

# Sustainable Development Based on Structural Transformation in Southeast China

Meiping Liu\*

Party School of the Xiamen Municipal Committee of C.P.C (Municipal Academy of Governance), Xiamen City, China

\* Corresponding author: Meiping Liu

**Abstract:** China has developed into a highly diversified economy. Southeast China is one important region with rapid economic development and generally considered to contain Zhejiang, Fujian and Guangdong. The rapid development of Southeast China under structural adjustment is an exploration of the development of the forefront of China's reform and opening up. Structural adjustment is a major theoretical and practical improvement. Through the academic exploration of the current industrial structure transformation and upgrading, this paper deepens the understanding of Southeast China's high-quality development and helps to promote the construction of the modern economic system. Based on the exploration of the characteristics of the transition period of economic construction, this paper examines the characteristics and advantages of Southeast China's high-quality development and the challenges that may be faced in subsequent development. This paper makes recommendations for economic system reform and government services.

**Keywords:** structural transformation; supply-side reform; policy supply; consumption era

## 1. Introduction

China is a country with the world's most populous country. Since the economic reforms began in 1978, China has developed into a highly diversified economy with high economic growth. China is a developing country that has experienced rapid industrial growth over the last 30 years<sup>[1]</sup>. In the political side, China is one of the world's socialist states openly endorsing communism and has a socialist republic government.

The report of the 19th National Congress of China believes that to build a modernized economic system, China must adhere to "quality first and benefit priority". The supply-side structural reform as the mainline to promote (1) economic development, (2) efficiency improvement, and (3) dynamic governance with real-time supervision. China should focus on constructing effective and market mechanisms. China has a dynamic and macroeconomically controlled economic system, which continuously enhances China's economic innovation and competitiveness. It can be seen that both the government and the market are facing supply-side structural reforms. To make the market play a decisive role in resource allocation of the government, this major judgment is

conducive to further establishing the correct relationship between the government and the market. To promote the structural reform of the supply side, build a modern economic system, and promote high-quality economic development, China needs to set up a good relationship between the government and the market. That is to say, high-quality development includes two aspects: the government and the market. China has to achieve the modern government administration and economic system.

In regional study and economic system analysis, Southeast China, generally considered to contain Zhejiang Province, Fujian Province and Guangdong Province, is one important region with rapid economic development. This region is normally regarded as a successful example for the researchers to investigate modern policy in China. This paper, using Southeast China as a model, examines the high-quality economic development and its reasons via the government and the market.

## 2. Economic Analysis in Southeast China

In the 20 years, China's average annual gross domestic product (GDP) growth has been around 10%<sup>[1]</sup>, with the fast development of the country's major industries<sup>[2]</sup>. Southeast China is generally considered to include three large provinces: Zhejiang, Fujian, Guangdong (see Figure 1).



Figure 1 (Left) The map showing the three provinces: Zhejiang, Fujian, Guangdong in Southeast China and (Right) the major internal cities having the business connection to the external cities and overseas. The figure is copied from Natural Earth (with permission) and has been replotted by the authors.

Zhejiang, Fujian and Guangdong play a very important role in China's industry and economics. Table 1 analyzed the economic data of these provinces in the year of 2018. Briefly, the amount of Zhejiang, Fujian, Guangdong accounts for more than 20% of mainland China. GDP per

capita of these three provinces is significantly higher than the average level of mainland China. Zhejiang, Fujian, and Guangdong are on the front line of reform and opening up and economic development, with great economic connection to the international business and collaboration. Figure 1 shows the typical business connection between the coastal cities such as (e.g., Hangzhou, Ningbo, Xiamen, Fuzhou, Guangzhou, Zhuhai, Shenzhen) to the external cities (e.g., Shanghai, Taipei, Kaohsiung, Hong Kong, Macau). These business connections enhance the market and industry in Southeast Asia (see Figure 1), leading to rapid economic growth in these cities and provinces (see Figure 2).

**Table 1.** The economic data of the provinces in Southeast China based on purchasing power parity (PPP) in the year 2018. The economic data was copied and reproduced from the International Monetary Fund of the World Economic Outlook (IMF-WEO) and annual report of China's economy with permission.

Provinces	GDP (million USD)	Share (%)	Growth (%)	GDP Per capita (USD)
Zhejiang	1.601	6.24	7.1	28,102
Fujian	1.020	3.98	8.3	25,981
Guangdong	2.771	10.8	6.8	24,617
Mainland China	25.648	100	6.6	18,416



Figure 2 The photos showed the Shenzhen, Guangdong in (a) the 1980s and (b) the 2010s. The photos are copied from Hong Kong Commercial Daily (with permission) and have been replotted by the authors.

### 3. Structural Transformation in Southeast China

One important reason for the economic development in Southeast China is the structural transformation (Figure 3). Briefly, agriculture and manufacturing dominated the economy in the early stage (1980 in Figure 3). Manufacturing and service only accounts for a small percentage. After 20 years' development under economic reform, the service section significantly developed and became one core part of the economy (2000 in Figure 3). Currently, financial service, medical service, education service significantly developed and supported the economy. At the same time, there is a novel high tech developing in China (2018 in Figure 3). For example, Alibaba Group (in Hangzhou, Zhejiang Province) invented the "Alipay" app. "Alipay" has completely changed the way people shop and created novel high tech business (Guo, Lam et al. 2006, Havinga, Hoving et al. 2016). Tencent Group (in Shenzhen, Guangdong Province) has developed "Wechat" app, and 1.1 billion

users have used "Wechat" to start the business. "Wechat" has changed the Chinese people's lifestyles and created new industries<sup>[3]</sup>.

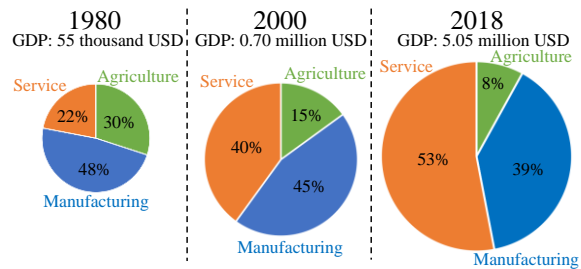


Figure 3 Schematic illustration of structural transformation in Southeast China. The economic data was copied and reproduced from IMF-WEO and annual report of China's economy with permission.

To study the reasons for the structural transformation, the relationship between industrial restructuring and economic growth has been examined. This affirms the role of technological progress and industrial restructuring in promoting economic growth. Both the mainstream neoclassical growth model and the new growth model are in line with the "Kaldor fact", that is, the growth rate of per capita output, the ratio of capital to output, the ratio of capital income to gross national income and the real interest rate are relatively stable in the process of economic growth<sup>[4]</sup> "New Kaldor fact" holds that new elements such as information, knowledge, education, thought and creative sharing are characterized by increasing profits<sup>[5]</sup> Therefore, they not only directly accelerate technological innovation and technological progress, but also indirectly promote new technological innovation through "accelerating the integration of knowledge production and consumption". The export behavior of enterprises and countries can realize the optimal allocation of resources in a wider space, and promote the optimization and adjustment of industrial structure through technology transfer and other ways<sup>[6]</sup> The introduction of multi-sector international trade model shows that Engel effect is the most important reason for the change of employment proportion in the first industry, while investment effect and transfer cost effect are the most important factors for the change of employment proportion in the second and third industries respectively<sup>[7]</sup>.

Local development is driven by many factors, but there are also various obstacles. Among the various factors driving the structural transformation, the fundamental driving force of the industrial structure change lies in the difference of the growth rate of labour productivity between departments. China's accession to the WTO has found that the positive impact of trade liberalization on industrial upgrading can be realized through the import competition effect, accelerating the optimal allocation of resources among industries. Through the construction of the standard two-sector structure transformation analysis framework, it is found that tax affects the speed of industrial transformation. Under the arrangement of the official promotion tournament system, the local government, which has been driving the economic

growth for a long time, pursues the goal of the achievement GDP. The local government drives the short-term and long-term goals of the industrial structure, the upgrading of the industrial structure and the rationalization of the industrial structure cannot be considered. In the process of the industrial transformation and upgrading, there are problems such as the transfer of the polluted areas, the curse of resources, the shortsightedness of the enterprises and the government. Perplexity hinders the long-term rationalization of industrial structure. The impact of demand structure change on China's industrial structure transformation and productivity improvement is more significant than Baumol's cost disease, but less than Engel effect<sup>[8,9]</sup>.

With the alternative structural transformation, the structural system of the relationship between the state and the society and the social operation in the new era in China is constructed. The path of catching up also shows new characteristics. The authors believe that it should be divided into three styles: progressive, radical and jumping. Although the research perspective is relatively rich to examine the current academic research on regional development, it is still lacking research on development orientation, especially in the transition period and under the conditions of the trade war. This research is particularly necessary. At this point, this topic will discuss the actual operation of high-quality development in Southeast China under the guidance of structure through empirical investigation and research methods on the basis of the existing research results in the academic

**Table 2.** Main structural transformation in Southeast China from 1978

Year	Structural transformation in Southeast China	Importance to economic development	Reference
1978-now	Reallocation of natural resources	Medium	(Dekle and Vandenbroucke 2012)
1978-now	Upgrading of the manufacturing sector	High	(Cheong and Wu 2014)
1980-2012	Urbanization process	High	(Garriga, Hedlund et al. 2017)
1990-now	Overseas trade and cooperation zone program	Medium	(Lin and Wang 2014)
1997-now	Investment-driven industry	High	(Li and Lin 2017)
1999-now	National innovation system	High	(Sun and Liu 2010, Br äutigam and Tang 2014)
2000-now	Revitalization of social work	Medium	(Yuen - Tsang and Wang 2008)
2014-now	Emerging industry (e.g., Alipay, Wechat pay)	Medium	(Mu and Lee 2017)

First, the reform of SDSI could promote the reform of the traditional manufacturing industry. We should urge enterprises to innovate, speed up the pace of product upgrading, and eliminate a number of production capacity without market competitiveness in time. Second, the reform of SDSI should strengthen the support for strategic emerging industries, provide convenience for emerging enterprises to a breakthrough in technology protection, and provide a good and orderly competitive environment for the realization of emerging market demand. Third, the reform of SDSI should leave room for the development of the service industry. It can be divided into four consumption ages since 1912, the 1st consumption age is the consumption enjoyed by a small

field. This paper identifies and analyzes the factors affecting and restricting the development of Southeast China, and then put forward feasible advisory suggestions for promoting high-quality economic development in Southeast China.

**4. The Characteristic Form and Value Function of Structural Transformation**

Structural transformation is to adjust economic structure and find new economic growth points, while the economy is to transform from traditional pillar industries to future pillar industries. The traditional pillar industry, represented by the traditional manufacturing industry with excess capacity. Southeast China will have three major pillar industries in the future: (1) strategic emerging industry, (2) service industry and (3) modern manufacturing industry. The direction of structural adjustment, that is, the direction of economic foundation construction, mainly has two aspects: one is to downgrade the surplus traditional pillar industries to general industries; the other is to upgrade the emerging industries to future pillar industries (see Table 2). After the economic foundation has established the strategic direction, the reform of "Streamline administration, Delegate power, Strengthen regulation and Improve service to deepen administrative reform and transform government functions" (SDSI) needs to be guided by structural adjustment, coordinated and focused(see Figure 4).

number of middle class; the 2nd consumption age is family-centred consumption; the 3rd consumption age is the personalization of consumption; now Japan has entered the 4th consumption age, that is, the society that attaches great importance to "sharing". One of the characteristics of the transformation from the 3rd consumption era to the fourth consumption era is the transformation from "material" to "service", or more attention to people. Farewell to the era of "shopping makes people happy", people began to ask "in addition to material, what can make people feel really happy". Fourth, the reform of SDSI should open up new space for the modern manufacturing industry. The traditional manufacturing industry focuses on the production,

distribution, exchange and consumption of the people's livelihood, while the modern manufacturing industry focuses more on the circular process of production, distribution, exchange and consumption of the machines of the industrial enterprises. The reform should provide timely convenience and support for the establishment of the four new circular processes of the modern manufacturing industry.

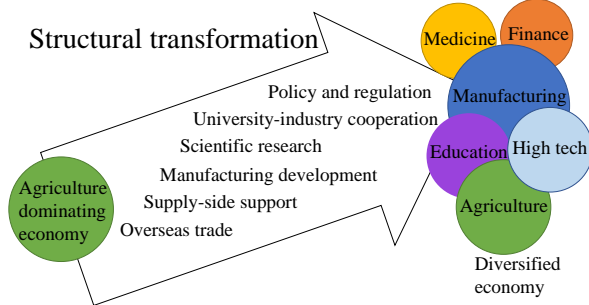


Figure 5 Schematic illustration of key factors leading to structural transformation in Southeast China

## 5. Current Challenges of Structural Transformation in Southeast China

Since the reform and opening-up, China's reform and development measures have been continuously improved, and the characteristics and advantages of the system itself have been reflected. However, procedural content is not perfect. The standardized operation mechanism has not yet formed, and the actual work is very unbalanced between regions and departments, making structural transformation still face a series of problems in the actual development. This paper mainly focuses on the specific operation of local development in Southeast China and analyzes the problems and reasons in practice.

In the relationship between the government and the market in the socialist market economy, the current government is a "hand to intervene" and a "hand to support". What is the difference between the support for state-owned enterprises and private enterprises? What kind of policy support do private enterprises need? The reality is a dialectical relationship of the unity of opposites, which is both opposite and symbiotic. On the one hand, it is the interesting relationship of symbiosis and common prosperity. In order to enhance GDP, develop the economy, improve people's livelihood and win the legitimacy of governance, the government must rely on the market. The market also needs the government to provide security, order, law and public services to protect and maintain the order of the market. On the other hand, it is a contradictory legal regulation relationship. The government should implement the law, supervise the market to follow the order, intervene in the market with various policies, and overcome the lag and destructiveness brought by the market operation as much as possible. The government should support and promote the market, under the guidance of the law of value, to automatically regulate the flow and distribution of people, property and goods in various industries and departments. In this case, the government can realize the optimal allocation of resources, but also construct a good legal

system, to prevent the temptation of profits from the market to commit crimes.

How to let the market play a decisive role in resource allocation? "Caesar's to Caesar, God's to God". In the market, we must respect the wishes of the enterprises. The general manager will have the final say. First, the government needs to make use of the law to promote the transformation, upgrading and upgrading of companies or enterprises. Second, the government is required to promote supply-side reform, march into service industries focusing on culture, education, health, medical care, tourism, etc., increase the proportion of the tertiary industry in the national economy, and improve the supply structure. Third, the government needs to support and encourage enterprises or companies to do industry and develop the real economy. Fourth, the government should support and encourage enterprises or companies to invest in scientific research, occupy the commanding height of science and technology, and actively carry out scientific research cooperation with universities and research institutes. Fifth, the government needs to guide the direction and goal of talent training in universities, seek and obtain intellectual support from universities, realize the professional connection between enterprises and education, and optimize the allocation of talent resources, to achieve sustainable development.

In terms of the SDSI reform, at present, the SDSI reform has made great achievements all over the country, but there are still many problems, mainly due to the unclear direction, the lack of focus, the weak role of external market orientation, and the inadequate implementation of some functions of internal public services. SDSI is reflected in the fact that many processes are still under management, the lack of supervision and the coexistence of disorderly supervision. A good market competition environment has not been fully formed, and there is still a certain gap compared with the expectations of enterprises and the public. Therefore, the relevant departments need to strengthen the guidance and planning for the reform of SDSI, improve the layout of SDSI, and grasp the direction and focus.

## 6. Recommendations for Structural Transformation in Southeast China

Currently, handling the relationship between the government and the market for high-quality development is a "fair value" *versus* "efficient value" orientation issue, as well as a technical issue of complementary and reasonable cooperation between the advantages of "visible hand" and "invisible hand". The discussion of this issue is helpful to the scientific allocation of power and the further transformation of government functions, to the full play of the role of various factors of production, to the in-depth stimulation of market vitality and vitality, to the realization of the optimal allocation of social resources, and to the realization of the goal of building a moderately prosperous society in an all-round way. To achieve this, Southeast China is required:

(1) To strengthen the construction of the operation mechanism of the government enterprise coordination

mechanism. Government departments at all levels need to further strengthen the construction of the institutions responsible for macro-control affairs; improve the specific working mechanism of handling the opinions and suggestions of enterprises, to make them become the wind vane of timely adjustment of government work;

(2) To establish a feedback supervision mechanism of multi-participant cooperation. Change the multi-channel way of handling the opinions of the government, enterprise and society in the past, gradually establish a joint mechanism of handling by the government, enterprise and society, formulate a unified handling process, put forward a clear handling plan, formulate specific measures for implementation, and handle the reply;

(3) To improve the evaluation, reward and punishment mechanism of social supervision. The handling of social opinions should be included in the annual assessment system of government departments, and be taken as the reference basis for assessment and selection, to enhance the rigid restriction of handling of opinions and the attention of departments;

(4) To improve the specific working mechanism of coordination between the government, enterprises and the government and the society. Improving the government's information acquisition mechanism ensure the right to know of the enterprise society. The government needs systems and mechanisms for foreign and domestic activities, as well as mechanisms for enriching and expanding online consultation.

## 7. Reform of Supply Mode and Public Policy

The guiding role of structural reform of government governance is reflected in the public policy, which is to regulate the government's power according to the requirements of market-oriented, mainly reflected in the following changes. The establishment of supply-side reform mechanism and policy. Change from demand-side management policy to supply-side reform policy. China's rapid economic growth over the years is largely driven by factors and investment. In order to continue to give full play to its huge economic potential and strong advantages during the 13th Five Year Plan period, China must accelerate the transformation of its economic development mode and focus on promoting supply-side structural reform.

On the demand side, there are three carriages: investment, consumption and export. On the demand side, management emphasizes that economic growth can be promoted by increasing demand, which leads to the imbalance of investment and consumption, domestic demand and export, and investment structure. On the supply side, there are four elements: labour force, land, capital and innovation. On the supply side, management emphasizes to promote economic growth by improving production. Structural reform aims to adjust economic structure, relax "supply inhibition" by controlling monopoly and reducing regulation, so as to realize the optimal allocation of elements and improve the quality and quantity of economic growth. In the annual report of

China's economy, it was pointed out that to deepen the supply-side structural reform, in the report on the work of the government in 2018, "new momentum of development and expansion" and "accelerating the construction of manufacturing power" are listed as the top two tasks of supply-side reform. To be specific, we should control and manage the "visible hand" of the government through the "deregulation service" reform and adhere to the government and enterprises. The principles of separation, separation of government and capital, and fair competition emphasize the multi-level system construction of state-owned enterprises, private enterprises, capital market and financial and tax system reform. At the same time, we should strengthen the coordination and cooperation of finance, land and market access, and strengthen the basic position of competition policy.

The application of service social management policy. To realize the transformation from the policy of rule and management to the policy of service. The service-oriented policies are various, mainly reflected in the following aspects: first of all, social service policies promote social construction in social functions. We should strengthen the function of supporting the bottom, including management in service, and the construction of public service facilities, and strengthen the construction of natural disaster prevention and control capacity; secondly, we should promote the improvement of production capacity, strengthen the coordination and long-term standardization of policies. To improve the ability of the financial system to serve the real economy, we need to improve the financial infrastructure, strengthen the ability of supervision and service, accelerate the construction of a unified, and promote the deep integration of advanced manufacturing industry and modern service industry. We will build a strong manufacturing country. Thirdly, service industry policies to meet social needs and improve product quality. Efforts should be made to meet the final demand, improve product quality, accelerate the development of service industries such as education, childcare, pension, medical treatment, culture and tourism, and improve the consumption environment.

The coordination and exploration of regulatory policy. It is necessary to change from policy intervention of athletes' participants to policymakers of referee regulation. It used to be an era of competition based on economic strength, and the future society is an era of compliance, which lies in the formulation, execution and judgment of rules. In this point, we can learn from some mature practices in the United States, such as "long-arm jurisdiction" in compliance management relies on three major regulations: export control regulations, anti-corruption and bribery regulations and Sarbanes act of financial review. In the economics of government regulation, grass planting benefit is divided into indirect regulation and direct regulation because of the different degree and means of the government's intervention in the decision-making will of economic subjects. Indirect regulation can't directly interfere in the decision-making



will of economic subjects. The means is to restrict unfair competition and improve the market mechanism of orderly competition by making relevant laws and regulations. Direct regulation and direct intervention should be applied. The characteristics of the decision-making will of the economic subject are that the government grants the license to the economic subject and directly makes various legal restrictions.

## Reference

- [1] Wang, S.; Luo, K.; Liu, Y.; Zhang, S.; Lin, X.; Ni, R.; Tian, X. and Gao, X. "Economic level and human longevity: Spatial and temporal variations and correlation analysis of per capita GDP and longevity indicators in China." *Arch Gerontol Geriatr*, 2015; 61(1): 93-102.
- [2] Liu, W.; Shi, H. B.; Zhang, Z.; Tsai, S. B.; Zhai, Y.; Chen, Q. and Wang, J. "The Development Evaluation of Economic Zones in China." *Int J Environ Res Public Health*, 2018; 15(56): 1-14.
- [3] Harwit, E. "WeChat: Social and political development of China's dominant messaging app." *Chinese Journal of Communication*, 2017; 10(3): 312-327.
- [4] Kaldor, N. *Capital accumulation and economic growth. The theory of capital*, Springer, 1961: 177-222. Thirlwall, A. P. Nicholas Kaldor. *The Elgar Companion to John Maynard Keynes*, Edward Elgar Publishing, 2019.
- [5] Jones, C. I. and Romer, P. M. "The new Kaldor facts: ideas, institutions, population, and human capital." *American Economic Journal: Macroeconomics*, 2010; 2(1): 224-245.
- [6] Feder, G. "On exports and economic growth." *Econometrica*, 1983; 12(1-2): 59-73.
- [7] Eaton, J. and Kortum S. "Technology, geography, and trade." *Econometrica*, 2002; 70(5): 1741-1779.
- [8] Baumol, W. J. *Cost Disease of the Personal Services and the Quality of Life*, 1972.
- [9] Towse, R. *Baumol's cost disease*, Edward Elgar Publishing, 1997.