



# Will rural urbanization produce a new producer service space in China?



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## ABSTRACT

The spatial relationship between manufacturing and producer services is being significantly weakened in advanced economies because of the decline of manufacturing industries. However, as upstream–downstream industries, manufacturing and producer services have incentives to locate in proximity to each other. In developing countries, such as China, where manufacturing is still an important component of the economy, the evolution of the manufacturing–services relationship and its link to the distribution of producer services have remained unclear. After the economic reforms in 1978, China has experienced a distinctive process of rural industrialization and town development. Will a new producer service space, which is different from that of developed and other developing countries, be produced in China given its development of rural industries? We examine this question by using Guangdong Province, one of China's manufacturing bases and representative regions of rural industrialization, as a case study. Our findings suggest that despite their close input–output linkage, manufacturing and producer services are less likely to co-locate. The development of rural industries has not reduced the importance of large cities and city centers in producer service development. The accelerated economic globalization, the rapid growth of the service sector, and the low-end nature of rural industries have made the manufacturing–services linkage less crucial in determining the location of producer services.

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## 1. Introduction

The past decades since the late 1970s has witnessed an enduring economic transition from manufacturing to services in many Western developed countries. Along with economic tertiarization, the service sector, especially producer services, is an essential engine of economic development in terms of wealth and employment (Riddled, 1986). Fostered by the globalization and fragmentation of economic activities (Sassen, 2001), the growth of the service sector has been evident via intermediary input–output linkage with the manufacturing sector (Yuan, Gao, Wang, & Cai, 2017).

The growing importance of producer services has also brought greater attention to its externalization and location preferences, as well as a transition in the theorization on the manufacturing–services relationship. According to the conventional economic theories, the service activities were manufacturing-dependent,

“unproductive” and “non-basic,” as they must depend on the wealth and income created by the manufacturing industry; therefore, they must be situated close to the goods production sectors (Cohen & Zysman, 1987; Eatwell, 1982; Tiebout, 1956). Since the 1970s, however, an increasingly loosened geographic tie between manufacturing and services was demonstrated by empirical evidence, when accelerated global division of labor has occurred. The relegation of services to a subordinate and derivative role has also been challenged (Townsend & Macdonald, 1995; Bryson & Daniels, 1998; Illeris, 1996, 2005).

The theoretical transition in the manufacturing–services relationship arises mainly from the structural transformation from industrial into post-industrial economies in many Western countries and the increasing recognition of the importance of the service sector in the economy. As service industries provided for “producers,” producer services are the service activities that experience the major change in the linkage with manufacturing because the economic restructuring from manufacturing to services has changed their primary users. Goe (1994, pp. 979) asserts that the developmental mode of producer services has evolved from an industrial model “directly tied to and predominantly dependent

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upon the resources generated by the local manufacturing industry” to a post-industrial one generated by the local service sector. In the context of service economy, producer services display a location tendency that is increasingly less affected by manufacturing industries. Being more conservative, producer services are highly concentrated in large metropolitan areas (Coffey & Shearmur, 1997; Daniels, 1995).

In stark contrast with the Atlantic core, where manufacturing production has been in a decline, developing countries are destinations of manufacturing investments moving out from these economies. In many developing countries, the privileged globalization strategy has given rise to a pattern of industrial development in favor of core cities, especially the primate cities (Douglass, 1989), where the rapid growth of producer services has also occurred over the past two decades (Hutton, 2004). In a context that the growth of manufacturing and services has taken place side by side (Daniels, Ho, & Hutton, 2005; Lin, 2004), how manufacturing and producer services are spatially connected to each other as upstream–downstream industries? Being vertically linked, manufacturing and producer services have incentives to collocate. Many producer service hubs in Western economies were found to be previous manufacturing centers (Goe, 1994; Ley & Hutton, 1987). To what extent the manufacturing industry has exerted a crucial dynamics in shaping the distribution of producer services in developing countries?

In order to have a better understanding on manufacturing–services linkage in developing countries, this paper examines the co-location issue between manufacturing and producer services in China. Despite a similar emphasis on the industrialization paradigm, China has adopted a distinctive development strategy, namely, rural industrialization, which extends industrial development to areas outside large cities (Eng, 1997; Yeh, Yang, & Wang, 2015a). Different from developed and other developing countries, many small and medium cities have emerged and become important loci for manufacturing production in China. China’s unique rural industrialization process and recent rapid growth of producer services have made the country a valuable and interesting case.

Taking Guangdong Province as an example, this paper explores the co-location patterns of manufacturing and producer services in China. We aim to address the following questions: 1) is there a close spatial linkage between manufacturing and producer services in China? 2) With the industrial development in China being relatively decentralized, will producer services accordingly exhibit a relatively loose distribution? In the following parts, we first provide a literature review of studies on the spatial linkage between manufacturing and producer services. Secondly, the paper provides a brief introduction of the study area, followed by a discussion of the data and methodology. In the empirical analysis section, we initially use the input–output relationship to identify the producer service sectors with the highest direct and total input coefficients for all the manufacturing industries. Then, the spatial patterns of the two industries in Guangdong Province are examined at both county-level and city-level. Finally, we conclude with our main findings and policy implications.

## 2. Spatial relationship between manufacturing and producer services

Studies on the relationship between manufacturing and producer services can be traced back to Adam Smith, who, in his landmark book *Wealth of Nations* published in 1776, classified economic activities or labor as productive or un-productive. Manufacturing activities are productive as they make significant “strategic” contributions to the operation of an economy, whereas service activities are un-productive as they do not increase the

national wealth (Smith, 1776). The productive and unproductive categories of labor were further developed in Marxist economic analyses, which underscore the importance of “capital–labor relation” in defining the division of labor. The “unproductive” perception of service activities has significantly constrained the growth of service industries in many socialist economies, such as the former Soviet Union and pre-economic reform China (Schroeder, 1987; Yang, 2004). Similarly, conventional economic basic theory dichotomizes the economy into basic and non-basic economic sectors (Haggett, Cliff, & Frey, 1977). Basic activities primarily refer to agricultural and manufacturing industries, which produce goods consumed outside the region. Non-basic activities, which are performed by service industries, are limited to local markets as they require frequent meetings between producers and users. As the growth of service activities depends on the wealth and income brought into the region by basic activities, their role in local economic development is generally considered “passive,” “secondary,” and even “parasitic” (Williams, 1997). Despite differences in concepts and definitions, the earlier theories share a common belief that service activities are “latter demand,” which depends on the growth of goods production sectors and thereby shows a strong inclination to situate in close proximity to manufacturing industries (Hansen, 1990; Illeris, 1996). On the premise of this dependent manufacturing–services relationship, the regional policies established in many Western countries in the 1950s and 1960s attempted to influence the location of manufacturing industries and other goods-producing activities.

Since the 1970s, the “global shift” of production from Global North to Global South has accelerated. The “new” international division of labor has led to a continuous decline in the manufacturing employment and capacity of most Western economies (Kaldor, 1979; Singh, 1989). With the outward movement of manufacturing activities, the Western economies are moving into a “post-industrial” phase (Bell, 1973). As services have displaced manufacturing as the central activities in post-industrial economies, efforts have been exerted to reexamine the role of service activities in local economic development and their relationship with manufacturing. First, producer services are found to be either “basic,” which means being capable of being exported to other regions and generating local multiplier effects (Urry, 1987), or “indirectly basic,” which means constituting “a necessary condition for competitiveness of the basic sector” (Guerrieri & Melicani, 2005; Wang, 2009, p. 277). Second, producer services are increasingly being utilized by non-industrial users, which extend the sectoral linkage of producer services beyond the manufacturing domain (Beyers & Lindahl, 1994; Goe, 1990; Michalak & Fairbairn, 1993). Third, related to the change in the supplier–client relationship, the geographic tie between manufacturing and producer services has become loose. With a loosening connection with manufacturing whereas an increasingly intimate one with the service sector, producer services demonstrate a distribution pattern that is more concentrated than manufacturing, showing a strong tendency to be located in large metropolitan areas (Andersson & Hellerstedt, 2009; Coffey, 2000; Daniels, 1985; Lin, Yang, & Hu, 2012; Moulaert, Scott, & Farcy, 1997; Wernerheim & Sharpe, 2003).

Recent studies have suggested that in the context of post-industrial economies, the growth of services is no longer generally dependent on manufacturing, and the manufacturing–services linkage has evolved from a complementary to a loose one (Goe, 1990). However, despite a loosening connection between manufacturing and producer services, the early manufacturing structure that significantly increased the initial demand for producer services was found to be necessary for understanding the concentration of producer services in a location (Goe, 1994). Furthermore, producer services are still important intermediate

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