ECONOMIC GLOBALIZATION AND THE GROWTH OF CONSULTING SERVICES IN GUANGZHOU, CHINA

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Abstract: *Despite the low value-added nature of the service sector in China, advanced services have been growing rapidly in major Chinese cities in recent years. This paper analyzes the growth of consulting services in metropolitan Guangzhou as a response to China's economic reforms and the intrusion of globalization forces. The social and spatial divisions of labor under globalization have generated an increasing demand for consulting services in Guangzhou. To attract international investment, the improvements on urban infrastructure and urban image have been significant locational advantages driving consulting services into the city. However, a close examination suggests that the path-dependent effects also require serious evaluations. The state still plays an important role in the growth and performance of consultancies in Guangzhou. The case of Guangzhou raises new theoretical questions for the growth of advanced services in the Chinese context.*

Introduction

The existing literature on world cities, global cities, and global city-regions has explained the growth of advanced services as a result of two concurrent processes – the "global shift" of industrial production and the centralization of command and control functions. It is argued that to direct global industrial production and to organize international operation of capital, advanced services have enjoyed rapid expansion in these cities. The open door policy implemented in 1979 has allowed China to enter the global market, and since then China has been one of the largest recipients of foreign investment in the world. The arrival of foreign capital has fundamentally changed China's urban economy, leading to significant economic restructuring. Service industries have experienced phenomenal growth in many Chinese cities. While the boom of the service sector is distinguished by its low-end or low value-added nature (Lin, 2003), high-order services have been growing rapidly in recent years. As Cai and Sit (2003) argue, the impacts of globalization forces have engendered the formation of world cities in the Chinese context. It is commonly agreed that economic globalization has given rise to the disproportionate concentration of service functions. However, since the existing literature on world cities or global cities has been developed primarily on the basis of the experiences in North America and Western Europe, relatively little is understood about how advanced services develop in major Chinese cities as a consequence of the intrusion of the global market forces.

This study examines the growth of consulting services in Guangzhou, currently one of the most rapidly 'globalizing' metropolitan regions in China. Guangzhou is also one of the most important Chinese cities for the growth and performance of consultancies. The focus is placed on consulting services because they are closely related to the decision-making process and have tended to locate in those cities with command and control functions. Guangzhou is historically the regional center in southern China. Recent intrusion of globalization forces since the late 1970s has undermined the city's role as a center of industrial production, but led the metropolis to take on new service and business hub functions for the region (Lin, 2005; Xu and Yeh, 2005). The case of Guangzhou demonstrates an interesting process to understand how economic globalization has affected service development in the Chinese context. This paper is organized into five parts. It first evaluates the existing literature on the service economy under globalization. It then turns to the data collection and research methods of this study. This is followed by an analysis of Guangzhou's urban economy after the reforms. The fourth section investigates the growth of consulting services in Guangzhou in the era of globalization. The final section highlights the important findings of this study.

Theoretical Context: Growth of Producer Services under Globalization

In the mainstream enquiry of geography, economic globalization has been perhaps the most important force of recent urban changes. Many Western cities have experienced significant economic restructuring in the past decades. Producer services have expanded rapidly and have tended to concentrate in major cities. Two new changes of the production system under globalization have explained the dramatic expansion of producer services and their uneven distribution.

The first change accounting for the rise of producer services is the shift from Fordism to post-Fordism. In contrast to Fordist mass production/mass consumption, the key characteristics of the post-Fordist economy are "flexible specialization" in production and "vertical disintegration" in organization (Storper and Scott, 1989). Flexible specialization involves such processes as product innovation and differentiation, process innovation, increasingly complex national and international environments, and proliferation of internal management and administration tasks (Goe, 1991; Coffey and Bailly, 1992; Bryson *et al.*, 2004). Such a shift alters virtually all the relations between different parts in the production system. Given their role in investment, innovation, and technical improvement, producer services become strategic industries to facilitate economic adaptation and maintain corporate management (Coffey and Polèse, 1989; O'Connor and Hutton, 1998; Coffey, 2000). The growing demand, however, does not completely explain the dramatic expansion of producer services since they can also be produced in-house. It is the considerations to reduce transaction costs and uncertain risks that lead to the externalization or contract-out of service functions, in which the processes of "vertical disintegration" and social division of labor are occurring. As Williamson (1975) argues, the factors influencing the 'make' or 'buy' decisions are "asset specificity, uncertainty, and frequency of transactions". The externalization process enables the firms to "replace internal economies of scope with external economies of scale, substitute variable costs for fixed ones, and spread the risks of production over their subcontractors" (Bryson *et al.*, 2004: 78).

The second change in industrial production, characterized by an increasing spatial separation of control from production functions, has given rise to the uneven distribution of producer services. Producer services have tended to concentrate disproportionately in a few major cities, leading to the emergence of "world cities" or "global cities". As the market becomes increasingly globalized, the international transactions have become much more complicated. The growth and concentration of producer services in cities is considered a crucial instrument to enable the operation of businesses on a global basis (Daniel, 1993; Moulaert *et al.*, 1997). In her influential work, Sassen (2000, 2001) systematically explains how global market forces have driven the uneven growth of service industries. The increase of capital mobility has led to the spatial dispersal of manufacturing production, which has tended to relocate to those places with higher profits and returns. The manufacturing decentralization has in turn generated the need for centralized control and management functions. The "global cities" take on this new strategic role to organize the international expansion of capital and industrial production, resulting in an increasing demand for specialized services. The fundamental dynamic, as Sassen (2001: 5) notes, is that "the more globalized the economy becomes, the higher the agglomeration of central functions in a relatively few sites, that is, the global cities". Consequently, the service functions are driven into these agglomerations.

As producer services are essential sectors to restructure urban economy and urban landscape, their growth and location has been well-documented in a rich body of literature. However, relatively little has been done to understand the recent rapid expansion of producer services in urban China. The interpretations of post-Fordism and the discourse of global city or world city explain the uneven growth of advanced services from the perspective of social and spatial division of labor, external economies and agglomeration effects. They are highly relevant to the Chinese case as China has become one of the most important recipients for international trade and investment since it opened the door to the outside world in 1979. China's active participation in the global market has led to the rise of such globalizing cities as Beijing, Shanghai, Guangzhou and Shenzhen Over the past decade, these cities have recorded two-digit overall annual economic growth rates. Their increased economic strength and economic controlling power have enabled them to be the most attractive places for MNCs to set up their local control offices in China. An increasingly competitive and globalizing economy has generated the numerous demands for international finance and high-level producer services in major Chinese cities. While economic globalization has significant implications for producer services development, the growth of producer services in China has also been shaped by the 'path-dependent' effects, which have substantial impacts on virtually all aspects of China's urban development. The Chinese leaders have taken great efforts to develop a market economy after the economic reforms, but they remain strong control over many important economic resources to influence the growth of producer services. As the role of the state is seldom addressed in the existing literature, the dynamics of producer services development in China require a careful examination. A range of new theoretical questions is raised: how have advanced services been growing in major Chinese cities? In what manner and to what extent has the intrusion of the globalization forces influenced the expansion of advanced services? What are the path-dependent effects that distinguish the growth of producer services from that in the West? This study will answer these questions through an in depth analysis of the growth of consulting services in Guangzhou.

Data and Methodology

As an important form of specialized services, consulting services are selected to investigate the questions raised in this study. Consulting services are those activities purchased by the client to improve production efficiency or for legitimization purposes. They are provided by "specially trained and qualified persons" who assist the client to identify problems and recommend solutions (Canback, 1998: 3). For the reason of data availability, consulting services in this study refer to the Chinese official definition of "information and consulting services" (ICS). Table 1 outlines the detailed classification of ICS in the Chinese official statistical system. It is a subgroup of industries within "social services", including such service activities as "advertising", "consultancies", and "other information and consulting services".

Table 1: Chinese Official Statistical System for Consulting Services.

8000 Social Services	...	
	8200 Information and Consulting Services	8210 Advertising
	...	8220 Consultancies
	...	8221 Notarization
	...	8222 Legal services
		8223 Accountancy
		8224 Market research
		8290 Other information and consulting services

Source: China State Statistical Bureau, 2000, p. 230.

The Chinese government conducted two censuses of basic units in 1996 and 2001 respectively. The *First/Second Census of Basic Units of Guangzhou*, which provides systematic information on consulting establishments in the city, serves as the most valuable datasets for this study. However, a close examination of the datasets indicates that consulting establishments in the Chinese official classification include not only the corporations which are intimately linked to the production of new knowledge, but also those agents that provide common information for traveling, leasing, international migration, and those enquiry departments set up by the manufacturing corporations to facilitate the sale of their products. While it is acknowledged that the official datasets may over-estimate the actual situation of consulting services in Guangzhou, certain compromises have to be made because the statistical data are only available at the first level of division within "information and consulting services".

The substantial information released by the statistical authorities is valuable to demonstrate the pattern of the growth of consulting services, but it does not provide detailed data to analyze the behavior of individual economic actors. To understand the dynamics of consulting services firms and their location decision-making, we conducted a survey of sampled service establishments. The sample was drawn from the *Second Census of Basic Units of Guangzhou,* which lists the entire population of consulting establishments in the city, including such contact information as the establishment's name, address, telephone number, and primary products and activities. Before the sampling is introduced, the change in Guangzhou's administrative constitution requires clarification. Prior to 2000, Guangzhou Municipality included 8 urban districts[1] (old urban district) and 4 county-level cities. In June 2000, with the approval of the State Council, two county-level cities (Panyu and Huadu) were annexed into the urban districts. In April 2005, while there remained 10 urban districts, the geographical extent of Guangzhou's urban districts changed drastically[2]. This study uses the old urban district for analysis. Panyu and Huadu are included only when data for the old urban district are not available. The administrative constitution of Guangzhou and the study area are shown by Figure 1. The old urban district accounted for over 95 per cent of the whole city in terms of the number of consulting establishments in 2001. There are 3,348 consulting establishments in the 8 urban districts, from which 110 sampled organizations are randomly selected for this study. Structured questionnaire survey was conducted through firm visits by trained assistants from October to December 2005.

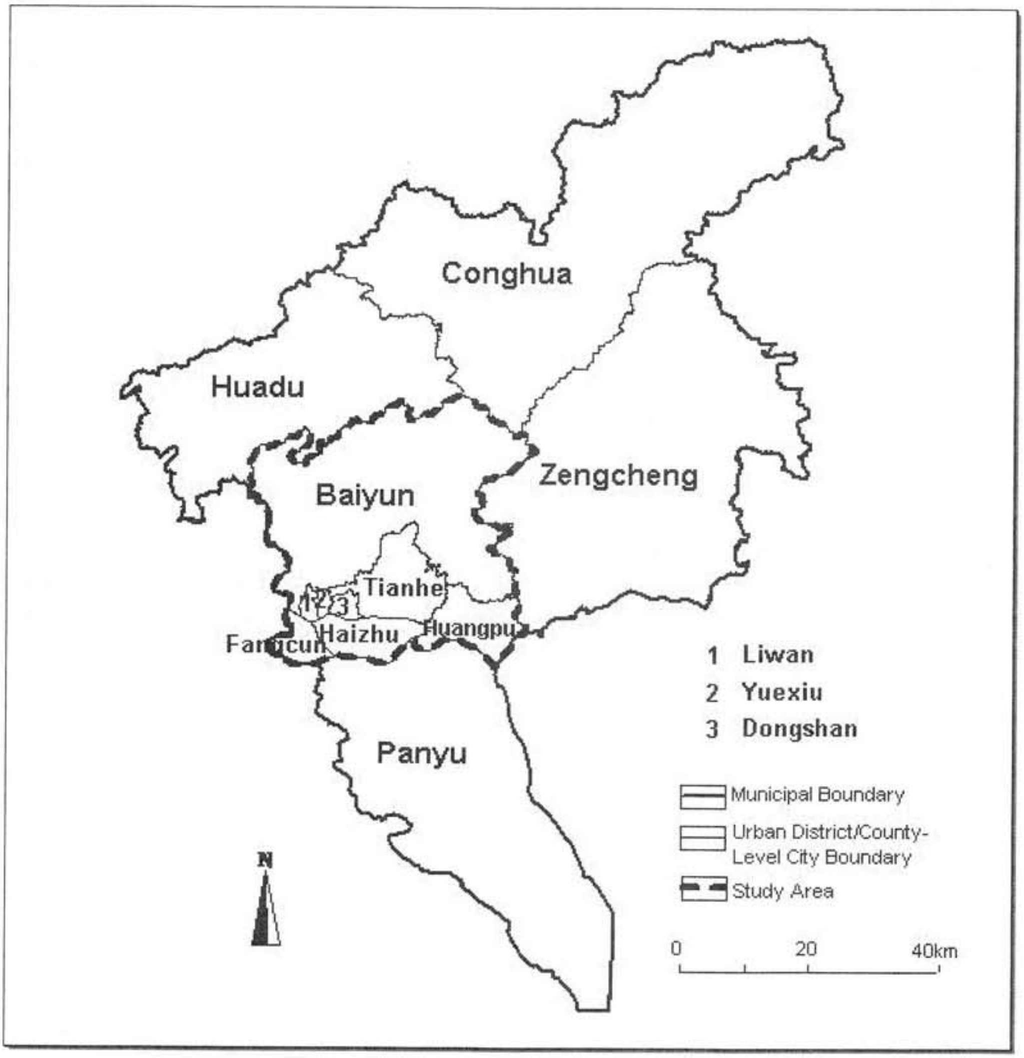

Figure 1. Administrative Constitution and Study Area of Guangzhou.

Guangzhou is distinguished from other major Chinese cities by its functions as the political and economic center in a southern province that has been allowed to move "one step ahead" of the entire nation in opening up and economic reforms since 1979. Benefiting from its geographical proximity to Hong Kong and its ethnic intimacy with the Chinese overseas, Guangzhou has become one of the largest recipients of foreign direct investment among the Chinese cities after the reforms. The accumulative foreign capital invested in Guangzhou between 1979 and 2003 was 32.54 billion USD (GZSB, 2004). Moreover, Guangzhou is the third most important Chinese city for the growth of consulting services. The case of Guangzhou appears to be one illustrative of how advance services have developed in the Chinese context in response to the forces of global capitalism.

Re-articulation with Globalization: Repositioning Guangzhou in the Regional Economy

According to the global or world cities discourse, the increasing mobility of global capital has concentrated the control and command functions in the global or world cities, which has led to the expansion of producer services. Before the growth of consulting services in Guangzhou is scrutinized, the changing role played by Guangzhou in the regional economy under globalization is analyzed.

Guangzhou was historically a port city and a regional transportation hub in southern China, which characterized the city with a mercantile nature. The city's traditional role on commerce and trading, however, was condemned under the socialist regime. The Chinese Communist leaders were greatly influenced by the Marxist ideology, which denied the role of the free market and by the former Soviet Union, which adopted a heavy-industry-oriented strategy for economic development. Under such a framework, the trading and commercial base of Guangzhou's urban economy had to be transformed to achieve rapid industrialization. The 1958 development strategy of Guangzhou explicitly stated the goal to make the city of Guangzhou "a socialist production city and an industrial base in Guangdong and in southern China" (Chen *et al.*, 1987: 15). The emphasis on industrial development had remained little changed before the economic reforms. In the strategy proposed in June 1975, Guangzhou was to "develop into a composite production city with balanced heavy and light industry and into the industrial base in Guangdong province so that it can function as the central city for regional economic development in southern China" (Office of Tertiary Industry in Guangzhou, 1996: 20). Investment and labor forces were concentrated in the industrial sector. As a result, Guangzhou's share in gross industrial output value of Guangdong kept increasing steadily before the reforms (Figure 2). The city contributed to over 40 per cent of the province's gross industrial output value in the 1970s. At the same time, the proportion of GDP generated by the secondary sector increased dramatically, reaching 71.78 per cent in 1970. Guangzhou developed into an industrial base in the province although it has for many years been short of industrial mineral resources.

Since 1979 China has adopted the open-door policy to enter the global market. Guangdong and Fujian provinces were allowed to practice "special policies" to attract foreign investment. Guangzhou was designated as one of the 14 "open coastal cities" in May 1984. The intrusion of globalization forces brought about little change in Guangzhou's economic base in the early and mid-1980s. With a slight decrease, the city still contributed to more than 30 per cent of total gross industrial output value of Guangdong. The secondary sector accounted for over half of Guangzhou's GDP (Figure 2).

Since the late 1980s, Guangzhou's connection with the global market has been increasingly intensified. Two concurrent processes have occurred in Guangzhou, which has significantly changed the nature of the city's urban economy. The first one is a continuing movement of industrial activities out of the city proper. Industrial facilities have been relocated to the suburban areas, particularly to the newly annexed suburban districts of Huadu and Panyu (Lin, 2003). Consequently, the share of the secondary sector in GDP dropped dramatically from 65.08 per cent in 1978 to 38.56 per cent in 2005

(Figure 2). The pattern of urban land was no longer dominated by industrial production. The share of industrial land in the total urban land use decreased from 40 per cent in 1987 to 27.06 per cent in 1991, and to 20.67 per cent in 2000 (Yang, 2004). The second process is the concentration of control and command functions in the city. One of the major features of recent economic development in the Pearl River Delta under globalization is the relative decline of the leading position held by Guangzhou in the region (Xu and Li, 1990; Chan, 1996a; Lin, 1997; Xu and Yeh, 2005). As shown by Figure 2, Guangzhou's dominant position in industrial production is declining. The city's share in gross industrial output value of the province dropped from 29.62 per cent in 1985 to 19.1 per cent in 2004. This proportion was only 13.25 per cent when Huadu and Panyu were excluded (GZSB, 2005; GDSB, 2005). While its role as an industrial base was undermined, Guangzhou has become one of the most important recipients of foreign capital in China (CSSB, 2004: 527-530). The city's mercantile tradition and the improvements of urban facilities have made it attractive to both domestic traders and foreign investors. Guangzhou has repositioned itself as a regional service and business center. The processes of the concentration of control/command functions and the dispersal of industrial production have engendered Guangzhou as a 'strategic' place for the growth of advanced services.

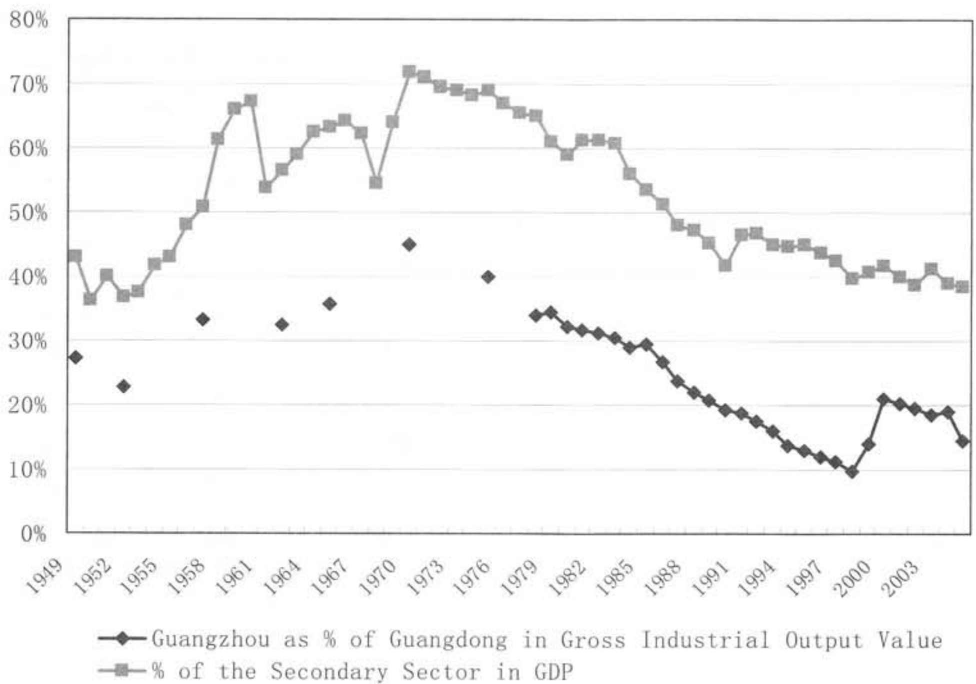

Figure 2. The Changing Importance of Guangzhou's Industrial Production.

Sources: GZSB, 1999; GZSB, 2006; GDSB, 1999; GDSB, 2006.

Growth of Consulting Services in Guangzhou under Globalization

In Mao's China, the demand for outsourced consultancies was rare given the country's economic and political structure (Yeh, 2005). How have consulting services in Guangzhou been growing in response to the intrusion of global market forces? As a traditional mercantile city, Guangzhou had a favorable atmosphere for the seed of consulting services to sow after socialism. A total of 316 consulting establishments were developed in the city over the period from 1977 to 1985 (Chen *et al.*, 1987: 186). While the relatively liberal environment for the market economy in Guangzhou contributed to this growth, more importantly, the state played an essential role in the inception of the growth of consultancy. Half of the consulting establishments were state-owned enterprises; 42.72 per cent were collective units; and the non-state sector accounted for less than 8 per cent (*ibid.*).

Consulting services in Guangzhou have been expanding even more rapidly since the mid-1990s. Although over 23 per cent of Guangzhou's consulting establishments started business between 1978 and 1995, about 76 per cent of the establishments were set up since 1996 (Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003: 359). The First and Second Basic Units Censuses of Guangzhou Municipality showed that the number of consulting establishments in the city increased from 1,950 in 1996 to 3,530 in 2001, and employment from 23,475 to 37,287 persons during the same period (Table 2). Consulting services in Guangzhou increased annually by 12.60 per cent in the number of establishments and 9.70 per cent in the labor force between 1996 and 2001. Guangzhou was the third most important Chinese city for the growth of consulting services in 2001, only next to Beijing and Shanghai (CSSB, 2003: 175-181).

Table 2: Consulting Establishments and Employment in Guangzhou, 1996 and 2001.

Sector	1996		2001	
	No. of Establishments	Employees (person)	No. of Establishments	Employees (person)
Information and Consulting Services	1,950	23,475	3,530	37,287
Advertising	867	10,654	1,419	13,400
Consulting Services	217	3,653	666	9,388
Notarization	7	259	12	289
Legal services	69	1,007	261	3,662
Accounting	119	2,204	255	4,130
Market research	22	183	138	1,307
Others ICS	866	9,168	1,445	14,499

Source: Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003: 28, 59, 88, 117-118.

As a result of their rapid growth, consulting services have steadily increased their proportions in producer services as well as the service sector. Table 3 evaluates the significance of consulting services in the service sector in Guangzhou between 1992 and 2001. The share of consulting services in service industries increased from 1.58 per cent in the number of establishments, 0.66 per cent in value added, and 0.83 per cent in employment in 1992 to 5.04 per cent, 1.11 per cent, and 2.19 per cent in 2001 respectively. With respect to their importance in producer services, by the year 2001 the proportions generated by consulting services to producer services were 20.35 per cent, 2.92 per cent, and 6.24 per cent in terms of the number of establishments, value added, and the labor force respectively. Although consulting services in Guangzhou are still only a very small part of the service sector, they have played an increasingly important role in the urban economy.

Table 3: Consulting Services, Producer Services and Service Industries of Guangzhou, 1992-2001.

Item	1992	1996	2001
Number of Establishments (unit)			
Service Industries	52,754	50,636	70,027
Producer Services	5,691	6,978	17,348
Consulting Services	833	1,950	3,530
ICS as % of PS	14.64	27.95	20.35
ICS as % of SI	1.58	3.85	5.04
Value added* (billion yuan)			
Service Industries	28.79	----	549.98
Producer Services	15.19	----	209.42
Consulting Services	0.19	----	6.11
ICS as % of PS	1.25	----	2.92
ICS as % of SI	0.66	----	1.11
Employment (10,000 persons)			
Service Industries	124.56	147.40	170.16
Producer Services	30.86	40.15	59.79
Consulting Services	1.04	2.35	3.73
ICS as % of PS	3.37	5.85	6.24
ICS as % of SI	0.83	1.59	2.19

Note: Since the data for value added of consulting services are not available in 2001, the proxy for the year is annual income.

Sources: Office of Tertiary Industry in Guangzhou, 1996: 394-399; Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003: 3, 22-34, 53-64, 82-93, 112-120, 427, 433-437.

To what extent and in what manner has the intrusion of globalization forces affected the growth and performance of consultancies in Guangzhou? The direct investment of foreign capital, including those from Hong Kong and Macau, in consulting services is first examined. Table 4 shows the performance of foreign-invested consultancies in Guangzhou in 2001. Foreign consultancies account for only a small part of the total consultancies in terms of the number of establishments, but their scale is much larger than domestic consultancies with respect to employment and real capital. More importantly, foreign consultancies carrying new knowledge and advanced technology initiated a "learning process" for domestic consultancies.

To further understand the role of economic globalization, a total of 110 sampled consulting establishments were surveyed. Table 5 outlines the explicit considerations of consulting establishments on their choice of location in Guangzhou. For consultancies in Guangzhou, well-developed urban infrastructure stands out as the most frequently reported influence, accounting for over 49 per cent of total replies. Proximity to clients, which accounts for 25 per cent of total responses, is rated as the second most important factor. In order to attract foreign investment to reassume its leading role in the region, the city government of Guangzhou has initiated a large number of infrastructure projects to improve the city's transportation network and to build up the city's image since the 1990s. From 1998 to 2002 the municipal government invested a total of more than 8 billion USD to create a better business environment (Xu and Yeh, 2005). With these projects, the city's transportation and communication facilities were well-developed, which engenders significant locational advantages for the growth and performance of consultancies.

Table 4: Foreign-Invested Consultancies in Guangzhou, 2001.

	Total	Foreign-Invested Establishments (FIE)	FIE as % of Total Consultancies
No. of Establishments	3,148	95	3.02%
Employment (persons)	32,397	2,216	6.84%
Real Capital (USD)	5,843,009	350,250	5.99%

Source: Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003.

Table 5: Considerations on Location Choice for Consultancies in Guangzhou.

	Percentage
Well-developed infrastructure	49.1
Proximity to main clients	25.0
Determined by governing organization	11.1
Pre-existing relational capital	10.2
Available of professional information	2.8
Availability of qualified stuff	1.9

Source: Author's survey, October – December 2005.

Figure 3 demonstrates the market linkages and Figure 4 shows the formation of clients for consultancies. The survey results reveal that the distribution of clients for consultancies in Guangzhou displays a strong local and regional orientation. About 75 per cent of the clients were from the Pearl River Delta, with nearly 50 per cent from the metropolis *per se*. One fifth of consulting services produced in Guangzhou are sold to other parts of the country. The market linkages suggest that Guangzhou functions primarily as a regional center for consulting services in southern China. Domestic non-state sector (36.46%) and MNCs (25.22%) constitute the major clients for consultancies in Guangzhou, followed by state agencies (18.65%) and state enterprises (16.10 %), as shown by Figure 4. The survey results support the argument that the forces of globalization have important implications for the growth of consulting services in Guangzhou. With the influx of global capital over the past two decades, the Pearl River Delta has developed into a manufacturing base as a response to the "new international division of labor" (Chan, 1996b). Facing the increasing complexity and uncertainty of the global market, the corporations are more likely to employ external expertise. The rapid industrialization of the Delta under globalization has provided a rich source of demand for consulting services. It should be noted that the impacts of the Delta on the growth of consulting services in Guangzhou cannot be overestimated. Yeh's (2005: 156) research in Dongguan and Zhongshan reveals that most of the factories in the Delta are using in-house producer services, only 19.8 per cent using external services. On the other hand, with the shift of global capital into China, many MNCs have set up their regional headquarters in major Chinese cities. Guangzhou has recently reclaimed its position as the regional center of transnational capital and multinational corporations (Lin, 2005). The concentration of command and control functions has made Guangzhou an attractive city for consulting services.

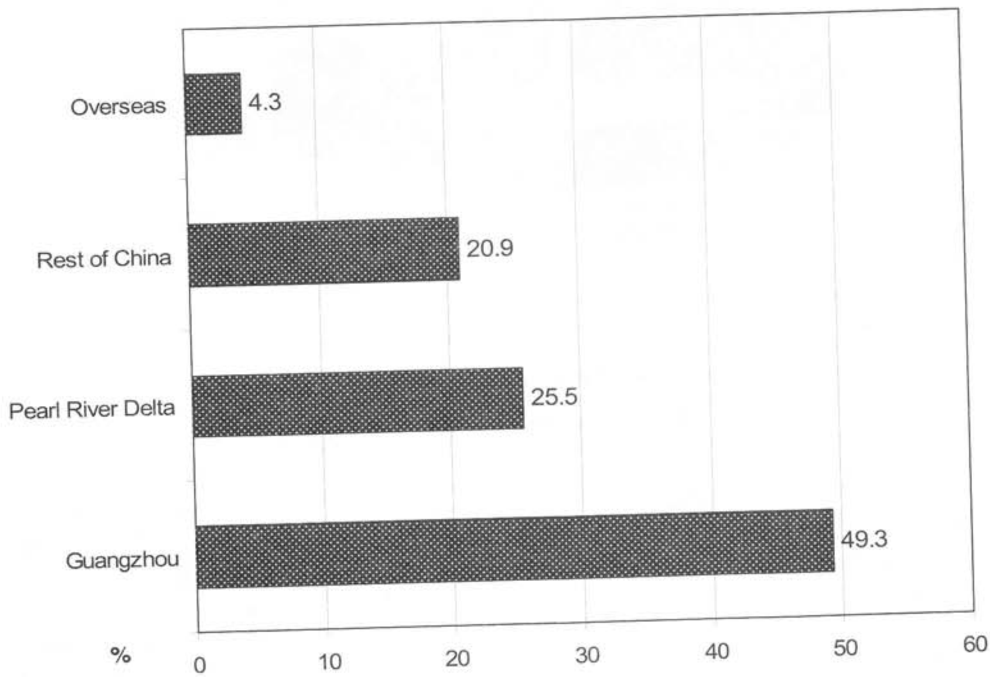

Figure 3. Distribution of Clients for Consultancies in Guangzhou.

Source: Authors' survey, October – December 2005.

The intrusion of globalization forces is a new and major dynamic behind the recent expansion of consulting services in Guangzhou. However, it does not account for the whole story. The location considerations and client formation for consultancies reveal that the socialist economic and political structure has "path-dependent" effects on the growth of consulting services in the city. In addition to the globalization forces, the local state also plays an important role in the growth and performance of consultancies. Firstly, the location decision-making of consulting services is to certain extent a state action. As shown by Table 5, 11.1 per cent of the surveyed establishments report that their location is primarily determined by the state agencies. There are two forms of consulting organizations whose growth is mainly influenced by the state. They are the state-owned enterprises and the government-affiliated institutions (*shiye danwei*)[3]. The government-affiliated institutions, which are established to improve the efficiency of the political system, are organized in accordance with the power hierarchy. They are attached to certain state agencies, but operate like profit-making establishments. By the year 2001, there were 245 state-owned and state-holding consulting establishments, which employed 3,487 persons, and 154 government-affiliated institutions which accommodated 1,633 staffs in Guangzhou (Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003: 414, 594). The development of these organizations has been an outcome of state manipulation for economic and political considerations.

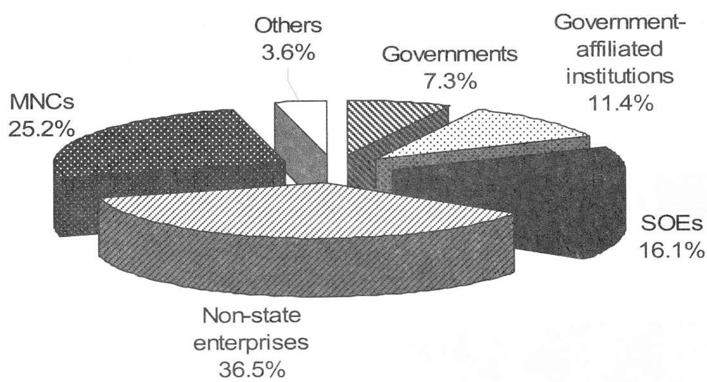

Figure 4. Formation of Clients for Consultancies in Guangzhou.

Source: Authors' survey, October – December 2005.

Secondly, the consulting establishments invested by the state perform much better than their non-state counterparts. The state establishments and affiliated institutions have the advantages to access needed inputs and market outlets. Table 6 evaluates the performance of the state-owned and state-holding consulting establishments in Guangzhou. They accounted for 7.78 per cent and 10.76 per cent of total consultancies in the city in terms of establishment number and labor forces, but received 14.38 per cent of total real capital, and generated 25.20 per cent of total sales. Table 7 further compares the accommodation situation of the state and non-state consulting establishments of the surveyed establishments. Thirty-five per cent of state establishments and affiliated institutions have their own estates. Twenty-five per cent of the establishments and institutions obtain office space from the state agencies to which they are attached, without paying for the rent, or just paying at a very low price. In contrast, over 80 per cent of the non-state consulting establishments have to rent their offices in the market. Benefiting from their relationship with the state, state establishments and institutions have to some extent bypassed market competition.

Thirdly, consultancies have been used by the local state as an instrument to legitimize its actions taken in the reform process. State agencies and state enterprises share about one third of the market for consultancies, as shown by Figure 4. The local state employs consultancies to undermine the central influence and increase their discretion over resources and funds. Accompanied by the economic reforms, China has experienced a process of political restructuring which has decentralized the power of decision-making from the central to local governments. However, many important decisions on local economic development still require the approval from higher-level state apparatus before implementation. The government-affiliated institutions have been one of the key "experts" to conduct feasibility studies for the state. Since the affiliated institutions are controlled by certain state agencies, the local state is able to manipulate the outcome of consultancies to carry out its ideas. On the other hand, the economic reshuffling of the state-owned enterprises involves several thorny problems such as cutting down the employees. The participation of the "third party" has helped to legitimize their actions in reforming the economic structure.

Table 6: Performance of State-Owned and State-Holding Consulting Establishments in Guangzhou, 2001.

	No. of Corporations	Employees (person)	Real Capital (billion yuan)	Turnover (billion yuan)
Total consulting establishments	3,148	32,397	5.84	6.11
State-owned and state-holding consulting establishments	245	3,487	0.84	1.54
State-owned and state-holding as % of total consulting establishments	7.78	10.76	14.38	25.20

Source: Leading Group Office for the Second Census of Basic Units of Guangzhou, 2003: 370, 414, 436, 509, 512.

Table 7: Comparison between State and Non-State Consulting Establishments.

	State Establishments and Institutions	Non-State Establishments
No. of Establishments	25	85
Capital from the state (%)	77.00	2.21
Accommodation situation		
% owned estate	35.00	10.45
% provided by attaching institution	25.00	1.49
% rented office	40.00	85.07
% others	0.00	2.99

Source: Authors' survey, October – December 2005.

Finally, the complicated market demand for consultancies and the peculiar politico-economic context have also set up a barrier for foreign-invested consultancies to access China. With a long history of development in western advanced economies, foreign consultancies are able to provide services of high quality, which is of strategic importance in selling consulting services. However, while foreign consultancies have entered Guangzhou since the early 1990s, they did not depress the growth of domestic consultancies. Foreign consultancies accounted for 40.1 per cent of total consultancies in Guangzhou in terms of investment before 1995, but this proportion dropped dramatically to 5.0 per cent after 1995 (Miao, 2005: 225). Because foreign consultancies are originated from a well-developed free market environment, their capability to solve problems in the Chinese context has been weakened. Domestic consultancies have a better understanding about China's complicated operation environment, which enables them to offer much more practical advice and suggestions. Many foreign-invested firms have to experience an adaptation process called "localization" (*bentu hua*).

Conclusion

Advanced producer services in major Chinese cities have been growing rapidly over the past decade. The existing voluminous literature on post-Fordism and world/global cities has explained the expansion of producer services as a result of the social and international divisions of labor in the era of globalization. The implementation of the open-door policy in 1979 has enabled China to enter the global market and play an important role in international trade. The arrival of foreign capital has significantly changed Guangzhou's economic base as a regional industrial center in Guangdong province under socialism. An evaluation of the urban economy of Guangzhou reveals a process of the centralization of command and control functions in the city proper accompanying the dispersal of manufacturing activities since the late 1980s. The intrusion of globalization forces has been transforming Guangzhou into a 'potential' global city (Cai and Sit, 2003).

This study analyzes the growth of consulting services in Guangzhou. The influences of economic globalization are first examined. Benefiting from its coastal frontier location, Guangdong province was allowed to practice "special policies" in 1979 to attract international investment. As a result, the province, the Pearl River Delta in particular, has undergone rapid industrialization and urbanization. Given the complexity of the social and spatial division of labor, the demand for outsourced consultancies has been growing rapidly. In order to lure foreign capital and reassume its leading role in the regional economy, the municipal government of Guangzhou has taken great efforts to improve the city's infrastructure and urban image. These efforts have made Guangzhou as one of the most attractive cities for foreign investment and trade in China. The concentration of control/command functions and the advanced infrastructure and communication facilities have engendered important locational advantages for the growth of consulting services.

Economic globalization has been a new and powerful force driving the growth of consulting services in Guangzhou. However, a close scrutiny reveals that the political and economic system under socialism also has path-dependent effects on the growth and performance of consultancies. Since one of the main motives of the local state to purchase consultancies is to mitigate central influences and maintain high autonomy in local economic development, the state is directly involved in the production of consulting services. State-owned enterprises and the government-affiliated institutions are two major consulting organizations established by the state. On the one hand, their intimate relationship with the state has to certain extent enabled them to bypass market competition. On the other hand, the government-affiliated institutions behave in the interests of their governing agencies, serving as the "think tank" to legitimize the actions taken by the state. China's institutional setting has also given rise to an intricate business environment, which has undermined the competitiveness of foreign consultancies, leaving room for the immature domestic consultancies to develop.

Different from what has taken place in advanced economies, the experience of Guangzhou demonstrates that economic globalization and the persistent socialist influences are two major forces accounting for the recent expansion of advanced producer services in the Chinese context. Benefiting from its coastal location, Guangzhou has become one of the most open cities in China with the intrusion of global capitalism. While the development of the market economy in Guangzhou is relatively mature, the local state still plays an important role in the supply and demand of producer services. The interactions between state and market provide a valuable perspective to understand China's distinctive pattern and process of service development, which requires further scholarly enquiry.

Endnotes

1. The 8 urban districts are Dongshan, Yuexiu, Liwan, Tianhe, Haizhu, Fangcun, Huangpu, Baiyun.

2. Dongshan and Fangcun were incorporated into Yuexiu and Liwan respectively. Nansha, formerly parts of Panyu, became an independent district. Another new urban district called Luogang was constituted by 1 *jiedao*, 4 communities (*ju wei hui*), and 35 villages formerly in the districts of Baiyun, Huangpu, Tianhe and the county-level city of Zengcheng. The administrative constitution of Guangzhou remains 10 urban districts and 2 county-level cities.

3. Establishment units in China are divided into corporations/enterprises, government-affiliated institutions, administrative units and social organizations. Government-affiliated institutions are attached to certain state agencies at various levels. They may undertake certain state functions. The personnel appointment of the institutions is under the control of the state agencies and the wages of the staffs are allocated from state budgetary expenditure. However, government-affiliated institutions are also separated organizations. They may take assignments from government to make profits, performing in a way similar to corporations. For detail, see CSSB, 2003: 551.

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