

Research on the Development of Producer Service Industry in Zhejiang: Situational Analysis and Strategic Suggestions

Chunying Weng

Faculty of Business
Zhejiang Business Technology Institute
Ningbo, China
grace1808@yahoo.cn

Abstract

Producer service industry has become an important part of the national economy along with the development of economy, the progress of science and technology and the increasing refinement of social division of labor. As Zhejiang Province is in the strategic transformation stage, development of producer service industry can help to upgrade industrial structure and accelerate the development mode. Based on the analysis of the present development situation of Zhejiang producer service industry, this paper analyzes the main problems of its development, and finally puts forward strategic suggestions for development of producer services industry in Zhejiang.

Keywords: producer services industry; situational Analysis; strategic suggestions

1. Introduction

As the economic globalization process accelerates, modern service industry develops very rapidly. As it requires high technology, consumes low resource and contributes little to environmental pollution, its growth greatly exceeds the service industry, which has made great con-

tribution to the growth of regional and national economy,

For years, study on producer service industry has become a hot issue. Browning & Singleman (1975) states that producer service industry is knowledge-intensive. Coffey & McRae (1989) believe that it can improve manufacturing values for the goods in other industries. Zhong & Yan (2005) analyze that it is an indispensable link and a catalyst for industry from the perspective of the service customer. Drennan (1992) points out that the fast development will not only promote economic growth but also enhance the industrial competitiveness. A lot of scholars both at home and abroad are strongly for the relationship between the producer service industry and cluster economy.

Though producer industry in Zhejiang has made great progress for the past ten years, there are still quite a few problems harassing its development. Zhejiang economy has particularly been affected by the impact of the global financial crisis due to traditional low-end industries and OEM export oriented economic development mode. It is proved that the development of producer services industry can enhance the competitiveness of the region, accelerate the optimization and upgrading of the industrial structure and promote rapid economic growth and sustainable develop-

ment. Therefore, vigorously develop the producer service industry is the inevitable choice to develop Zhejiang economy.

2. Situational analysis of the development of the producer service industry in Zhejiang

Producer service industry in Zhejiang has made great progress together with the development of science and technology.

2.1. The total output value increases rapidly

As shown in statistical yearbook, producer service industry in Zhejiang has made rapid growth and its total output value increase rapidly since 2004. The output value of main producer service industries in Zhejiang has been rising steady from 153.45 in 2004 to 555.83 billion Yuan in 2011. During that period, output value of transportation, storage, postal industry has gone up from 44.47 to 120.70 billion Yuan; Finance industry from 52.35 to 273.03 billion Yuan; Information transmission, computer service and software industry from 27.39 to 75.61; Leasing and business services industry from 19.74 to 57.74; Scientific research, technical services and geological prospecting industry from 9.50 to 28.96.

2.2. The added value of producer service industry accounts for more and more proportion of service industry year by year

The added value of producer service industry accounts for 33.47% of the service industry in 2004; 34.47% in 2005; 36.64% in 2006; 38.15% in 2007; 40.35% in 2008; 38.84% in 2009; 38.82% in 2010 and 39.20% in 2011. Finance industry makes up more than 10% of the service industry. The percentage of transportation, storage, postal industry is 10% of the service industry. Apart from the above, other main producer service industries keep on developing steadily.

2.3. The internal structure of producer service industry have been continuously optimized

From the viewpoint of inner structure of industry, the financial industry is growing faster than any other ones from 2004 to 2011 reaching 273.03 billion by the end of 2011 accounting for 49.12% main producer service industry in Zhejiang province, 15.01% higher than that in 2004. However, the proportion of traditional transportation, storage, postal industry has dropped from 28.98% in 2004 to 21.71% in 2011. Modern producer service industry grow faster than traditional ones. Therefore, the internal structures of producer service industry in Zhejiang have been continuously optimized in the long run.

2.4. Total amount of fixed asset investment has been increasing

In 2011, investment on fixed assets of projects surpassing set ceiling in service industry has reached 875.74 billions Yuan making up 62.00% share of the total investment. The accelerated investment growth rate of producer service industry has been a hot issue. In 2011, investment o them has reached 143.69 billions Yuan, which is 25.05% more than that in 2010.

2.5 More and more people engage in producer service industry

The developments of producer service industry create more employment opportunity. Urban employees reach 18.93 million, 5.76% more than in 2010; Numbers of employees were increased by 470,900, 5.92% more than that in 2010. Employees engaged in emerging producer service industry have increased tremendously, a growth rate of 16.41% for transportation, storage and postal industry with; 5.87% more in Finance industry, 26.85% more in Information transmission, computer service and software industry, 30.03% more in Leasing and business services

industry and 28.28% more in Scientific research, technical services and geological prospecting industry.

3. Problems that producer service industry in Zhejiang are facing in time of development

From the above analysis of the present situation of the development of producer services industry in Zhejiang, we can see that in recent years Zhejiang producer service industry has made considerable progress, but there are still too many problems to be ignored.

3.1. The producer service industry has developed to a certain scale, but its total amount is insufficient

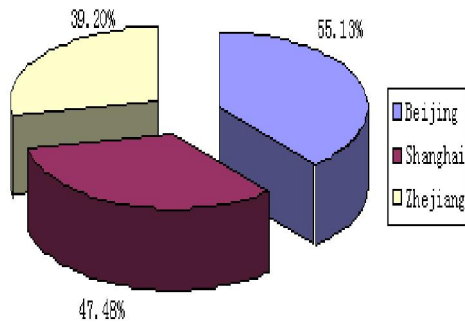


Figure 1: Comparison of the share of main producer service industry in service industry between Zhejiang and areas as Beijing and Shanghai in 2011

In 2011 the Zhejiang main producer service industry account for the 40%, which is similar as those in Jiangsu, Shandong, Guangdong and other developed seaside areas, but much less than more developed areas as Beijing, Shanghai (Figure.1)

Main producer service industry has made up 17.20% of the entire GDP in Zhejiang by 2011, far less than that of second industries majoring in manufacturing industry which accounts for 51.23%. So, the gross production of service industry in Zhejiang province is still relatively small and its development is relatively backward, which restricts the upgrading

of the industrial structure in Zhejiang to a certain extent.

3.2. Producer service industry is not competitive in terms of science and technology. Its inner structure is far from reasonable and the level of development of emerging industry is still relatively low

From the view of development level and inner structure of the producer service industry in Zhejiang, although the structure has been constantly optimized, there is big gap. In general, transportation, storage and postal industry and financial one take most part of the share of producer services industry. Their added value reaches 70.84% exceeding other industries considerably. However, emerging producer service industry such as information transmission, computer service and software, leasing and business services, scientific research, technical services and geological prospecting only account for relatively low share, which only reach half of that in Beijing, Shanghai or even lower (Figure 2).

It is clear that among the producer service industry in Zhejiang, transportation, storage and postal industry and financial industry outweigh prominent producer service industry such as business and leasing services industry and scientific research, technical services and geological prospecting, the latter are still in the initial stage.

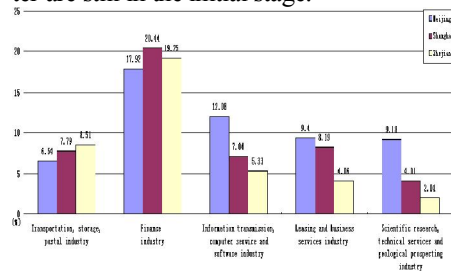


Figure 2: Comparison of the internal structure of main producer service industry between Zhejiang and other areas such as Beijing and Shanghai in 2011.

3.3. Producer service industry is not closely related with other industry, and its driving power is not strong enough

Relationship between manufacturing and producer service industry is interactive and interdependent. The two develop jointly and dynamically. In order to meet demands of their development, the total value of producer service industry should increase together with the total value of industrial output. As seen from Figure 2, added value percentage of main producer service industry against manufacturing industry in Zhejiang shows an increasing trend from 2004 to 2011, but the growth rate is slow.

Industry is not obvious except finance industry, which shows that most producer industry in Zhejiang are incompetent at promoting the development of manufacturing industry.

Based on the above analysis, though Zhejiang producer service industry has achieved remarkable development in recent years, the scale of the industry is rather small, and problems such as in coordination of development and relatively low structure level have harassed the rapid development of Zhejiang's economy, industrial optimization and upgrading to a certain extent.

4. The strategic suggestions for development of Zhejiang producer service industry.

In order to deal with problems harassing development of Zhejiang producer service industry, it is essential to accelerate its developments in many aspects, which will promote the development of economy, optimize industry and speed up economic transformation.

4.1. To construct supporting policy system in order to further promote development of the producer service industry

The rapid development of the producer service industry is inseparable from the support of the government. The government should formulate and implement effective policies to guide the health development of producer service industry, such as encouraging the construction of producer service industrial park near the base of advanced manufacturing industrial enterprise, and give full play to the advantages of industrial clusters; Improving organization of producer service industry; cultivating leading enterprises by giving certain preferential policies to large-scale producer service enterprises; promoting the healthy development of small and medium-sized producer service enterprise. In making financial policies, special funds are to be allocated to support pilot demonstration projects; to supply guarantee and risk funds for private economic services; to arouse the enthusiasm of private capital investment in producer service industry; to expand financing channels helping large private enterprises to get enough finance in capital market. In the formulation of fiscal policy, tax rate can be adjusted by offering discount or subsidies to key project of producer service industry.

4.2. To develop manufacturing and producer services industry interactively

Although the manufacturing industry of Zhejiang province is quite developed, resources are relatively scarce. Therefore, in order to meet demands of economic globalization and more fierce competition, producer service industry and manufacturing industry should develop hand in hand as the upgrading of the manufacturing will push the development of producer service industry, while rapid development of the latter will further promote

the former. Integrative development will enhance their core competitiveness. Therefore, it is essential to set up a new pattern of interactive development by making full play of industrial advantages, updating the concept of development, increasing manufacturing inputs, especially developing high-end outsourcing service industry and offshore ones.

4.3. To optimize industrial structure by cultivating innovative enterprises and promote producer service clusters

It is essential to cultivate producer service industry clusters. Creative enterprises shall be cultivated by guiding qualified enterprises to focus on core competitive advantages such as technology research and marketing. Industries in producer service industry cluster are closely related, which is favorable for the formation of the whole social service network. Cluster industries can share resources and benefit from economy of scale. Moreover, they can open up new space for the service economy and further reduce transaction cost. Benefited from economic development of Yangtze River Delta advantage, cluster enterprises in Zhejiang may make full use of their advanced services and management, attracting capital transfer both at home and abroad, attracting multinational R & D departments and marketing centers and so on.

4.4. To focus on the talents training and introduction to provide the talent guarantee for the producer services industry in Zhejiang

It is necessary to cultivate and introduce talents to solve personnel difficulties of Zhejiang producer service industry. It is necessary to establish and perfect the training system by increasing investments for education and training and widening the ways of cultivating talents, facilitate the cooperation and exchanges at home and abroad, setting up majors which can

meet the development needs of producer service industry. To draft human resources policy flexibly and introduce more high-end talents by granting preferential policies such as allowing service technology investment and reforming income distribution system. To establish and improve the incentive mechanism of talents, smooth talent flow channels, and strive to create a good environment for all kinds of producer service industry personnel.

5. Acknowledgment

It is a project both supported by Scientific Research Fund of Zhejiang Provincial Education Department under Y201119639 and Zhejiang Research Institute of Philosophy and Social Science under 12JCJJ11YB.

6. References

- [1] Browning C., & Singleman. "The Emergence of a Service Society". Springfield: Springfield college. 1975.
- [2] Drennan M Gateway cities, the metropolitan sources of U.S. producer service exports in *Urban Studies*, 29: 217-231, 1992.
- [3] Chen, Chen & Huang. "Research on Service Industry Cluster and Its Influencing Factors from the Perspective of New Economic Geography based on Data of 222 Chinese Cities" in *Management World*, (4) pp. 83-93, 2009.
- [4] Han Minghua. "A Study on Optimization and Upgrading of Industrial Structure Promoted by Producer Service Industry – Taking the Transformation of the Manufacturing Industry in Ningbo as an example" in *Reform of the Economic System*, (4) pp. 51-55, 2010.
- [5] Zhong & Yan. "Research on the Role of Producer Services by Western Geography Scholars" in *Human Geography* (3) pp. 12-17, 2005.