From the ‘Workshop of the World’ to an emerging global city-region: Restructuring of the Pearl River Delta in the advanced services economy
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Citation for published version (APA):
Zhang, X. (2015). From the ‘Workshop of the World’ to an emerging global city-region: Restructuring of the Pearl River Delta in the advanced services economy

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Chapter 6

From the ‘Workshop of the World’ to the ‘Office of the World’? Rethinking Service-Led Development in the Pearl River Delta

6.1 Introduction

In recent years, the service economy and service sector-led development have attracted increasing attention in both academic and policy circles in China. Rising production costs and stagnating external demand for manufactured products are affecting the country’s industrial advantages and slowing down the pace of its economic expansion (The Economist, 2012). Simultaneously, the success story of emerging offshore business services hotspots, such as India and the Philippines, has opened up a new way to capture the ‘next wave of globalization’ (Dossani and Kenney, 2007; Beerepoot and Vogelzang, 2015; Kleibert, 2015) and achieve socio-economic modernization through tapping into the booming global services economy (Ghani and Kharas, 2010). Services, once considered as ‘non-productive’ and therefore overlooked by policy makers (Lin, 2005), are now taking up the centre stage of many Chinese cities and regions’ economic development plans (Yeh and Yang, 2013). Service sector-led development is also advocated by many scholars as an effective way to restructure and upgrade the country’s predominant (low-end) manufacturing-based growth model (cf. Lu, 2008; Shen, 2011; Economic Daily, 2011).

In contrast to this widespread emphasis on the economic significance of services, there is little reflection on whether service sector-led development will be a viable choice for most cities in China. Similar to many other East Asian economies (e.g. Japan and South Korea), China’s great economic success in the past three decades

is primarily built on its powerful, export-oriented manufacturing sector. High-speed industrialization has not only led to impressive economic growth in a large number of Chinese cities and regions, but also profoundly shaped their urban systems, labour market structures and institutional settings in a way that fits their manufacturing bases. However, given the differences that exist between services production, especially knowledge-intensive advanced business services, and manufacturing activities (see section 6.4), the transition from an industry-based to a service sector-led economy is not a smooth process. As the experience of South Korea shows, ‘success in manufacturing does not necessarily translate into success in services’ (ADB, 2012, p. 47). It has been pointed out that most Chinese cities may not be well structured to address the demand of advanced business service firms (Daniels, 2013). Most cities also lack an appropriate strategy to direct the development of their service sectors (Yeh and Yang, 2013). Therefore, more theoretical and empirical research work is needed for a better understanding of the characteristics of business services economies and more grounded evaluations of relevant policies in the Chinese context.

This chapter discusses whether advanced business services can provide a viable substitution to manufacturing as the leading sector of economic growth in Chinese cities. In addition to that, it explores what service sector development strategies could fit different cities in China. The focus in this chapter is on cities in the Pearl River Delta (PRD). This region has led China’s dramatic industrialization in the past three decades (Enright et al., 2005), but is now affected by a new wave of economic restructuring enabled by relatively more advanced service activities. The PRD therefore provides an ideal case to examine the role of services in a transitional industrial region.

The chapter proceeds as follows. The next section presents a typology of business services economies and compares their distinction in market orientation, modes of development, key resources needed and locational preferences. Based on this framework, section three examines the patterns of service sector development in the PRD. Section four provides an evaluation of the currently widespread business service focused development policies in the PRD and identifies their major problems. Section five discusses what business service development strategies will be appropriate for different kinds of cities in the PRD. The chapter ends with
concluding remarks and suggestions for further research.

6.2 A typology of business services economies

Business (or producer) services (already excluding consumer and public services) encompass a great variety of activities and products. Such heterogeneity makes it difficult to unambiguously categorize them. Although various standard statistical classifications of economic activities, such as the International Standard Industrial Classification of All Economic Activities (ISIC), the North American Industry Classification System (NAICS), and the Statistical Classification of Economic Activities in the European Community (NACE), have included service sectors, they mainly aim to divide services into various domains according to the main or final products produced (e.g. finance, insurance, accountancy, legal services, advertising, etc.). These classifications are less sensitive to the functional differences between business services as this chapter concentrates on. Functional differences commonly referred to in the literature include those between front-office and back-office services (Metters and Vargas, 2000), routine and knowledge-intensive business services (Wood, 2009), and regular and advanced producer services (Daniels and Moulaert, 1991; Taylor et al., 2014). These differences are instrumental in separating types of service activities/products and exploring the dynamics of their spatial distribution and agglomeration. Therefore, they provide useful building blocks for the development of a typology of business services economies.

In most advanced economies and increasingly in emerging economies, the average city or town is very likely to be home to a quite varied collection of business service firms that participate in various types of service activities and produce a multitude of service products. Each city’s exact mix of business service firms is likely to be affected by the city’s general economic profile and, to a certain degree, reflect this profile. This is because due to the nature of services production and delivery (which in many cases still requires more or less intensive face-to-face interactions between producers and clients), the bulk of producer service firms still need to co-locate with (a good part of) their major clients derived from the local economy to grow (cf. Daniels and Moulaert, 1991; Illeris, 1994; Bennett et al., 2000). As a result, we can observe that, for instance, in a city functioning as a
transport hub there tends to be a concentration of logistics services providers. The
same also goes for legal services providers in an administrative centre, and for
financial services providers in a trade hub, etc. This describes the archetypical or
regular urban business services economy: a varied collection of producer service
activities (e.g., financial and insurance services, legal advice, logistics, advertising,
IT and management consultancy, etc.) that mainly caters to the demand of the local
economy and, in terms of specialization, to a certain degree reflects the general
profile of the local economy. Such a business services economy applies to the vast
majority of cities and towns across the world.

In addition to this regular business services economy, there are three major
exceptional types which tend to develop only in a selective number of cities. The
first one is the global, all-round higher-order business services hub: cities such as
London, New York, Tokyo, Paris, Hong Kong and Singapore. These cities, often
prefixed by ‘global’ or ‘world’ in the literature, have over time developed into the
‘command and control’ centres of the global economy and have, on top of their
regular business services, grown a sizable concentration or cluster of top-notch,
knowledge-intensive business service firms (cf. Sassen, 2001; Wood, 2009; Taylor
et al., 2014). These advanced business service firms not only cater to the demand of
local economic actors, but also, and importantly, provide services to large
international companies located elsewhere through their worldwide office (or
affiliation) networks.

The second one is the highly specialized business services centres. These are cities,
small or large, that have grown (again in addition to their regular business services)
substantial concentrations of specialized service providers that either cater to the
needs of the highly specialized local economy (e.g. oil and energy production in
Aberdeen; international organizations in Geneva) or find their raison d’être in a
city’s unique position in, for instance, specific international trade networks (e.g.
Antwerp as a hub of global diamond trading) or cultural spheres (e.g. Teheran and
Kuala Lumpur as centres for Islamic banking) (cf. Cumbers, 2000; Bassens et al.,
2010; AWDC, 2013). A critical mass of specialized regional demand and
competition may encourage local business service providers to specialize and thus
compete in wider markets (Wood, 2009, p. 42). Therefore, this type differs from the
‘archetypal business services economy’ as defined above in the sense that its
degree of specialization and export potential are more profound.

Third, there are centres that specialize in offshore services production. This is a more recent phenomenon made possible by advances in information and telecommunication technologies and related changes in the organization of the production of routine, particularly back-office, services. As a result, many firms in advanced economies have relocated certain service production activities to lower-cost locations around the world. Cities such as Bangalore, Mumbai, Manila, Cebu City, Dalian and Dublin, that offer the right mix of cost reducing potential, sufficiently qualified labour and adequate ICT infrastructure, have emerged as offshore services production centres specializing in, amongst others, IT services, customer services, and related activities (c.f. Dossani and Kenney, 2007; Tholons, 2014; Kleibert, 2015).

As such, we can distinguish four basic types of business services economies, of which one (the ‘archetypal or regular business services economy’) is very common, and three (the ‘global advanced producer services hub’, the ‘specialized services economy’, and the ‘offshore production centre for back-office services’) are less so. The differences between them are articulated in Table 6.1.

These four types of business services economies also differ from each other in terms of the mode (or dynamic) of development and the types of resources needed. The development of the first three business services economies is more close to an organic process, which is fuelled either by the demand from local economic actors (the ‘regular business services economy’), or by that plus the demand from large or specialized international companies (the ‘global advanced producer services hub’, and some of the ‘highly specialized services economies’). In comparison, the ‘offshore services production centres’ are mostly formed through foreign or domestic direct investments to take advantage of the availability of specific human resources in these locations to respond to the external (often foreign) demand for particular (back-office) service tasks.
### Table 6.1 A typology of business services economies

<table>
<thead>
<tr>
<th>Types of business services economies</th>
<th>Market orientation and types of clients</th>
<th>Mode of development</th>
<th>Human resources needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Regular local, all-round business services economies</td>
<td>Predominantly firms and other organizations making up the local economy (local economic actors)</td>
<td>Organic (fuelled by demand from local economic actors)</td>
<td>Generally well-educated labour force</td>
</tr>
<tr>
<td>B) Global advanced producer services hubs</td>
<td>Apart from local economic actors, large international firms located elsewhere</td>
<td>Organic (fuelled by demand from local economic actors and external demand)</td>
<td>Highly-educated labour force, international connectivity</td>
</tr>
<tr>
<td>C) Highly specialized business services economies</td>
<td>Local economic actors and possibly specialized international firms located elsewhere</td>
<td>Organic (initially fuelled by demand from local economic actors, later possibly also by external demand)</td>
<td>Generally well-educated labour force plus a good number of people with specialized knowledge</td>
</tr>
<tr>
<td>D) Offshore production centres for back-office services</td>
<td>Predominantly medium-sized and large international firms</td>
<td>Foreign or domestic direct investments</td>
<td>Low-cost but yet sufficiently well-educated labour force, decent ICT infrastructure</td>
</tr>
</tbody>
</table>

In terms of key resources, the formation and growth of all four types of business services economies, in general, rely on a well-educated labour force. Some services economies may also have additional requirements on the quality (the ‘global advanced producer services hub’), the specialized knowledge (the ‘highly specialized services economy’) or the cost (the ‘offshore production centre for back-office services’) of the labour. In addition, to secure efficient communication between local service firms and their worldwide offices and clients, the ‘global advanced producer services hub’ also needs to maintain top-notch international connectivity, such as first-class international airports and bandwidth. Similarly, the formation of the ‘offshore services production centres’ also demands high quality ICT infrastructure.

The boundaries between different types of business services economies are neither clear-cut nor static. For instance, after accumulating sufficient levels of knowledge
and skills (normally accompanied with the sophistication and globalization of the local economy), a ‘regular business service economy’ may start to export one or more types of services to the national or even international market and, accordingly, gradually upgrade into a more ‘advanced’ (type B) or ‘specialized’ (type C) business services economy. Likewise, an ‘offshore production centre for back-office services’ also has the potential to move to a higher value-added position in global value chains. On the other hand, when a city loses its comparative advantage in its favourable economic sector(s) (e.g. through technological changes or the spatial reorganization of production), it may also downgrade from a ‘highly specialized business services economy’ back to a more ‘regular business service economy’, or from a ‘global advanced services hub’ to a mainly national (or even regional) services hub. But in general, this typology of business services economies gives a basic reference to examine and compare service sector developments in different places. It also provides a useful tool to evaluate the conditions for developing business services and the feasibility of government policies in a specific city or region. Based on this framework, the following part explores the process and patterns of service sector development in the PRD.

### 6.3 The development of services in the Pearl River Delta

The economic significance of services in the PRD has only become apparent after 1978 (Figure 6.1). During the centrally planned period (1949-1978), services were seriously constrained in China due to the pro-industry national development strategy (Lin, 2005, p. 285) and the dominance of the state in organizing production and allocating resources/products (Yang and Yeh, 2013). In the PRD, in contrast with the fast growth of industries, services’ share in the regional economic production and regional employment declined from 27 per cent and 15 per cent to 24 per cent and 11 per cent respectively between 1949 and 1979 (Figure 6.1). Most service activities were concentrated in the trade and logistics domain, such as wholesale, retail, transportation, storage and post (Table 6.2), which meant that the role of services was confined to meeting the basic need for the operation of the regional economy during this period.
Figure 6.1 Changes of the structure of GDP (left) and employment (right) in Guangdong after 1949

![Graph showing changes in GDP and employment in Guangdong](image)


Table 6.2 The composition of the services economy in Guangdong

<table>
<thead>
<tr>
<th>Sectors</th>
<th>1979</th>
<th>2000</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport and communication</td>
<td>22.0</td>
<td>23.9</td>
<td>15.0</td>
</tr>
<tr>
<td>Trade, catering and accommodation</td>
<td>46.5</td>
<td>26.0</td>
<td>28.8</td>
</tr>
<tr>
<td>FIRE and business services</td>
<td>13.2</td>
<td>24.2</td>
<td>36.0</td>
</tr>
<tr>
<td>Public services</td>
<td>18.3</td>
<td>25.8</td>
<td>20.2</td>
</tr>
</tbody>
</table>

Sources: Calculated based on GSB, 2001, 2013.

After 1978, China’s market-oriented economic reform and opening up led to dramatic growth and restructuring in the PRD and transformed it into the often cited ‘workshop of the world’. Meanwhile, the region also witnessed a period of rapid development of services. High-speed industrialization (and urbanization) and the growth of local income in the PRD created a large demand for both producer and consumer services, which now needed to be provided through the market. With the growing employment pressure caused by massive rural-urban migration and a large number of lay-offs due to the reforms of state-owned enterprises, the Chinese political leaders also gradually recognized the positive role of services in creating
jobs, and removed many restrictions on them (Lin, 2005, Li et al., 2008). Fuelled by these two factors, between 1979 and 2000 the share of the service sector in the region’s economy increased substantially from 24 per cent to 44 per cent, which was more remarkable than the growth of industry (which only increased slightly from 44 per cent to 47 per cent). The regional employment structure also underwent a similar transformation. As shown in Figure 6.1, from 1979 to 2000 employment in agriculture went down sharply (from 72 per cent to 40 per cent), the industrial sector saw a modest increase in employment (from 17 per cent to 28 per cent), and the service sector experienced a significant rise (from 11 per cent to 32 per cent). The service sector actually became the primary driver of both economic and employment growth in the PRD during this period. However, traditional types of services (e.g. transport, trade, catering, accommodation and public services) still largely dominated the sector (Table 6.2), reflecting the ‘back factory’ status of the PRD (Sit and Yang, 1997) in the international division of labour at that time.

Since the year 2000, service sector development in the PRD has entered a new stage. The pace of service growth has slowed down. As Figure 6.1 shows, the share of services in the regional economy and employment only increased slightly from 44 per cent and 32 per cent to 46 per cent and 34 per cent respectively between 2000 and 2012. However, in the meantime, FIRE and business services have quickly advanced and taken the lead in service sector growth in the region. These sectors only accounted for about 24 per cent of the regional gross services production in 2000, but soared to 36 per cent by 2012 (Table 6.2). This change reflects the increasing demand for higher-order business services in the PRD, spurred by the recent upgrading of the regional economy. With the region engaged in more advanced kinds of economic production and becoming more intensely tied up in the global economy, its demand for higher-order business services is also rising. Such services used to be provided by local manufacturing branch plants’ parent companies, or by contractors or service suppliers that were located overseas, especially in Hong Kong, but now with improvements in the local infrastructure, skills and service quality, the PRD is developing its own business service sector (Yeh, 2005).

The above review shows that, although constantly shaped by China’s changing political agenda, service sector development in the PRD is primarily a response to
the growing demand from the region’s local economy, particularly that from the local industrial sector. Changes in the composition of the service sector also reflect the transformations of the local economic profile. In this sense, the service sector in the PRD can be classified as a ‘regular business services economy’ to use the typology of Table 6.1. Rather than emerging as a substitution to manufacturing, advanced (business) services contribute to the regional economy mainly through catering to the demand of the local industrial and other economic actors. To what extent they can develop an extra-regional orientation (like type B and C in Table 6.1) and thus become an independent engine of regional economic growth remains to be seen.

6.4 Evaluating local policies for business services

Although still mainly playing a supporting role in the PRD’s economy, services, especially advanced business services and international outsource services, have attracted a fair share of attention from local policy makers in recent years. The increasing pressures in the industrial sector (e.g. rising cost of land and labour, faltering global demand, intense competition from other low-wage countries as well as China’s inland areas) led that both provincial and municipal governments in the PRD are eagerly searching for new sectors which can stimulate economic growth and enhance local competitiveness. High-order business services, commonly recognized as a symbol of a modern economy and a beckoning prospect for future development, have become the focus of various regional and urban development plans. In ‘The Plan for the Reform and Development of the Pearl River Delta (2008-2020)’- one of the most important regional-scale policy guides in recent years- the goal for the PRD is defined as becoming ‘a world-class base for advanced manufacturing and modern service industries’. To ‘prioritize development of modern services’ is highlighted (ahead of manufacturing) as the principal strategy to ‘build a modern industrial system’. In the recent ‘Twelfth Five Year Plans’ (2011-2015), all cities in the region promise to accelerate the development of a ‘modern’ or ‘advanced’ service industry to replace their low-end manufacturing sectors. Guangzhou and Shenzhen, the two leading cities in the region, both position themselves as a ‘national service centre’ with important international influences. Other cities have also set up ambitious targets and aim to become at least major service centres in the region.
Within China’s political-economic context, policy makers’ acknowledgement and commitment will become a strong incentive for the development of business services. However, examining their service development plans, it is not hard to observe ‘a gap between the rhetoric and the knowledge’ (Daniels, 2013). In the PRD, most cities’ service development priorities overlap with each other, which cover almost all typical sectors in the ‘global advanced services hub’ and ‘offshore services production centre’ types of business service economies (Table 6.1). These often include, for instance, ‘finance’, ‘modern logistics’, ‘science-technology service’, ‘creative industry’ and ‘international outsource’ etc. The stimulation efforts basically involve the physical construction of central business districts (CBDs) and various service dedicated zones, instead of sector-based and context-sensitive policy guides. It seems these cities’ development targets, strategies and instruments for service sectors are largely copied from their former successful experience in attracting manufacturing activities (Yang and Yeh, 2013). This indicates a poor understanding of the characteristics of business services economies as well as the specific local conditions of individual cities.

As discussed above, the development conditions and location preferences of business service firms are not only different from one type to another, but also quite distinct from that of manufacturing. Unlike low-end manufacturing activities, whose major concern is to minimize production and delivery costs, business services, especially higher-order ones, prefer locations which provide a large pool of well educated (sometimes also specialized) service labour, a concentration of (large) corporate clients, as well as superior urban infrastructure and international connections (cf. Daniels, 1985; Coffey and Polèse, 1989; Coffey, 2000). Both these resources and clients are unevenly distributed in the PRD. As Table 6.3 shows, only the provincial capital Guangzhou and the Special Economic Zone (SEZ) Shenzhen have accumulated a large pool of labour with a relatively higher level of education that can meet the general requirement of advanced business services. Most other cities’ labour education level is not only far behind that of these two cities, but also below the national average. On the demand side, the largest companies in the PRD are also highly concentrated in Guangzhou and Shenzhen, reflecting their headquarter functions in the region. In comparison, other cities lack a strong cluster of large corporate clients which can generate adequate demand for higher-order
business services (Table 6.3). Moreover, the region’s major international airports and ports, high-speed railway stations and internet hubs are all located in Guangzhou and Shenzhen.

Table 6.3 The labour and client conditions for business services in the Pearl River Delta and three Chinese leading cities

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage of population with higher education (2010)*</th>
<th>Number of companies in the Fortune China 500 list (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangzhou</td>
<td>19.6</td>
<td>10</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>17.6</td>
<td>27</td>
</tr>
<tr>
<td>Zhuhai</td>
<td>18.5</td>
<td>1</td>
</tr>
<tr>
<td>Foshan</td>
<td>9.7</td>
<td>2</td>
</tr>
<tr>
<td>Huizhou</td>
<td>6.4</td>
<td>0</td>
</tr>
<tr>
<td>Dongguan</td>
<td>7.3</td>
<td>0</td>
</tr>
<tr>
<td>Zhongshan</td>
<td>8.0</td>
<td>0</td>
</tr>
<tr>
<td>Jiangmen</td>
<td>5.6</td>
<td>0</td>
</tr>
<tr>
<td>Zhaoqing</td>
<td>4.6</td>
<td>0</td>
</tr>
<tr>
<td>Beijing</td>
<td>31.5</td>
<td>77</td>
</tr>
<tr>
<td>Shanghai</td>
<td>22.0</td>
<td>42</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>25.4</td>
<td>84</td>
</tr>
<tr>
<td>China</td>
<td>8.9</td>
<td>500</td>
</tr>
</tbody>
</table>

* Data of mainland China are calculated based on ‘Population with junior college and above education per 100,000 persons’; data of Hong Kong are ‘Population aged 15 and over with post-secondary educational attainment’.


The labour, demand and infrastructure conditions of most lower-tier cities in the PRD are still deeply geared to their (low-end) manufacturing-dominated urban economy, which now become a constraint to the development of their business service sectors. As a result, advanced business services are concentrated in two regional core cities- Guangzhou and Shenzhen. In 2010, these two cities accounted...
for about 40 per cent of the gross regional employment and only 36 per cent of that in the secondary sector. However, they provided 56 per cent of the employment in services and 60 to 90 per cent of that in most advanced business service sectors, including ICT, finance, business services, scientific-technical services and air transportation services (calculated based on GSB, 2012; GSB and OPCGP, 2012). All other cities in the region, except another SEZ, Zhuhai, provided much fewer jobs in business services than in manufacturing. Outsource services are even more concentrated. Over 95 per cent of such activities in Guangdong province are located in Guangzhou and Shenzhen (DCGP, 2013).

This unequal pattern stands in stark contrast to the belief held by many second- and third-tier cities in the PRD that advanced business services can provide a remedy to their declining industrial competitiveness. Unlike manufacturing-led development, in which (smaller) cities were able to attract industrial investment once cheap land and tax exemptions were provided, the construction of massive office spaces and the provision of favourable policies may not guarantee the ‘anticipated’ growth of high-order business services in small and medium cities (Yang and Yeh, 2013, p. 177). The development of advanced business services is more difficult to be planned as the tradability of many such services remains at a rather low level, whereas the key conditions required for the production of them tend to concentrate only in a limited number of cities. This does not suggest that any regional policy emphasizing business services will be unsuccessful. However, to be effective, such a policy needs to be tailored according to the characteristics of individual areas (Coffey and Polèse, 1989, p. 22).

6.4 Rethinking strategies for developing business services in the Pearl River Delta

It is quite clear now that a business service-led development model will not be the best choice for all cities. Arguably, a ‘blanket approach’ (Coffey and Polèse, 1989, p. 24) which covers a comprehensive package of business service sectors is unlikely to generate similar success in every city. Instead, local policy makers need to carefully examine the conditions in their cities and, based on it, focus on a specific type(s) of business services economy (Table 6.1) and formulate more targeted strategies and policy directions. Given the differences in labour supply and
market conditions between cities in the PRD, at least two business service development logics should be distinguished: one for regional core cities and another one for secondary cities.

The two core cities in the region, Guangzhou and Shenzhen, have the potential to transform into service sector-led economies and develop into business services centres that can cater to the demand across the entire region and even look trans regional (i.e., similar to type B, but at a lower level). They also have a great chance to benefit from the fast-growing global offshore services market, especially in the ITES-BPO sector (see Tholons, 2014). The main challenge for them is the intense competition from other leading cities in China. These two cities are lagging behind Beijing and Shanghai- the two largest business services centres in mainland China (Zhang and Kloosterman, 2014)- and Hong Kong- the adjacent global city- in terms of both labour and market conditions (see Table 6.3), which puts them at a disadvantage in top-level business service sectors. Meanwhile, the relatively higher labour and living costs compared to China’s inland cities (e.g. Chengdu, Wuhan and Xian etc.) are also detrimental to their competitiveness in attracting some lower- and medium-order business services (e.g. BPO activities). Whether Guangzhou and Shenzhen can continuously attract a sufficient amount of highly skilled labour through targeted policy design will be crucial for their success in the service sector-led economic transition. This may not be an easy task since the region no longer enjoys a special policy support from the Chinese central government.

As two cities with similar economic development levels and regional status, Guangzhou and Shenzhen also have to deal with the problem of ‘division of labour’ between each other (and, to some extent, with Hong Kong) in business services economies. It is unlikely that two (or more) advanced business services centres (type B) with similar sector focus can co-develop within a same region. Based on their respective comparative advantages, a more rational choice would be for Shenzhen to concentrate on innovation-related activities, such as finance and high-tech services, and for Guangzhou to focus on services that can be linked to its position as a long-term political, commercial and cultural centre in the region. However, these two cities still show a greater willingness to compete rather than cooperate with each other in enhancing their positions.
For most second- and third-tier cities in the region, the more viable choice is a service sector-supported rather than service sector-led development. This means focusing on those business services that can support (or promote) their current industrial foundations. It will include, above all, ‘regular business services’ (type A) that respond to the common demand from the city’s local economic activities, especially the demand from local manufacturing firms. Most of these services will fulfil a principally supporting function, with little export potential. However, through improving the productivity and reducing the costs of local economic sectors, they can help to increase the competitiveness of the overall economy of the city. In addition, substituting the import of these services by local service providers can also contribute to a city’s employment (cf. Coffey and Polèse, 1989, pp. 23-24).

These non-core cities may also try to promote some specific type(s) of business services that can benefit from their local industrial foundations, and develop a more ‘specialized business services economy’ (type C). Most cities in the PRD have established a variety of industrial sectors, some of which have even formed world-class manufacturing clusters (Enright et al., 2005). They have the potential to take advantage of their production capability and specialist knowledge accumulated in specific industrial sectors, and extend to more value-added parts of the production chain. Dongguan’s recent upgrade from a manufacturing base for animation-derivative products to an emerging cluster of animation design, production and exhibition is a good example of such a development (Chinanews, 2013). These services may only take up a niche market in the services economy, but over time they have the potential to become a new source of export. However, the production of these specialized services raises a greater challenge to the knowledge and skill base in lower-tier cities, which are even more disadvantaged (see Table 6.3) in attracting high-level service labour.

In summary, for the PRD, a refined regional ‘division of labour’, with higher-order business services provided mainly by two core cities, and manufacturing and more specialized service activities clustered in lower-level cities, will be a more favourable choice to improve the region’s overall economic competitiveness. All cities need to reposition themselves within this new regional production network
and foster more diverse comparative advantages based on their specific economic foundations.

6.5 Conclusion

This chapter has examined the process and patterns of business service development in the PRD and discussed relevant policy implications. It provides some counterweight to the currently widespread enthusiastic belief among policymakers that business services will be a more promising choice (compared to manufacturing) to achieve socio-economic development in various kinds of cities in China. Although the analysis is centred on a specific case, the lessons learned from it hold value for other regions in China as well. Business services, especially higher-order ones, have strict requirements for the qualities of places and a very selective choice on their locations. The unique features of business services (compared with manufacturing) imply that many cities’ policy interventions, which still rely heavily on their experience accumulated in the industrialization period, may have little effect while involving very high cost (Yang and Yeh, 2013). This chapter argues that local policy makers should develop a better understanding of the characteristics of business service activities as well as the strengths and constraints of their individual cities, and formulate more targeted policies to promote the development of specific type(s) of business services that fits their local economic profiles.

The discussion of service sector development policies in this chapter has mainly concentrated on the strategic level. However, even if a city manages to identify which type(s) of business services economies may be suitable for its local economy, it still has to address a perhaps even tougher question: what measures should (and could) be implemented to actually foster the development of services economies? Developing a pool of highly skilled service labour is much more difficult than attracting low-wage migrant industrial workers. Generating sufficient demand to stimulate the initial creation and subsequent growth of local service firms is also incomparable to seeking external investments and markets for local manufacturing sectors. While local governments in China played a leading role in building the ‘workshop of the world’ in the past three decades, the options and measures left for them (especially outside core cities) in the new wave of business service sector-led
development is limited. Once again, we may come back to the long-standing question: ‘is it really worthwhile to expend so much effort in attempting to resist the “natural” market trends?’ (Coffey and Polèse, 1989, p. 25)

It should be emphasized that, for most cities, developing a business service sector that fits their local economies will be a long-term effort. It may take decades to restructure a city’s manufacturing-based urban economy and improve its labour quality, knowledge base, institutional arrangement and social-cultural environment to a level that can meet the basic requirement of business service activities. This requires local governors to shift their focus from short-term economic growth, which was more easily to be realized through policy and tax incentives in the manufacturing-based development period, to more sustainable, long-term socio-economic progress. In addition, local governors may also have to adapt to their cities’ new roles in the restructured regional (and national) ‘division of labour’, and adopt a more cooperative rather than competitive development ideology as currently prevalent among Chinese cities. These changes probably will not be easily achieved in China’s current competition-centred political-economic environment (Xu, 2011). However, they will be decisive for any city or region’s future development.

This chapter introduced a typology of business services economies to illustrate the diverse modes of service sector development. For a more comprehensive understanding of its policy implications, further research could look at the social and spatial consequences of various types of business services economies. This includes how different business services economies impact and restructure cities’ dominant labour structure and social stratification and who are the beneficiaries of the growth of particular (high-order, specialized or offshore) service activities. A deeper understanding of the social support systems and planning practices that are needed to underpin urban transitions from a manufacturing to a service sector-led economy or from one type of business services economy to another is also necessary. To answer these questions, more studies drawing on detailed, city- and sector-specific information are needed.
Notes

1 The PRD is composed of nine municipalities (Guangzhou, Shenzhen, Foshan, Zhuhai, Dongguan, Huizhou, Zhongshan, Jiangmen and Zhaoqing) in China’s Guangdong province. In 2012, this region accounted for about 84 per cent of GDP and 93 per cent of services production in Guangdong (GSB, 2013).

2 In 2011, the PRD’s services exports (44 billion USD) accounted for only less than 9 percent of its goods exports, and only 6 percent of its services exports involved relatively higher-order business services (GYP, 2012).

3 Unlike in the classification in Table 6.1, outsource/offshore services are also perceived as ‘high value-added’, ‘high-tech’ and ‘high-growth’ by the local policy makers in the PRD (DCGP, 2013).