

# Research on the Mechanism and Development Trend of China's

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**Abstract.** Industrial transfer, as a significant economic phenomenon occurring during the process of globalization, has had a profound and far-reaching impact on China's economy since the beginning of the reform and opening-up. In recent years, the substantial relocation of industries from China has caused some concerns about economic downturn. This paper explores the influencing mechanisms of industrial transfer and the development trends of China's industrial transfer. Based on the two major factors affecting the industrial transfer process—real costs for enterprises and local administrative elements—the paper proposes suggestions for how the government and enterprises can maximize economic benefits through the cross-space flow of economic factors facilitated by industrial transfer. Ultimately, industrial transfer optimizes the regional development layout, accelerates the updating and iteration of industrial technology, and achieves high-quality economic development.

**Keywords:** industrial transfer; local economy; elements of local administration; sustainable economic development.

## 1. Introduction

Since the end of the Cold War, the global trend of economic and political dualism has become increasingly evident. The global industrial value chain is continuously adjusting dynamically to adapt to the ongoing changes in geopolitical and economic patterns, with industrial transfer being a prominent manifestation of this dynamic adjustment. Industrial transfer is an economic phenomenon that occurs between regions with different levels of economic development. It involves transferring the production of certain industries to developing regions through cross-regional investments, resulting in a spatial distribution shift of the industry from developed to developing areas[1]. As a carrier of inter-regional factor flow, industrial transfer not only effectively allocates resources between the transferring and receiving regions, expands employment opportunities and develops new spaces, but also promotes inter-regional industrial agglomeration and upgrades the industrial structure, injecting new impetus into economic growth[2]. Since the beginning of the reform and opening-up, China has been a significant participant in global industrial transfer, and the connection between industrial transfer and China's economy has been closely intertwined. During the early stages of reform and opening-up, foreign-invested enterprises made substantial contributions to China's economic development by providing capital and technology, leading to rapid economic growth in China's coastal regions. As China transitions from high-speed development to high-quality development after forty years of reform and opening-up, it must readjust its role and position in the process of industrial transformation[3].

China is facing a crisis of manufacturing industry outflow, which is mainly attributed to two factors. On one hand, China's demographic dividend is waning, and the cost of land in coastal areas has significantly increased. Profits of labor-intensive enterprises have been further compressed, while Southeast Asian countries continue to promote outward-oriented economic expansion, expanding foreign investment scale and enhancing competitiveness through advantages in labor and policies. On the other hand, after the subprime crisis, new trends in industrial transfer have emerged. As the proportion of global commodity trade in the overall economy continues to decline and the expansion of the global industrial value chain stagnates, the difficulty of latecomer economies participating in the global value chain has increased due to new technologies[4]; There is a trend of shortening in the manufacturing value chain[5]; Some labor-intensive industries are gradually backflow to developed

countries. The deterioration of Sino-US relations has further accelerated this process, with anti-globalization measures and reshoring policies implemented by the United States causing significant damage to Sino-US trade; the emergence of the COVID-19 pandemic has cast an additional shadow over international trade.

China is currently in the middle stage of its fourth major industrial transfer, characterized by the rapid transfer of a large number of low-end labor-intensive manufacturing industries to Southeast Asia[6]. Based on historical research on the experiences of the previous three international industrial transfers, it is not necessarily the case that industrial transfer will have adverse effects on the economy. For instance, after transferring low-end industries to the United States, the United Kingdom vigorously developed the financial sector, making it the world's financial center at that time. The United States, after transferring low-end manufacturing industries to Japan, focused on developing technology-intensive industries such as automobiles and electronics, achieving a monopolistic position in the high-tech sector[7]. This demonstrates that industrial transfer can also serve as an opportunity to promote economic structural transformation. However, unlike the aforementioned two countries, China's own industrialization process and industrial transformation have not yet been completed, and significant development disparities still exist among different regions domestically. Therefore, the need to continue absorbing excess capacity remains[8]. It is only by realizing that while seeking a transformation in the manufacturing structure in China's eastern coastal regions, there is also a pressing need for the central and western underdeveloped regions to absorb low-end manufacturing industries to achieve industrialization and urbanization that one can understand the dual significance of the industrial transfer process for China's economy. The purpose of investigating the influencing factors of industrial transfer and conducting quantitative analysis is to assess the potential of the central and western regions of China to absorb low-end manufacturing industries, provide practical recommendations based on the influencing mechanisms, and promote industrialization in the western regions. Existing research has summarized five exogenous variables that have a significant impact on industrial transfer based on economic data from 258 cities and provided a series of guidance for local governments through regression analysis of the relationship equation derived from the data[9]. Other articles have constructed an industrial migration network based on enterprise-city transfer data from 41 cities in the Yangtze River Delta region. By utilizing social network analysis and the QAP method, they have analyzed the influencing factors and heterogeneity of industries in the Yangtze River Delta industrial transfer network, exploring specific characteristics manifested in the industrial transfer process, such as the performance of different industries in industrial transfer[10]. Previous studies have provided comprehensive analyses of the potential reasons for industrial transfer or the characteristics exhibited during the industrial transfer process. However, the purpose of this paper is to explore the influencing mechanisms of China's industrial transfer while making certain predictions about the future blueprint of industrial transfer in China. Furthermore, based on the aforementioned points, the paper provides suggestions for how the central and western regions can better absorb low-end manufacturing industries.

## **2. The Current Situation of Industrial Transfer in China**

Industrial transfer, as an economic phenomenon closely related to the overall local economy, involves complex influencing mechanisms that can be broadly categorized into two aspects. On one hand, there are factors that significantly impact the operational development of enterprises. Enterprises, as the driving force and practitioners of industrial transfer, make strategic decisions based on their development needs and to adapt to changes in the external environment. These decisions largely determine the path, scope, scale, and mode of industrial transfer over a certain period of time[11]. For labor-intensive enterprises, labor cost is a crucial factor in the industrial transfer process. In this context, labor costs account for nearly 50% of total enterprise costs. Many of these labor-intensive industries have low entry barriers, making it difficult for enterprises to establish profit barriers, resulting in generally thin profit margins. Additionally, due to disparities in economic

development between different regions, labor recruitment costs may differ by several folds, significantly influencing enterprise operations. For most manufacturing companies, production site rent and utility costs are also significant parts of their production costs. Factory premises in coastal areas are often expensive, and land rent has become one of the important costs that enterprises face. With the continuous rise in property prices in coastal areas in recent years, rental pressure on enterprises has also increased. Furthermore, as the country has increasingly emphasized environmental protection and resource conservation in recent years, basic water and electricity costs for enterprises have risen, ultimately leading to increased operational pressure for enterprises. Market factors also play a crucial role in industrial transfer. Both foreign and domestic trade order demands determine the theoretical scale of local industries. If supporting industries in a region are underdeveloped, enterprises may struggle to obtain sufficient order demand locally. Alternatively, if enterprises primarily rely on foreign trade orders, transportation costs could significantly increase. The inherent uncertainty and lengthy delivery cycles in international trade make it necessary for enterprises to approach these orders cautiously, particularly for remote regions with inconvenient transportation, this is why must factor in these trade costs into their core considerations.

On the other hand, the influence of domestic and international policies on industrial transfer should not be underestimated. Government policies and guidance directly impact the decisions and behaviors of enterprises. Governments can encourage or restrict industrial transfer through taxation policies, providing tax incentives to transfer industries, such as reducing corporate income taxes or lowering tariffs, to encourage enterprises to relocate production bases to specific regions. They can also attract investment and promote industrial transfer by offering investment environments and policy support, such as lowering market entry barriers, streamlining approval processes, providing infrastructure construction, and financial support to attract enterprises to transfer industries to their regions. Certain government measures may reduce the willingness of enterprises to relocate, such as increasing minimum wage standards or implementing labor regulations to raise labor costs, thereby diminishing the incentive for enterprises to relocate to that area. Changes in local environmental regulations and standards objectively increase the costs for heavily polluting enterprises, promoting their transformation. Governments can also guide specific enterprises to relocate to a region through policy measures. For instance, they can use environmental subsidies, emissions trading, and other methods to encourage environmentally-friendly industries to transfer to the area.

Case Study: Wancheng Optical Technology Co., that company as a typical representative affected by the aforementioned factors of industrial transfer. This eyewear company began gradually relocating its operations from Xiamen to Yingtian in 2014, completing the transfer and rebranding as Yingtian Wancheng in 2016. The primary drivers behind this industrial transfer were the rising costs of labor and land. Starting from 2011, the real estate industry in Xiamen experienced rapid growth, with commodity housing prices surging by over fivefold from 2003 to 2012, from 2,595 yuan per square meter to 13,426 yuan per square meter. This led to continuous increases in local costs such as rent and meals, consequently raising employee wages. The sharp increase in property prices also elevated land prices, adding to the pressure on enterprise rent and significantly impacting profits. Wancheng primarily focuses on the production and sale of reading glasses, with main suppliers located in Wenzhou, Yuhuan, Danyang, and Yingtian. Its products are distributed to eyewear stores nationwide, making production and sales of reading glasses in Xiamen logistically inconvenient due to its dispersed supply chain and distribution network[12]. Furthermore, as Xiamen's industries increasingly gravitated toward real estate, financial services, and high-tech sectors, government policies and supporting facilities have also shifted toward these areas. The industrial environment has become unfavorable for the development of labor-intensive eyewear manufacturing enterprises. On the other hand, Yingtian, as the recipient of the transfer, established the Yingtian Eyewear Industrial Park in Yujing, continuously attracting investment and providing subsidies to enterprises to establish a complete eyewear industry chain. Wancheng's transfer to the Yingtian Eyewear Industrial Park was facilitated by the park's government, which offered incentives such as five years of rent-free factory space and a 40% refund of land taxes[13].

### **3. Key Issues in China's Industrial Transfer**

China's industrial transfer process faces numerous challenges and issues. As the driving force behind industrial transfer, the government needs to recognize its own shortcomings and accelerate the industrial transfer process to achieve China's national modernization goals. The following sections will analyze the challenges of industrial transfer from the perspectives of local administrative elements and practical issues.

#### **3.1 Local Administrative Elements:**

Firstly, the recognition and role of local governments in China need to be transformed. From a macro perspective of industrial transfer absorption, the functions of local governments in China during the process have not fully evolved, making it difficult for market mechanisms to operate effectively in these regions[14]. In many cases, the motives for attracting foreign industries in these areas are often driven by government performance incentives, resulting in disorganized subsequent efforts and frequent cases of "leadership transfer project shutdown" When local leadership changes, commitments made by previous administrations may no longer be honored. Such issues frequently occur in third- and fourth-tier cities, where governments promise tax incentives and welfare policies to attract businesses during the initial stages of industrial transfer.

#### **3.2 Local Realities**

A core issue in the central and western regions of China is the shortage of local labor force. Over the past decade, there has been a dual-direction trend in industrial transfer and population movement. On one hand, a significant number of low-end manufacturing and labor-intensive enterprises have relocated from developed coastal regions to the central and western areas. On the other hand, a large number of young and middle-aged populations in the central and western regions have migrated to developed coastal areas. Several factors contribute to this phenomenon. China has vigorously expanded higher education since the 1990s, leading to a rapid increase in the educated population and individuals with higher qualifications. However, China is still a developing country in the early stages of industrialization, and significant regional disparities exist. This has resulted in regions outside of the developed coastal areas struggling to provide sufficient suitable job opportunities for the highly educated population. Furthermore, these areas find it challenging to offer clear career advancement paths and ample personal development opportunities for young individuals. Consequently, there has been a substantial outflow of the young population from the central and western regions, leading to a severe shortage of local labor force. Another critical issue is the excessive absorption of high-pollution industries in these regions, exacerbating environmental pollution problems. During the process of industrial structural adjustment, coastal regions tend to phase out or transfer traditional industries lacking comparative advantages and causing severe environmental pollution. However, less developed regions, driven by the need for economic development, often find themselves compelled to absorb high-pollution industries from developed areas[14]. Moreover, inland regions receiving these industries have relatively weak environmental awareness. Under China's existing performance evaluation system, when economic growth and environmental protection clash, local governments tend to prioritize economic growth. As a result, in the process of absorbing industrial transfer, they often emphasize scale and growth rate rather than environmental protection, focusing on economic benefits while neglecting environmental benefits. The central and western underdeveloped regions in China are numerous, leading to a highly competitive environment among different areas. Consequently, some regions, in their pursuit of the authority to absorb industries and promote local economic development, are forced to accept high-pollution industries. This situation seriously endangers the local environment[15].

## **4. Recommendations for the Development of Industrial Transfer in China's New Era**

The major players in local industrial transfer are local governments, while relevant enterprises participate as key stakeholders. However, from a broader perspective, the spatial and geographical movement of an industry within the domestic economic cycle can be viewed as a more extensive form of industrial transfer. The central government, as the overarching authority in the national economy, plays a decisive role in this process. Therefore, this section provides development recommendations for the aforementioned three entities involved in industrial transfer.

### **4.1 Recommendations for Local Governments:**

**Active Participation in Industrial Transfer Planning:** Local governments should actively engage in industrial transfer planning by considering the suitable types of industries for their region. They should delineate industrial transfer zones, engage in long-term economic planning, and ensure sustainable local economic development. **Focus on Sustainable Economic Development:** Sustainable and efficient local economic development should be the guiding principle of local policies. Local governments should establish financing platforms, facilitate the circulation of private capital, and reduce enterprise financing costs. **Policy Incentives for Industrial Transfer:** Implement practical policy incentives for industrial transfer enterprises to alleviate operational pressures, attract foreign industries, and encourage their establishment within the region. **Public Infrastructure Investment:** Prioritize public infrastructure development to ease the pressure of urban living, enhance urban residents' well-being, attract talent influx, and promote positive population growth. **Address potential environmental pressures resulting from industrial transfer.** Strengthen environmental protection measures to ensure that environmental integrity is maintained throughout the transfer process.

### **4.2 Recommendations for the Central Government:**

**Diversified and Continuous Performance Evaluation:** The central government should adopt diverse and continuous performance evaluation criteria for local officials. This evaluation should not only consider economic growth indicators but also take into account factors such as local industrial structure, environmental pollution levels, and the sustainability of local industries to discourage short-term exploitation. **Effective Regulatory Oversight:** Implement effective regulatory oversight of local governments to ensure that market forces circulate freely across regions and that economic reforms are genuinely implemented at the local level. **Macro Guidance for Industrial Transfer:** Provide macro-level guidance for industrial transfer based on national strategies. Optimize regional development layouts to facilitate orderly and rational industrial transfer. Strengthen infrastructure and public services in central and western regions to enhance their investment attractiveness. **Support for Technological Upgrading:** Introduce favorable policies to promote industrial technological upgrading, accelerate the pace of industrial renewal and iteration, and ensure effective allocation of economic resources for healthy and sustainable economic development in China.

### **4.3 Recommendations from the Perspective of Industrial Transfer Enterprises:**

Enterprises considering industrial transfer should thoroughly assess and understand the target region. This assessment should include an estimation of major operating costs, potential for urban development, alignment between the industry and local resources, to ensure stable and long-term operations in the new location. After selecting a target region, enterprises should actively respond to local industrial transfer policies. They should apply for relevant incentives and support to reduce transfer costs. Enterprises should recognize that the new environment may bring new challenges and opportunities. They should explore local resources and market advantages, introduce advanced technologies and management practices to enhance their market competitiveness. Enterprises should view industrial transfer as an opportunity for structural optimization and iterative innovation. They should increase the proportion of investment in technology, accelerate technological upgrading, and

achieve cost reduction and efficiency improvement in their core businesses. Throughout the industrial transfer process, enterprises should prioritize the concept of sustainable development, ensuring coordinated economic, social, and environmental progress.

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