

**CONSULTANCY STUDY ON
SOCIAL, ECONOMIC AND POLITICAL
DEVELOPMENTS
IN PAN-PEARL RIVER DELTA REGION**

**“Trends and Impacts of Industrial Transfer
in the Pan-PRD Region”**

**SECOND SPECIAL REPORT
(COVERING FUJIAN, JIANGXI, HUNAN AND HAINAN)**

OCTOBER 2007

EXECUTIVE SUMMARY

1. Industrial transfer in the Mainland has occurred under the macro-background of adjustment in industrial structure and transformation in the mode of economic growth for the whole country. After more than twenty years of rapid growth, the eastern coastal provinces are facing more and more problems such as shortage of energy supply, increasing pressures for natural resources and environment protection. These problems have rendered many of those processing enterprises that entered these areas at an earlier stage the dilemma of increasing cost and decreasing profit. There is an urging need for these areas to move out the traditional industries, to leave the space for high-tech industries and modern service industries.
2. The industrial transfer provides a historical opportunity for the economic rise of the Central Region. Meanwhile, the Central Region also has obvious advantages to receive transferred industries, for example, plenty resources, low-priced production factors, broad market, and geographic proximity to the Pearl River Delta region and Yangtze River Delta region. More and more provinces in the Central Region have regarded receiving transferred industries as one of their key strategies of economic take-off and industrialization.
3. To receive transferred industries from Taiwan is at the core of Fujian's plan of industrial structure adjustment. Fujian also emphasizes in the plan the development of three leading industries, namely, electronics and information industry, petrochemical industry and machinery manufacturing industry, and the objective of forging itself as a base of advanced manufacturing industries on the West Coast of the Taiwan Strait. Meanwhile, in order to reduce the disparity between the western mountainous regions and eastern coastal regions of Fujian, it encourages the transfer of traditional and processing industries from its coastal regions to its western regions, and on the other hand, actively attracts the labour-intensive industries of the Yangtze River Delta and Pearl River Delta to its western regions. In recent years, some of Fujian's industries such as garments, footwear and headgear manufacturing industries have begun moving out to the South Eastern Asian countries where the labour costs are even lower.
4. Fujian has launched a series of policies to encourage the transfer of foreign enterprises to Fujian. For example, Fujian has built an industrial park for Taiwan investment projects, simplified the investment approval processes, ensured adequate land supply, and formulated some preferential tax policies, etc. Under these policies and measures, the amount of foreign investment in Fujian has increased considerably. The three leading industries in Fujian, namely, electronics and information industry, petrochemical industry, and machinery manufacturing industry, have developed rapidly, and some

industrial clusters have grown into considerable scale. In the mean time, through internal industrial transfer, regional disparity within the province has been reduced to a certain extent, and an industrial distribution pattern with the coastal and the relatively developed regions focusing on capital and technology intensive industries and mountainous regions focusing on labour and resources intensive industries has been formed.

5. Jiangxi is the first province to proclaim receipt of transferred industries as its key strategy of economic development. The objective of its industrial development is to forge itself as “an important production base of advanced manufacturing industries, an important processing base of resource-intensive industries, an important growing base of high & new technological industries, and a model of sustainable industrial development” in the Central Region. Jiangxi is endowed with location advantages in receiving industrial transfers from the coastal regions. It lies between the coastal regions and the inland regions, and is the common hinterland of Yangtze River Delta, Pearl River Delta, and the south-eastern region of Fujian. After years of efforts, a large amount of labour and resource intensive industries, in particular processing industries from Yangtze River Delta and Pearl River Delta, have been transferred into Jiangxi. Nanchang and Ganzhou are the two most popular cities of transferred industries in Jiangxi.
6. Jiangxi has designated the industrial parks as the important bases for receiving the transferred industries. It aims to accelerate the development of industrial parks and encourage foreign enterprises and enterprises from other provinces to invest in Jiangxi through the implementation of a wide range of preferential policies and specific schemes of financial support. In order to allure the investment from the coastal regions of China, Jiangxi has implemented more active initiatives and organized specific promotion programs in these coastal regions. It has strengthened its cooperation with the local governments of Yangtze River Delta, Pearl River Delta and Fujian, in order to encourage the enterprises in these coastal regions to transfer to Jiangxi. Driven by industrial transfer, Jiangxi has been among the fastest growing provinces, and among the top provinces in developing export processing industries and attracting most foreign investment.
7. The developing strategy of Hunan province is to drive industrialization by IT industry, to promote agricultural industrialization and urbanization by industrialization. Hunan on one hand steps up the economic integration of Changsha, Zhuzhou and Xiangtan by receiving high-tech industries and modern service sectors, on the other hand assigns the Great South Hunan as the base for receiving transferred industries from the PRD area. The developmental strategy of Hunan strongly emphasizes the integration of Changsha, Zhuzhou and Xiangtan. The transfer of high-tech and modern service industries is

particularly encouraged. Moreover, the Great South Hunan has been designated as the base for receiving the transferred industries from the relatively developed areas within the Pan-PRD region and for strengthening the economic ties with Hong Kong and Guangdong.

8. With respect to the industrial transfer and upgrading, Hunan aims to attract strategic investors, which mainly includes the top 500 global multinationals, Hong Kong and Taiwan multinationals and the leading domestic state-owned and private enterprises, through its new strategy of industrialization. In recent years, Hunan has witnessed the rapid development of high-tech industries and the share of high-tech industries in the total output value of Hunan has also increased significantly and continuously. In addition, the rapid development of the culture industry of Hunan has attracted increasing attention.
9. Hainan is not among the hot areas for industrial transfer compared with other Pan-PRD provinces. But it still wants to grasp the opportunity of national and international industrial transfer to select and develop some suitable industries. During the period of 11th Five-Year Plan, Hainan will endeavour to restructure its economy from “Tertiary-industry Oriented” to “Secondary-industry Oriented”, by developing natural gas chemical industry, petrochemical industry, automobile industry, and IT industry.
10. In terms of receiving transferred industries, Hainan adopts the strategy of bringing in big enterprises and big projects, with emphasis on the transfer of petrochemicals industry from the developed countries and China’s coastal areas. Other foci of industrial transfer of Hainan are the micro-electronics industry and software industry. Hainan has proposed the goal of “Hainan as the second Silicon Island in China after Taiwan”. So far five industrial clusters have been formed, which includes petroleum and natural gas chemical industry, automotive industry, pulp and paper industry, pharmaceutical industry, and agricultural products processing industry. As for the spatial distribution of industries, the travel and leisure industry is mainly in the eastern coastal area of Hainan and high-efficient tropical agriculture is located in the high-land and hilly areas, while the modern manufacturing industry is mainly in the western and north-western coastal areas.
11. The Pan-PRD region is facing some serious problems in the process of industrial transfer. First, environmental pollution is being transferred together with industrial transfer to the middle & western areas. Secondly, regional cooperation and coordination are lacking in regional industrial transfer. Thirdly, some transferred enterprises face many operating difficulties such as the lack of supporting industries. And fourthly, the

risk of overcapacity is becoming more and more serious in most industries in the Mainland.

12. A considerable amount of Hong Kong investment in the Mainland specialize in labour intensive manufacturing and are facing the pressure of industrial upgrading and transfer. The relocation of these Hong Kong enterprises will exert profound impacts on the related service industries of Hong Kong. In particular, the logistics industry will be strongly affected in the near future. Furthermore, some other manufacturing-related services such as procurement and order-taking are also anticipated to be transferred to the Mainland.
13. The structural adjustment of industry and industrial transfer in the Pan-PRD region provide new development opportunities and broader economic hinterland for Hong Kong, especially for the professional services industry in which Hong Kong has comparative advantages. The professional services industry can expand their business to the central and western regions, following the relocation of Hong Kong-invested manufacturing enterprises. There are also many areas of cooperation between Hong Kong and the central and western regions in the development of high-tech industry and infrastructure construction. Hong Kong can also assist the Mainland to achieve the historical task of industrial restructuring and transfer by playing the role as the platform for the Mainland to attract foreign investment and the doorway for the Mainland enterprises to invest abroad.