



## Asian varieties of service capitalism?

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### ABSTRACT

There is currently only limited empirical research and theoretical conceptualisation of the role of knowledge-intensive business services (KIBS) in the economies of Asia within economic geography or elsewhere in the wider social scientific literature. This paper argues that existing theoretical understandings of KIBS are inadequate to conceptualise the nature of ongoing KIBS development in Asian economies – both emerging and mature – and seeks to address this absence by developing a theoretical framework that draws on a range of existing theoretical approaches within and beyond economic geography. To do this, it proposes the concept of ‘service capitalism’, developed from work concerned with varieties of capitalism (VoC), variegated capitalism and advanced service industries. The paper elaborates its theoretical argument by presenting research into two forms of Asian service capitalism through two case studies examining respectively the specific nature of Japanese KIBS and the development of KIBS in China. Using the case studies, it demonstrates how service industry development in both these Asian economies exhibits distinctive characteristics that are a consequence of both local institutional, corporate, and socio-cultural contexts but are also interconnected the wider global economy in complex ways. The paper thus presents a significant and disruptive challenge to existing theories of KIBS development as based on the western experience, and contemporary deployments of the varieties of capitalism and variegated capitalism approaches.

### 1. Introduction

The pre-eminence of knowledge-intensive business services (KIBS) to western economies is widely established in the economic geographical literature, and across other social science disciplines (Hertog, 2000; Warf, 2001; Bryson and Daniels, 2015). Business service industries employ a growing proportion of the workforce, account for a growing proportion of GDP in advanced economies and, more significantly, for the highest-value added activities across global city networks and an increasingly knowledge-oriented global informational economy (Wood, 2002; Hall et al., 2009; Daniels et al., 2012). They have been shown to be central to wealth generation, creativity and innovation as well as economic sustainability and resilience (Lundquist et al., 2008; Noland et al., 2012; Bryson and Daniels, 2015; Jones et al., 2016).

However, the development of KIBS within non-western economies has only been the subject of limited economic geographical attention (Ström, 2005). The focus of research and theorisation with respect to the non-western economies that have matured over the last 50 years – such as Japan or the so-called newly-industrializing countries of the 1970s (NICs) which include South Korea, Malaysia or Singapore – has

largely focused on manufacturing-led growth as a key explanation of economic success. Whilst the emergence of KIBS in these economies is of course acknowledged, understanding has been framed by a broad assumption that KIBS development has followed a similar path to western economies (Ström, 2005). Research within the varieties of capitalism (VoC) approach has, for example, paid little attention to service industry development. Furthermore, where services are conceptualised in within emerging non-western economies service sector development is framed as being of ‘lower order’ (c.f. Lacity et al., 2010; Javalgi et al., 2011) with ‘high order’ KIBS development understood as either absent or lagging mature western economies.

Yet the reality of a rapidly changing and rebalancing twenty-first century global economy (Dicken, 2015) has called into question these dominant theoretical and empirical understandings of the nature and role of KIBS (Daniels et al., 2012). The rise of the BRICs economies has attracted research into the nature of KIBS within emerging economies, but this has largely focused on questions of how transnationalising western KIBS firms have sought to enter these emerging economies (Wu and Strange, 2000; Ren et al., 2013; Falk, 2013) or how these economies represent developing markets for increasingly advanced services (Yeh and Yang, 2013). The assumption (more often implicit than

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explicit) is that emerging economies lack the most advanced and sophisticated business services (highest order), and that these leading knowledge industries remain dominated by western firms. Whilst economic geographers have been at the forefront of pointing to the importance of understanding the rise of services more generally in emerging economies, their focus has to date largely been concerned with “second global shift” a (Bryson, 2007) as lower order service activities relocate from the developed western economies rather than KIBS (e.g. Grote and Täube, 2006; Massini and Miozzo, 2012).

The entry point of this paper is to argue that there is a substantial gap in current social scientific understanding, both empirical and theoretical, in relation to the nature of KIBS in non-western economies in general, and emerging economies in particular. This gap is evident from the disconnect between the social science literature and recent policy and media commentaries which indicate both the presence and increasing sophistication of domestic KIBS industries within many emerging economies (c.f. Yeh and Yang, 2013; Daniels, 2013; Dicken, 2015). To develop this argument, the paper focuses specifically on KIBS within two Asian economies and seeks to make three arguments in relation to the development of KIBS. Firstly, building on the limited existing literature, it argues that despite national capitalist variations, mature Asian economies share important and distinctive characteristics of KIBS development that contrast to the dominant western theorization of KIBS. We propose the concept of *service capitalism* to capture the distinctiveness of KIBS development in different national economic contexts. Using this concept, we argue that Asian service capitalisms exhibit distinctiveness as a consequence of the way in which KIBS in many Asian economies have co-evolved with other industries, do not embody the western business practices the literature presents as ‘global’ and are delivered by differently kinds of firm and institutional entities that straddle multiple firms and industry sectors. We draw together research on Japanese service industries to illustrate this. Second, we argue that the development of KIBS within Asia’s major emerging market – China – provides further evidence of this distinctive path to KIBS development, demonstrating common characteristics that correspond to an Asian service capitalism with Chinese characteristics. Third, we contend this conceptualisation challenges existing theoretical and policy conceptions of ‘global’ KIBS industries, embodied in concepts of the convergence of KIBS forms across national economies. A key implication is to question the degree to which KIBS firms and industries can become ‘truly’ global because of the characteristics of KIBS development in key emerging Asian economies (and potentially in other emerging market contexts). The approach also calls into question wider arguments that emerging economies are developing in broadly comparable way to other national capitalist systems.

In order to elaborate these arguments, the paper presents research into the nature of two forms of Asian ‘service capitalism’ in relation to KIBS in Japan (a mature Asian economy) and China (an emerging Asian economy). Whilst significant variations exist between KIBS development in these economies, the research identifies common distinctive characteristics around firm form, institutional embeddedness, work practices and cultural norms that are markedly different from the hegemonic norms of western KIBS development. Drawing on the service industries and ‘varieties of capitalism’ literatures, the paper develops and deploys the concept of ‘service capitalism’ to reveal commonalities in underlying institutional setting, cultural context and business environment that have led to similar characteristic in both cases that are distinctive from the existing conception of western/global KIBS development. We do not seek to overdetermine the concept of a singular Asian service capitalism, recognising the diversity and variance between the Japanese and Chinese cases. However, we aim to demonstrate the common degree of distinctiveness when compared to dominant Anglo-American norms that has defined understanding of the globalization of KIBS. We also situate this concept as a more nuanced sector-specific framing of capitalist variation, sensitive to the critical debates about simplistic conceptions of nationalist capitalist variety

(c.f. Peck and Theodore, 2007; Peck and Zhang, 2013). In that respect, the concept of ‘Asian service capitalisms’ aims to offer a new cut at a useful means to think about capitalist variation in economies that are emerging in a period of increasing service sector dominance in global economic activity.

In the remainder of this paper, we develop these arguments in a series of stages. The next section considers existing theories of KIBS, arguing that these are significantly limited by their grounding in the experience of advanced economies in the west. Drawing on the VOC literature, it outlines the concept of *service capitalism* as a method of conceptualizing different forms of service sector development in different national economic contexts. We argue that this creates scope to better conceptualise the distinctive characteristics of KIBS in emerging economies in particular given their KIBS industries have developed at a significantly later point and in a different context than in advanced industrial economies. The third section follows on from this by outlining a conceptual framework for how the nature of *service capitalism* in Asian economies might be reconceptualised differently, creating scope to understand how services, service firms and clients might be differently conceived in the Asian market context. The remainder of the paper then elaborates the utility of this approach in relation to two empirical case studies based on research in Japan and China. It ends by drawing together some conclusions around the concept of ‘Asian service capitalisms’ and argues that there is a pressing and distinctively geographical research agenda in the development of KIBS in Asian and other emerging economies.

## 2. Knowledge-intensive business services in the global economy: a western-centric view?

The centrality and significance of KIBS to advanced industrial economies is well established in the literature (Bryson and Daniels, 2015), and KIBS have been integrated as an increasingly familiar plank of policy approaches to economic growth for several decades (EU, 2014). KIBS comprise a wide spectrum of advanced services, ranging from various financially related services, organizational and IT related services to legal firms and firms specializing in developing the resource structure of clients. It is through the impact on the economy as a whole that has made the sector important. In the complex networks of the globalized economy, whether it is manufacturing or services, knowledge is the key and the borderline between the production of goods and services is increasingly blurred (Beyers, 2012; Daniels, 2012). Most manufactured goods with high value-added content are to a large extent dependent upon advanced services in the production process (Pla-Barber and Ghauri, 2012, Park and Shin, 2012). Knowledge-based inputs are increasingly central to all industry sectors from agriculture to mineral extraction (e.g. the oil industry) (c.f. Cumbers et al., 2003). With almost half (46 percent) of the value added in global production chains stemming from services it is clear that KIBS play an important part in the globalization of the economy at large (UNCTAD, 2013). Additionally, services constitute about 22 percent in total world exports of goods and services, comprising a vital part of multinational corporations’ intra-firm service trade.

In this respect, it is therefore unsurprising that there is a growing awareness among the emerging markets of the future potential within service economy growth (ADB, 2012; Jensen, 2013). This relates to basic services providing employment opportunities for non-skilled labour and, more importantly, it also connects to the development of employment within advanced services. Properly managed, the service sector may constitute a new engine of growth for Asian, African and Latin American emerging markets, where KIBS play an important part for improved productivity, innovation and internationalization for both general services and manufacturing. An increase of service industry activity would not only have an important social and economic impact, but is central to facilitating green and sustainable growth (Jones et al., 2016). The development of KIBS is driven by different factors in Asia,

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