

RESEARCH ON MODELS AND MOTION MECHANISM OF INDUSTRIAL TRANSFER OF PROCESSING TRADE IN MID-CENTER CHINA: A CASE STUDY OF HUBEI PROVINCELING DAN¹, QIAO WEILI²

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Abstract Processing trade is taking on the new tendency in China, it accelerated transferring from Coastal area to Mid-west Area. This brings a historic opportunity for the development of China's inland area. Hubei province is an important part of Mid-China. This paper illustrates by the case of Hubei. Through a SWOT analysis on Hubei carrying on the industrial transfer of processing trade, the authors put forward the essential principles and models by which Hubei carries on industrial transference of processing trade, construct its motion mechanism, and point out that Mid-China ought to play fully the basic role of market's distributing resources, the government is to build the platform and market orderly competition guides the productive elements optional regrouping and rational flow so as to succeed in carrying on the industrial transfer of processing trade from Eastern Coastal Area.

Key words Processing trade; Industrial gradient transference; Model; Motion mechanism

1 Introduction

Since China's reform and opening up, processing trade as the significant pattern of developing export-oriented economy as well as participating international division of labor has been in rapid development. Currently with the deepening of the international industrial transfer and international division of labor and the constant driving ahead of China's industrialization, the tide of industrial transference of processing trade from the world and South-east Coastal Area of China to Mid-west area of China is rising. This brings a historic opportunity for the development of China's inland area. Hubei province is an important part of Mid-China. This paper illustrates by the case of Hubei. Through a SWOT analysis on Hubei carrying on the industrial transfer of processing trade, the authors explore the essential principles, models and motion mechanism based on which Mid-China carries on industrial transference of processing trade. It is of great significance for Mid-China to seize the chance, carry on the gradient transference of processing trade effectively and speed up the growth of regional economy.

In a broad sense processing trade is defined as the foreign enterprises (generally the enterprises of countries or regions with developed industries, or that of new-emerging countries) transfer by way of investment some productivity to host countries or take advantage of the existing productivity of host countries to process or assembly products, and then load out of host countries and sell abroad. Transnational manufacture, processing and sales is the notable feature of processing trade. From international trade perspective scholars generally deem that the development of processing trade deepens Theory of Comparative Advantage and Theory of Factor Endowment on the aspect of international division of labor. Meanwhile processing trade is a mode of intra-industry trade. Krugman's intra-industry trade theory offers basic theory for the inquiry into the cause and mechanism of processing trade. Chinese scholars under the guidance of international trade theories conduct a series of research. Long Guoqiang (2003) had a systematic study of China's processing trade policies, posing some policies and suggestions. Lian Han (2003) made an empirical study on import substitute of middling-product of China's processing trade. Liu Ying (2005) had a systematic analysis of the fundamental modes of China's processing trade as an intra-industry trade and its developing ways. Zhao Xiaochen (2006) analyzed the growing impetus and pointed out its promotion direction and space.

Industry transfer refers to that industries are transferred from some countries or regions to other countries or regions. It is a phenomenon of the industries' movement in space. The research on international industry transfer was traced back to 1930s "Flying-Geese Paradigm" raised by Japanese economist Kaname Akamatsu. Hereafter, Raymond Vernon's "Theory of Product Life Cycle", John Dunning's Oil, Kiyoshi Kojima's theory of Marginal Industry Dilation, W. Arthur Lewis's Labor Department Transfer theory, Raul Prebisch's Center-edge and so on. All of them have constantly deepened the theory of international industrial transfer. In China the inquiry into industrial transfer started at 1980s. Chinese regional economist Xia Yunong (1982), Feng Wenjun (1982), He Zhongxiu (1983), Zhou Qiye(1989) put forward the theory of industrial gradient transference on the basis of

Regional Life Cycle theory and Product Life Cycle theory. Chen Gang(2001) held that industrial transfer was the consequence of reselection of industry location resulted from the shift of inter-region industrial comparative-advantage. Chen Jianjun (2002) deemed that industry transfer stemmed from market expansion, adjustment of industrial structure, pursuit of maximization of marginal returns and need of enterprises' growth. In addition, Chinese scholars Xu Yi and Dai Hongwei as well as the Topic-based Group of International Statistic Information Center, National Bureau of Statistics (2002, 2003, 2004) had an empirical analysis and a study of countermeasures in the light of industrial transfer and its accepting.

To sum up, at present it is an important problem worthy of research how Mid-China carries on effectively international and coastal industry transfer of processing trade in face of overseas and domestic new environment.

2 SWOT Analysis on Hubei Carrying on Industrial Transfer of Processing Trade

2.1 Opportunity and strength

Today international capital transfer together with processing-trade transfer from East-China towards China's inland area is the epitome of global 4th industry transfer. And it keeps gear with the shift of growth model of Chinese economy from export-oriented to internal demand drag. This is the great opportunity for the development of processing trade of Hubei, one province of Mid-China and that of regional economy. The strength of Hubei carrying on the industrial transfer of processing trade as follows:

First, Hubei was equipped with the superiority of industrial foundation and productive-factor resources. Hubei, as one of the ancient industrial bases in China has formed a complete product system with the pillar of cars, steel, machinery and power-generating equipment, taxation, chemical engineering and building materials. In addition, Hubei has developed education, rich scientific and technological strength, abundant human resources, comparatively low cost of productive factors. There are 120 common colleges and universities available in Hubei and more than 1300 of every sort of scientific research and development institutes. The capital city of Wuhan is the 3rd largest education center and the 2nd biggest intellect-intensive area nationwide.

Second, the development of Hubei's processing trade has gained beneficial support from the Central government. In Apr.2006 the State Council issued *Certain Opinions on Promoting Rising of Mid-China*, so as to definite the policies and measures that put the strategy of Mid-China rising into effect. On July 23rd, 2007 Ministry of Commerce tied up with General Administration of Customs to issue a bulletin, making a new adjustment to processing trade policy. This policy readjustment inclined Mid-west Area. As a result, Mid-west Area owns for the first time more advantageous processing-trade policy than Eastern area. A series of preferential policies formulated by Central government create a fine policy environment.

Third is location advantage. The capital city of Hubei---Wuhan is the unique imperial heart city, also China's economic geography hub. It operates as the largest transportation link combining railway, highway, waterway with aviation. Hubei Province boasts the geographic advantage endowed by nature on the respect of road, railway, water transport and civil aviation. At the same time, Wuhan city has set up a bonded logistics center, of which the actual sense is a small-sized free trade zone. Its establishment is of great significance in shortening the distance between Hubei and Coastal area, breaking through the barriers that hinder the development of Hubei processing trade, and enhancing the business competency of regional economy.

2.2 Weakness and threat

First, short of the big project that can act as the tap and weak industrial matching capacity that is necessary. Hubei Provincial processing trade is at the stage of "just import & export, pure process", short of the tap enterprises that are able to drive other firms and the cooperation ones. The extension upstream to components industry and downstream to logistics is inadequate, as a result of which it is difficult to push forward the development of relevant industries through processing trade.

Second, competition with underdeveloped regions in Coastal areas. Compared with Mid-China the inland transportation of coastal areas is more convenient and their economy is more flourishing, both of which are more attractive to foreign investment. Additionally, there is gap among the economic levels of inner provinces and cities in Eastern area. Therefore, every province and city in coastal areas creates nice environment as far as possible to attract investment, encourages foreign investment to shift towards comparatively more backward regions inside their provinces, and tries to prohibit overseas investment from transferring to other provinces.

Third, competitive pressure from the nearby countries. Mid-west area speeds up the pace of opening up and develops processing trade. Meanwhile other countries are also implementing various favorable policies to attract foreign investment one after another. Their investment environment is

improving continuously. Their labor cost is low, yet quality is enhancing, and the comparative advantage is increasingly appearing.

Fourth, high cost of administrative service and low efficiency of policy environment. Since the reform of government organizations of Mid-west China and their function transform are lagging, the government departments' sense of opening up, service and market is insufficient and their efficiency in handling affairs is low.

The strength, weakness, opportunity and threat in Hubei carrying on the industry transfer of processing trade are summed up as Table 1.

Table 1 SWOT Analysis on Hubei Carrying on the Industrial Transfer of Processing Trade

<p>S : Industrial Foundation; Factor Resources; Location & Transportation; Policy that Central Government Supports Mid-China Rise and Develop Processing Trade</p>	<p>W : Short of Big Project that can Act as the Tap and Weak Industrial Matching Capacity that is Necessary; High Cost of Administrative Service; Low Efficiency of Policy Environment</p>
<p>O : Globally the 4th Industrial Transfer; Shift of Growth Model of Chinese Economy from Export-oriented to Internal Demand Drag; To Improve the Scale and Scientific Content of Processing Trade;</p>	<p>T : Lash of International Financial Crisis; Competition with Underdeveloped Regions in Coastal Areas; Competitive Pressure from the Nearby Countries;</p>

3 Principles, Models and Motion Mechanism for Hubei Carrying on the Industrial Transfer of Processing Trade

3.1 The principles to be followed by Hubei reasonable models in carrying on the industrial transfer of processing trade are as follows

1) To comply with the law of market economy; 2) To play the role of Hubei comparative advantage; 3) To speed up Hubei development and to narrow the gap between Hubei Province and South-east Coastal area; 4) To carry out the strategy of continual development

3.2 Models

1) Linkup model of manufacture expansion of famous-brand products. That is, the enterprises of Mid-west China carry on the expansion of production base of finished products of Eastern enterprises that possess famous-brand products and sales network, or they are purchased by the same type of processing firms of Eastern area to make up a new enterprise group. This kind of linkup pattern is suitable for processing industry of labor-intensive consumer goods. This model is beneficial for Hubei enterprises to spend the hard period of start undertaking, to develop overseas and domestic market rapidly, and to increase market share. It is even helpful for Hubei corporations to absorb management experience and sophisticated technology from Eastern enterprises as fast as possible so as to enhance their own quality.

2) Model of carrying on the manufacture base of components or primary products. This pattern is fitter for capital & technology-intensive processing or manufacturing industries, such as production of automobile, computer and machinery equipment, etc. This model can play the role of technology and management advantage of Eastern enterprises, and make use of Hubei existing firms' manufacture basis so as to obtain the effect of mutual benefit, tie-up cooperation and development in common. In addition, it is as well a good medicine to solve the contradiction of identical industrial structure and reconstruction of Mid-China and Eastern China.

3) Tie-up development of preponderant resources. That is to say, Mid-west Area allies with Eastern area by use of the rich funds and advanced technology of Eastern area to develop the local superior resources. This linkup model fits for capital-intensive industries, such as metallurgy and chemical industry, etc. Based on this pattern Hubei enterprises acquire support on the aspect of capital and technology from Eastern China, so that they can enlarge production scale, improve product grade and bring the scale benefit into play.

3.3 Motion Mechanism

To achieve success in carrying on the industrial transfer of processing trade, such a motion mechanism is to be built: On the basis of ensuring market conduct is fully valid, the government builds the platform for carrying on industry transfer, taking enterprise as subject, production factor as carrier, relying on the route of "breaking through emphasis, driving ahead by step" so as to push on the task of carrying on the industry transfer of processing trade, as shown in Figure 1.

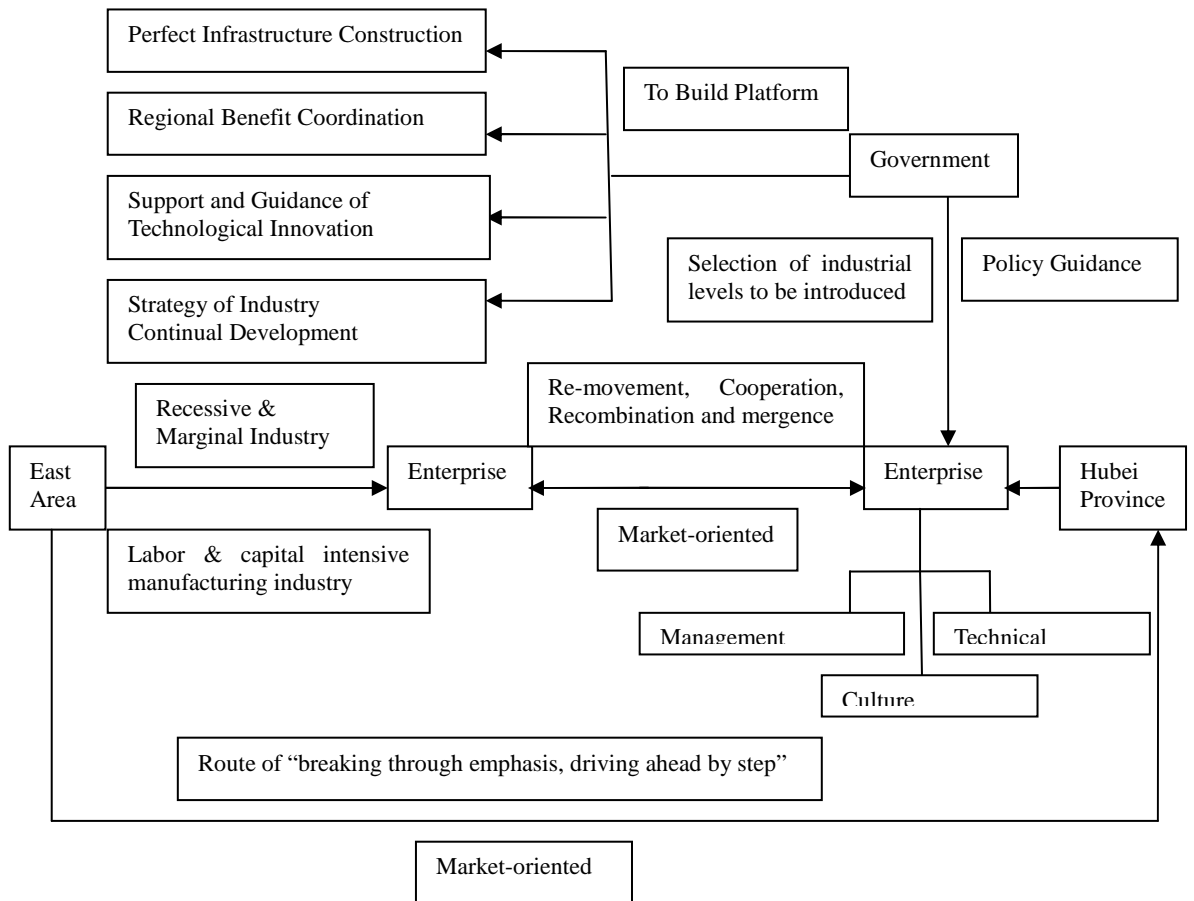


Figure 1 Motion Mechanism

4. Conclusion

The linkup of processing trade industry between Mid-China and Eastern Coastal area is in terms of mutual benefit and mutual promotion. In carrying on the industrial transfer of processing trade from Eastern area, Mid-China under the prerequisite of giving consideration to both present and long-term benefit of the two parties ought to play fully the basic role of market's distributing resources, the government builds the platform and market orderly competition guides the productive elements optional regrouping and rational flow so as to succeed in carrying on the industrial transfer of processing trade from Eastern Coastal Area.

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