An Analysis of the Development of Modern Service Industry in China’s National Strategy

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Abstract. Through the comparison of the data and development experience of China with other major developed countries, this paper finds that China's modern service industry is still in the stage which industrial contribution rate is lower, the development speed is slower and lacks international competitiveness. The main factors that restrict the development of modern service industry in China include the urbanization development lags behind, the industrial process is still in the middle and late stage, and the system and industrial structure are unreasonable. This paper argues that the promotion of the development of modern service industry must give priority to the development of manufacturing industry with high added value so that it can increase per-capita GDP, and lay a solid foundation for urbanization and industrialization.

Introduction

Since the 18th National Congress of the CPC, China’s top leaders have made an important judgment of the economic situation. China has to deal simultaneously with the slowdown in economic growth, make difficult structural adjustments, and absorb the effects of previous economic stimulus policies. In order to achieve the steady growth of China’s economy and the transformation and upgrading of industrial, Chinese government has made great efforts to support the development of the modern service industry which is very weak at present. So the development of modern service industry has become one of the important national strategies in China. However, the effect of the development of modern service industry is not satisfactory. In the process of development, there was a phenomenon of national policy distortion, so that a large number of capital and resources are still used in the traditional service industry and have not played any substantial role in the development of modern service industry. What’s more, misunderstanding the development relationship of the different stages of the development of industry and service industry has also restricted the process of industrialization. Therefore, enhancing the understanding of industry risk and the status in the national economy of modern service industry has an important strategic significance to promote the development of modern service industry and spend a particular stage of the current economic new normal smoothly.

Related Research Summary

The Status of Modern Service Industry in the National Economy

The Concept of Modern Service Industry. The concept of modern service industry first appeared in the report of the 15th NCCPC. But there is no consensus on the definition of
modern service industry in the theoretical circle at present. Lai Youwei (2004) believes that the modern service industry is formed from the part of the traditional manufacturing industry. And it is a producer service industry to provide services for the production of intermediate links[1]. Another definition is proposed based on the tenth five-year plan report that modern service industry is an information- and knowledge-intensive service sector which is produced in the advanced stage of industrialization, mainly relying on information technology and modern management concepts.

The Modern Service Industry and Economic Development. Since the reform and opening up, China's economic development mainly depends on the manufacturing industry, although the service industry has also been vigorously developed, the level of modern service industry is still relatively backward and its contribution to economic development is very limited. Wang Guanghui (2010) argued that the level of development of modern service industry is an important symbol to measure the level of modern social and economic development. And the modern service industry is a labor intensive industries which can transfer China's abundant labor resource into industry competitive advantage [2]. Zhang Nan (2011) found that Japan came out from prolonged economic downturn due to enhance the development of the financial industry and the information technology industry, so from a long-term considerations, service industry as a new growth point of modern economic development is very necessary [3].

The National Strategy for the Development of Modern Service Industry. After putting forward the concept of modern service industry in the 15th NCCPC, the 16th and 17th NCCPC are clearly put forward to vigorously develop the modern service industry. The 11th Five-years Plan is also presented to encourage foreign investment in modern service industry, to undertake the modern service industry and other industries transfer. All of them marked developing modern service industry has become one of the most important strategies of national development. Ren Wangbing (2010) put forward the conception of national strategy of the development of modern service industry from four aspects of industry field, connotation and function, regional platform and reform and opening up.

The Risk Analysis of Modern Service Industry

Research on the System Risk of Modern Service Industry. The system risk of modern service industry mainly exists in three aspects, such as national policy, international competition and other uncontrollable factors. At the national policy level, Chinese government making effort to support the development of modern service industry is growing in recent years. So we have to guard against the risk of national policy mistakes and deviation in the implementation of the policy. At the international competition level, Chinese enterprises guard against not only foreign but also domestic competitions and risks. In other uncontrollable factors, the impact of the financial crisis and the economic cycle downward on China's economy is the largest, especially for export-oriented processing and manufacturing enterprises. The continuous deterioration of manufacturing industry will in turn affect the development of modern service industry, and thus make the economic development into a vicious circle. Therefore, it has an important significance to help the modern service industry to solve the risk of uncertainty by actively protecting the manufacturing sector sailed through the financial crisis and the economic cycle downward phase.

Modern Service Industry under the Financial Crisis. The service industry is an effective way to alleviate the pressure of employment, especially the modern service industry has the function of easing the financial crisis. Wang Guanghui (2010) found that China's industries
which include software services, production services, service outsourcing and cultural creativity have maintained a rapid growth in the financial crisis through the data analysis[5]. But it is another scene in the developed countries which are relatively mature in the modern service industry. The economic growth of the western countries, led by the United States, has declined sharply. They have reawakened to the important position of the high-end manufacturing industry in the entire national economy and put forward the "re-industrialization" policy to transform the economy from the virtual to the real economy. Therefore, in view of the current situation of China, the development of modern service industry has a significant effect on spending financial crisis smoothly in the premise of ensuring the effective survival of the manufacturing industry.

**Overall Analysis**

The modern service industry plays more and more important role in current national economic development, especially in developing economy like China, where the rate of development of the modern service industry is relatively fast, posing positive effect in coping with the economic downturn. However, according to the experience in developed countries, when the modern service industry come to a certain stage, it is the manufacturing that can deal with economic crisis which is dominant in industry. On the premise of not full industrializing, China is supposed to make high value-added manufacturing the main direction. Only does the industry get fully developed, can the service industry get further development.

**Current Situation and Prospect of Chinese Modern Tertiary Industry**

**Analysis of Chinese Modern Tertiary Industry Status**

**The Lower Industry Contribution Rate.** Today's developed countries or international metropolis in the service industry development have two remarkable 70% aspects. First, value added services accounted for 70% in GDP; Second, the employment in the service industry accounted for 70% to its entirety [6]. Figure 1 shows that the contribution of service industry to GDP growth in China is very limited, a large gap compared with developed countries. In recent years, the tertiary industry employment contribution rate increased every year. Even so, the proportion of employment in the service sector is less than half of the major developed countries. Therefore, the current contribution of Chinese service industry to the economy doesn’t develop as the public see it having reached the critical and irreplaceable point, however it needs to be improved more for the service industry contribution rate to the economy.

**The Slow Pace of Development.** Modern service industry in developed countries start earlier, which has been very mature, in the past decade, the service industry share of GDP has been maintained at between 70% to 80%. China also has increasing the support to modern service industry in recent years, but the effect achieved is unsatisfactory. Figure 2 illustrates the Chinese service industry accounts for 40% to 50% of GDP in the last decade, the proportion of value added service industry to stabilize at a low level, even has also shown a significant decline after the financial crisis. This phenomenon is not consistent with law of development of modern service industry in developed countries previously, indicating the development of China's service industry is not stable, and has entered the medium-term development bottleneck areas, so the existing approach to development need to be improved urgently.
Lack of International Competitiveness. Compared with the manufacturing industry, Chinese service industry into the global economy is to a lesser extent, lacking of international competitiveness. It is worth noting that in 2014 China's three traditional services (tourism, transport services and construction services) the total import and export 376.55 billion US dollars, accounting for 62.6% of total trade in services, and emerging modern services (financial services, communications services, computer and information services) accounted for less, which show that China's trade in services with high added value in the low competitiveness, long-term disadvantage.

**Development of Modern Service Industry Fetters**

The Development of Urbanization Lags Behind. International experience shows that urbanization is an important prerequisite for the development of the service industry, in the countries or regions whose service industry develop so well, the urbanization rate is very high. This mainly because the development of services requires a certain group of consumers’ support so that only exist in the city to get considerable development. If the rate of urbanization is represented by the urban population ratio, even if China's urbanization rate reached 53.73 percent in 2013, compared with the major developed countries it is still very low level of urbanization, which is one of the main reasons constraining the development of China's modern service industry.

The Industrialization Process is Still in the Middle Stage. In addition to urbanization, industrialization process is the prerequisite obtained for development of service industry. Only when industrial development reach to a certain level, laying a good foundation for the development of the service industry could enter the stage of accelerated development. In recent years, some places emphasis too much on the development of tertiary industry, putting forward the so-called "breakthrough development of the tertiary industry" strategic slogan, which is an economic development strategy for serious deviation[7]. Therefore, in the same time encouraging the development of modern service industry currently, should regard the development of industrialization as a top priority.

Irrational Institutional and Industrial Structure. Since the reform of the household registration system is not complete, urbanization lags far behind, a lot of the city's migrant
workers do not enjoy basic public services and social security towns, it may be returned again to the rural farming, which will lead to a decline in productivity and resource allocation rate and is not conducive to the evolution of the industrial structure. Secondly, the deviation of the tertiary industry and the second industry’s relatively labor rate continues to expand, so that the overall structural imbalance is even more prominent, which not only affects the service industry to enhance the quality, but also restricts the industrial efficiency.

**The Way to Promote the Development of Modern Service Industry**

Petty Clark's law describes the development process for the industrial structure as, “With the development of economy, the workforce moved from agriculture to manufacturing, and then moved to the commercial and service industries.” Thus, only the first industry and the second industry are fully developed, can the service industry show a rapid development trend. First, China should speed up the process of urbanization and the country should speed up the reform of the household registration system to make the rural population truly transformed into urban population[8]. Secondly, manufacturing industry must be the dominant sector in the economic development in many countries and regions in the intermediate period of industrialization. The development of manufacturing industry and the growth of its employees’ income can greatly increase the demand for agriculture, basic industries and the third industry [7]. Finally, decontrolling the domestic and foreign markets in order to give full play to the basic role of the market in the allocation of resources in the service sector.

**Concluding Remarks**

The World Bank (1987) statistics shows that, only when the course of industrialization make the GDP reaches a certain threshold, can the tertiary industry pass the secondary industry in both speed and overall proportion. The certain value is improved along with social development, which is $1000 in 1950s, $3000 in 1970s, and $7000 in 1980s[7]. However, the GDP in China was just $7500 in 2014, and as this speed of social development, China is still far away from that certain value at present. However, the tertiary industry pass the secondary industry in both speed and overall proportion in China. If we don't adjust the industrial structure, it will hinder the process of industrialization. The experience of other countries and many studies show that, though with the development of industrialization, the proportion of manufacturing would decrease, it would still play the most active in the R&D activities in national economy. The technology improvement of agriculture and service is based on the manufacturing technology innovation [10]. When the country is strong in manufacturing, GDP per capita will be improved efficiently, urbanization development will speed up, and modern service industry will develop without barriers.

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