How Far has the Migration of Industry to Inland China Proceeded?  
Verifying the “West High, East Low” Growth Pattern from Economic Census Data

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Summary

1. If we rank the world’s 182 countries and China’s 31 provinces, cities and autonomous regions in order of average real GDP growth rates between 2006 and 2011, all of China’s 31 provinces, cities and autonomous regions would be within the top 35 ranks. Furthermore, growth rates in central and western China are even higher than in major coastal hub cities, such as Beijing and Shanghai. Many provinces and cities in central and western China are similar in scale to countries in terms of their GDP. Because of its economic scale and growth potential, two regions are seen as the world’s most attractive frontier.

2. China can be divided into six regions: ① the southeast, ② the Bohai Rim, ③ the central, ④ the northwest, ⑤ the southwest, and ⑥ the northeast. The southeast has a GDP similar to that of Brazil, while the central and the Bohai Rim have greater GDPs than South Korea. The southwest is similar in scale to Indonesia, while the northwest and northeast both have GDP’s equivalent to the aggregate GDP of Thailand and Malaysia. While their development levels are low, the central and the southwest have high populations and have become extremely significant in future strategies for investment in China, both as the next workshops, and also as markets.

3. Investment provides a key clue to the meaning of the “West High, East Low” growth pattern. However, the level of growth sustainability in the west is not high. When we use economic census data to check the extent to which industries have migrated from the east to the west, we find that there has been little movement of labor-intensive industries, such as apparel, footwear and hat manufacturing, electronic equipment manufacturing industries, such as telecommunications equipment and computers, or capital intensive industries, such as the refining and rolling of “black metals” (steel, etc.).

4. The factor that is preventing the competitiveness of labor-intensive industries in the east from declining is China’s uniquely segmented urban labor market. The urban labor market is divided into the formal and informal markets. Wages are lower in the informal market, and participation rates for social security systems, such as pension and medical care schemes, are extremely low. There are also problems in the west, as the destination for industries migrating from the east. These include a heavier tax burden on businesses than in the east, and a lack of industrial clusters due to a less developed private sector.

5. Evidence of change in the industrial mix in the various regions of central and western China can be found in an intermittent upward trend in the contribution of mining and manufacturing industries to GDP. However, the sectors that account for most of the gap between the southeast and the Bohai Rim and other regions in terms of rates of increase in industrial sales are mining and power, gas and water utilities. Economic growth in central and western China is being driven by infrastructure construction and resource development. The per capita GDP gap between eastern China and central and western China is tending to shrink, but the “West High East Low” pattern is conspicuously evident in income distribution ratios. Given the lack of progress toward the reduction of income inequality, the path to the “harmonious society” will be a long one.

6. Without industrial migration, the economic base of central and western China has remained feeble. At the same time, the government has become alarmed at the growing social unrest engendered by urban ills, such as the formation of slums, resulting from the concentration of population in major coastal cities as a consequence of rapid urbanization. The discovery of ways to stimulate growth in groups of cities outside of the southeast and Bohai Rim areas will be extremely significant not only economically, but also politically and socially. The development and promotion of privately-owned businesses, the translation of economic growth into job creation, and the creation of an economic structure that will drive income growth will be key tasks for China’s next-generation leaders.
Introduction

Economic growth rates in central and western regions are conspicuously high. In recent years, real GDP growth rates in these regions have been substantially higher than in eastern (coastal) China, and they have attracted investment by many companies, including Japanese companies. With a population of approximately 830 million, the central and western regions account for 63% of China’s total population. There is also considerable room for further growth, since per capita GDP in central and western China is still around $3,000, compared with $6,000 in the east. Central and western China have huge growth potential and are likely to become the main focus of investment in China in the future.

While central and western China are enjoying high growth, coastal regions are experiencing a shortage of mingong, or rural migrant workers. In the east, the failure of workers to return to their factories after visiting their home regions for the Lunar New Year has become a common problem. Companies have been forced to increase their investment in measures to secure their work forces, including the arrangement of two-way bus transportation, and the provision of company accommodation and other extensive welfare benefits.

In China and other countries, the media have attributed these problems to the growth of employment opportunities in central and western China. Some economists see economic growth in these regions as evidence that the “flying geese pattern” of economic development is occurring within China. The flying geese pattern is triggered when an industry that has lost its comparative advantage moves from an advanced country to a developing country or region through direct investment, triggering economic development in the developing country.

Are central and western China following the east along the path of economic development? The purpose of this article is to answer this question by examining the realities of industrial migration. We will begin in Part I by ascertaining the growth potential of central and western China by comparing the economic scale and growth rates of these regions with those of other parts of the world and neighboring Asian countries. In Part II, we will analyze statistical data for each region, including growth rates, investment and exports. The aim of this analysis is to verify, using economic census data for the period from 2004 to 2008, whether central and western China are really following the east in a “flying geese pattern” of economic development, and whether industries are really shifting from the east to central and western China.

The conclusion that we will reach is that there has been little movement of industries to central and western China. In Part III, therefore, we will reexamine the question from the perspective of long-term changes in the export mix and consider why industries are not moving to central and western China. Finally, in Part IV we will ascertain what is causing these high growth rates in central and western China and suggest that China’s next-generation leaders will need to achieve concrete benefits through regional development strategies and urbanization plans, since high growth in central and western China is not contributing to the achievement of China’s goal of creating a “harmonious society.”

1. The Significance of Development in Central and Western China for Japan

In recent years, China’s economic growth has been driven not by the east, but by central and western China. Foreign companies have also started to see central and western China as a new frontier. In this section, we will look at the economic positioning of central and western China at the provincial, city and autonomous region levels, and on a regional basis.

(1) Positioning of Central and Western China —Conspicuous Scale and Growth Potential

At $5,415 in 2011, China’s per capita GDP is similar to Thailand’s figure of $5,242 and places China in the World Bank’s upper middle income
category. However, because China’s population is by far the biggest in the world at 1.35 billion, its GDP is the second highest in the world at $7,296.5 billion. Although China’s growth rate is slowing, its importance as the world’s workshop and the world’s market will continue to rise rather than decline.

In February 2012, the World Bank and the Development Research Center of the State Council jointly compiled a report entitled “China 2030.” This report predicts that if China continues to achieve growth averaging 6.6% per annum, by 2030 it will have overtaken the United States in terms of economic scale and will have greater influence on the world economy than the United Kingdom in 1870 and the United States in 1945 (World Bank and Development Research Center of the State Council [2012]). In terms of scale, at least, the center of gravity of the world economy seems certain to move across the Pacific and closer to China.

However, while we speak of China as a single entity, the level of development varies widely between coastal and inland regions. In Shanghai, which is the wealthiest part of China, per capita GDP reached 78,989 yuan ($12,222) in 2010, compared with just 10,309 yuan ($1,595) in Guizhou, which is the poorest area. If we place these two areas on the timescale of Britain’s economic development, there would be a gap of around 150 years, with the former at 1988 and the latter at 1830 (Chen, Goh, Sun and Xu [2011]). A comparison with other countries in 2010 places Shanghai alongside Hungary ($12,863), which is a member of the Organization for Economic Cooperation and Development (OECD) and Guizhou at the same level as Ghana ($1,325). It is as if advanced and developing countries existed side by side within China.

The offices of foreign companies, including those from Japan, and media organizations are still concentrated in Beijing and Shanghai, and also coastal (eastern) China, such as Guangdong Province. There is a frequent tendency for data to be distorted as if China consisted only of eastern China. However, if these differences in economic development within China were taken into account, China’s positioning as a workshop or market would undoubtedly vary according to the region. Increasingly, we need to view China not in terms of average values, but rather from the perspective of the varying development stages of individual regions.

These differences in development stages do not necessarily indicate that central and western China are less important. In fact, it would be no exaggeration to say that the ability of central and western China to catch up steadily with the east will determine whether or not China can achieve sustainable economic growth. Fig. 1 lists the top 35 countries and regions from among 182 countries and 31 Chinese provinces, cities and autonomous regions ranked in order of yearly average real GDP growth rates between 2006 and 2011. Surprisingly, the 31 Chinese provinces, cities and autonomous regions are all among the top 35. Furthermore, provinces, cities and autonomous regions in central and western China have higher growth rates than key coastal cities, such as Beijing and Shanghai.

In 10 years, an economy will double in size if its annual real GDP growth rate averages 7.2%. Its size will be tripled over the same period if the growth rate averages 11.6%, and quadrupled by growth averaging 14.9%. Although central and western China have lagged behind other regions in development, many provinces and cities now have GDPs as big as some countries. For example, the GDP of Sichuan and Yunnan Provinces is comparable to that of Malaysia and Vietnam. In terms of economic scale and growth potential, central and western China can be seen as one of the most attractive frontiers in the world.

Since 2010, the Foxconn Technology Group, a major Taiwanese-owned provider of electronic manufacturing services (EMS), has been relocating its production operations from Shenzhen to Henan, Kunshan, Chongqing and other locations under a plan calling for northward and westward movement in reaction to rising wage levels in eastern China. According to a 2012 white paper published by the American Chamber of Commerce in South China, there has been a dramatic reduction in the number of companies identifying
the Yangtze River Delta and Guangdong Province as likely investment targets over the next three years, causing the gap between these regions and the three northeastern provinces and Sichuan province to narrow (American Chamber of Commerce in South China [2012]).

Japanese companies with business operations in China are also showing heightened interest in central and western China. In its June 2012 White Paper on the Chinese economy and Japanese businesses, the Japanese Chamber of Commerce and Industry in China referred to the growing importance of central China for the textile and apparel industries and office equipment manufacturers (Japanese Chamber of Commerce and Industry in China [2012]). This has led to the emergence of a “Central China Triangle” concept under which economic growth in the region will be driven by a triangular region enclosed by Wuhan City (Hubei Province), Changsha City (Hunan Province) and Nanchang City (Jiangxi Province). The attractiveness of the Central China Triangle will depend on the extent to which these provinces and cities can look beyond their own particular interests and achieve real cooperation.

(2) Positioning of Six Regions in East Asian Economy

Eastern, central and western China are traditional regions based on geographical factors that do not necessarily reflect the development stages or regional development plans of provinces, cities and autonomous regions. For example, although Liaoning, Jilin and Heilongjiang are divided between eastern and central China, it is appropriate to view these three provinces together within the framework of the Northeastern Development Strategy, a regional development policy aimed at the revitalization of former industrial areas. Furthermore it seems incongruous to link Chongqing City, where development is relatively advanced, with less developed provinces, cities and autonomous regions, such as the Xinjiang Uighur Autonomous Region.

As shown in Fig. 2, we have divided the 31 provinces, cities and autonomous regions into six regions: ① the southeast, ② the Bohai Rim, ③ the central, ④ the northeast, ⑤ the southwest, and ⑥ the northwest. This classification reflects the regional divisions used in World Bank [2006], which reflect investment conditions as determined through a survey of 12,400 companies in 120 cit-
GDP is highest in the southeast ($6,703), followed by the Bohai Rim ($5,609), the northeast ($4,641), the northwest ($3,802), the central ($3,271) and the southwest ($2,690). The central has the highest population (360 million), followed by the southeast (300 million), the southwest (250 million), the Bohai Rim (200 million), the northwest (120 million) and the northeast (110 million).

At $2.0 trillion, the GDP of the southeast is comparable to that of Brazil ($2.1 trillion) and greater than that of Russia ($1.5 trillion). The next highest is the central ($1.2 trillion), the Bohai Rim ($1.1 trillion), the southwest ($0.7 trillion), the northeast ($0.5 trillion) and the northwest ($0.5 trillion). The central and the Bohai Rim both have...
bigger economies than South Korea ($1.0 trillion). The southwest has the same GDP as Indonesia ($0.7 trillion), while the aggregate for the northwest and northeast is equivalent to the total for Thailand ($0.3 trillion) and Malaysia ($0.2 trillion). While development levels are low in central and southwest China, their large populations mean that their positioning as workshops or markets will have an important influence on strategies for investment in China.

2. Is the Economic Growth of Central and Western China Sustainable?

There has been extensive debate within and outside of China about the sustainability of high economic growth in central and western China. In the following analysis, we will first re-examine the statistical evidence, including regional growth rates and investment statistics, and then consider the sustainability of economic growth in these regions.

(1) Investment-Led “West High, East Low” Pattern

The “West High, East Low” phenomenon, whereby real GDP growth rate is higher in central or western China than in eastern China, first emerged in 2007, though earlier dates of 2004 and 2005 respectively have been suggested for urban fixed asset investment and exports (Kwan [2009]).

Fig. 4, which traces trends in regional real GDP growth rates, clearly shows that the “West High, East Low” phenomenon first appeared in 2007. This pattern was maintained despite dramatic changes in China’s economic environment resulting from slower exports to the developed countries in the wake of the Lehman shock and monetary tightening in response to fears of a real estate bubble. Growth was especially rapid in the northwest, where the growth rate had already reached the same level as in the southeast and the Bohai Rim by 2000. The southwest had the highest growth rate in 2011 at 14.3%, followed by the northwest (13.4%), the central (12.8%), the northeast (12.5%), the Bohai Rim (11.3%) and the southeast (10.1%).

The reasons for this pattern can be verified using data for both investment and exports, which are regarded as the drivers of economic growth in China. Investment data are useful for explain-
This is why opinions are divided, even within China, on the value that should be placed on the “West High, East Low” phenomenon. Some accept the phenomenon as evidence that central and western China are narrowing the development gap with eastern China, while others see it simply as a copy of the traditional investment-based economic development model and question its sustainability (3).

(2) Is the “Flying Geese Pattern” of Economic Development Valid—Distribution of Labor-Intensive Industries

Growth rates alone are not enough to ascertain the sustainability of economic growth in central and western China. We also need to assess the real economic situation as manifested in the extent to which industries are shifting from the east to central and western China. The government’s efforts to achieve balanced development through the improvement of infrastructure are symbolized in the Great Western Development Strategy. In eastern China, meanwhile, there has been a shortage of unskilled migrant workers, known as mingonghuang, since 2004. Companies have been forced to increase wages, and they have also seen their export added value tax rebates reduced as part of

2009.

Notes: Amounts that could not be classified by region have been omitted. Nominal basis.
Source: Compiled by JRI using CEIC data and the China Statistical Yearbook (various years)
not only on exports, but also on production for domestic consumption. In the economic census data, the value of exports is shown as a subtotal of the value of sales, which means that it is possible to calculate total sales and the value of exports as a percentage of total sales for each province, city and autonomous region, and the contributions to the growth of sales between 2004 and 2008.

In Fig. 7, we have calculated these values for textile products, footwear and hats, which are the most labor-intensive industries. Contributions to the growth of sales are represented on the map. In 2008, these industries were ranked 15th in terms of their contribution to the value of the manufacturing sector’s production (2.3%) and 6th in terms of the contribution to job numbers (6.4%). These industries are also among the most likely to shift to central and western China because of their vulnerability to rises in labor costs, and also because of the reduction of the average rebate on the export added value tax from 17% to 13% in 2004.

However, Fig. 7 also shows first that although there has been a moderate decline in the percentages of sales in Shanghai, Jiangsu, Zhejiang and Guangdong, the percentages in Fujian and Shandong are rising, indicating that there has been no decline in the importance of the southeast as a production base, and second that while there has been a marginal rise in the percentages of sales in Henan, Hubei and Hunan in the central, there has been an even bigger increase in the percentage for Liaoning in the northeast. The export ratio for textiles, footwear and hats has meanwhile fallen from 55.0% of production to 36.0% in the space of just four years. This signifies an increase in production for domestic demand, but there has been little scattering of production sites as a result of this trend.

In 2004, the southeast accounted for 77.1% of the value of sales and 78.1% of exports. The next highest percentages were for the Bohai Rim at 14.8% and 19.8% respectively. By 2008, these shares had fallen to 70.8% and 77.8% respectively for the southeast, and to 14.5% and 12.2% respectively for the Bohai Rim. The central shares meanwhile rose from 5.0% and 4.7% respectively in 2004 to 8.0% and 4.7% respectively in 2008, and those of
the northeast from 2.1% and 2.8% respectively to 5.1% and 4.7% respectively over the same period. Because the years compared are only four years apart, it is difficult to assess the significance of these changes. Do these figures show that industry relocation has occurred, albeit on a limited scale, as a prelude to the “flying geese pattern” of economic development, or do they indicate that there has been no relocation of production sites even in the textiles, footwear and hat manufacturing industries, which do not require massive capital investment and can easily relocate?

We will revisit this question in the next section, which provides a long-term overview of changes in China’s trade structure. To ascertain whether or not the “flying geese” pattern is applicable, we will subject the telecommunications equipment and computer manufacturing industry and manufacturers of other electronic equipment to a similar analysis. These industries have achieved rapid growth as a result of foreign investment. In 2008 they accounted for 9.4% of the value of production (second highest) and 7.1% of job numbers (third highest). Although the percentage of domestically manufactured parts has increased in recent years, manufacturing in China is weighted heavily toward low-added-value assembly processes, which means that these industries are vulnerable to rising labor costs in the same way as the textiles, footwear and hat manufacturing industries.

Fig. 8 points to the same conclusions as Fig. 7. First, although the production and export shares of Guangdong Province and Shanghai have fallen, those of Jiangsu have risen, and there has been absolutely no reduction in the importance of the southeast as a center for the manufacture of telecommunications equipment, computers and other electronic equipment. Second, the value of sales

![Fig. 7 Sales and Export Ratios for Textile Products, Footwear and Hats](chart)

Notes: Calculated on a nominal basis
Unlike the textiles, footwear and hat manufacturing industries, the telecommunications equipment, computer and other electronic equipment manufacturing industries require a significant amount of capital investment, which means that a four-year period would be too short to ascertain whether industry migration was really occurring. We can at least conclude that the economic censuses do not reflect the relocation of production sites as called for in the aforementioned “northward and westward” plan of the Foxconn Technology Group. Even so, it is clear that there was no industry migration during the four years between 2004 and 2008.

Looking at the individual regions, we find the southeast shares of the value of sales and exports in 2004 were 78.2% and 86.0% in 2004 and 77.3% and 85.0% respectively in 2008, and that its ranking has remained unchanged. The shares of the Bohai Rim also have remained almost unchanged, at 15.9% and 11.0% respectively in 2004 and 15.5% and 12.3% respectively in 2008. In contrast with the textiles, footwear and hat manufacturing industries, the telecommunications equipment, computer and other electronic equipment manufacturing industries have not migrated to the central or the northeast. Their ratios of sales to exports have risen, and their production bases in the southeast and the Bohai Rim continue to expand.

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(3) Lack of Progress toward Restructuring of Iron and Steel Industry — Capital Intensive Industries

Industry migration as part of the “flying geese pattern” of economic development has been analyzed mainly as a process involving the movement of labor-intensive industries, which have lost their comparative advantage due to rising wages and other factors, to less developed countries through investment. However, in an environment in which there is free movement of production factors, not only labor-intensive industries but also capital-intensive industries are likely to come under pressure to relocate. China is the world’s biggest producer of iron and steel, but most of its blast furnaces are small or medium-capacity facilities, with the result that there is a chronic tendency toward falling production efficiency and overproduction. This situation has also been seen as a major burden on the environment.

In fact, one of the aims set forth in the 11th 5-Year Plan (2006-2010) was to accelerate the elimination of outmoded production methods, facilities and products, and to improve product quality. The Plan also called for the development of the iron and steel industry as part of a recycling-based economy, and for measures to encourage restructuring through the formation of cross-regional corporate groups in order to create internationally competitive companies. If this policy had been faithfully implemented, there would have been significant relocation of production facilities within the iron and steel industry.

As in the previous section, we can verify this by analyzing data from the economic censuses. Unlike labor-intensive industries, the refining and rolling of “black metals” (steel, etc.) is not con-

![Fig. 9 Sales and Export Ratios for Refining and Rolling of Black Metals](image-url)

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Notes: Calculated on a nominal basis
centrated in the southeast and the Bohai Rim. As shown in Fig. 9, Hebei and Jiangsu Provinces, which are the biggest production areas in China, have continued to increase their shares of both sales and exports, while those of Beijing and Shanghai have fallen. At first glance, this can be seen as evidence of progress toward industrial migration. However, the fact that the number of companies (business sites) in the black metal refining and processing industries rose from 7,141 in 2004 to 8,012 in 2008 suggests that there has been little progress toward the elimination of inefficient companies. If elimination is defined as a reduction in the number of companies accompanied by a dramatic rise in the value of sales per company, the process has been limited to a few provinces, such as Shanxi and Hebei (Fig. 10).

Individual provinces, cities and autonomous zones are in fact trying to increase the production capacity of their own black metal refining and rolling industries, and there is little regional concentration. In this sense, this sector can be seen to be strongly influenced by the local protectionist policies of what are known in China as “lordship economies.” Some predict that industry restructuring through mergers and acquisitions will become inevitable as slower economic growth erodes earnings of individual companies\(^{(4)}\). However, the government has invested in the iron and steel industry and identified it as a core industry targeted for competitiveness improvement. For this reasons, there tend to be strong incentives for regional governments to support companies through subsidies, tax reductions or other measures. It is not certain that a decline in earnings will drive industry restructuring.

3. Reasons for the Lack of Progress toward Industrial Migration to Central and Western China

As far as can be ascertained from the economic census data, the high growth rates achieved in central and western China cannot be explained in terms of the “flying geese pattern” of economic development. However, it may be premature to reach such a conclusion based on a period of just four years. In this section, we will re-examine this question from the viewpoint of long-term changes in the export mix. We will also consider why there has been so little migration of industries to central and western China.

(1) Limited Migration of Export and Production Bases

China’s export mix has changed conspicuously in step with its economic development. Fig. 11 traces changes in the export mix using single-digit codes from the Standard International Trade Classification (SITC) system. In China, exports are divided into “primary goods,” which are low-added-value items classified as SITC4 or below, and “industrial goods,” which are items classified as SITC5 or higher. The “flying geese pattern” of economic development can be observed in the fact that the percentage of industrial goods in China’s national export mix has risen in step with economic development.

Textile products make up around 40% of the items included in SITC8 (miscellaneous manufactured articles) in Fig. 11\(^{(5)}\). The reduction of
the “flying geese pattern” of economic development. As it lost its comparative advantage in leading countries, the textile industry relocated to less developed countries, where it helped to kick-start economic development. In value terms, however, China is still the world’s leading producer and exporter of apparel. Its share of world apparel exports increased from 18.2% in 2000 to 34.0% in 2009. Vietnam’s share has only risen from 0.9% to 2.7%. The fact that there has been almost no reduction in China’s RCA index provides further evidence that apparel manufacturing is still a core industry that continues to support manufacturing and exporting in China. Nor has there been any change in the mix of locations in which these export goods are produced, and the southeast continues to account for over 70%. In fact, the statistics show that the southeast’s share has actually increased (Fig. 13). The analysis of manufacturing industries in the areas of textile products, footwear and hats, and telecommunications equipment, computers and other electronic equipment in Part II led to the conclusion that there had been no relocation of production and export bases for labor-intensive industries between 2004 and 2008. In fact, the same conclusion applies to the 15-year period up to 2011.
However, there is little wage variation among provinces and cities in eastern China, all of which are among the most economically developed areas in China. It seems unlikely that the lateral spread of the processing trade has helped to maintain competitiveness. Another phenomenon that is difficult to explain in terms of the maintenance of competitiveness is the fact there seems to have been little dispersal of the processing trade within Guangdong Province, evidence of which includes the fact that the Pearl River Delta’s share has risen from 92.2% in 2000 to 95.2% in 2009.

One answer to this puzzle can be found in China’s uniquely divided urban labor market. The urban labor market is split into the formal market, which consists of “units” in the form of state-owned enterprises, stock-cooperative corporations, limited companies and foreign-owned companies, and the informal market, which is made up of small privately-owned companies and self-employed people. The urban labor market is split into the formal market, which consists of “units” in the form of state-owned enterprises, stock-cooperative corporations, limited companies and foreign-owned companies, and the informal market, which is made up of small privately-owned companies and self-employed people. This division is driven by the household register system. Rural migrant workers, known as nongmingong, have limited access to the formal market compared with people who have household registration. Wages are low in the informal market, and coverage by social security systems, such as pensions and medical care, is extremely low.

(2) How Can Labor-Intensive Industries in Eastern China Maintain their Competitiveness?

Despite rising wage levels in eastern China, there has been no relocation of production bases to western and central China. Why have labor-intensive industries in eastern China not lost their competitiveness even in this environment? The first reason is that production and export bases that were previously concentrated in Guangdong Province have been dispersed to Jiangsu and other coastal provinces. As is apparent from the graph in Fig. 14, which shows Guangdong, Jiangsu and Zhejiang Provinces’ shares of the processing trade, Guangdong and Jiangsu accounted for an extremely large share of activity in eastern China until 2009, while Zhejiang was positioned as a successor region. Because of limitations in the statistics, it is difficult to clarify the role of “other regions” in Fig. 14. However, according to a previous study (Zeng, Li, Tian [2011]), in which regional shares of China’s processing exports were calculated for the period from 1995 to 2007, eastern China’s share of processing trade exports was 95.9% in 1995 and remained high at 97.4% in 2007. We can therefore assume that “other regions” are mostly other provinces and cities in eastern China.
For example, in 2010 the average yearly wage of people working for “units” was 30,916 yuan nationally and 31,277 in Guangdong, compared with averages of 20,090 yuan and 21,644 respectively for those in privately-owned enterprises. In both cases, the figures for “units” are about 1.5 times higher. Just 7.6% of nongmingong are covered by pension schemes, and coverage rates for workers’ accident insurance, medical insurance unemployment insurance and childbirth insurance are only 21.8%, 12.2%, 3.9% and 2.3% respectively. (These figures are all national averages for 2009, based on an economic survey of nongmingong by the National Bureau of Statistics [2010].) This situation contrasts sharply with the coverage of people with household registration, which has reached almost 100%. The cost of providing social security for employers and employees is equivalent to about 40% of wages, and when this factor is taken into account, it becomes clear that wage costs in the informal labor market are very low.

At the national level, the ratio between formal and informal employees is around 1:1 (Miura [2012a]). However, there is considerable variation at the regional level. By 2010, the number of workers in the informal market had reached 108.23 million. Jiangsu Province had the highest total at 13.67 million (12.6% of the total), followed by Guangdong at 12.41 million (11.5%), Zhejiang at 7.66 million (7.1%) and Shandong at 6.5 million (6.0%). There is a positive correlation between the sales of the textile, footwear and hat manufacturing industries in each province, city and autonomous region, as shown in Fig. 7 (Part II), and the size of the informal labor market (Fig. 15). It is highly likely that the production locations of labor-intensive industries are determined not by the lowest nominal wage levels but by the lowness of real wages, as symbolized by the size of the informal labor market. In 2000, privately-owned enterprises accounted for just 0.7% of Guangdong Province’s exports. The fact that this had risen to 24.8% by 2009 is proof of a rapid increase in the informal labor market’s contribution to exports.

(3) Why are Industries not Migrating to Central and Western China?

To understand why industries are not migrating to central and western China, we need to look not only at factors in eastern China, but also issues that prevent central and western China from becoming targets for migration. One problem is the tax burden on businesses. Fig. 16 traces earnings and taxes per worker in the textile, footwear and hat manufacturing industries in each region in 2004 and 2008. Businesses need to site their production facilities in regions in which the tax burden is low and earnings are high (in the lower right of the graph).

In 2004, the regions that met these criteria were the southeast and the Bohai Rim. By 2008, the positions had changed dramatically, resulting in a rise in the relative status of the central and the northeast. However, the advantage that these regions should have gained has been eroded by the heavy tax burden, especially business taxes and
The industry began as a subsidiary activity for impoverished farming families, and its continuing growth is attributable to support from the township government and massive inflows of rural migrant workers from Guizhou (Miura [2012a]).

According to the findings of an empirical study of industry clustering in the township (Otsuka, Sonobe [2004]), business performance differed according to distance from a market established within the township. Although the variation in distance was only 1-10km, the researchers concluded that companies that were close to the market enjoyed a number of advantages over those that were further away. First, they had more opportunities to trade with other regions. Second, their added value per garment was higher. Third, their corporate size was bigger. Fourth, their labor productivity was higher. The study also indicated that the attributes of business managers were important. Business managers who were former factory workers contributed to industry development by improving production efficiency, and those with backgrounds in sales by pursuing higher added value.

One lesson that we can learn from this is that clustering is important for the textile, footwear and hat manufacturing industry, which is regarded as a typical labor-intensive industry. Another is that there will be no migration of industries to central and western China unless an environment can be created in which people who have acquired specialized skills and knowledge through migrant employment and other means can actively start up their own businesses. Data from the economic censuses show that the number of people employed in manufacturing industries increased by 20.64 million in the four years between 2004 and 2008. However, the southeast accounted for 59.1% of this increase and the Bohai Rim for 13.2%, while the aggregate share of the four other regions was just 27.7% (the central : 14.6%, the southwest : 6.4%, the northeast : 5.5%, the northwest : 1.2%).

Another factor is the problem of industry clusters. As is apparent from Fig. 7, there has been a rapid rise in the domestic sales ratio of the textiles, footwear and hat manufacturing industries. This has been accompanied by a gradual decline in the contribution from contract processing, whereby manufacturers took advantage of low labor costs to produce goods under contract from foreign companies, with materials, specifications and delivery dates stipulated by the customer. The percentage of goods produced for domestic markets has meanwhile tended to increase. Privately-owned enterprises have played a key role in this trend. For example, Zhili Township in Huzhou City, Zhejiang Province has become known for its cluster of children’s apparel manufacturers, but

Local taxes, such as city maintenance and construction taxes, compared with the southeast and the Bohai Rim. In China, the central government’s capacity to reduce regional gaps through fiscal transfers is limited, with the result that less developed regions try to secure revenues by taxing businesses. This fiscal system is one of the factors that is preventing industry migration to central and western China.

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4. Benefits of “Harmonious Society” Dependent on Economic Growth in Central and Western China

The achievement of economic growth in central and western China will have a crucial significance for the government’s goal of creating a “Harmonious Society.” We will conclude by using census data to ascertain the sources of high growth in central and western China, and by considering whether high growth in those regions would contribute to the creation of the “Harmonious Society.”

(1) Drivers of High Growth in Central and Western China

Why are central and western China achieving high growth despite the lack of industry migration to those regions? Fig. 17 traces changes in the percentage of GDP (nominal basis) contributed by supply factors in each region at each development stage, using the contribution from agriculture, forestry and fisheries as a standard. In southwestern, central and northwestern China, the contribution from agriculture, forestry and fisheries has fallen rapidly since around 2000, while the contribution from mining and manufacturing has risen intermittently. In central and northwestern China, the contribution from mining and manufacturing has already reached the same level as in the Bohai Rim and the southeast.

What has lifted the contribution from mining and manufacturing in central and western China? To find the answer to this question we will look at data from the economic censuses, which allow us to divide the statistics for mining and manufacturing into individual sectors using common indicators, such as industrial production and sales. Moreover, the data cover the period from 2004 to 2008, which was a time of transition in China’s industrial structure. We should therefore be able to identify the factors that drove the growth of mining and manufacturing in central and western China. Fig. 18 traces the contributions of mining, manufacturing and electricity, gas and water utilities to growth in the value of sales in each region between 2004 and 2008.

While the contribution from manufacturing is large, the sectors that best explain the gap between rates of increase in southeastern China and the Bohai Rim and other regions are mining and electricity, gas and water utilities. Economic growth in central and western China appears to have been driven by infrastructure construction, and by resource development in response to resource shortages. Looking just at manufacturing, we find that...
Lack of Linkage between Economic Growth Rates and Rates of Increase in Income

Because central and western China have achieved relatively high economic growth rates compared with the southeast and the Bohai Rim, the gap between eastern China and central and western China in terms of per capita GDP has started to narrow. However, GDP is the sum of added value, and per capita GDP is calculated by dividing that by the population. The fact that the per capita GDP gap between eastern China and central and western China is narrowing does not necessarily mean that the income gap is also being reduced. In fact, while the coefficient of variation in the per capita GDP of each province, city and autonomous region peaked out in 2001 and is now falling, the coefficient of variation in urban per capita income and rural net income continues to rise (Miura [2010]).

We will examine this problem in closer detail. As shown in Fig. 4, the GDP growth rates for southwest, northwest and the central are now higher than those for the southeast and the Bohai Rim. In 2007, Shanghai had the highest per capita
GDP at 62,041 yuan, which is 8.5 times higher than the figure for Guizhou Province, which was the lowest at 7,273 yuan. By 2010, Shanghai’s figure had risen to 76,074 yuan and Guizhou’s to 13,119 yuan, while the gap had narrowed to 5.8 times.

Has the income gap narrowed to the same extent? In 2007, Shanghai’s per capita disposal income of 20,668 yuan was 2.3 times higher than Guizhou’s 8,871 yuan. By 2010, Shanghai’s figure had increased to 28,838 yuan and Guizhou’s to 11,929 yuan, but the gap had widened to 2.4 times. A similar comparison of the gap in rural net incomes shows that in 2007 Shanghai’s figure of 10,145 yuan was 4.3 times higher than Guizhou’s 2,329 yuan, and that by 2010 the gap had narrowed to 4.1 times, with Shanghai’s figure at 13,978 yuan and Guizhou’s at 3,424 yuan. The gap between the Shanghai urban sector, which is the wealthiest area in China, and Guizhou’s rural sector, which is the poorest, has also narrowed, from 8.8 times in 2007 to 8.4 times in 2010. Some gaps have widened while others have narrowed, but it is clear that gaps in per capita incomes have not been reduced by as much as gaps in per capita GDP.

One reason for this inconsistency between per capita GDP and incomes relates to issues with the labor share. From a distribution perspective, GDP is divided into various factors, including employee incomes, asset incomes and operating surpluses. The labor share represents employee incomes as a percentage of GDP. Under the Hu Jintao-Wen Jiabao administration, China’s leaders stressed the need to improve the sustainability of economic growth by switching from an economic growth model led by investment and exports to one led by consumption. One of the factors that appears to have hindered this transition was a low labor share. The consensus view among economists is that the labor share has been falling since the early 1990s (Simarro [2011]).

The government publishes GDP and employee income statistics for provinces, cities and autonomous regions in the *China Statistical Yearbook*, and the labor share can be calculated from these figures. However, the results are not reliable due to a lack of time-series consistency in the GDP data from a distribution perspective. As a next-best approach, we will use per capita GDP and income to ascertain how the labor share varies in different provinces, cities and autonomous regions. In Fig. 20, values obtained by subtracting the average annual rate of increase in nominal GDP from the average annual rates of increase in urban per capita disposable incomes and rural net incomes in cities in each province, city and autonomous region have been plotted on a graph. The graph covers the period from 2007 to 2011, when the real GDP growth rates of central and western China were higher than those for the southeast and the Bohai Rim.

The data in Fig. 20 need to be viewed with care, since urban disposal incomes are overestimated because they do not include rural migrant workers, and rural net incomes because they include remittances from migrant workers. We also need to be aware that the sum of nominal GDPs for all provinces, cities and autonomous regions is substantially greater than the national figure published by the National Bureau of Statistics. Just as the rate of increase in real GDP as published by the National Bureau of Statistics does not match the rates of increase for individual provinces, cities and autonomous regions, so there are major discrepancies in nominal GDP, and the figures for provinces, cities and autonomous regions are significantly overstated. We cannot be certain of the extent to which each is overstated. If there is no regional variation in the overstating of nominal GDP, we need to assume that the rate of increase in the eastern cities that receive rural migrant workers and the rate of increase in rural net incomes in western and central China, from where the workers migrate, will both be lower. What is significant is the fact that even if the figures for provinces, cities and autonomous regions that have high labor shares are reduced, there will also be proportionate reductions in the figures for provinces, cities and autonomous regions with low labor shares, with the result that the “West High, East Low” pattern will remain intact as far as income distribution ratios are concerned. The fact that the reduction of per capita GDP gaps among
provinces, cities and autonomous regions has not reduced income gaps suggests that China is still far from achieving its “harmonious society” concept.

(3) Tangible Benefits Needed from Regional Development and Urbanization

Without industrial migration, the economic base of central and western China has remained feeble, and there is a risk that growth rates will fall because of resource price declines or other factors. China needs to take urgent action to modify its economic structure so that economic growth can generate employment and drive income growth. This will require a review of regional development strategies.

The Great Western Development Strategy, which was formally adopted at the National People’s Congress in March 2000, typifies China’s approach to regional development. The strategy is a collection of projects, the most important of which are the West-East Electricity Transfer Project, the South-North Water Transfer Project, West-East Gas Pipeline Project and the Qinghai-Tibet Railway Project. It was identified as a top priority policy in the area of regional development under both the 11th Five-Year Plan (2005-2010) and the 12th Five-Year Plan (2011-2015).

The government has continued to introduce other regional development plans, including the Strategy for the Revitalization of Northeast China in 2003 and the Rise of Central China Plan in 2005, as part of its efforts to reduce gaps between coastal and inland regions. The Strategy for the Revitalization of Northeast China appears to identify the three northeastern provinces of Heilongjiang, Jilin and Liaoning, together with the eastern part of the Inner Mongolia Autonomous Region, as a fourth economic area that will rank alongside the Pearl River Delta and the Yangtze Delta. The Rise of Central China Plan seeks to realize the latent potential of six provinces—Shanxi, Henan, Anhui, Hubei, Jiangxi and Hunan — by leveraging their positioning as the hinterland of the Pearl River Delta and the Yangtze Delta. All of these plans are identified as top priority policies in the 12th Five-Year Plan (2011-2015).

The West-East Electricity Transfer Project and the South-North Water Transfer Project are still in
progress, and it would be premature to question their benefits in relation to regional development strategies. However, the fact that economic growth in central and western China has not been accompanied by industrial migration, and the fact that population has become concentrated in eastern China, as discussed below, suggest that the results of regional development initiatives under the 11th Five-Year Plan have not been entirely in line with the government’s objectives.

Between 2000 and 2010, the 15-65 population increased by 128.62 million, or 14.1% (11). Fig. 21 analyzes the contributions of provinces, cities and autonomous regions to this 14.1% increase. This age group can be seen as the working population, and when we examine where these people moved to during the 10-year period, it becomes apparent that there was absolutely no progress toward the alleviation of the tendency for population to concentrate in the southeast and the Bohai Rim. Using the regional classifications in Fig. 2, we find that the southeast made the biggest contribution at 5.4 percentage points, followed by the Bohai Rim (2.7 percentage points), the northwest (2.1 percentage points), the central (2.0 percentage points), the northeast (0.9 percentage points) and the southwest (0.9 percentage points).

This situation led the government to add the “Two Horizontal and Three Vertical” urbanization strategy to the 12th Five-Year Plan, in addition to the Great Western Development Strategy, the Strategy for the Revitalization of Northeast China and the Rise of Central China Plan. The previous five-year plan called for the development of highly efficient and harmonious urban spaces along a vertical axis encompassing coastal China and stretching from Harbin to Guangzhou, and along horizontal axes from Lianyungang to Lanzhou and from Shanghai to Chongqing. In the 12th Five-Year Plan the concept was stated in more specific terms as a policy calling for the formation of 21 city groups along two horizontal axes (Shanghai- Chengdu, Lianyun-Urumchi) and three vertical axes (Dalian-Nanning, Harbin-Guangzhou, Huhehaote—Kunming). The aim is to alleviate regional gaps by exploiting each region’s comparative advantages to drive urbanization that is sustainable in terms of population, resources, the environment and industry (Fig. 22).

The incorporation of urbanization plans into regional development strategies was prompted by the government’s strong sense of alarm about rapid urbanization. China’s urbanization ratio (the urban population as a percentage of the total population) was low compared with other developing countries because of the development of township

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**Fig. 21 Contributions to Growth in 15-64 Population**

This rise in the urbanization ratio is primarily attributable to migration, which is expected to continue at an average of around 10 million people per year (World Bank [2012]), and to the fact that most of people who migrate to cities remain in the informal labor market (Miura [2012a]). By 2050, China’s urbanization ratio is expected to approach level in developed countries.

The migration of labor, which is a production factor, actually helps to improve the sustainability of economic growth, since individuals enhance their productivity by moving to cities to realize their potential. The process is therefore essential
to economic development and is a positive trend for the future. Problems are occurring because the concentration of population in a few coastal cities has exceeded the capacity of those cities. This is leading to slum formation and other urban ailments, while also heightening social instability.

Since the time of the 11th Five-Year Plan, the government has adopted policies designed to restrict population inflows into major coastal cities and facilitate migration into small and medium-sized cities in central and western China. As is apparent from Fig. 21, however, population continues to concentrate in the southeast and the Bohai Rim. Efforts to stimulate the growth of urban groups outside of these regions will be highly significant not only economically but also from the political and social perspectives. There will be a change of leadership at the 18th National Congress scheduled for this autumn. The “Two Horizontal and Three Vertical” concept and the achievement of balanced economic development are vital goals, and China’s new leaders cannot afford to allow initiatives in these areas to end in failure.

**Conclusions**

Will China be able to achieve the balanced economic development sought by the government in an environment of rapid urbanization? The current situation does not engender optimism. As is apparent from the analysis in this article, it is not possible to ascertain the real economic situation in central and western China from the data that can be obtained from the China Statistical Yearbook, such as real GDP growth rates, for provinces, cities and autonomous regions. To evaluate the sustainability of growth, we need to identify the sources of growth, and for that we need analyses based on more detailed data, such as data from the economic censuses.

China currently has five national central cities (Beijing, Tianjin, Shanghai, Guangzhou, Chongqing), but the government is considering a plan to increase this to around 8-10, with most of the new candidates, such as Shenyang City in Liaoning Province and Changsha City in Hunan Province, located in regions other than the southeast and the Bohai Rim. However, given that a regional development strategy centered on the development of hardware infrastructure, such as electric power and railroads, has been one of the factors driving investment-led economic growth in central and western China, it seems unlikely that the economic base in these regions could be strengthened simply by changing administrative units.

Of particular significance are trends in the private sector, including privately-owned and individual enterprises. Traditional regional development and urban planning strategies placed little emphasis on the software aspects, such as the promotion of private sector investment. A World Bank survey of the investment climate in major Chinese cities (World Bank [2006]) highlighted a number of significant trends. First, the burden of taxes and fees on sales was 3.1% in the top 10% of cities and 6.9% in the bottom 10%. Second, enterprises in the top 10% of cities spent 36 days per year on bureaucratic interactions, compared with 87 days in the bottom 10%. Third, customs clearance procedures took an average of 5.4 days in the top 10% of cities and 20.4 days in the bottom.
These data show that it is wrong to assume that development will occur automatically in central and western China simply because regional development plans and urban plans have been formulated. Central and western China have lagged far behind eastern China in the development of the private sector, and investment is carried out mainly by state-owned enterprises and joint stock limited companies (Miura [2012b]). Local governments in central and western China must work to cultivate and promote private enterprises by means of such measures as the expansion of investment opportunities through deregulation, as well as the simplification of procedures through administrative reform, and the expansion of financial services to supply funds to promising business ventures. Foreign direct investment is likely to be the catalyst for the development and promotion of private enterprises. In eastern China there was a virtuous circle in which investment led by foreign companies drove improvements in the investment environment and provided investment opportunities for private enterprises. If this same virtuous circle can be formed in central and western China, the sustainability of growth will be dramatically enhanced.

When we ask if central and western China can follow the “flying geese” pattern of economic development, we are really asking whether they can break out of the guojin mintui ("state sector advance, private sector retreat") pattern, whereby private enterprises are crowded out of markets by the growth of state-owned enterprises.
Zhejiang Province’s share of the processing trade is extremely low compared with its share of production and exports of textiles, footwear and hats, as indicated by the economic censuses (Fig. 14). The reason for this is not known, but there is a strong possibility that are errors in the statistics, which equate the processing trade with production of textiles, footwear and hats, and that the contribution of textiles, footwear and hat manufacturing to the processing trade in Zhejiang may be extremely high compared with Guangdong and Jiangsu.

Until 2007, the China Statistical Yearbook included GDP statistics for provinces, cities and autonomous regions from a distribution perspective. Simple addition of these figures indicates that the labor share has fallen significantly, from 49.4% in 1993 to 40.3% in 2007. However, there are no data for 2008, and the labor share based on the data published in 2009 is 46.5%. We have to doubt the credibility of these figures, since they indicate the labor share has risen by 6.2 percentage points in the space of just two years.

This abnormal situation, with the national figure exceeded by at least 20 of the 31 provinces, cities and autonomous regions, has continued since 1996.

Under the West-East Electricity Transfer Project, electric power will be generated in the west and supplied to the east. The aim of the South-North Water Transfer Project is to supply water from the Yangtze to northern China. Under the West-East Gas Pipeline Project, natural gas from western China will be supplied to the east. The Qinghai-Tibet Railway Project is an ambitious scheme to build a railway linking Xining in Qinghai Province with Lhasa in the Tibet Autonomous Region.

In both the 2000 and 2010 censuses, there are discrepancies between the national figures and the sums of figures provinces, cities and autonomous regions. Calculations of rates of increase and contributions were based on the figures for provinces, cities and autonomous regions.

According to an article in Japanese on the Xinhua Business Communication website (http://www.xinhua.jp/socioeconomy/economy/286211/), a government study group recommended that the number of national central cities be increased to 8-10. The story was also carried in the November 2, 2011 edition of Mainichi Keizai Nyusu.
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