INTER-REGIONAL INDUSTRIAL TRANSFER IN CHINA

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Executive Summary

1. The coastal region had played a decisive role in China's industrial development during the reform and opening up in the early 1980s, leaving behind the inland region in economic development.

2. The assumption that the fast industrial development of the eastern region will have a spillover effect on the industrial activities in the inland region and promote its industrial growth on a significant scale did not come to fruition.

3. The development experience of China's coastal region shows that vibrant and prosperous manufacturing industries are the foundation for broad-based economic development. Inter-regional industrial transfer (IRIT) is thus crucial to enhancing the industrial and economic competitiveness of China's inland regions.

4. The Chinese government seeks to forge a local complementary network of regional industrial production for more balanced regional industrial development. This will eliminate the transfer of labor-intensive industries overseas and form an internal "flying geese model" to boost regional industrialization within China.

5. The labor-intensive industries in coastal China have shifted to the interior of China since the early 2000s, a process that has been further accelerated since 2008. Statistics show that the pace of IRIT to central China is faster than that to western China.

6. The remote and mountainous geography, the self-reinforced agglomeration effect of the eastern region, the backward infrastructure, the underdeveloped educational system and international competition are hindrances to the success of IRIT.

7. Local protectionism is another factor. The coastal provinces have no incentive to relocate their lucrative high value-added industrial sectors to the inland region as they need to boost local tax revenue and provide employment.

8. The Decision on the Third Plenum of the 18th Chinese Communist Party Central Committee issued in November 2013 stated that the Chinese central government will call for further marketization of the Chinese economy by relaxing state control of local industrial activities. This move might help speed up IRIT in the future.