companies, 43 per cent of companies reported suffering at least one type of economic crime in the two years prior to the survey. The prevalence of economic crime was lowest in Western Europe (38 per cent) and the Asia-Pacific (39 per cent) and highest in North America and Africa (52 per cent). The most prevalent type of victimisation was asset misappropriation (mentioned by 30 per cent of respondents), followed by IP infringement (15 per cent) and corruption and extortion (13 per cent).

Consistent with other business surveys, the PWC survey found that larger companies were at greater risk of economic victimisation. Globally, 62 per cent of companies with more than 5000 employees reported one or more instances of victimisation, but only 32 per cent of companies with fewer than 200 employees did so. Rates of victimisation also varied by sector of activity. The insurance and the retail sectors reported the highest prevalence of economic crime (57 per cent) and the pharmaceuticals sector the lowest (27 per cent). Economic crime in the financial services sector was slightly above average (46 per cent) while it was close to average in the manufacturing sector (42 per cent).

The total direct monetary loss reported by respondents over two years was in excess of US\$4.2 billion. PWC estimated that nearly one-third of that amount was lost through asset misappropriation; 15 per cent was due to IP infringement, 13 per cent to bribery and extortion and 12 per cent to accounting fraud. Adding to these direct losses were 'crime-management costs' such as the cost of litigation, reallocation of management time and potential fines from regulators. Companies also faced less tangible kinds of loss such as damage to the company brand, a drop in share price, decline in morale and impaired relations with other businesses and regulators.

Before we outline the design and methods of the ICBS, we briefly describe the four cities that were surveyed, which provides a background to better understand the ICBS results in each city.

The Four Cities: Hong Kong, Shanghai, Shenzhen and Xi'an

These four Chinese cities were chosen because of their different administrative status and geographic location. Initially, we considered running the survey in Beijing where the UNICVS had been conducted in 1994. We also considered Tianjin where in 2004 a similar omnibus crime victim survey had been conducted by local and overseas researchers (see Chapter 2). Beijing and Tianjin are, however, located close to each other on the east coast of China and we decided not to include them to maximise administrative and geographical variation.⁹ Table 1.2 presents selected characteristics of the four cities.

Hong Kong

The Hong Kong Special Administrative Region (HK SAR) of the People's Republic of China (PRC) comprises a peninsula and more than 200 islands located in the South China Sea at the mouth of the Pearl River, covering an area of 1104 sq km.¹⁰ Hong Kong borders the Shenzhen Special Economic Zone of the PRC's Guangdong Province. A British colony since 1842, Hong Kong was handed back to China on 1 July 1997 under the 'one country, two systems' principle agreed in the joint Sino-British declaration of 1984. The 'one country, two systems' allows Hong Kong to continue to follow English common law and maintain its autonomy in all domains except foreign affairs and defence. Article 5 of the Hong Kong Basic Law states: 'The socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years.' Hong Kong SAR has a two-tier system of government, headed by the Chief Executive. The Legislative Council comprises 60 members elected every four years, of whom 30 are elected directly by geographic district and 30 are elected by so-called functional constituencies (that is, comprising various sectors such as labour, industry and professional associations), and 18 District Councils (also elected) that manage local affairs. The Legislative Council reviews government policy, approves budgets and endorses the appointment or dismissal of the appellate judges and the Chief Judge. The two official languages of Hong Kong under the Basic Law are English and Chinese, although the language policy is 'biliterate and trilingual', meaning that Cantonese is acknowledged as the *de facto* official spoken variety of Chinese in Hong Kong, while the use of Mandarin is also accepted.

⁹ Funding constraints also limited the range of cities, but apparent sensitivity at the time to social and other surveys conducted in Beijing was also a factor.

¹⁰ This section draws mainly from Census and Statistics Department, Hong Kong (2007b, 2007c).

In 2004, the population was estimated at 6 882 600 people, with few non-permanent residents (0.3 per cent) (Table 1.2). Following the trend in most industrialised countries, here, the rate of population growth has been slowing—from an annual rate of about 3 per cent in the mid-1970s to just more than 1 per cent in 2000–05. Because of a decline in the fertility rate, the proportion of youths under fifteen years is decreasing, while the proportion of the population aged sixty-five and over is growing. The population median age has been rising, from thirty-four years in 1996 to thirty-six years in 2001 and 38.6 years in 2004. People of Chinese descent constitute 95 per cent of the Hong Kong population; Filipinos (1.6 per cent) and Indonesians (1.3 per cent) form the largest ethnic groups and this is mainly due to the large numbers of migrant workers (mostly domestic helpers) from the Philippines and Indonesia.

Hong Kong is one of the world's leading financial centres. It continues to have a capitalist economy based on free trade, low taxation and minimum government intervention. In 2006, it was the twelfth-largest trading entity in the world, with the second-largest stock exchange in Asia in terms of market capitalisation after Tokyo. About half of Hong Kong's total trade value is with mainland China. Four key industries contribute to Hong Kong's economic success and employ nearly half the workforce: trading (wholesale, retail and import/export) is the largest (29 per cent of GDP), followed by financial services (13 per cent), various professional services (11 per cent) and finally tourism (3 per cent). In 2004, Hong Kong's gross domestic product (GDP) was US\$192 billion—one of the highest among Asian as well as Western countries (Figure 1.1, top). The GDP was overwhelmingly driven by the tertiary sector, which accounted for 88 per cent of GDP. More than 60 per cent of the population was in the labour force. At 6.8 per cent, the rate of unemployment was slightly higher than in neighbouring countries (Singapore, 3 per cent; Taiwan, 4 per cent; Japan, 4.5 per cent), and closer to rates in the United States and Australia (5 per cent). Although Hong Kong's GDP has more than doubled since 1988, Hong Kong also has the greatest level of income inequality as measured by the Gini coefficient.¹¹ Hong Kong's Gini coefficient (53.3) is relatively close to Singapore's (48.1), but much higher than Seoul (31.3), Taiwan (33.9) and Tokyo (38.1) (Figure 1.1, bottom).

11 The Gini coefficient is a measure of equality that varies from 0 to 100. Zero represents perfect equality (everyone has the same income) and 100, perfect inequality (one person has all the income). Numbers closest to zero indicate countries with smaller income disparities.

Table 1.2 Selected Characteristics of Hong Kong (2004) and Three Mainland Cities (2005)

	Hong Kong	Shanghai	Shenzhen	Xi'an
Total population (million)	6.88	17.78	8.28	8.06
Percentage of non-permanent population	0.3	33	75	9
Percentage of population aged:				
Under 15 years	15	8	11	21
15–64 years	73	80	88	73
65 years and over	12	12	1.3	6
Average annual population growth, 1985–2005 (%) ^a	1.9	2.5	10.6	2.8
Average annual disposable income for household (US\$)	-	2293	3394	2171
Average annual income for employees (US\$)	16 082	3299	3345	2180
Unemployment rate (%)	6.8	4.4	2.6	4.3
GDP per capita (US\$)	24 400	6331	7171	1951
Sector of economy, percentage of GDP: ^b				
Primary (agriculture & mining)	0.1	1.0	0.5	5.0
Secondary (manufacturing)	12.0	48.6	61.5	42.0
Tertiary (services)	87.9	50.4	38.0	53.0

Sources: Census and Statistics Department, Hong Kong (2005); Government of Shenzhen (2006); Government of Xi'an (2006); Shanghai Municipal Statistics Bureau (2006).

Notes: ^a Estimated from United Nations Secretariat (2006); ^b CIA (2005).

Shanghai

Shanghai is located on the coast of eastern China, at the heart of the Yangtze River Delta, but extends beyond urban areas into the surrounding rural hinterland, covering about 7000 sq km. Strategically located as a centre for international trade, but also as a key point of entry into the China market, particularly the eastern regions, Shanghai is the largest city in China, and one of the largest in the world. It is one of four municipalities, along with Beijing, Tianjin and Chongqing, under direct administration of the Central Government, with administrative status equal to that of a Province. As a result, national policies have much influence on the city, but the Mayor of Shanghai also has political support to run the city, and several National Government officials, such as former President Jiang Zemin, have risen in Shanghai.

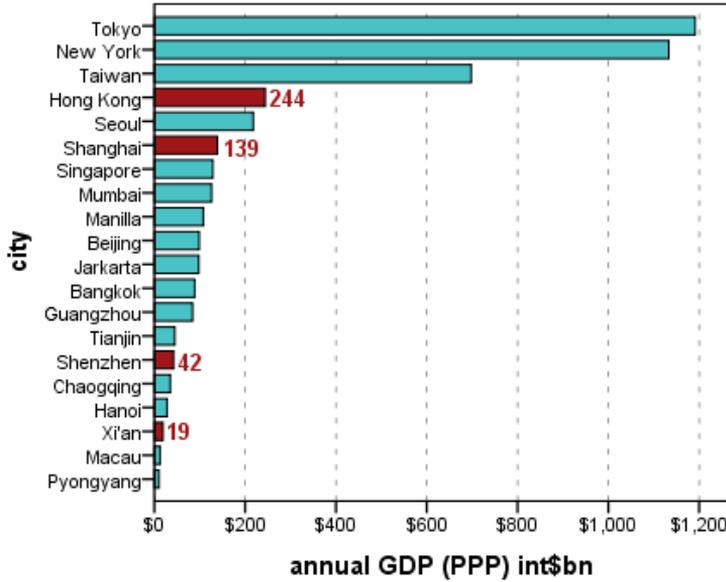
The Shanghai municipality comprises 17 districts and one county. While the central district including the Old City remains Shanghai's political, economic

and cultural centre, urbanisation has shifted focus from the central area to the outskirts, with the creation—on the basis of industries—of new urban towns with planned layouts and favourable conditions for economic development. From a population of about 5.3 million in 1950, Shanghai's resident population reached 17.78 million in 2005—that is, just more than 1 per cent of China's population (of 1.33 billion). One-third of this population comprised non-permanent residents. The proportion of the permanent population aged under fifteen was only 8 per cent—suggesting an ageing population trend. Of the total workforce, 42 per cent was employed in state-owned or collective-owned enterprises, 26 per cent in privately run businesses, 10 per cent in foreign investment companies and the rest in various other forms of business. Shanghai's GDP totalled US\$112 billion with a per capita annual disposable income for urban households of US\$2293 in 2005 (an increase of 11.8 per cent from 2004). Annual wages for staff and workers averaged US\$3299, with an unemployment rate of 4.4 per cent in urban areas (Shanghai Municipal Statistics Bureau 2006). Not everyone, however, has benefited from the city's phenomenal growth. Guang (2002) remarks that the distribution of socioeconomic and infrastructural resources is uneven and shanty areas coexist with the best-quality residences. Large-scale migration from the countryside to the city has resulted in problems of social disorganisation such as traffic congestion, inadequate transport and water supply, homelessness, and lack of training opportunities for unemployed and low-skilled workers. According to the United Nations, Shanghai's Gini coefficient for 2004–05 was 32.¹²

Already a major trading port in the seventeenth and eighteenth centuries, Shanghai grew rapidly following the Treaty of Nanking, in 1842, which settled the First Opium War (1839–42) fought against the British to prevent the importation of opium. The treaty opened Shanghai (and Canton, Ningbo, Xiamen and Fuzhou as well as ceding Hong Kong Island) to international trade and granted foreigners the right to live and trade in Shanghai. The foreign concessions (the 'unequal treaties') and settlements were administered under the laws of the French, English, Americans and later the Japanese in the colonial period before World War II (Jones 1939:34). Foreign banks, factories and trading houses were established, along with international shipping routes to Europe, the United States, Japan, Hong Kong, South-East Asia, India and Australia. From the end of the nineteenth century until the mid-1940s, Shanghai accounted for about half of China's foreign trade and became the main banking, financial, industrial and shipping centre in China (Yan 1984:101). Shanghai during this period also became known for its crime problems and the role of organised crime groups such as the Green Gang in the city's government and illicit markets (Wakeman 1995).

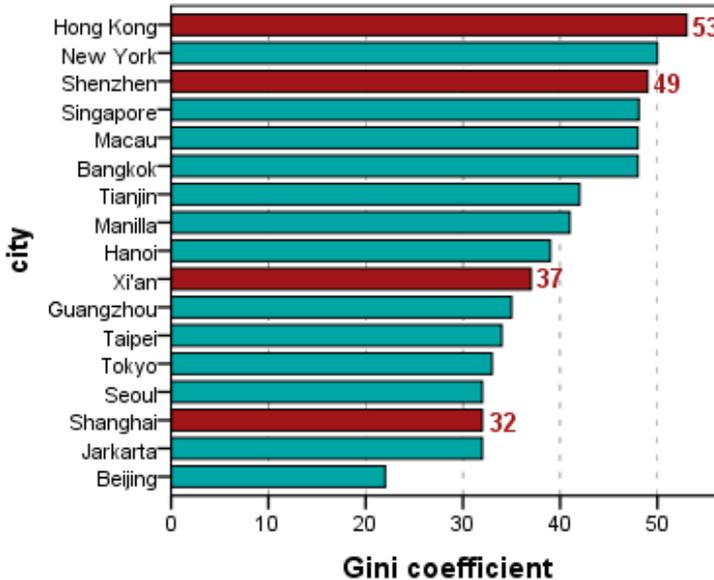
12 Other sources, however, suggest that the Gini index for Pudong, Shanghai's new economic zone, is much higher and rose from 37 in 1994 to 45 in 2001 (Chen 2009). The Gini index is typically based on the resident population, which excludes many migrant workers. Therefore, for Shanghai and other mainland cities, these indices could be biased.

Figure 1.1 GDP and Gini Coefficient for Selected Cities



Sources: Hawksworth et al. (2007:24–6); for Taiwan, CIA (2005).

Note: GDP at purchasing power parity (PPP) is based on the international dollar, a hypothetical unit of currency with the same purchasing power as the US dollar within the United States. It is a useful measure to compare various countries' standard of living in space and over time; the GDP for Taipei was not available so we use that of Taiwan.



Sources: UN-HABITAT (2008); for Taipei, ADB (2007).

Note: The Gini Coefficient was calculated for various years ranging from 2001 to 2006; for Hong Kong, the year is 2001; for mainland cities, it is 2004–05.

In 1949, the Communist People's Liberation Army took control of Shanghai. Most foreign companies moved their offices and headquarters out of Shanghai and many relocated to Hong Kong. During the next two decades, Shanghai became an industrial centre and one of the main contributors to the Central Government's tax revenue. For this reason, despite high economic growth, Shanghai's infrastructure and capital development was slow until the municipality was permitted to initiate economic reforms in 1991. Starting with the creation of the Pudong New Economic Zone in the early 1990s and an influx of foreign and domestic investments, Shanghai experienced a period of fast economic development, with an annual growth rate between 9 and 15 per cent. Major industrial restructuring led to a decrease in low value-added manufacturing but spectacular growth in the tertiary sector—finance, insurance, trade, retail and wholesale, transportation, communications, real estate and information technology—the total GDP of which exceeds that of both the agricultural and the industrial sectors. In 2005, the tertiary sector contributed 50.4 per cent to Shanghai's total GDP; the secondary sector, 48.6 per cent; and the primary sector, just 1 per cent. Shanghai has, in addition to the tertiary sector, a diverse economy comprising a range of manufacturing industries (electronics, communication, information, automotive, and iron and steel), a sophisticated petroleum and chemical industry, biomedicine, and tourism.

Shanghai is considered China's first commercial and financial centre for both domestic and international trade. The independent Shanghai Stock Exchange, opened in 1990, is the largest in mainland China in terms of the number of listed companies and total market value, and the world's fastest-growing stock exchange. Shanghai hosts branches of most international banks, insurance and securities companies, and 325 of the world's top-500 companies have investments in Shanghai (Guang 2002). With several districts designated as special economic zones (SEZs), the non-state sector has grown to now generate 42 per cent of Shanghai's GDP. Shanghai occupies only 0.1 per cent of the land area of the country, yet supplies more than 12 per cent of the municipal revenue and handles more than one-quarter of total trade passing through China's ports. In 2005, container traffic through Shanghai's port overtook that of Hong Kong, making Shanghai the second-busiest port in the world behind Singapore (American Association of Port Authorities 2005). Hong Kong provided the largest source of overseas investment in Shanghai, mostly in infrastructure, real estate, food catering and retail trade. Supported by rising income levels and a large inflow of tourists, Shanghai is the largest consumer market among all the mainland cities, and is considered a trendsetter for fashion and lifestyle. Major foreign retailers, department stores and franchised chain stores are present in Shanghai's shopping malls, but supermarkets and convenience stores are mostly locally owned.

Shenzhen

Shenzhen is located on the Pearl River Delta at the southern tip of the Chinese mainland, about 100 km south-east of Guangzhou, the capital city of Guangdong Province, and adjoining Hong Kong SAR on its southern border.¹³ The city covers roughly 2000 sq km with access to 230 km of coastline. Shenzhen has the status of sub-provincial city—that is, it is governed by Guangdong Province but it administers its economy and law independently. Shenzhen has jurisdiction over six districts and two zones. For most of its history, Shenzhen had been a fishing village with fertile agrarian land and a relatively small population, estimated at 30 000 in 1979. Shenzhen’s landscape and status changed radically when it was chosen to be China’s first SEZ in May 1980. Under Deng Xiaoping’s policies of economic reform and liberalisation known as ‘socialism with Chinese characteristics’, Shenzhen was opened to foreign investment, restrictions on business development were reduced or lifted, and several free-trade processing zones, where imports and exports were exempt from the usual duties, were established. The city was promoted to prefecture level with the right to draft local laws and set local regulations and was granted special economic management status and flexible governmental measures conducive to business and economic growth. Since then, Shenzhen has been one of the fastest-growing cities in the world and has become a major centre for foreign investment and trade, importing more goods than any other city in China. In 2006, among 120 mainland Chinese cities, Shenzhen was ranked second-best in terms of investment climate for foreign firms by the World Bank, ahead of Shanghai (ranked 17) and Xi’an (ranked 70), and third-best in terms of the Government’s effectiveness towards foreign firms, ahead of Shanghai (ranked 26) and Xi’an (ranked 57) (Mako 2006).

Since 1980, Shenzhen has experienced a population explosion, with average annual population growth of more than 10 per cent fully justifying its reputation as the ‘overnight city’ (Table 1.2). The population increase was particularly high during the 1990s when it reached nearly 20 per cent annually (UN Secretariat 2008). Ninety per cent of the population growth has been fuelled by the large-scale influx of migrant workers from China’s interior (Chen 1987). In 2005, Shenzhen’s resident population reached 8.28 million; however, less than one-quarter was registered under the *hukou* (household registration system), the majority being ‘floating’ workers registered elsewhere but mainly from rural areas of China. The household registration system, *inter alia*, entitles those registered in urban areas to low-cost government services and benefits (health, education and housing), but without such registration many migrant workers must pay fees even for access to local services such as a bus pass. Millions of poor rural workers have

¹³ Unless otherwise indicated, information in this section is from Shenzhen Government Online: <english.sz.gov.cn/>

been drawn to rapidly developing cities such as Shenzhen. Efforts to reform the *hukou* system and to reduce the negative consequences of no registration have yet to reduce the disadvantages experienced by many migrant workers (Chan and Buckingham 2008).¹⁴ Many of China's social problems, including crime in urban areas, have been attributed to the impact of the large floating population of unregistered peasant workers drawn to low-skilled jobs in the cities (Roberts 2002; Zhong 2009a).

Because of the large migrant population, both Cantonese, the language spoken in Guangdong (and eastern Guaxi Province), and Mandarin are used in Shenzhen. Shenzhen's population is young, with an average age of about thirty years. More than 88 per cent of the population is aged between fifteen and fifty-nine years, including 20 per cent aged twenty–twenty-four years, with only 1.3 per cent aged sixty-five and over. At the end of 2004, Shenzhen's GDP was US\$42 billion and the per capita annual disposable income of urban households was US\$3394. Shenzhen's employees' annual wages averaged US\$3345 and unemployment in urban areas was 2.6 per cent—lower than in the other cities.

Shenzhen's economy is oriented mostly towards exports. In 2005, its import and export volume represented one-seventh of the country's total import/export volume and ranked first in the Mainland. The major share of exports from Shenzhen goes to Hong Kong (44 per cent, with most of it re-exported), then to the United States (22 per cent) and Europe (11 per cent), with a growing market developing with India and Russia. Shenzhen has three free-trade zones reserved for foreign businesses, where no taxes or duties are levied on imported and exported goods. These special zones are attractive to foreign investors, who can cheaply produce goods that are exported back to the West. More than 150 000 companies have premises in Shenzhen: 60 per cent are privately owned, 26 per cent are state or collective owned and 14 per cent are funded using foreign investments. Thirty per cent of workers are employed in the private economy sector, which contributes to half of Shenzhen's total revenues. The majority (70 per cent) of foreign investment in Shenzhen comes from Hong Kong; the rest comes from a variety of countries including investments by more than 100 of the largest multinationals.

Hong Kong firms have long outsourced manufacturing and other business activities to Shenzhen where labour and other costs are much lower. In more recent times, labour and service costs have risen and many manufacturing enterprises have relocated to cheaper locations in the interior. It is commonplace for Hong Kong business to operate in both Shenzhen and Hong Kong, and

14 Chan and Buckingham (2008:583) note: 'the hukou system is a cornerstone of China's infamous rural–urban "apartheid", creating a system of "cities with invisible walls". It is a major source of injustice and inequality, perhaps the most crucial foundation of China's social and spatial stratification, and arguably contributes to the country's most prevalent human rights violations.'

increasingly for companies from Shenzhen and other mainland cities to operate or establish branches in Hong Kong. These dual operations are reflected in the format of the questions asked in the survey.

Shenzhen's economy is driven by the secondary sector (manufacturing, 61.5 per cent of GDP) supported by the tertiary sector (38 per cent of GDP). Industrial development is based on low-input/low-consumption and high-input/high-efficiency industries. High-tech production is prominent in Shenzhen and accounts for half of the city's gross industrial output value. Key industries include information technology and computers, software, communication equipment, light machinery, microelectronics, video and audio products, electro-mechanical goods, chemicals and plastics, and modern energy-producing technology. The development and production of pharmaceuticals, medical equipment, biotechnology and new materials are increasing. Shenzhen is also a manufacturing and trade centre for textiles and clothing, as well as jewellery, clocks and watches. In 1990, the Shenzhen Stock Exchange opened and helped Shenzhen develop as a centre for finance, commerce and trade. Real estate, the legal and accounting sectors, insurance and tourism are key tertiary industries that contribute to Shenzhen's economy, and 38 foreign banks have branches in Shenzhen.

As the fastest-growing city in China for the past 30 years, Shenzhen is characterised by rapid industrialisation, urbanisation, migration and population growth, with its associated problems. Qi and Liu (2008) remark that land scarcity might restrict Shenzhen's future sustainable development and that urban sprawl has led to increases in petrol consumption and vehicle-related pollution. The economic liberalisation of the early 1980s has changed the status of land from collectively owned public property to an economic asset and a source of profits (Hang 2008). In a fast-developing city such as Shenzhen, the high demand for land and housing has led to skyrocketing land prices and, because of the extraordinary number of migrant workers, there has been a great need for rental housing that could not be filled by government housing. In contrast with many Western and newly developing countries, however, in Shenzhen, slums and shanty towns have not spread and the housing needs of low-paid migrant workers have been provided by urban 'villages'. Originally, urban villages were rural settlements that have been incorporated into the built-up areas by the growing city. Cheap housing has been developed by farmers on their land and rented out. In this way, urban villages provide an income to the traditional village population who manages these villages, and supplies affordable accommodation, near the city centre and industrial areas, to migrant workers. Shenzhen urban villages share some characteristics of shanty towns, such as overcrowding, lack of infrastructure, and social and environmental

problems, but basic services such as water, electricity and sewerage systems are provided and the housing is of relatively better quality than that of slums (Wang et al. 2009a, 2009b).

According to the Shenzhen Government's description of life in Shenzhen, 'the population structure polarises into two opposing extremes: intellectuals with a high level of education, and migrant workers with poor education'. The Shenzhen Government makes it relatively easy for people to obtain *hukou* (residence permits) if they are highly educated, but this does not apply to the low-end migrant factory workers. While average wages tend to be higher in Shenzhen than in the rest of mainland China, inequality is also high. With a Gini coefficient of 49 in 2004–05, Shenzhen approximates the high level of inequality in the United States (Figure 1.1).

Xi'an

Xi'an is the only surveyed city located in central China, on the Guanzhong Plain, between the Huang He (Yellow River) and the Yangtze River. It is the capital of Shaanxi Province and has the status of a sub-provincial city, with jurisdiction over nine districts and four counties. It is governed by Shaanxi Province but, like Shenzhen, it independently administers its economy and law. As one of the Four Great Ancient Capitals of China, Xi'an has a long and rich history dating back 7000 years. Because of its strategic location on the Silk Road, it has been the capital of some of the most important dynasties in Chinese history. Xi'an is best known as the site of Emperor Qin's mausoleum and its Army of the Terracotta Warriors (247–208 BC). Xi'an's (or Chang'an as it was known at the time) political influence declined in the second century AD, when the empire's capital was moved to Luoyang, Henan Province, but it remained an economic centre at the starting point of the Silk Road. Under the Tang Dynasty (618–907), Xi'an was re-established as the capital and became one of the largest international cities of the time. After the fall of the Tang Dynasty, Xi'an's prestige declined although it still played an important role as a regional capital and a trade centre on the Silk Road. In December 1936, the Xi'an Incident,¹⁵ which led the Nationalists and Communists to cooperate and fight the increased threat posed by the Japanese invasion, was a significant event in Chinese recent history (see Crossland 1987; Tuchman 1971).

The city of Xi'an is located about 1000 km south-west of Beijing. It covers nearly 10 000 sq km and is surrounded by fertile arable lands and several rivers and streams. In 2005, the resident population was 8.06 million, including 9 per cent

15 The Xi'an Incident involved the capture of the Nationalist leader, General Chiang Kai-shek, by Marshal Zhang during the civil war and led to the formation, among otherwise bitter political opponents, of a united front just prior to the outbreak of the second Sino-Chinese war (see Garver 1991; Tuchman 1971).

who were non-permanent residents. Nearly three-quarters of the population (73 per cent) was aged between fifteen and sixty-four, and 6 per cent was sixty-five and over. Since the 1980s, Xi'an has experienced an economic revival and has re-emerged as an important cultural, industrial and educational centre for the central region, with facilities for research and development, national security and China's space-exploration program.¹⁶ In 2005, the GDP of Xi'an totalled US\$15 billion, with a per capita annual disposable income for urban households of US\$2171. Xi'an's employees' annual wages averaged US\$2180 and unemployment in urban areas was 4.3 per cent. The city's GDP nearly doubled between 2000 and 2005, and in 2005 Xi'an's GDP accounted for one-quarter of the Province's total GDP. Tertiary industries (service and tourism) contributed 53 per cent to GDP, followed by the secondary sector (industry and construction, 42 per cent), and the primary sector (agriculture and mining, 5 per cent). The land that surrounds Xi'an is fertile with easy access to irrigation and consequently large yields of farm produce are obtained. The area is also rich in mineral resources and is close to the sources of relatively cheap energy of the north of Shaanxi Province (coal, oil, and natural gas), which ensures an adequate supply of energy for industries and residents.

With three state-level development zones (economic and technological development, hi-tech industries, and export processing), Xi'an is the largest industrial centre in China's mid and north-west and receives large amounts of direct foreign investment. The level of import/export activity achieved by the industrial sector makes up more than 60 per cent of the city's total trading value. Equipment manufacturing is a key industry including aviation equipment, railway equipment, motor vehicles and heavy and light machinery. The city is a pioneer in the software industry including a significant export trade in software applications. The hi-tech sector is at the heart of Xi'an's economic development and includes electronics and microelectronics, mechanical and electrical integration, bioengineering, pharmaceuticals, new materials, and energy-saving devices. Several national and multinational telecommunication companies also have factories and research centres in Xi'an.

Xi'an is, in addition to manufacturing, a major scientific and technological research centre in China with about 500 research institutions, laboratories, and engineering and industry research and testing centres. With many higher education institutions, it is also a leading centre for engineering training. Significant scientific achievements such as the first Chinese engine for carrier rockets and the first satellite-borne computer were designed and developed in Xi'an. The city is home to several state-owned military industries and is a leader in the development of science and technology for national defence, as well as a major centre for missile production. With its rich cultural history, Xi'an is one

16 Information in this section was drawn from *Xi'an Statistical Yearbook 2006* (Government of Xi'an 2006).

of the nation's key tourist destinations, and tourism (primarily internal) forms the basis of the service industry, along with service outsourcing from overseas. A financial and commercial sector is now also emerging as an important element of Xi'an's growth.

Xi'an presents many advantages that encourage companies and professionals to relocate there. Because the city is a leader in aeronautics, aerospace software and other high-value industries, the proportion of technical personnel in Xi'an is the highest in China, providing substantial numbers of skilled technicians and workers. In addition, labour and human resources costs are much lower than on the eastern coast and this has benefited the city in more recent times as such costs (and associated inflation) have led to increasing labour costs in established coastal cities. For example, in 2005, 19 of the world's top-500 companies, such as Mitsubishi, Coca-Cola, Boeing and Toshiba, had established branches in Xi'an. State and public ownership of businesses is still dominant, but foreign capital enterprises and private companies are also rapidly developing a presence. The Gini coefficient of Xi'an is 37—that is, the second-lowest after Shanghai, suggesting lower inequality in Xi'an than in Shenzhen or Hong Kong.