Policy Analysis on Industry Transfer and Labor Force Transfer

LIU Lei
Wuhan University, Wuhan, China, 430072
liulei@sz.gov.cn

Abstract: In order to solve the problem of unbalanced industrial development, promote industrial structure optimization and guide the orderly transfer of industries, Guangdong Province issued Decision on Promoting Industry Transfer and Labor Force Transfer and a series of other supporting policies. This article aims to analyze the framework, practical significance and effect of industrial transfer and labor force transfer policy as well as the major problems to be solved in the process of policy execution from the perspective of Marxist Theory on resource allocation.

Keywords: Resource Allocation, Industry Transfer, Labor Force

1. Introduction

Marx’s theory on resource allocation offered scientific insight on resource allocation approach during the low-level stage of communism, i.e. allocation jointly decided by plan and market. During the practices of socialist market economy, government and market have been the key focus of research and attention: it is a major mechanism to follow the regular economic rules and bring market adjustment into play for allocating resources and boosting production development, but it contradicts with government interference inevitably; in the meantime, it is inevitable and necessary to bring in government guidance to promote sound industrial development in an effort to complement market failure and solve the problem of unbalanced development, especially when market economy is still not sound during the primary stage of socialism. Guangdong Province has achieved certain accomplishment and accumulated certain problems during the rapid development of many years; hence comes the policy on industrial transfer and labor force transfer. This article aims to analyze its policy framework, evaluate its effectiveness and provide some advice.

2. Marx's Theory on Resource Allocation and Its Realization

Marx pointed out, “according to the shallowest understanding, allocation is in the form of product allocation and therefore it seems to be far away from production as if independent from production. However, it is (1) allocation of production tools, (2) allocation of social members among different productions”\(^1\) Marx believed that resource allocation or the allocation of production factors among different production sectors, is in terms of its nature a kind of economic behavior that is included in the production process itself and determines production structure and \(^2\)it is crucial to the overall socio-economic operation and development. Resource allocation composes of two factors, i.e. behavior subject and object. Behavior subject refers to human, or country (or society, or government) or economic organization, the subject that exerts influences on the allocation of objects and complete the allocation behavior. Object refers to various resources to be allocated, including labor force, capital, land etc...

Resource allocation optimization mainly includes two aspects: first, align production and demand through continuous adjustment of resource allocation by society so as to improve the inherent imbalance of social production caused by the changes of external demand and resource factors themselves; second, give the maximum play to all the resources to achieve best economic effect, in other words, make the best of labor force and means of production.

Marx believed, in consideration of the development of humans themselves and the nature of products,

---

\(^1\) "Marx and Engels Collected Works" Vol. 46 (1st half), People's Publishing House, 1979, at P. 33-34.
human society may fall into three stages of natural economy, commodity economy and product economy. Accordingly, resource allocation by society falls logically into three modes, i.e. allocation by needs and habits (natural economy), by market (commodity economy) and by plan (product economy). Resource allocation by needs and habits during the natural economy stage is a kind of economic behavior in the early phase of human society, which will not go to unnecessary details in this article.

Allocation by market is the major mode of resource allocation during commodity economy or market economy, whose rationality and effectiveness rely on two prerequisites, “(1) greater mobility of capital, in other words, capital can easily move from one sector or place to another; (2) labor force can rapidly move from one sector to another and from one production site to another.” Based on these two prerequisites, market realizes effective resource allocation through market mechanism (with law of value as the foundation together with all the other relevant market adjusting means). With the joint effect from a series of market mechanism including the formation and realization mechanism of value as well as market competition mechanism, resource allocation of market economy has several modes as follows: first, value-based mechanism moves resources to dominant enterprises, i.e. those enterprises with higher standard production conditions, labor force quality and management expertise and achieves the optimal resource allocation and the best economic benefits of society; second, price competition continuously moves resources from producing commodities of low price or declining price to producing those of higher price and rising price for greater economic benefits; third, currency supply and credit business of banks affect funding hence adjusting the resource allocation of the entire society; fourthly, capital flows from low profit sector to high profit sector.

Allocation by plan during the development stage of communism is an ideal mode of resource allocation. During this stage, commodities and currency will become non-existent, and all the means of production will be “applied to production in the form of direct socialization”; people will “regard individual labor force as a social labor force”; time of labor becomes the only measure for social wealth, and society allocates various resources to different social production sectors according to this standard. Therefore, allocation by plan will become a special mode of realizing resource allocation during the advanced stage of communism.

3. The Guidance of Marx’s Theory on Resource Allocation to the Practice of China's Socialist Market Economy Construction

Through the observation on the evolution of communist society from low-level stage to high-level stage, Marx developed another assumption for resource allocation during the low-level stage of communism (e.g. the primary stage of socialism in China). He believed commodity economy cannot be avoided whether socialism finally prevails in developed capitalist countries or in the underdeveloped countries, which decided that socialist society must resort to the law of market or value to realize resource allocation. Therefrom he found another new mode of resource allocation, which is allocation jointly decided by plan and market.

Multiple ownership co-exist in China’s socialist market economy, which means it is not feasible to adopt in an all-round way the allocation by plan approach which is catered for product economy (this is also proved by the practices of China’s economic development from the early establishment of the country to before the adoption of reform and opening up policy. ) “Application to production in the form of direct socialization”, at the same time, since the market is not mature with dual economic structure and unbalanced economic growth, it is impossible to use allocation by market approach only. Therefore, in the process of resource allocation, influences come both from law of value and guidance of government plan, in other words, realize effective resource allocation through a dual mechanism of plan and market. The methodology is “to put plan and statistics on the basis of law of value”(Sun Yefang, 1950s): on the one hand, use value as calculation tool and measurement unit to establish macro-economic control system; on the other hand, formulate rational guiding policy on industry, technology, government finance, currency, employment and price to guide industry development in a
scientific way, facilitate industrial restructuring and consolidate sustainable competitiveness of economic development. During the practices, it is important to manage well the relationship between plan and market and make clear about the fundamental role of market in resource allocation, while government exerts targeted influence through policy guidance to support advantaged industries, change disadvantaged industries, enhance industrial structure so that the “visible hand” of government and the “invisible hand” of market can be integrated.

4. The Status-Quo of Guangdong Socio-Economic Development

4.1 Achievements of Guangdong Socio-Economic Development
Since the past 30 years of reform and opening up, Guangdong has emerged as the No. 1 economically powerful province in the country from the remote underdeveloped agricultural province in the old days. First, its comprehensive economic capacity has been greatly improved, with GDP at 3908.2 billion Yuan in 2008, nearly 1/8 of the national total, local regular budget revenue at 364.92 billion Yuan; second, industrial restructuring and upgrading has been accelerated with rapidly developing high-tech industry, continuously improving self innovation capability, accelerated development of heave industry, chemical industry and equipment manufacturing, ever more advanced industry as well as the moderate shift of focus towards heavy industry at 4.9: 48.4: 49.1 in the triple industry mix in 2009; third, even more open to the outside world, total export volume at 611.18 billion US dollars in 2009; fourthly, infrastructure construction achieved leap development; fifthly, it has witnessed tremendous development in various social causes, coordinated development of education at different levels and of different types, public health and basic medical services basically in shape with life expectancy at 75.3 and health indicators approaching medium developed countries; sixthly, people began to enjoy greatly improved livelihood, urban residents per capita dispensable income and rural residents per capita net income in the Province in 2009 standing at 21574.72 Yuan and 6906.93 Yuan, respectively.

4.2 Problems in Guangdong Economic Development
4.2.1 Development on per capita basis is relatively lagging behind. Recent years, per capita GDP in Guangdong is much lower than Zhejiang, Jiangsu etc. (see Table 1). According to statistics, in recent 10 years, annual growth of Guangdong ranked at the bottom among the coastal provinces and municipalities in East China; besides, per new labor force created 120,000 Yuan GDP only, much lower than the 880,000 Yuan of Jiangsu and the 220,000 Yuan of Shandong.

4.2.2 Increased pressure from environment, resources and land. Guangdong province accounts for 1.87% of the land area in the country, while industrial waste water and waste gas accounting for 9.8%
and 4.1%, respectively, with energy consumption per unit GDP 2.2 times the world average. At present, various indicators of land utilization in Guangdong province have exceeded the overall plan of land use. The planned total incremental construction land was 25.7 million Mu by 2010 (1 Mu is about 667 square meters), but it was exceeded several years ago.

4.2.3 Severe imbalance in regional development. Guangdong province is quite unbalanced geographically in terms of development. The Pearl River Delta area boasts of geographical advantage, policy favor together with reform and innovation, so its economy is developing fast and people there are relatively richer. East of Guangdong, West of Guangdong and the mountain area in the North are in a dire situation in terms of location and infrastructure, the economy there is lagging behind as an underdeveloped area. To be more specific:

Big gap in terms of economic total. Take Year 2007 for example, the variance coefficient of economic development in the Province was 76.36%, provincial per capita GDP at 32,142 Yuan, with the highest 79,645 Yuan in Shenzhen city and the lowest 9,976 Yuan in Meizhou city, a gap of 7 times. The East, the West and mountain area five cities accounted for 7.9%, 9.1% and 8.1% of the Pearl River Delta area, respectively.

Unbalanced industrial development. Although Guangdong per capita GDP has entered the ranks of medium and high income countries, but the added value of the tertiary industry in 2008 accounted for 42.9% of GDP, lower than the 49% average among the low income countries in the world, far behind the 60-80% level of developed western countries. In 2007, the added value of the primary industry of the Pearl River Delta area accounted for 2.4%, while that in the East, the West and the mountain area five cities accounted for 9.8%, 21.6% and 17.2%, respectively. Therefore, industrial restructuring remains an arduous task.

Widening gap in income among regions and between urban and rural area. During 2000-2007, income gap between urban and rural residents widened from 2.67 times to 3.15 times. Gini coefficient of urban and rural residents’ income increased to over 0.4 in 2002, and was 0.428, 0.429, 0.427, 0.423, 0.422, respectively from 2003 to 2007, without obvious downward trend. Gini coefficient of urban residents increased from 0.3278 in 2000 to 0.3590 in 2007, while that of rural residents increased from 0.2832 in 2000 to 0.3283 in 2007.

Big gap in education between the urban and rural area. The compulsory education in those economically less developed areas is far lagging behind that of the Pearl River Delta area and sharply worse in rural area than in the urban area. In 2006, Guangdong rural residents only received 7.95 years of education on average, which is equivalent to grade two in junior high school, a rather low level, almost one year gap from the provincial average of 8.94 years.

5. Initiatives and Effect of the Guangdong Policy on Industrial Transfer and Labor Force Transfer to Boost Industrial Structure Optimization and Coordinated Regional Development

In order to promote coordinated regional economic development, accelerate the transformation of economic development mode and optimize industrial structure, Guangdong Province issued Decision on Promoting Industrial Transfer and Labor Force Transfer as well as seven other relevant complementary documents in May, 2008 based on its thorough research and analysis and rational understanding of the market economy principles. The policy aims to follow the guideline of “government guidance, market operation, mutual complementation and win-win mutual benefit” to shift the traditional low-end manufacturing industries of the Pearl River Delta to North Guangdong as well as the East wing and the West wing in an effort to boost local economy and substantially lower down the proportion of the labor intensive industries in the Pearl River Delta area. In the meantime, more space can be available to attract advanced manufacturing and high-end service industries to the Pearl River Delta area.

5.1 Major Initiatives for the Policy on Industrial Transfer and Labor Force Transfer

Policies of industrial transfer mainly include: (1) formulate the overall plan for the regional layout of
industrial transfer in Guangdong Province and guide the concentrated industrial transfer and the mass effect for industrial development. Ask cities in the Pearl River Delta area to formulate relevant plans and execution proposals according to the industrial policy of the government, give differentiated treatment to market access of industries, move out part of the low value added and labor intensive industries and draft targets and initiatives to attract high value added industries as well as high-tech talents and senior technical workers so that industrial structure upgrading can be accelerated. (2) Implement industrial transfer with mass effect development. Give key support to those outperforming ones in the designated province level industrial transfer parks. Two 100-200 square km large industrial transfer parks have been planned one each in the East and the West wing. It is also planned to build professional industrial transfer parks, boost the supporting industries both at the upper stream and the lower stream, and form an industrial conglomerate so that industries can grow bigger and stronger. (3) Concrete measures are formed to lower down the operational cost of industrial transfer parks, give greater support to their land use, enhance the supporting infrastructure and facilities inside the parks so as to improve management and service and protect the environment.

Labor transfer policies mainly include: one, accelerate the labor transfer from rural areas to advanced Pearl River Delta region. Mechanism on workforce assistance should be improved and included in the overall assistance program of PRD towards the east, the west and north mountainous regions of the province on a long-term basis; Vocational and training schools in the PRD should provide 30% of their recruitment opportunities to rural students and laborers and help them find local job opportunities; second, help rural workforce to find jobs in local or surrounding areas. Enterprises in newly-founded industrial parks would be major job-providers; flexible employment centers would be established in counties (cities, districts) to help rural workforce to be employed locally or in neighboring areas; third, measures will be taken to encourage enterprises to employ rural labor force within the province, to provide more technical and vocational trainings and to improve public services for labor transfer. Localities are encouraged to implement incentives for excellent rural laborers with a view to attract and retain highly skilled rural workers.

5.2 Evaluation of Industry and Labor Transfer Policies
5.2.1 Industry and labor transfer policies are in line with the current world industrial restructuring. Since the middle and end of last century, new industrial restructurings are taking place in developed economies: service industry is divided into more diversified and professional sectors. Due to the close inter-connection among these sectors, service industry tends to concentrate in big cities; while manufacturing industry starts to shift away from big cities to smaller ones and manufacturing clusters ensued spur the growth of peripheral rural areas. Industry and labor transfer policies enacted by Guangdong aims to make room in the PRD for high-value-added industries, such as advanced manufacturing, hi-tech and modern service. And the replaced labor intensive industries will be transferred to the east, the west and north of the province, as a result, the industrialization and urbanization in these areas will be in turn accelerated. This is in line with the international trend and in the interests of Guangdong industries. The statistics show since the adoption of the policies, industrial structures in the PRD are further upgraded, portion of labor intensive industries output value drops significantly, as those in Shenzhen, Zhuhai and Dongguan declined over 20%.

5.2.2 Industry and labor transfer policies are important parts of Guangdong’s initiative to implement the scientific outlook on development in shift of grown pattern, industrial upgrading, and balanced development inside the province. Admittedly Guangdong’s past development was fast, it was based on traditional industrial growth pattern, at the cost of environment, resources, society, and unsustainable. While replacing labor intensive industries with high value-added industries, the policies facilitate the development of modern industrial structure and indigenous innovation. While in this process, the under-developed areas are not passively positioned to accept the transferred industries. They choose the industries fitting into their own local features and conditions of ecology and industrial structure. Through relocating fitting industries into one place, industrial chains become complete, industrial clusters take in shape, long-term sustainable growth of the relocated areas could be achieved. This is just the point of Guangdong’s initiative to implement the scientific outlook on development. Strong
economic figures in these areas show, as in 2008 even facing the impact of global financial crisis, GDP growth rate registered 13%, 10.2% and 12.6% respectively in the east, the west and the north in 2008, even higher than the average provincial level of 10.1%; in 2009, fastest growing areas are Qingyuan, Jieyang and Shanwei in the north and east of Guangdong.

5.2.3 Industry and labor transfer policies represent the systematic integration of market and government regulation in resource allocation. For example, for labor intensive industries, as a result of cost rising and land shortage, they are gradually relocated along the transport trunk line in the PRD. With their gradual relocation, a fan-shaped transfer roadmap is taking shape composed of one-hour and two-hour economic life circles. For hi-tech and its complementary industries, as they have a higher demand for logistics and transportation, they are relocated to the ladder-shaped PRD rim areas. For heavy industries such as petrochemical, steel and iron, ship-building, they demand easy accessibility to ports, therefore they are relocated to the coastal cities along the east and west wing of the province where enjoy better port facilities and bigger environmental capacity. From these transfer cases, it can be easily concluded that resources under the market mechanism, due to the impact of value and price, tend to move into the areas with higher economic returns; while in this process the work of government is to find and guide these trends with sound and efficient policies to facilitate the transfers.

5.2.4 The industry transfer policy leads to the transfer of labor, improves the labor force structure, creates jobs, enhances technical quality of labor force, optimizes the human resources allocation province-wide. All of these positive changes provide new solutions for the imbalance between growth and short of hands on the way of development. Figures show, leveraging the opportunity brought by developing high-value-added industries, the PRD attracts a large number of hi-tech talents and skilled technicians, which results in the decline of migrants and less pressure on social management. In 2008, additional job-hunters in PRD dropped by 16.7% year-on-year. Meanwhile, industrial parks established for transferred industries provide large amounts of job opportunities to surplus rural workforce. By providing employment trainings, quality and competitiveness of rural workforce are greatly improved, more laborers begin to work in the secondary and tertiary industries, as in 2008, additional laborers in the less developed areas increased by 18.2% year on year. Moreover, labor transfer also brings the income increase of rural people. According to incomplete statistics, annual income of non-agricultural rural worker in Guangdong totaled 130 billion RMB, non-agricultural income accounted for 71% of total income of rural workers.

6. Suggestions on Advancing the Policies on Industry and Labor Force Transfer

As the policy evaluation indicates, since the policies putting in place in Guangdong, positive impacts are self-evident for the past two years, in particular during the financial crisis. But we can not overlook the fact that under the modern market system, policies are not perfectly matched with the changing market economy featured by market-oriented resource allocation mechanism. Flexibility is absent during some policy implementing processes; decision-making takes too long time to catch up with the changes in the market; spill-over effect of policies suffers from negative implications. All of these issues bring uncertainties in the implementation of transfer policies, which calls for focus and efforts made on the following aspects:

6.1 Balance the Relationship Between Government and Market, Leverage the Fundamental Role of Market in Resource Allocation

With an aim to overcome market failure, optimize resource allocation and economic structure, enhance the competing edge of industries, it is necessary for governments to enact and implement industrial policies to improve market efficiency, encourage relevant industry growth, support competitive industries and vulnerable industries, and upgrade industrial structure. But more emphasis should be put on avoiding the over-intervention of government in the process of implementing transfer policies. Issues on transfer decision, transfer destination, allocation of capital and labor force should be resolved by market players in response to market demands. Direct government interventions into these affairs are not suggestible. What governments should really do is to review the impact and implication of policy
implementations, conduct thorough investigations into the pursuits and concerns of policy stake-holders, put more emphasis on addressing issues related to administrative environment, relocation cost, logistic cost, complete industry chain, with a view to creating more favorable climate for transfers.

6.2 Balance the Relationship between Emerging and Traditional Industries, Consistently Advance the Industrial Structure

Emphasis should not be solely put on “Emptying the cage with new birds”, i.e. driving away sparrows for phoenix, which might lead to the “hollowing-out” of industries. Instead, more emphasis should be put on balancing the relationship between emerging and traditional industries, or “Changing the cage to breed new birds”. “Changing the cage” represents the government should enact supportive policies to lead enterprises to voluntarily transfer low-end manufacturing, strengthen their R&D and marketing headquarters and other high-value-added sections. “Breeding new birds” instead of “changing with new birds” does not call for the abrupt and absolute separation between manufacturing industry with service, between production base with headquarters, between secondary industry with tertiary industry, contrarily, it is imperative to upgrade the industrial structure in a gradual way, proportion of service should be increased step by step. As indicated in the “Smile Curve” of Shi Zhenrong, efforts should be made in a gradual way to move the low-end manufacturing up to the front end of modern manufacturing (R&D, design), to the back end (branding, distribution, after-sale service), resulting in higher added value and profit ratio.

6.3 Balance the Relationship between Development and Environment, Impose Social Regulations on Resources and Environment

Guangdong currently is in the last period of industrialization. Fast and sprawling heavy chemical industry development poses bigger pressure to resources and environment. When the low-yielding industries with high energy consumption and pollution begin to shift to the under-developed areas, contradictions between industry growing and local environment protection become gradually acute. Therefore, in the process of industry transfer, focus must be put on avoiding the damage of fast transfer to local eco-system and environment. Based on local realities in Guangdong, land shortage, less environment capacity and weak eco-system, governments should strengthen social planning and regulations on resources, environment, quality, safety, better play due roles of government in the process of industry transfer: enact rules and regulations on environmental impact evaluation; leverage the role of professional social intermediary services in credibility rating, investigation and auditing, accreditation, public arbitration; establish public utilities such as pollution treatment and improvement center inside industrial parks.

6.4 Balance the relationship between industry transfer and labor transfer, highlight the goal of enhancing the overall quality of workforce

In the final analysis a nation’s competitiveness comes to the competitiveness of human resources. One of the four strategies on accelerating the transformation of growth pattern put forward in the report of State Council Development and Research Center (DRC) is the urbanization strategy on urbanizing rural workers. According to a survey, rural workers in China total around 240 million. Analysis based on DRC-CGE modal finds that, given the constant existing policies, if 5% rural workers are urbanized per year who can have equal access to education, public health, housing and other public services as urban residents, then economic growth rate of China between 2010-2015 will be expected to raise 0.75-1.06 percentage points annually. This will be a key approach for China to address rural related issues and release the vast market potentials in rural areas. Labor transfer policy should be based on the goal of lifting the overall quality of labor force, and implemented in tandem with industry transfer policy. To create more jobs for surplus rural labor force, enhance technical capability, promote labor transfer, narrow the income gap of urban and rural residents are crucial to optimizing the spatial layout of human resources, enhancing regional overall competitiveness, even maintaining social harmony and stability.
7. Conclusion

On the whole, it is Guangdong’s strategic choice to implement industry and labor transfer policies in response to the emerging national and international industrial restructuring. Its spatial restructuring of productive forces falls into economic laws. The policies are effective ways to achieve a new round economic take-off and scientific growth. Two years implementation proves success. To follow up, emphasis should be put on coordinating the relationship between government and market, emerging and traditional industries, development and environment, industry and labor transfer so as to achieve a balanced regional development in Guangdong, transformation of growth pattern and advancement of industrial structure.

References