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The Situations and Considerations on the Development of the Service Economy in China

LES SITUATIONS ET LES CONSIDÉRATIONS SUR LE DÉVELOPPEMENT DE L'ÉCONOMIE DE SERVICES EN CHINE

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Abstract: The service economy is an essential part of the national economy, thus the acceleration of the development of the service economy has become a hot topic in the field of economic research and a consensus all over the world. Since the adoption of reform and opening policies, China's service economy has entered a new era of rapid development, especially in recent years. Notwithstanding, there are several domestic scholars considering that China's service economy not only lag behind the developed countries but also many developing countries. Through the comparison of several developed countries and developing countries, this paper analyses the real level of the development of China's service economy. This paper finds out that China's service economy is not simply backward and slow, which means that the promotion of service economy should not simply focus on the development of the quantity but the acceleration of the optimization and upgrading of the structure, which is called the improvement of the quality. We should pay more attention to the structural adjustment of the service economy, especially in the context of the global financial crisis which blocks the development of China's service economy. Place undue emphasis on the high development rate can only cause the unnecessary expenses of resources. Thus, the Chinese government ought to take the adjustment of the inner structure of the service economy as the starting point when establishing policies.

Key words: China's service economy; level of development; considerations of policies

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Résumé: L'économie de services est un élément essentiel pour l'économie nationale, donc l'accélération du développement de l'économie de services est devenu un sujet à la mode dans le domaine de la recherche économique et un consensus dans le monde entier. Depuis l'adoption de la politique de réforme et d'ouverture, l'économie de service de la Chine est entrée dans une nouvelle période de développement rapide, surtout dans les dernières années. Néanmoins, il existe plusieurs chercheurs considèrent que l'économie de services de la Chine n'est pas seulement en arrière par rapport aux pays développés, mais aussi à de nombreux pays en développement. Grâce à la comparaison de plusieurs pays développés et en développement, ce document analyse le niveau réel du développement de l'économie de services de la Chine. Cette étude constate que le développement de l'économie de services de la Chine n'est pas simplement en arrière et lent, ce qui signifie que la promotion de l'économie de services ne devrait pas simplement se concentrer sur le développement de la quantité, mais aussi sur l'accélération de l'optimisation et l'amélioration de la structure, c'est-à-dire sur l'amélioration de la qualité. Nous devons accorder plus d'attention à l'ajustement structurel de l'économie de services, en particulier dans le contexte de la crise financière mondiale, qui bloque le développement de l'économie de services de la Chine. Trop viser sur un taux élevé de développement ne peut que causer des gaspillages de ressources. Ainsi, le gouvernement chinois devrait considérer l'ajustement de la structure interne de l'économie de services comme point de départ, lors de l'établissement de politique.

Mots-Clés: économie de service de la Chine; niveau de développement, conception des politiques

1. INTRODUCTION

Although the acceleration of the development of the service economy has become a consensus, there are many choices for the direction of development. China's service economy has made great strides forward as the constant deepening of China's reform and opening to the outside world, though the present situation of China's service economy is highly controversial between the scholars in recent years. Some scholars believe that China's service economy lag behind the other countries in both the size and the speed of development, which means that the high development rate should be paramount to China's service economy. Whereas other scholars consider that the level of the development of China's service economy does not lag behind the other countries at the same period, which suggests that focus on the speed of the development is not a wise choice.

At the same time, the impact of the financial crisis on the global economy is still remarkable and the development of China's service economy especially the service trade is seriously impeded by that. According to statistics, the development of China's service trade in 2008 dropped by 9.6% as compared with 2007 and the value of export was down by 12.7%, the value of import was down by 6.6%.[4] Is this a challenge or an opportunity? Whither China's service economy in the context of the global financial crisis? How to establish the policies which accelerate the development of China's service economy? All these questions deserve further investigation.

The definition of service economy has the branch of broad sense and narrow sense in academe. Generally speaking, there are two meanings, first, the economy of the service industry, and the second is

[4] In 2008, The Total Import and Export Volume of Service Trade has Exceeded 300 Billion US Dolor in China, http://tradeinservices.mofcom.gov.cn

an era of economy or a social form of economy. For simplicity, this paper focuses on the aspect of the economy of the service industry. Nowadays, there are many researches on the theories and policies of China's service economy at home and abroad.

Stuart et al.（2006）studies the service economy especially the modern service economy in China, Japan, Europe and America, and then considers that China's service economy has great potentialities and is capable of keeping high speed of development in the following several years, moreover, the modern service economy in China also maintains good momentum of development. Fitzsimmons and Fitzsimmons（2004）points out the orientation of the development of future global service economy. CHEN Xian (2007) summarizes the present situations of China's service industry with a set of data. In the year of 2004, the service industry added value in China only accounted for 31.9% of China's GDP, and the share of the service industry in total employment is 30.6%, which is about 40% lower than developed countries and 20% lower than most developing countries. Based on the first national general economic survey data, the revised quantity of value-added of service industry was 2.13 trillion yuan, which accounted for 93 percent of the total revised quantity of 2.3 trillion yuan. In 2006, the service industry added value accounted for 39.5% of China's GDP which dropped because the growth of the added value of manufacturing industry is higher than service industry, thus it is not an easy thing to achieve the goal of the National Eleventh Five-Year Plan which requires 3 percentage points higher. The study of REN Wang-bing (2006) comes to a similar conclusion which is that the development of China's service industry lag behind the developed countries and most developing countries. However, LI Xiang-he and Pan Shi (2008) shows that China's service economy is not simply backward, the comparison with other countries should be on the base of the same economic development level. It will be much better to use the proportion of service industry added value in GDP to compare the development levels of service economy with the other countries. BAI Chong-en (2007) makes a multi-dimensional analysis of the situation that the proportion of service industry added value in GDP is much lower than other countries in China. He considers that the situation may be caused by the objective economic laws, the incompleteness of statistical figures or the market failure, but the most important ones are the policy failure and the imperfection of the rule of law.

With regard to the development trend of China's service economy, HAN Dong-jun and LI Yong-jian (2007) explain several variations that affect the development of the service industry. It is estimated that by the year 2010, the service industry added value will account for 45.9% of China's GDP and the growth rate of the service industry will be higher than GDP. By that time, China will step into a brand new stage of transition to the service economy. As to the orientation of the development of service economy, XIA Jie-chang and HUO Jing-dong (2006) suggests that the producer service industry is the key to the modern service industry. And as to the issues of the defects of inner China's service industry and the problems of the reformation and policy, XIA Jie-chang(2007) analyses the defects of the system that block the development of China's service industry, and then presents the basic ideas for the reformation and innovation of the system of China's service industry. At last, WANG Dian-kai (2006) analyses the effects and countermeasures of the service trade liberalization in China explicitly.

2. SURVEY OF THE DEVELOPMENT OF SERVICE ECONOMY OF CHINA

From the above, we can see that there are some arguments on the development of China's service economy in the academy now. Some of the scholars, represented by CHEN Xian (2007) and REN Wang-bin (2006), believe that the development of China's service economy is behind developed counties and other developing countries and Chinese government has to support its development. However, some of the other scholars, just like LI Xiang-he and PAN Shi (2008), believe that it is not simple backwardness.

These arguments are mainly due to the difference of selecting data that the one selected data by period, preferred by the author, and the other one selected by the level of GDP. The writer also believes that the formulation and implement of a related policy can not be effective unless we understand China's service economy clearly.

2.1 The present situation of China's service economy

From the reform and opening up process, the China's service industry has been developing so rapidly that the industry has been constructed completely relatively. During the thirty years from 1978 to 2007, the average growth rate of our service industry have exceeded by 10% that beyond the average growth rate of GDP in the same period. The present situation of China's service economy is manifested in the followed areas.

The first is the extending scale of service industry. In 2007, the value-added of our national service industry amounts to 10 trillion accounting for 40.1% of GDP. In some large and medium-sized cities, the valued proportion of the third industry has exceeded the second industry so the service economy has become the main industry.

The second is the increasing rate of employment. In 2007, the amount of national employees in service industry added to 249 million accounting for 32.4% of national employees and the net addition, in the last seven years, is up to 5.1 million.

The third is the expanding area of service industry. For instance, the kinds of life-oriented service are increasing, the produce-oriented service is extending, the transformation of traditional service parts is proceeding rapidly, and the newly emerging service situation is emerging quickly.

The fourth is the improving level of service industry, the enriching kinds of service production, the improving quality of service industry behavior, the enhancing competitiveness of companies in service industry.

The fifth is the rapid development of service trade. There has been ten of twelve main kinds of service provided by "General Agreement of Service Trade " opened up which concerned 100 of 160 secondary kinds of service and accounted for 62.5% of the total kinds. Total volume of import and export of service trade was 4.4 billion in 1982, ranked twenty-eighth in the world, and was up to 250.9 billion in 2007 ranked seventh so that the grew percentage was over 56 times in last twenty five years. In 2007, the volume of export of service trade ranked fifth in the world. Though the total volume of import and export of service trade was up to 304.45 billion grew by 21.3% and ranked fifth of import or export in the world, the growing rate of service trade declined 9.6% and the volume of export declined 12.7% and the import declined 6.6% for the financial crisis.

But there are still some problems in service industry. Firstly, the value-added of service industry percentage of GDP was only 40% which was much lower than the average level of developing countries. Secondly, the structure of the service industry was unreasonable for the percentage of newly emerging service industry was lower and the development of produce-oriented service industry was still behind. Thirdly, the level of opening up of service industry was lower as the volume of foreign capital which flew in service industry accounted for less than 1/3. Fourthly, the overall level of the development of service industry is also lower and the same to international competitiveness of service industry.

2.2 Survey of the development of service economy of China

The writer believes that whether the level of the development of China's service economy was low or not must be decided by its own level of economy not the level of developed countries. In order to compare with other countries reasonably, the writer select some representative developed counties like America and Japan and some representative developing countries like Korea and Brazil as the reference.

Table 1. Per capita GDP level and the output value proportion, employment Proportion of Service trade in China in 1978-2007

(Unit: %)

Year of data	1978	1980	1985	1990	1995	2000	2003	2004	2005	2006	2007
GDP（Ren Min Bi Yuan）	381	463	858	1644	5046	7858	10542	12336	14040	16165	18934
GDP（Dollar）	150.1	169.7	259	351	572.1	930	1270	1500	1740	2070	2592
Accounts for GDP (actual) proportion	31.3	27.2	34.3	39.9	39.6	42.0	42.3	40.7	39.9	40.0	40.1
Proportion of Employment of service trade e	12.2	13.1	16.8	18.5	24.8	27.5	29.3	30.6	31.4	32.2	32.4
Adjusted proportion of Employment	16.6	17.5	21.2	22.9	29.2	31.9	33.7	35	35.8	36.6	36.8

Note: The data before 2006 is from LI Xiang-he and PAN Shi (2008), the other data is Calculated by the writer based on the data of "China Statistical Yearbook" 2008

By the year of 2007, China's per capita GDP level was equivalent of an initial stage of industrialization of developed country. Compared with the United States, China's current per capita GDP is equivalent to a level after 1850 of U.S.A (per capita GDP was 1819 U.S. dollars), and in 1799, 1819, 1839, 1849, 1859, in the U.S. The level of service economy proportion of GDP accounted for 48%, 51%, 50%, 40% and 43%, basically fluctuated between 40% and 50%, with an average of 46.4%. Compared with U.S.A., China, and the average proportion after 2000 is 40.8%, 5.6 percentage points lower than that of U.S.A.; while China's statistical data of proportion for employment in 2007 was 32.4%, adjusted data was 36.8%. In 1859 in U.S.A the proportion was only 24.9%, China's adjusted data was 11.9 percentage points higher than that in U.S.A. at that time. So, to carry out a comprehensive analysis of the proportion of output value of service industry and employment, I think compared with U.S.A of those years China's service industry is not backward.

Table 2. Per capita GDP level and the proportion of Output value, employment of Service industry in U.S.A in 1799-1859

(Unit: U.S. dollar, %)

Year of data	1799	1800	1819	1820	1839	1840	1849	1850	1859
Per capita GDP	-	-	-	1287	-	-	-	1819	-
Proportion of service trade	48	-	51	-	50	-	40	-	43
Proportion of Employment of service trade	-	10.8	-	16	-	20.9	22.7	-	24.9

Note: "- "denotes data not available. The data of per capita GDP is from Madison (1996), 134-144. The data of proportion of output value and employment of service trade is from DENG Yu-jun (2004).

Compared with Japan, China's current per capita GDP is equivalent to the level that at the end of the 19^{th} century and the beginning of the 20^{th} century or level of initial stage after the war. From Table 3 and Table 4, we can see that in these two periods the proportion of output value of Japan's service industry are generally about 40%, which is basically the same as that of China at present; when the per capita GDP was 1631 U.S. dollars before World War Two, the proportion of employment of Japanese service industry was 24.6%, 7.8 percentage points lower than that of China in 2007. After the World War Two, in 1950 the employment proportion of Japanese service industry was 29.8% while Japanese per capita GDP was 1873 U.S. dollars, but it was still lower than China by 2.6 percentage points.

Table 3. Per capita GDP level and the proportion of Output value, employment of Service industry in Japan in 1855-1920

(Unit: U.S. dollar, %)

Year of data	1885	1890	1895	1900	1905	1906	1910	1915	1920
Per capita GDP	-	974	1081	1135	1113	-	1254	1375	1631
Proportion of service trade	41.6	38.1	40.5	40	45.6	-	41.1	41	39.5
Proportion of Employment of service trade	-	-	-	-	-	18.7	19.9	22.4	24.6

Note: "-" denotes data not available. The data of per capita GDP is from Madison (1996), 134-144.The data of proportion of output value and employment of service trade is from DENG Yu-jun (2004).

Table 4. Per capita GDP level and the proportion of Output value, employment of Service industry in Japan in 1945-1950

(Unit: U.S. dollar, %)

Year of data	1945	1946	1947	1948	1949	1950
Per capita GDP	1295	1389	1482	1660	1731	1873
Proportion of service trade	41.7	34.9	-	-	-	42.2
Proportion of Employment of service trade	-	-	23.2	-	-	29.8

Note: "-" denotes data not available. The data of per capita GDP data is from Madison (1996), 134-144.The data of proportion of output value and that of employment proportion in 1950 of service trade is from WANG Bin (1997), 44, 53.The data of proportion of employment of service trade in 1947 is from HONG Ying-fang (2000).

Compared with several representative developing countries, here we mainly choose South Korea and Brazil. The conditions of development of service economy in these two countries at analogous period will be showed in Table 5 and Table 6.

Table 5. Per capita GDP level and the proportion of Output value, employment of Service industry in South Korea in 1960-1970

(Unit: U.S. dollar, %)

Year of data	1960	1961	1962	1963	1964	1965	1966	1967	1970
Per capita GDP	1226	1197	1193	1271	1333	1373	1518	1581	2015
Proportion of service trade	41.3	42.2	43.5	37.5	33.6	38.6	41	44.4	44.2
Proportion of Employment of service trade	25.0	-	-	25.6	-	-	-	-	32.3

Note: "-" denotes data not available. The data of per capita GDP is from World Bank "World Bank develop index 1999 ", this is calculated by fixed price of dollars in 1995, put in order in CEInet data centre, CEIdata 99-6-24.The data of proportion of output value of service trade in 1960 is from LIU Xu-ming (1995), 43. The others are from World Bank “World Bank develop index 1999 ",this is calculated by fixed price of dollars in 1995, put in order in CEInet data centre, CEIdata 99-6-24. The data of proportion of employment of service trade in 1960 is from SHEN Hong-fang (2000), 197.The data in 1963, 1970 is from WANG Bin (1997), 86.

Table 6. Per capita GDP level and the proportion of Output value, employment of Service industry in Brazil in 1900-1961

(Unit: U.S. dollar, %)

Year of data	1900	1910	1920	1930	1940	1950	1960	1961
Per capita GDP	704	795	937	1061	1302	1673	1630	1745
Proportion of service trade	-	-	-	-	-	-	42.3	38.7
Proportion of Employment of service trade	-	-	-	-	-	26	33	-

Note: "- " denotes data not available. The data of per capita GDP between 1900 and 1950 is from Madison (1996), 134-144. The data in 1960, 1961 and the data of output proportion of service trade are from World Bank “World Bank develop index 1999 ", this is calculated by fixed price of dollars in 1995, put in order in CEInet data centre, CEIdata 99-6-24. The data of proportion of employment of service trade is from, Stephen, (1980),. 131.

From Table 6 we can see that，in the period when they have similar per capita GDP, the proportion of output value of service industry in China is basically identical with these two countries, and the proportion of employment is in line with South Korea, higher than Brazil.

Through the above comparative analysis, we can draw such a conclusion, i.e. carry on the comparative principle at stage of economic development according to the same society, China’s service economy is not backward. The development of China’s service economy accords with the general law of China's social economic development. Therefore, one-sided high-speed pursuit of their development and neglect of the material base which the development relies on is unscientific. Of course, we can not rule out the case that in a certain period the development of service economy will exceed the development of the productive sector development, still more do not rule out the case that some service industries especially those which service the production develop with higher speed. So it’s needed to clear that what kind of service industries should the country support vigorously.

3. REFLECTIONS ON THE POLICY OF CHINESE SERVICE ECONOMY

Combining current situation of the development of Chinese service economy with the level of it, as well as the existence of the four major issues, I propose some countermeasures and suggestions:

Firstly, the value-added of the Chinese services industry accounted for the proportion of GDP is not high, but we can see that the simple method to pursue development speed is inadvisable, and it should be a gradual and orderly manner to promote its development. It should be made clear that the blind development does not mean active development, the blind development will inevitably make economic development jump to another extreme from one extreme, and then cause the scale or the speed of development of the service economy to exceed the essential limit, and breaking away from the foundation supplied by the primary industry and the secondary industry cause to a isolated and one-sided development of the service economy, which makes the destruction of the relation of the coordinated development of every industry, and ultimately detrimental to stable and order development of the health of the entire national economy.

Secondly, as to the service industry, it is important to open to the outside world deeply from the aspect of system. Nowdays,the degree of the opening to the outside world of the service industry is not enough, in part because the Government protects the home service industry, and also in part because laws and regulations of Chinese opening to the outside world and internal economic structure is far from perfect. It should be clear that the opening to the outside world of the Chinese service industry is not merely the opening to the foreign capitals; meanwhile, it should be the opening to non-public economy too. In the course of implementing the open policy, it is necessary to give full play to the leading role of the Government. In view of the actual development of China's service industry and incomplete system of Chinese relevant service industry, service trade laws and regulations, the opening to the outside world of the Chinese service industry should be a progressive course. The government should open the Chinese service industry in gradients, in stages and in industries under the major premise of insisting open. Make full use of the flexible term in "General Agreement on Trade in Services" to handle well the relationship between opening to the outside world and the appropriate protection, to prevent the service market from receiving impact of the opening to the outside world, and introduce the competition based on the commitments of Chinese accession to the WTO and the other relevant protocols. At the same time, to solve the problem from competition and standardize the regulation of service industry, the government should establish the effective policies, such as market access mechanism and an exit mechanism, etc.

Thirdly, the development of service economy should focus on structural adjustment within service economy, developing the modern service trade in a more effective manner, and accelerating the development of the productive service industry. According to the close examination to the economic development level of China’s service industry, it dose not lag behind the developed country and the developing country, but in actual life, people often feel the demand for the service industry can not be satisfied, the development of service industry is not enough and we should develop service economy but it is very easy one-sided to pursue the speed as the only goal. In fact, the main problem is the structure inside service industry. The traditional service trade specializing in transporting and traveling occupies greater proportion in no matter the export or import of service, and the new developing service trade relying mainly on finance, insurance, consultation, royalties and license fees, etc. takes smaller. The service trade structure of China is still mainly labor-intensive and resource-intensive. This kind of structure of service economy can't meet the need of the development of service trade in the world today; especially the outburst of the financial crisis has seriously affected the development of traditional service trade, so in order to maintain the stable development of the service economy, the development of modern service industry has become very important. Chinese government can just take advantage of this opportunity of financial crisis to phase out those laggard traditional structures of service industry, to devote more efforts to supporting the new service trade in particular the development of modern service industry in order to optimize the structure within service economy, keeping the active development of Chinese service economy. The modern service industry is the service industry that develops relying on the modern information technology, the information, knowledge and skills are relatively intensive, and it is the service industry of producer to service for producing in the pre-, during-and post-natal production. The added value of this kind of service industry is high, and it is significant to optimize the structure within China’s service economy and improve the international competitiveness of China’s service industry.

Fourthly, the development of service trade should focus on improving the competitiveness of products on the trade. On the basis of the advantages of China’s traditional service trade, it is necessary to launch the productive service industry actively, optimize the industry structure of service industry, enhance the efforts of opening to the outside world, devote more efforts to introducing the high-quality foreign capitals, innovate constantly to produce the products adapting to the market and with international competition. In addition, government should also play a co-ordination role between the central and local government, government and enterprises, establishing the mechanism of the national coordination of service trade, so that the government becomes more pragmatic and efficient.

4. CONCLUSIONS

Based on the research of the status and the level of the development of Chinese service economy, this text draws the following main conclusion: First, compared with other countries China’s service economy is not laggard and slow in the general meaning, and compared with the same stage of economic development, the development level of China’s service economy is not laggard. Second, the development of China’s service economy should focus on adjusting the internal structure of the service economy, developing modern service industry and optimizing the industrial structure with the opportunities on the background of the financial crisis. Third, the government plays an important role in the course of promoting the development of the service economy, so the perfect functions of management of the government and suitable and effective policy are the political guarantee to promote the stable development of the service economy in a long-term.

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