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WORLD MARITIME UNIVERSITY



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Topic:

**Research on Shanghai's leading role and development measures in
China's One Belt One Road development policy**

Declaration

I hereby declare that this thesis contains academic literature survey and original research work by me personally as part of my final paper for the International Transport and Logistics master's degree program in World Maritime University.

All the information included in this dissertation have been subject to the relevant academic rules and code of conduct, while all the referenced material used throughout have been properly cited.

VOLGKO-MARKOU KAROLOS

2016-08-19

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To begin with I would like to sincerely thank my thesis supervisor, Mrs. Sha Mei, who provided me with guidance throughout this process, while at the same time granted me a certain high amount of freedom in order to make all the major choices regarding the direction that this project has headed.

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Abstract

The aim of this thesis is to identify the role to be played by Shanghai within the One Belt One Road initiative and find a possible correlation between the measures taken by the Chinese Government in order to boost the development of the city and the ones that are needed in order for the realization of the OBOR. The measure concerning the development of the city will revolve around areas where Shanghai is expected to act as a source of competitive advantage for the Chinese government. Furthermore, after the developmental measures are examined, the final part of the dissertation will include additional potential measures and recommendations around them, in order for Shanghai to retain its leading role within the new Silk Road.

Key words: One Belt One Road, Shanghai, developmental measures

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1. Introduction

Being the second largest project of the last century in terms of capital requirements, after the reconstruction of Europe by the end of World War 2 and potentially the greatest source of global power re-distribution, the One Belt One Road initiative is probably the most controversial, ambitious and debatable event of modern history. The level of complexity and depth of revolving issues raise an unprecedented amount of questions and issues to be dealt with. This dissertation is going to narrow this general quest for solution into focusing on the role of China's rapidly developed city, Shanghai. Throughout this research we will try to identify the issues in which Shanghai is currently able to provide solutions and support within the OBOR initiative, provide clear and understandable links between the city's competitive advantages and OBOR needs and determine the level of dependence on them, while finally provide recommendations about possible development measures that could further enhance the project.

The interest in pursuing this topic primarily derives from its diverse effects on the global economy that might possibly lead to major restructurings concerning diplomatic relations between countries, the re-distribution of wealth on a global level and ultimately the emergence or fall of either new or existing super-powers. One Belt One Road is such an ambitious project that upon its creation will affect more than two thirds of the world's population and will decide the future not only of the Chinese economy and political strength, but also have a noticeable impact on every government, business entity and individual operating within the covered region. Furthermore, being such a current event, there is only a small amount of existing research on this topic, since conditions and potential opportunities and threats are being formed and discovered every day. Its complexity is immensely attractive and the factors that are able not lead in such a break-through initiative are both numerous and volatile.

The aim of this dissertation is to identify and fully appreciate the role of Shanghai within the efforts of Chinese government to establish itself as the most powerful

nation of the world by controlling the majority global trade. In order to understand Shanghai's role, we firstly need to comprehend the full spectrum of the project and identify its major challenges and areas where the city could act as a facilitator offering comparative advantages. Before that however, the reasons enhancing the OBOR's initiative importance have to be examined in terms of global structure.

Thus, this dissertation will include research on the Chinese Global strategy and its development, provide information about all the aspects of OBOR, including infrastructure, financial, political and macro-economic findings, as well as possible threats involved in each one of them and finally showcase the development of policies undertaken by Shanghai's administration that are most appropriate for the implementation of this initiative. Since there is little research already being made on the subject, the final part of the dissertation is going to provide suggestion on policy and development measures, while at the same time it will find the existing level of correlation between current strategies involving the Shanghai's regional development and their effect on the OBOR initiative.

Since the OBOR initiative is still taking shape and change continuously, there is no available methodology that would be efficient enough to showcase the importance of developmental measures undertaken. What is more, the goals of OBOR are not measurable in numbers and thus there is no model that can prove the correlation between measures and results. There are no hard numbers to measure the effectiveness of various developmental strategies and therefore, throughout this research a more theoretical approach is more suitable. Thus, we will try to identify which measures are more closely related to Shanghai's leading role within the OBOR act based on examples and expectations, rather than building a model in order to determine this correlation.

2. The Importance of One Belt One Road

The emergence of China as a global economic superpower has been undoubtedly one the most significant events of modern history. Despite operating under a crumbling communist ideology suffered by the fall of Soviet Union, the Asia financial crisis of 1997 diminishing the capacity of the majority of national economies within the region and the most recent world financial recession of 2008, China has continue to grow at an immaculate rate completing an almost forty-year run of immense growth against all odds (Yi Wen, 2015).

According to the latest reports being issued by the International Monetary Fund, China closed the fiscal year of 2015 with a total Gross Domestic Product of 10,983 billion US dollars, second only to the United States in the global rankings, while in terms of GDP based on Purchasing Power Parity it is placed on the first place within the list, with 19,392 billion of current international dollars (IMF, WEO, 2016). However, the most impressive founding of the report was not the absolute GDP value but rather its expected growth rate, with predictions for it at an almost constant level of around 6% annually for the next four years. In a case in which these projections become reality, China would total a GDP of almost 17,000 billion USD by the end of 2020, further decreasing the existing gap with the USA. What is more, there are some researches suggesting that in the following decades China will manage to become the highest grossing economy in the world by significant margins.

Having said all that, there is an increasingly prevailing concern within the Chinese industrial and political cycles involving the sustainability of China's economic growth. Even while the figures in terms of GDP and exports are positive at levels far greater than the rest of the world, their annual percentage change is negative and according to research they are expected to continue this decline, resulting to the most pessimistic views rounding up to the notion of an upcoming recession.

Thus, in an effort to facilitate the country's export of overproduction and surplus infrastructure capacity due to a shrinking domestic economic growth, in 2013, president Xi Jinping introduced a particularly ambitious plan to revive the ancient Silk Road under the initiative 'One Belt One Road'. The original Silk Road, or otherwise Silk Route, has its origins back to the Han dynasty and it was a sum of several trade routes acting as a cultural and economical link between various regions of China and the Mediterranean Sea (Baines, 1984). Based on a similar concept, the 21st century OBOR initiative, is aiming to serve as a strategic development project providing connectivity and cooperation between China and the rest of Eurasia through both the land and sea by the 'Silk Road Economic Belt' and 'Maritime Silk Road' respectively, while the total cost of the project is expected, according to financial experts at the State Council, to cost an estimated amount of 8 trillion USD if fully implemented (Willy Lam Wo, 2016). Being supported by two major financial institution, the Asian Infrastructure Investment Bank and the Silk Road Fund which have authorized capital injection of 100 and 40 billion USD respectively (Xinhua, 2016), when completed, OBOR will include 65 countries, more than 4 billion people and approximately 40% of the global GDP (Bert Hofman, 2015).

In order for the successful creation and proper implementation of such a network, the Chinese government issued a clear strategy emphasizing on the international cooperation between countries and institutions that are involved. According to the Ministry of Foreign Affairs and the Ministry of Commerce, policy coordination, connectivity of facilities, unrestricted trade, financial integration and interpersonal bonds are the main crucial priorities needed to be taken care of ("Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road").

In order to understand the OBOR initiative and issues that might arise within its creation, as well as the Shanghai's role to be played the first and perhaps the most important step is to try and identify the main purpose of this plan and the Chinese government's strategic goals that are being concealed under this

immaculate idea. OBOR is not to be seen as a purely trading tool being used by China to export its overcapacity and import technology and know-how, but also will serve a deeper cause that has to do with the placement of China as the premier global superpower. Many skeptics tend to argue that the Chinese development is a soon-to-be-burst bubble and not a considerable, consistent and steady force within the modern economy. Thus, China's government officials, are continuously trying to strengthen their grip to the country's economy which is faced with the probability of existing unemployment and empty luxury apartments as a couple of examples to showcase the situation. China's leadership is aiming to maintain its position to the global affairs not by diminishing its exposure to market forces rather than trying to create even larger development measures. The only way for a bubble not to burst, is to either manage its volume by a controllable and regulated environment that could slowly diminish the rate of development, or by further increase it with ambiguous projects able to occupy capital in the form of foreign investments, capacity and workforce both in terms of human and technology element. The Chinese government seems to have chosen the later, thus the inception of the OBOR idea. For example the increasing Chinese debt-to-GDP ratio is possible to be insignificant in a case in which the Chinese local currency, being the RMB, becomes the primary global reserve currency, an idea that China is pushing for a long time and seems to be succeeding since the IMF recently approved it as a main world currency and its internalization is imminent. In the same principle, unemployment, trading deficits and debt are to be handled through opening the country's horizon as planned under OBOR initiative. However are not only macro-economic issues that China will deal with under such a development but also will manage to increase its geopolitical power in the region, especially in the area of energy and military presence. Through OBOR, Chinese government is aiming to diminish the Russian influence in the mid-Asia region, while at the same time tries to exploit the gap left due to the American army's withdrawal of troops from Afghanistan. China has chosen the soft way to achieve its goals and rather than military operations tries to gain a grip within the region by signing multiple business agreements, in a way that do not break any international rules imposed by protocol.

3. The role of Shanghai

Shanghai's emergence into an International Finance Center and its strategic development has been a result of the continuous pressure being put onto the Chinese economy by the increasingly popular notion of globalization. In order for China to survive and continue to thrive under this newly introduced globalized environment and also to provide the OBOR initiative with a solid foundation facilitating its implementation, the Chinese government chose to use Shanghai as the flagship city to incorporate values of free trade, open market and efficient flow of resources and information, characteristics that are the cornerstone of the OBOR initiative. At the same time, Shanghai, especially through the Pudong Area, acted and continues to do so, as an experimental city in which economic and regulatory strategies are initially being tested, hence for example the creation of a Free Trade Zone. These strategies are imposed to Shanghai's economy not only in order to realize their effects but also in a way that can be controlled within the city's boundaries, since Chinese government is reluctant in opening the country's economy towards a globalized and capitalistic model. Thus, China has managed to adapt into a globalized environment without letting its characteristics spread to the rest of the country, where governmental intervention is significantly more noticeable, while the money flow created by international investments to the whole country has been achieved through the use of Shanghai's relaxed regulations in terms of global-local finance and capital imports.

For the last couple of decades, China has persistently been following a path of the Asian model concerning the developmental state. This model, which is also being referred to as hard state by various scholars researching matters of political economy throughout the world, concern issues being related to the phenomenon of state-led macroeconomic planning. In essence, based on fundamental capitalistic principles, the state has a strong grip on the economy while retaining its autonomous political power (Leftwich, 1995). This phenomenon initially appeared in the late twentieth century, where states, mostly within the East Asia region, such as Singapore, South Korea and Thailand, have been developed with immensely significant positive rates under strong state

intervention and extensive regulations being imposed by the state (Evans, 1995). Operating under the fundamentals of developmentalism, China has not only managed to boost growth but at the same time also protect its people, especially the lower classes, from being exploited by foreign corporate interests pouring money into the country. Thus, the Chinese government has been proven to have adequate power and organization in order to achieve its development related goals (Chang, 1999).

As far as Shanghai is concerned, in comparison with other International Finance Centers operating and managing their development through 'hard state' principles, such as Singapore and Hong Kong, policy making in Shanghai is controlled by the state to an even larger extent. This fact might be very well justified due to the complexity of defining the concept of state, since both local and central government agencies are in existence. For instance, the State Council in Shanghai is aiming in transforming the city into a shipping and finance hub within the decade, while the central government is pursuing to maximize the city's contribution to the national economic development in order to implement national goals for the entire country. Therefore, Shanghai's policies are being created in a way that is able to satisfy all these various goals, both in a central and a local level, thus their complexity (Woo, 2016). The challenge here is for the state to efficiently create a mix of policies that are able to implement local and national goals rather than contradicting them. Especially under the One Belt One Road initiative, national and local objectives should be coherent and perfectly aligned, especially if we consider the fact that Shanghai is to be act as the flagship city and promoter of the OBOR initiative. Taking into consideration the role of Shanghai within China's economic development and reform, while at the same time being a lab for experimentation, such as the imposition of a Free Trade Zone, stabilizing instruments and strong infrastructure around regulations are of extreme importance and subject to both local and central government agencies.

In essence, OBOR initiative is all about the free flow of products, raw materials, technology, finance and information between the Eastern China and the West

Europe, through two main routes connecting the two continents through both land and sea, the land-based Silk Road and the maritime one. The land-based route will begin from in central China, in Xi'an stretching all the way up to the borders with Kazakhstan and then heading southwest to Iran before passing through Iraq, Syria and Turkey. The new Silk Road then crosses the Bosphorus and heads through Europe, traversing Bulgaria, Romania, the Czech Republic, Germany and Rotterdam in the Netherlands, from which the path runs south to Venice where it converges with the planned maritime route. As far as the Maritime Silk Road is concerned, it begin in Quanzhou and after hitting several other Chinese ports, is heading to the Malacca Strait. From Kuala Lumpur the route is then heading Kolkata and after crossing the entire Indian Ocean it hits Nairobi. Finally, it goes around the Horn of Africa into the Mediterranean Sea, reaching the port of Piraeus in Greece and its final destination Venice (Brugier, 2014). By closely examining these two routes, the role of Shanghai to be played in the maritime section is immediately identifiable, thus particular focus should be given to it throughout this research. On the other hand, Shanghai, at first glance, is not involved in a major way to the land-based trade. However, even if the actual physical trade is not being conducted within the city's borders, Shanghai is expected to play a significant role acting as a prototype city which facilitates the promotion of finance and information exchange, being an International Finance Center and perhaps the most open economy of the entire China. Therefore, throughout this thesis there will be three main elements under consideration, being the role of Shanghai at the Maritime Silk Road, its role to Financial affairs and as a model city for the free flow of information.

3.1 Shanghai's financial role

The unrestricted financial flow and the free movement of international capital is one the cornerstones of the One Belt One Road initiative and perhaps an element that Shanghai is capable to obtain the strongest comparative advantage, between other Chinese cities, in its execution. Historically, Shanghai has been proven to act as a facilitator when it comes to attracting interest from foreign

investors and reeling in significant capital injections, while at the same time provides the opportunity to local investors to channel their money abroad. The city's financial center in Pudong started its development around the same time when the international financial institutions were looking for opportunities in the East, so subsequently the entire city was being influenced and perhaps being shaped by this relocation of foreign capital within its boundaries. It is of less significance whether or not the development of Shanghai has been strategically planned to absorb foreign investment or the investment themselves were the driving force behind the city's development. What is of paramount importance is to understand the competitive advantage Shanghai is currently holding and try to capitalize on it. Indeed, Shanghai is widely considered as the financial capital of China and as such, it is expected to play a crucial role within the One Belt One Road initiative, which is a purely economic in nature project.

One Belt One Road act will most likely transform the global financial markets through major reallocation of capital within various areas of the world, creating surpluses within this process. The outflow of capital from traditional finance centers combined with the inflow of it to developing economies is the key element leading to a significant change in global equilibrium. What is more, the penetration of capital to local economies can be also be attained through different than direct foreign investment channels, such as joint ventures, mergers and acquisitions (S. Sassen, 2001). Therefore, by creating an desirable platform for foreign investment, while at the same time provide a strong foundation for the existence of major firms' headquarters and sub-branches, Shanghai is expected to be the primary source of capital reallocation in the entire East region. Already Shanghai is home to some of the world's largest financial institutions, such as banks and hedge funds, while the more of them chooses to set foot there, the bigger the financial strength of the city becomes and the more its position as an International Finance Center and a flagship city for the OBOR initiative is being reinforced. Expeditious economic growth, extensive market in terms of size and the continuously increasing trend of consumerism in Shanghai are probably the most important reasons why the city appears to be attractive to foreign investors. Under the OBOR act Shanghai's economy will most likely continue to grow at a

steady positive rate, grow in size since the borders will become less and less significant and consumers will be exposed to more products and information around them, thus the appeal of the city will be stronger than ever, attracting larger investment from abroad. The greater the investments are, the stronger the development of the city will be and vice versa. Other factors affecting the foreign direct investments are labor cost, appropriately designed infrastructure, geographical factors, political stability and openness and finally the exchange rates scheme (Chen, Kwan, 1999). In order for Shanghai to play a major role to the flow of international capital and be able to attract investments, special attention is required to be paid in every one of these aspects and even if some of them are a given, such as the geographical position and to some extent the political stability, other ones have to continuously being evolved in order to accommodate for the One Belt One Road initiative. But perhaps the most important factor of all, leading to the circulation of finance, is the open door policy that China has been using for the last several decades and its pinnacle which is the creation of a Free Trade Zone in Pudong, Shanghai. By definition the OBOR initiative is all about opening the borders between countries and the unrestricted trade and flow of finance and information between them, thus there would be no city that is more appropriate to serve as the capital city of this newly imposed world than Shanghai.

3.2 Shanghai's role in information flow

The free flow of information and technology that is suggested under the One Belt One Road initiative, being something intangible, is particularly hard to be measured and so it is very difficult to identify the developmental measures being taken in an administrative level in order for its promotion. Therefore, the general development measures for the entire Shanghai should be analyzed in order to identify the general appeal of the city to the international community and how this appeal is going to act as the playground for the free exchange of information and ideas from East to West and backwards.

For many years, China has been considered by the rest of the world as the embodiment of a highly secretive and totalitarian country, where freedom of speech and information is closely being monitored by the government. However, during the last decade, the Chinese government has taken many steps towards becoming an inviting to transparency state, with the Open Government Information Act, introduced in 2007 and implemented on year later, being the highlight of this transformation. The Act has been a major source of transparency in matter revolving around the judicial system, the law-making procedures and even to the internal affairs of the leading Communist Party (Horsley, 2014). Despite the fact that the OGI Act does not immediately facilitate the information flow between countries of the One Belt One Road, it showcases the willingness of China to comply with international standards.

Shanghai acted as a pioneer and leading city to the movement for free information since it was the first Chinese state which adopted the Freedom of Information legislation three years earlier than the national Act, in 2004. Following Shanghai's example, nine other provinces introduced similar legislation to a local level and just after one year since its introduction there were more than 12,000 requests for freedom of information made by Chinese citizens to the governmental authorities of Shanghai (Snell, Xiao, 2007). There is an undeniable link between freedom of information and the development of economy in a local level therefore the implementation of FOI in Shanghai played a particularly significant role into the city's development. What is more, the enhancement of the public service quality, the improvement of social management functions by the government and its capacity to act in a legal manner, have all been the driving force for the imposition of Freedom of Information (Qiao, 2006). Nowadays, even if the information within the Chinese state is off higher availability and flows with less restrictions, Shanghai is still being considered as the freest municipality in the country and thus is able to act as the platform for information exchange within the One Belt One Road.

3.3 Shanghai's role within the Maritime Silk Road

Shanghai's geographical position, combined with the existence of the world's biggest container port in terms of throughput and the goals of the Chinese government to transform the city into an international shipping cluster, provide the appropriate platform for Shanghai to play a leading role to the One Belt One Road initiative and especially its maritime route, the Maritime Silk Road. There are two aspects of the Silk Road that are expected to provide a competitive advantage for Shanghai, being the actual physical trade of products and also the export of services such as arbitration and shipping finance. Thus, in order to analyze the leading role of Shanghai within the OBOR initiative both the port of the city and the services provided around the shipping industry have to be examined and developed in order to further facilitate the reinforcement of Shanghai's role as a flagship city within the initiative.

In order for Shanghai to be established as a global shipping cluster, the Chinese government went through an imposition of state-driven developmental measures concerning infrastructure and legal areas. For example the Chinese Port Law was initially introduced in 2003 and came into play one year later, in 2004, in order to resolve differences within the competitive port environment in an effort to decentralize the power of national governmental institutions within the management of various ports (Comptois, Dong, 2007). However there are arguments on whether these laws are actually helpful to the realization of OBOR initiative or if the Chinese government has lost its grip upon different port authorities, giving rise to questions about the role of centralization versus the notion of decentralization. Despite the legal framework around port authorities which still remains debatable, the Chinese government, in close cooperation with Shanghai's authorities, promoted throughout the last couple of decades a series of developmental measures in order to open the road for the city's dominance in global maritime affairs. Perhaps the most important of those is the development of Pudong New Area, opened in the beginning of the nineteen-nineties in order to promote the city as a shipping and finance hub. Pudong New Area is being

composed by several developmental areas such as the Lujiazui Financial District, the Yangshan Port and the Waigaoqiao Free Trade Zone. However, the creation of Free Trade Zones within the Pudong New Area is not the only developmental measures being taken by the Chinese government since other strategic actions have been made in order to promote the role of Shanghai as a leading force within the Maritime Silk Road and the OBOR initiative in general, such as the creation of Shanghai Shipping Exchange and the continuous effort to attract within the city's borders other activities related to shipping like arbitration, through Shanghai Arbitration Commission and shipping finance.

Waigaoqiao Free Trade Zone:

Waigaoqiao Free Trade Zone was the first free trade zone introduced in China and is currently employing more than a quarter million people, specializing in international trade and logistics. Regulations governing the zone were imposed in 1997 and they are dealing with issues of imports and exports and the taxation measures regarding to them, such as tariffs and customs clearance (Shanghai Municipal People's Government, Decree of the 32nd Session of the 10th Congress, 1996). In essence Waigaoqiao Free Trade Zone have imposed a framework of unrestricted free trade with low taxation and minimal barriers to operating, promoting the openness of the Chinese economy and attracting investors and institutions willing to do business in China.

Yangshan Free Trade Port:

Based on the notion of free trade, as its name indicates, Yangshan port operates under the Administration Law and concerns matter of international trade, logistics, procurement and other areas such as the loading and unloading of cargo and the taxation that it is subject to (Shanghai Municipal People's Government, Decree No. 63, 2006). Article 20 of the Administration Law which states that 'The products produced by the enterprises in the FTPA that are for sales within the FTPA or delivery to destinations out of border shall be exempted from the VAT and consumption taxes' can be considered as the synopsis of the entire

Yangshan Port objective which is to become a place where trade can be exercised as freely as possible, with minimum taxes and government intervention.

Shanghai Shipping Exchange:

The Shanghai Shipping Exchange was initially established in 1996 as a result of national and local government, being the Ministry of Communications and the Shanghai's Municipal People's Government respectively. Following the Baltic Exchange of London model, it is the provider of information regarding the maritime industry and the creator of indexes being published on a weekly basis. Given the strong presence of Shanghai's port at the containerized goods transportation, SSE created the first container index derivative, named Containerized Freight Index, which was launched in late 2009. Even if Shanghai Shipping Exchange is far from replacing the Baltic Exchange in matters of settling and trading of all basic shipping contract, either physical or in the form of derivatives, is still the most reliable and large in terms of volume being traded shipping exchange in the East. Shanghai Containerized Freight Index is an innovation held by Shanghai which showcases the city's commitment to take drastic measures in an effort to be developed as the world's premier maritime center.

3.3.1 The port of Shanghai

To begin with, the physical trade is perhaps the most important element that led to the inception of the OBOR initiative by president Xi Jinping. Trade, which can be translated to either a need for export of Chinese manufactured final products or by the willingness to import raw materials from abroad, provides at the same time the source of the biggest responsibility and opportunity for the city of Shanghai. The greater the physical trade of products is, the more Shanghai's port need to adapt to this newly increased throughput, while it also increases its importance and its dominance throughout the region due to the increased

dependence of global trade to it. OBOR initiative aims to increase the trade in terms of volume between the East and the West and since Shanghai is currently the biggest port, not only in the East but also the world, the city is most likely going to be affected by such an increase to the greatest extent. An increase in global trade will probably result to an increase in the throughput of the world's largest port if all other things remain equal. Thus, Shanghai, if managing to retain its leading position as the world's leading port, will be responsible for the greatest percentage of global trade than any other port city in the world, increasing by that its significance as a major player to the international affairs and most specifically its role within the OBOR initiative.

When it comes to physical trade of finalized consumer products, Shanghai is not only a significant player due to the existence of its port but also because of the buying power of its population. Being one of China's most populated areas, with the majority of its residents being economically affluent and having developed a strong sense of consumerism and internationalized habits and preferences, Shanghai is one of the premier market segments in which western enterprises are aiming to infiltrate. Shanghai residents are increasingly showing interest towards products being manufactured in the West such as the Germany made Mercedes automobiles and French crafted Luis Vuitton handbags. This means that Shanghai is not only an important player to global trade imposed by OBOR due to the fact that is providing a strong ground for the transfer of products between East and West but also has a market which is able and willing to absorb this trade within the city's boundaries and further increase the demand for it. In comparison to other Chinese cities, Shanghai holds the title of the most international one, meaning that it can easily act as the bellwether of global trade. Under the OBOR initiative, the flow of trade should be made both ways in exports and imports and even if many Chinese cities are producing products that are strongly demanded by western countries, Shanghai is one of the few cities in the East that there is strong demand for Western-manufactured products. The greater this demand is, the better the flow of trade between East and West will be in term of efficiency.

In 2010 Shanghai surpassed Hong Kong as the world's largest container ports in terms of throughput and since then has achieved to retain its number one position with 36.5 million TEUs in 2015 according to Shanghai International Port Group. The port includes three paramount working zones including the Yangshan deep water port, the Huangpu River and the Yangtze River and it is considered as the most crucial hub not only for local trade around these areas but also the pivotal portal for foreign trade (SIP Group Co Ltd., 2010). The size of its port led Shanghai to become the most crucial commercial centre in China. Thus, under the OBOR initiative, a project revolving around commerce, Shanghai is by definition expected to play a leading role. The geographical location is also an important attribute of the port, since its propinquity to the Yangtze River Delta is most likely going to play a decisive role to its development based on the volume of exports being initialized through this region. At the same time, the development of Yangshan deep water port have provided Shanghai with unlimited opportunities for transshipment, creating a strong foundation in order for the port to serve a more extensive geographical area. Since the geographical location is considered to be one of the most important factors concerning the emergence of a shipping hub, the proximity of Shanghai to the Yangtze River Delta which is one of the biggest contributors to national GDP as an economic zone including twenty-six ports along the river (Cullinane, 2005) and being comprised of sixteen cities along its shores positioning itself as the major west to east route for the traffic of containerized products (Comtois, Dong, 2007), Shanghai is perfectly positioned in order to capitalize on its location and play an integral part within the One Belt One Road. The emergence of an Open Economic Zone in Yangtze River Delta by the year of 1985 promoted values of free trade, relaxed governmental intervention and provision of benefits in order to attract foreign investments for the entire region (Panagariya, 1993) and could be argued that the foundation for the OBOR initiative have been laid years ago before its inception. Unrestricted trade with minimal governmental intervention is the cornerstone of One Belt One Road initiative and therefore Shanghai is coincidentally positioned in a geographical location permitting the city to fully capitalize on these principles and act as a beacon in order to further promote them.

3.3.2 Arbitration

The increased involvement of Shanghai in matters of shipping arbitration might not attract more actual physical trade being executed within the city's borders, but it most certainly enhances the influence of Shanghai in the global maritime affairs and strengthens its position as an international shipping cluster. Shanghai, being reinforced by the national Chinese government, is aiming not only to become the world's transshipment hub of containerized products but also position itself as a shipping centre and since these two things are not always correlated, the city's administration has to take steps into both these directions. Arbitration, along with ship finance, is one of the most crucial attributes for a city to provide into the industry in order to be considered a maritime hub, while actual trade might take a secondary role. A perfect example of that is the case of London city, which even in the absence of a strong port, has achieved to retain the position of the biggest shipping centre in the world since it accommodates within its borders the majority of services revolving around legal and financial matters.

China opened its gates to international arbitration gradually by initially endorsing the New York Convention in the year of 1987 and thus accepted the total independence of arbitration associations from any administrative authority (8th National People's Congress, Decree No 31, October 1994). After the establishment of China Maritime Arbitration Commission, under the initiative of the national government, as a body to oversee matters of arbitration, China was able to create rules in accordance with international arbitration standards. Shanghai, following the path being taken in a national level, established seven years later, in 1995, an autonomous organ being named Shanghai Arbitration Commission having the power to a wide range of issues including finance, trade and other general contracts (Arbitration Rules, 2005).

Despite the fact that arbitration in Asia was traditionally taken place in other cities of the region such as Singapore and Hong Kong, slowly but steadily Shanghai managed to absorb the majority of business within the sector. Hong Kong

International Arbitration Centre, the International Court of Arbitration of the International Chamber of Commerce and the Singapore International Arbitration Centre have all set up offices in Shanghai's Free trade Zone, improving the city's capability to deal with issues and disputes regarding international trade and maritime transportation (Zhou Wenting, 2016). The existence of a Free Trade Zone in Shanghai has led to a manifold panel of arbitrators from different countries and backgrounds as well as to an increase in their actual number. The open door policy Shanghai has chosen seems to be paying off in matters arbitration since the more diversified a body of arbitrators is, the more it is considered reliable due to its international character. Moreover, the entire legal system of Shanghai have been properly adjusted in order to facilitate the enforcement of arbitration by significantly shortening the list of reason leading them to delay or even reject the enforcement of a decision being made through the process of arbitration. Most importantly however, the new regulations introduced in Shanghai are considered by the majority of the shipping and trade circles, to be innovative and in total compliance with international standards, leading Shanghai to become the premier city for issues of arbitration, not only within the Asia region, but also globally.

3.3.3 Shipping Finance

The maritime industry is considered to be highly capital intensive due to the enormous amount of capital required in order to finance projects such as the construction of a new-built vessel. To further add into the notion of dependence in the financial sector, the shipping industry is consisted of numerous enterprises that are either unable or unwilling to finance their operations because of the long payback period. Limited capital combined with immense production operation input is the most significant problem currently in the industry, while the only solution to it is for shipping enterprises to seek external funding from financial institutions, such as private equity funds and banks (Jin Yan, Hao Yong, 2014).

While the Chinese government holds a strong grip to the mainland's financial

policies, which are considered to be limited and highly regulated, Shanghai enjoys the advantage being offered by the existence of Free Trade Zones and thus is perfectly positioned in order to capitalize on a relaxed and sort of encouraging policy environment. For example, while the rest of China is mainly under the influence of government-owned banks, Shanghai is home to some of the largest private institutions of the world, thus providing opportunities for shipping enterprises to be accommodated in their financial needs by a vast number of institution operating under a highly competitive environment, free of governmental intervention. Increased competition between financial institutions inevitably leads to more attractive, for the shipping companies, conditions, such as the terms in a possible loan. A shipping company in need of expanding its operations, by for example increasing its fleet through a series of new-built purchases, is able to get exposed into various offers of different financial institutions which are competing to gain the firm's business. Although there are some critics of this free-market environment arguing that the Chinese government is losing control of the ship financing process, the macro-economic advantages might be proven to be far greater than the disadvantages, since in general terms, investors and entrepreneurs are reluctant in doing business in industries and countries where the governmental control is dominant. What is more, China has not completely lost its grip to the free market environment, since the presence of national banks is still in existence and government authorities are still able to use these funds in order to finance crucial projects for the development of the Chinese fleet and the development of the city as a shipping hub. This combination of free market conditions with the existence of governmentally owned institutions create a perfect mix, in which international enterprises are still attracted to, while at the same time the Chinese government is able to promote its strategic goals.

The shipping industry, especially throughout the last decade, has provided immense opportunities for financial institutions in terms of innovation. This innovation being created as the outcome of the marriage between the shipping and finance sector can act as the ultimate comparative advantage for Shanghai in its newly established leading role to the global affairs. By providing the

opportunity for maritime organisations to raise capital, Shanghai will also attract other kind of businesses related to the sector, such as maritime insurance, a perfect supplement to traditional shipping finance. It is common understanding that 'money makes the world go round', thus the city which will be considered are the premier source of capital is immediately gaining its position as a force to be reckoned with in the financial map.

It is not only an absolute necessity for Shanghai to attract the shipping finance sector within its borders, if wanting to proclaimed as an international shipping cluster, but also there is an opportunity now more than ever to achieve so. After the financial crisis of 2008, being followed by rough years for the maritime industry, traditionally involved in the shipping institutions have withdrawn from doing business related to shipping. Nowadays, many institutions, especially banks, are treating maritime projects as off high risk and assets related to the industry, like vessels, are considered bad or even toxic assets. A perfect example to showcase this situation is the withdrawal of Royal Bank of Scotland from doing business with Greek ship-owners. Considering the shipping industry highly volatile in a sense that it is not matching the bank's after-crisis agenda and wishing to get rid of risky assets from its portfolio, RBS has closed its doors to the world's biggest shipping force. Greek ship-owners have been traditionally doing business with RBS and now their needs revolving around raising capital are not being accommodated properly, leaving them under-financed and in search for money elsewhere. This fact give rise to great opportunities for either new sources of capital or new markets for it to be created based on the traditional model. Shanghai, having created the appropriate infrastructure and encouraging policies prevailing, in combination with the willingness of the central state to promote the city by providing almost unlimited financial support, since the banking system in China is one the world's strongest, is currently in a position to attract customers from previously strong players in shipping finance, such as New York and London, within its borders. The more relaxed the regulations become, the more financial institutions will find Shanghai attractive to set foot in and thus the greater the influence of the city within the maritime industry and the Silk Maritime Road in specific will be.

4. Problems and Recommendations

The road to the realization of the ambitious goal of Shanghai to play a leading role within the New Silk Road, as expected, is not paved with gold, meaning that there are numerous challenges and potential problems along the way. Within the next section of the project, the main potentials threats are going to be examined while at the same time recommendations concerning the solution of these problems, or even recommendations about the general enhancement of Shanghai's role, will be provided. Since, the main comparative advantages that the city has to offer have already being narrowed down to the port effect, the role of the city as both a shipping and finance hub and the free flow of information, recommendations are going to concern these topics.

4.1 Port Development

The port of Shanghai is currently faced with two major threats being the excessive pursuit of scale and the increased competition between ports along the Yangtze River Delta. To begin with, an excessive increase in terms of traffic might easily lead to over-capacity issues. The port of Shanghai is designed to handle a certain amount of TEUs per annum, which is close to twenty-eight million. The port is still operating at a higher level than the one which was initially designed to handle. As long as the OBOR initiative is starting to be realized, the total throughput of the port will gradually increase, leading to the amount of containers being traded to rise dramatically. This issue can only be solved by either the continuous development of port's infrastructure and actual size, or by the strengthening of consolidation network between berths included in Shanghai's port. The pure development in size can be achieved only through major capital investments in order for the purchase of additional land and cargo handling equipment. On the other hand, Shanghai might be able to handle this future increase in throughput, by consolidating the operation of the three ports within its jurisdiction. The better the collaboration between them, the more efficient the allocation of resources will become and thus the port will continue to contribute to the city's development in a steady, rather than decreased, rate. An increase in feeder ports is also able to increase the cargo being handled without forcing the

main port to operate in a level higher than its maximum potential. Barge effectiveness is another important attribute which needs consideration, while transshipments might push the port of Shanghai to achieve its full potential, especially in the port of Yangshan, a major transshipment player in the region.

As far as the ferocious competition between neighbouring ports in the Yangtze River Delta area is concerned, due to the willingness of separate ports to attract more supply of products and more governmental funding, Shanghai is being faced with two options. The first one is to fully engage into a 'war' with competing ports, such as Ningbo, by improving its infrastructure in order to appear more attractive to investors, cargo owners and ship-owners, by accommodating a greater spread of trade. This solution would require major investments being made into the port's development, the majority of which would have to be paid by governmental institution either local, or national. However, a major allocation of resources, in the form of capital invested, might create inefficiencies within the Maritime Silk Road in general for the national government, since a significant sum of money would be used there, rather than a perhaps most important project for the OBOR initiative. In order for Shanghai to enjoy a leading role within the initiative of OBOR, it is important to have in mind the total success of the project and not just the city's benefit. Thus, cooperation between the ports along the Yangtze River Delta is now more relevant than ever. Effective circulation of goods being transported can be achieved through close cooperation between the various administrative bodies governing the ports in the region, therefore a newly imposed administrative system, in which all the port authorities are being involved and support, could be the primary source of efficiency. If Shanghai manages to create the platform for such a cooperation, not only it will manage to promote the strategic goals of the Maritime Silk Road, but it will also position itself as the number one player within the Yangtze region, since it will exercise control without the need for competition.

4.2 Financial Development

Since the shipping and finance sectors are closely related in a way that they promote each other, the recommendations about these two aspects are being included within the same category. In order for a shipping hub to be developed properly, the financial sector has a crucial role to play. Even if Shanghai is perfectly positioned in becoming a maritime centre, the financial sector in the city is lacking innovation compared to other important shipping hubs, such as London or New York. This primarily derives from the lack of innovation in the financial sector and the lack of institutions rather than traditional ones, such as banks. Equity and hedge funds, as well as insurance companies are relatively low in number compared to centres of the West and Shanghai has to take immediate measures in order to attract more of those. Relaxed and inviting regulation and policy making around the financial industry is perhaps the single most important element that the city has to adopt. Even if Shanghai is more open and innovative than the rest of China, its administrative authorities have to take one step further in order to comply with international standards, through continuous improvement of policies and law-making institutions. Supplementary services to the financial sector have to be significantly improved and increase in size and number, such as consulting, auditing, accounting and data processing.

There are numerous other financial reforms that have to be taken into consideration in order for Shanghai to be considered as a premier financial and shipping centre such as the liberalisation of interest rates, the shipping financial lease and the reform concerning the insurance of vessels. However these are all adjustments that have to be made under a national initiative and not in a local level within a city, such as Shanghai. Shanghai can only act as a testing ground, in case the Chinese government chooses to adopt these measures, like in the way Free Trade Zones have been used in the past to test certain reforms without spreading their effect to the entire country, but rather limit it within the city's borders. Shanghai provides the perfect ground for experimentation and if this experiment proves to be successful, the city will enjoy a significant competitive advantage while facilitating even more the One Belt One Road initiative.

4.3 Information Flow Enhancement

Shanghai, especially throughout the last decade, has been acting as a promoter of information freedom, while the entire country of China has taken significant steps towards creating a less governmentally controlled communication and information age. However, even if there were crucial changes being made and still the evolvement around this area is continuous, there is plenty of room for improvement. As already being mentioned, the degree of freedom of information and its speed is not something tangible and therefore is difficult to be numerated and accounted for. Thus, the only possible way for China and Shanghai in specific to promote the exchange of information is to appear as free as possible. Perhaps the most significant drawback that China experiences at the moment, in regards to information flow, is the existence of strong government intervention when it comes to the provision of news, either by the TV stations, or via the internet. When it comes to TV, the majority of the stations operating in China are being owned and controlled by the government, given by that the impression that the news reporting is being highly influenced and thus cannot be impartial. Internet on the other hand is being controlled in a less discreet way, when the governmental intervention is not only existent but also obvious. By blocking the access to major web sites, such as Google and YouTube, as well as to the ones of the biggest news agencies of the West, like CNN and Bloomberg, China has placed itself as one the very few states of the world which impose censorship to the web. A country wishing to be perceived as the premium source of information creation and trade, cannot be seen to withhold or denying information from its own citizens. Again, this is a national issue, in which the administration of Shanghai might have minimum or even zero control over it, but it could potentially use its innovative nature in order to create a different policy within its jurisdiction concerning the linearization of the web, enhancing by the its image as an international city and help the entire country be perceived as ready to adjust in order to play its role within the OBOR initiative.

5. Conclusion and Summary

The new Silk Road is all about the free trade of goods, final products and raw materials as well as the effective exchange of finance, information, technology and know-how between the East and the West. Shanghai, being the financial capital of China, one of the strongest and newest International Finance Center of Asia and perhaps the most significant shipping hub of the world, is expected to play a major role within this initiative. Throughout this research we figured out that the leading role of Shanghai within the One Belt One Road initiative is also relevant to the actual physical trade and also to act as a pioneering city which incorporates the majority of the OBOR initiative's values. The development of the city was perfectly coordinated with the inception of OBOR, thus many developmental measures being taken to promote Shanghai as an IFC and shipping hub are expected to provide a significant advantage in the process of the new Silk Road realization. There has been an immense growth and development to Shanghai's economic and political strength throughout the years, partially due to condition implemented by the free market and partly due to governmental intervention in order to promote the city and thus the entire country, since Shanghai is being acting as China's advertisement. To conclude, strong emphasis has to be given into the notion of continuous development. As the One Belt One Road initiative takes 'flesh and bones', Shanghai has to incessantly developed in order to adapt to these new condition and vice versa, the more the city is being developed, the greater its role within the initiative will be.

After closely examining the most important aspects of One Belt One Road initiative in which Shanghai is expected to take a leading role in them, we can easily observe that is a strong correlation between the developmental measures being imposed throughout the last decades and their effects on the success of the initiative. It is of less importance whether these developmental measures were part of a strategic plan to enhance Shanghai's role within the OBOR act, or they were just a very convenient coincidence. What is indeed important is to identify the developmental measures already being taken and examine their effect on the OBOR itself. As we already found out, developmental measures around the finance, the information freedom and the development of the maritime

sector in Shanghai are the major source for the city's competitive advantage in order for Shanghai to claim a leading role within this world-changing initiative. Furthermore, given its newly introduced leading role, Shanghai has to go one step further and undertake a series of future developmental measures in order to cope with its increased responsibilities. The comparative advantages that Shanghai has to offer were found valuable enough to give her the title of the premier city within the One Belt One Road initiative. However, as the OBOR act starts to be implemented, Shanghai has to continuously grow in terms of development and measures revolving around it, in order to retain its preferential position along the new Silk Road and in global affairs in general. To conclude, the 21st century seems bright, both for China and Shanghai in specific, since the OBOR initiative is expected to re-shape the global landscape in a way that significant players within it, such as Shanghai, will enjoy increased traffic in terms of trade and capital and thus an increased power and position to the global power game.

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