

# Research on the Impact of Producer Services on China's Division of work Status from the Perspective of Global Value Chain

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**Abstract:** Global value chains and producer services have always been the research hot spots of scholars from all over the world. This paper mainly explores the relationship between the status quo of China's producer service industry and China's division of work in the global value chain, then this paper proposes corresponding countermeasures and suggestions based on the research results.

## 1. Introduction

Previous research mainly focused on the research on the division status of China's manufacturing in the global value chain [1-2] and the path of how China promotes the development of the producer service industry [3-4], but there are fewer researches on how the development of the producer service industry will impact China's division of work status in the global value chain [5-6]. On the other hand, there are relatively few such studies. On the other hand, though, the measurement methods of the division of labor in the global value chain have their own merits, there are problems with these measurement methods, such as incomplete measurement indicators [7], etc.

China is a big manufacturing country, and it is fully equipped with the basis and ability to climb to the mid-high part of GVC. China should transfer production and assembly to other regions which have comparative advantages, while leaving design and sales in the local area to fully develop our own productive services, accelerating the servitization trend of manufacturing. It is concluded that the development of the producer service industry is beneficial to China's rising to the high end of the global value chain. Therefore, China should accelerate the development of the producer service industry, improve the business environment, and increase the openness of related industries, and at the same time, we should get rid of the dilemma of "locking in", which will enhance China's position in GVC and create more value.

## 2. China's producer service industry and the status of China's division in GVC

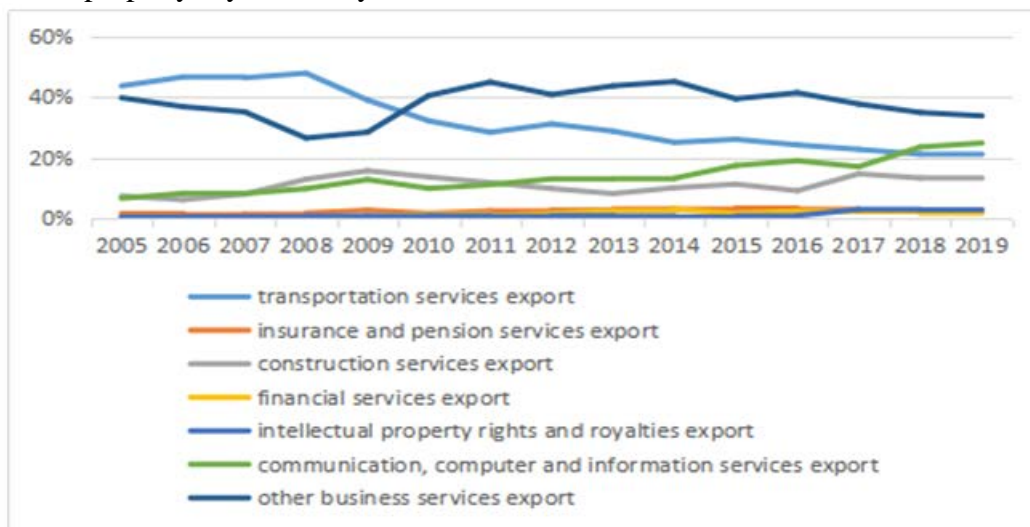
### 2.1 China's producer service industry

The producer service industry is dependent on the manufacturing industry and runs through the upper, middle and lower reaches of the value chain. It focuses on various advanced service industries based on information technology and human capital, accelerating the development and integrating the secondary and tertiary industries. In recent years, China's producer service industry has developed rapidly, and it has continuously promoted the rapid growth of the real economy such as manufacturing.

Based on the category of service industries under the "China Balance of Payments" combined with the OECD database, this paper divides the producer service industries into seven categories: transportation services, construction services, financial services, insurance and pension services, intellectual property rights and royalties, communication, computer and information services and other business services.

Judging from the status of the seven categories that constitute China's producer service industry, the existing industry structure is irrational and lacks industries with advanced technology, advanced management experience and intellectual property rights, in view of the export structure of productive

service trade, thus it leads to the problem that the export structure is seriously unbalanced. As is shown in the figure 1 below, the labor-intensive industries such as transportation services and construction services account for a large proportion, while knowledge-intensive industries such as financial services and intellectual property royalties only account for less than 5%.



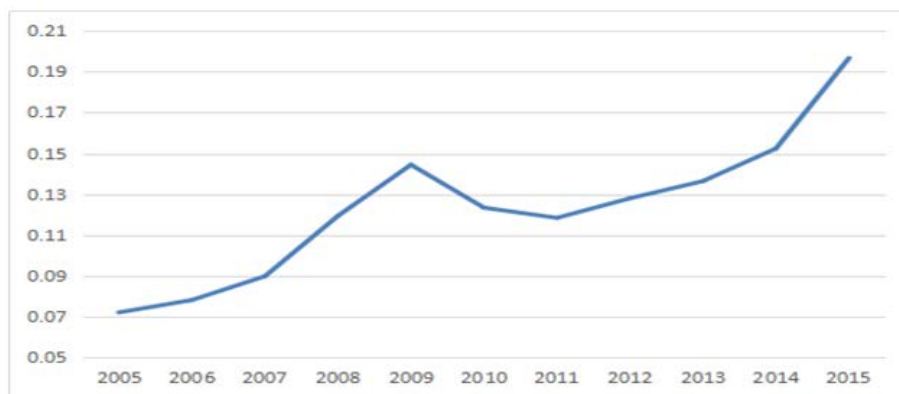
Data Source: UNCTAD database (BPM6).

Figure 1. The proportion of China's export of producer services trade by industry (%) from 2005 to 2019

## 2.2 The status of China's division of work in GVC

The indicator to measure the status of the international division of work in the GVC is the domestic value-added of export products, which is the value-added of domestic trade, refers to the domestic components included in the export products. The level of the added-value can reflect the link of a country or region in the global value chain. The higher status of the international division, the higher domestic added-value of its export products; the lower domestic added-value of export products, the lower the status of the international division, indicating the country or region's exports mainly depend on the processing and assembly of intermediate products, which are in the lower link of the value chain. Based on the status of the international division in the global value chain, it can also reflect whether a country or region's trade growth mainly depends on external sources or endogenous sources.

According to Figure 2, it can be seen that the status of China's GVC has always been greater than zero and is on the rise. Although it was affected by the financial crisis in 2008, its status in the global value chain is still on the rise, indicating that China is constantly increasing its high-end status. The design and marketing of products and technology-intensive products continue to rise to the high end of the value chain.



Data Source: TIVA database.

Figure 2. 2005-2015 China's GVC status index

### 3. Some problems with China's producer service industry

(1) The total trade volume is small. The total volume of China's trade in services in 2019 is relatively small, about 783.9 billion U.S. dollars. Compared with commodity trade, China's service trade volume is less than 20% of the merchandise trade volume.

(2) The structure is not balanced. The balance of producer service trade has always been negative. From 2005 to 2019, the value of the trade balance has always fluctuated below the horizontal axis and the deficit was large.

(3) Lack of competitiveness. The competitiveness of service industries that rely on a large amount of labor, such as transportation services and construction services. Although the competitiveness of service industries that require professional technology such as the information service industries are constantly increasing, the competitiveness of the financial service industries and intellectual property royalties always at a lower level, resulting in insufficient overall competitiveness of the producer service industry and a large gap with developed countries.

### 4. Countermeasures and suggestions

(1) To optimize the total trade volume and structure of productive service trade.

The total volume of China's trade in productive services is small, and the import and export volume of various industries has been in deficit for a long time. Therefore, expanding the total trade volume of the producer service industry while reducing the deficit is the first step to do. Adjusting the structure is also very important. It is imperative to increase the market share and competitiveness of the technology-intensive service industry. The adjustment of the structure is closely related to the characteristics. It is very important to cultivate and develop a producer service industry with China's advantages to occupy a place in the world market. For example, it is possible to do a good job in the new form of digital trade.

(2) To enhance the competitiveness of the producer service industry.

① Innovation and technology investment enhances competitiveness

China's economy has entered a critical stage of innovation-driven development. Problems such as the unreasonable structure of productive service trade, unbalanced import and export, and insufficient core competitiveness of enterprises need to be solved through knowledge innovation, technological innovation and institutional innovation.

② Domestic and foreign demand promotes competitiveness

The Fifth Plenary Session of the 19th Central Committee proposed to speed up the construction of a new development pattern in which the domestic cycle is the main body and the domestic and international double cycles that promote each other. Therefore, core resources such as capital, talents, and technology will flow to the productive service sector, thereby boosting the competitiveness of productive service trade driven by demand. We should extend the production factors of the producer service industry to the manufacturing sector, and at the same time extend the technology and knowledge elements in the manufacturing sector to the producer service industry, so as to produce new products or new services with industrial characteristics.

③ Deepening the field opening-up improves international competitiveness

China will expand opening up to the outside unswervingly by reducing market access restrictions for foreign investment in the service industry, and by lowering service trade barriers. At the same time we should give full play to the role of FDI in the producer service industry, and we should make good use of abundant human resources and innovative technology to enhance the core competitiveness of Chinese enterprises.

### 5. Conclusion

The development of the producer service industry plays an important role in promoting China's work status in the global value chain. In the future, the demand for China's service trade will continue

to increase, and it will continue to open up the service sector, import more high-quality services, and at the same time actively expand service exports, promote China's high-quality services to the world, and enhance the international competitiveness of China's productive services.

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