New Frontiers in Regional Science: Asian Perspectives

Volume 5

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New Frontiers in Regional Science: Asian Perspectives

This series is a constellation of works by scholars in the field of regional science and in related disciplines specifically focusing on dynamism in Asia.

Asia is the most dynamic part of the world. Japan, Korea, Taiwan, and Singapore experienced rapid and miracle economic growth in the 1970s. Malaysia, Indonesia, and Thailand followed in the 1980s. China, India, and Vietnam are now rising countries in Asia and are even leading the world economy. Due to their rapid economic development and growth, Asian countries continue to face a variety of urgent issues including regional and institutional unbalanced growth, environmental problems, poverty amidst prosperity, an ageing society, the collapse of the bubble economy, and deflation, among others.

Asian countries are diversified as they have their own cultural, historical, and geographical as well as political conditions. Due to this fact, scholars specializing in regional science as an inter- and multi-discipline have taken leading roles in providing mitigating policy proposals based on robust interdisciplinary analysis of multifaceted regional issues and subjects in Asia. This series not only will present unique research results from Asia that are unfamiliar in other parts of the world because of language barriers, but also will publish advanced research results from those regions that have focused on regional and urban issues in Asia from different perspectives.

The series aims to expand the frontiers of regional science through diffusion of intrinsically developed and advanced modern regional science methodologies in Asia and other areas of the world. Readers will be inspired to realize that regional and urban issues in the world are so vast that their established methodologies still have space for development and refinement, and to understand the importance of the interdisciplinary and multidisciplinary approach that is inherent in regional science for analyzing and resolving urgent regional and urban issues in Asia.

Topics under consideration in this series include the theory of social cost and benefit analysis and criteria of public investments, socio-economic vulnerability against disasters, food security and policy, agro-food systems in China, industrial clustering in Asia, comprehensive management of water environment and resources in a river basin, the international trade bloc and food security, migration and labor market in Asia, land policy and local property tax, Information and Communication Technology planning, consumer “shop-around” movements, and regeneration of downtowns, among others.
Transition of the Yangtze River Delta

From Global Manufacturing Center to Global Innovation Center
China is facing multiple challenges including the long-term decline of growth rate and rising costs as well as internal and external double attacks. The changes triggered by these challenges will completely alter the driving force mechanism that boosts Chinese economy. Transformation and upgrading is the only right way, but we must find the right direction and path.

First, labor costs as the primary driver of the rapid growth of Chinese economy are being revalued. For example, the proportion of resident income in GDP has risen to 48% in 2010, compared to 41% in 2008. The proportion of household consumption in GDP has been rising gradually since 2007. Labor wages in China are continuously going up in recent years, especially the wages of blue-collar workers. The annual growth rate of wages in many coastal areas is between 20% and 30%. Apparently the growth rate of wages mentioned above has greatly surpassed that of GDP as well as that of labor productivity. Meanwhile, the reversal of labor supply and demand in China has led to the rise of wages even further. That, compared to America, the comparative advantage of Chinese manufacturing industry tends to convergence is the main reason promoting American manufacture localization, taking account of the great difference in productivity between China and America, transportation costs, hidden Iceberg Cost and the complexity of global supply chain. It is also the inner driving force that leads to the steady decline of the proportion of foreign trade surplus in GDP over recent years in China.

Second, low factor prices of China in past years are filling up now. Recently in China, various energy costs are soaring and land prices are increasing accompanied by high interest rate. Meanwhile, China has launched Income Doubling Program and is experiencing a decline in the number of population together with the rise of family dependency ratio, the improvement of social welfare, the equalization of social security and the achievement of the goal of Wild China. It is not difficult for us to find out that, on one hand, livelihood projects brought up in the 18th CPC National Congress show the shift of economical development gravity and the importance we have been given to the pursuit of people’s happiness; on the other hand, they indicate that Chinese economy with the inner and external motivation is facing the trend of powerful increase in factor costs. It would definitely result in a series of changes in labor,
population, income, consumption and the environment. Then these changes would promote the transformation of China’s economic development. Therefore, the rise of resident income, the improvement of people’s living standards, the increase in national consumption capacity and the enhancement of public environmental awareness are jointly the key driving forces to help make economic development depending more on domestic demand, especially consumer demand. They are also one of the basic approaches to make the fundamental goal of economic development return to the satisfaction of the growth demand of people’s interests.

Third, the transformation basically featured by the continuous rise of factor prices would have a great impact on Chinese economy spontaneously. It would make economy arise both demand and stress of changes. Meanwhile, the main side effect of this process is an inevitable trend of inflation. On one hand, the first situation mentioned above is the microeconomic environment we have been dreaming about. Namely, the anti-driving mechanism and driving force of economic transformation start to grow and the development progress is getting closer to the essential requirements of humanization. On the other hand, we should notice that there will definitely be potential stress of cost-push inflation if continuous rising factor costs could not be digested by the corresponding increase in innovation and productivity in this process.

Fourth, the continuous rise in factor costs shows that China has entered an innovation-driven and restructuring ‘fast lane’. However, economic growth rate will slow down. That is because of the following reasons: first, some low-value-added and export-oriented companies will definitely be squeezed out of the global market and some foreign direct investment enterprises with low technical levels will be forced to transfer to countries nearby in which factor costs are relatively low; second, although the situation of high costs will force companies to upgrade industries, those that can’t get used to the situation may go bankrupt. It is one of the costs when we exchange appropriate growth rate for structural adjustment. At the same time, there might be decreasing growth rate; third, consumers have more choices along with the improvement in resident incomes and consumption level. Therefore, the competition between companies for consumers is intensified greatly together with increasing investment risks and more cautious investment behaviors; fourth, China will directly face the competition of highly competitive corporations from developed countries in the transitional period to modern industrial system which includes service industry and strategic emerging industries as main parts. The technological difference between them and the market gap may have a great impact on the potential space of Chinese economic growth.

Fifth, our society may suffer from high unemployment rate in the probable economic stagnation with high inflation and low growth rate. The economy may fall into a stagnation spiral for a long time, which includes low growth rate, low employment rate and high inflation. It is apparent that only through suffering from this kind of pain within a short time can we achieve the transformation of economic development learning from the historical economic experience of developed countries. The only way to solve this kind of dilemma is to get to the innovation-driven modern economic development. This transformation involves three main aspects: one is to reduce the dependence on secondary industry especially heavy chemical industry
and to depend more on tertiary industry; two is alter the situation of overreliance on export and investment and then achieve coordination among consumption, investment and export; three is to transfer from the growth pattern depending on inputs to one depending mainly on technological progress and rising productivity. There may be great adjustment in capital and labor in this process. Because of factor adjustment especially the rigidity of labor, it is certain that there will be various kinds of structural unemployment. China may probably have all kinds of interest conflicts and social contradictions and may fall into development trap if we don’t transfer the dynamic mechanism enough and there is no solid social security foundation.

Therefore, how to avoid falling into the trap of development, to a certain extent, means how to face the challenges that the rising factor prices is the basic characteristic of economic change and switch the orientation of development policy timely, so as to seize the development opportunities provided by the economic change under a relatively balanced development strategy.

For policy makers, in response to the rising price pressure, first, the monetary authorities need to control the issuance of currency properly, which is far from enough under the condition of open economy, however. Considering the China price changes greatly influenced by the price fluctuations of import commodities, thus requiring management policies should be combined with supply-side improving policies, in order to expand effective supply and improve the supply structure. For example, the prices of world oil, imported food, imported of mineral resources etc, are all important variables significantly affect the overall price level in China, which cannot regulate independently by China’s monetary authorities and require us to explore new diversified supply sources from the perspective of supply side or look for new alternative solutions. Take another instance, in response to the pressure of ‘low growth and low employment’, the authorities must rectify the unhealthy orientation of pursuing rapid economic growth only for a long time, and truly transfer the development standpoint to centered on quality and efficiency. Lower growth rate isn’t terrible, what truly terrible is inefficient growth. What policy-makers should pursue is the synchronized growth of ‘Residents’ income, Enterprises’ profit, Government’s tax’. Therefore, the future macroeconomic management objectives should focus on employment and anti-inflation which are directly related to livelihood of the people instead of economic growth, and establish and perfect the various types of social security, healthcare and pension systems, driving the adjustment and upgrading of industrial structure.

For the enterprises, the rising factors prices put the greatest pressure on entity enterprises, but also bring new opportunities for innovative enterprises. First, the growth of income and the upgrading of consumption are significant strategic circumstances for enterprises to seize the changing business opportunities. Comprehensively research and catch the upgrading trends of residents’ consumption, and find the enormous business opportunities in a more differentiated market segments, which reflect the strategic management level and ability of enterprises; Second, the expansion of domestic demand which is based on income growth will certainly bring great development of services industry with the localization of production and consumption characteristics. Enterprises act as pioneer will seize
significant opportunities for the development in all kinds of life service industries such as pension, medical, health, household management, tourism and other industries and find new sources of growth for producer services such as information technology services, financial insurance and financial services, legal advisory services, human capital services and other fields. Third, the upgrading and differentiation of consumption will send enterprises a clear signal to guide enterprises along the direction of innovation-driven so as to eliminate the negative effects of rapid wage growth with higher labor productivity growth.

The book, as a collective research of Center for the Yangzi River Delta Socioeconomic Development of Nanjing University, is analyzing the economic transformation and upgrading of Yangtze River Delta region under above-mentioned backgrounds. As the most developed area in china in terms of economy, the Yangzi River Delta takes on the role of ‘make reforms as a forerunner’ in the course of exploring China’s modernization. Therefore, so many problems in the development of Chinese economy will arise and explore ways to solve the problems first in the Yangtze River Delta region. The chosen contents of the book reflect the exploration and practice of the Yangtze River Delta region to some extent. We hope our economic analysis can provide some assistance for those who care about economic development of China.

Nanjing, China

Zhibiao Liu
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