



Problems and Policy Recommendations in Shandong's Service Industry

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Abstract

The level of service industry is a significant target when measuring the socialization of production and the development of market economy. Despite of its status as a major province in economy and population as well as a coastal province, Shandong has a lagging service industry. Especially when compared with other developed provinces in China, its poor capacity in service industry can be displayed in amount, structure as well as quality. In order to facilitate its development in service industry, some efforts must be made such as updating ideas, speeding up reform, improving people's income, speeding up the urbanization course, optimizing the structure of service industry, promoting the openness of service market, strengthening personnel training and so on.

Keywords: Service industry, Shandong province, Problems, Policy recommendations

With the weight of economy in the major developed countries shifting towards service industry, this industry has got an increasing percentage in employment and GDP and therefore, a general tendency of the shifting from "industry economy" to "service economy" has been formed. In the recent years, with much importance put on service industry by the Shandong Provincial Committee and Government, great achievements have been made in its development in order to expand employment, optimize industry structure, enhance general economic profit and promote the overall and harmonious development of economy and society. However, problems are still serious, hence calling for more effective measures to facilitate the development of its service industry.

1. Problems in Shandong's Service Industry

Compared with other developed provinces, Shandong's service industry is underdeveloped in amount, structure as well as quality, which doesn't go with either its status as a major province in economy or the requirements of an overall, harmonious and sustainable development. The major problems are as follows:

1.1 Problems in Amount, Development Speed and Percentage

In 2006, the added value in Shandong's service industry reached 697.88 billion yuan, ranking third in China. Compared with that in the year before last, its amount, accounting for 7.8% of the country's total, increased by 0.2%. Besides, with its increase speed of 14.2%, it ranked third in China. In addition, its contribution rate for GDP was 30.7% and caused GDP to increase by 4.5%. Horizontally, Shandong achieved more added value in service industry than Zhejiang (Zhejiang: 628.824 billion yuan, Shandong: 697.882 billion yuan) while less than Guangdong and Jiangsu (only accounting for 63.6% and 89.3% of their added value amounts respectively). In the percentage in GDP, Shandong's percentage of 32.0% is lower than Guangdong, Zhejiang and Jiangsu by 10.3%, 8.2% and 4.3% respectively. In the per capita service ownership, there was an even greater gap between Shandong and the above provinces in 2006 with the per capita service ownership in Guangdong, Jiangsu and Zhejiang being 1.58, 1.38 and 1.69 times as large as that in Shandong.

1.2 Low Development Level

Compared with other provinces such as Guangdong and Jiangsu, the structure in Shandong's service industry seems not so reasonable with the great share of traditional industries in its economy. According to statistics in the first half of 2006, traditional service industries took 46.3% of Shandong's total service industry gross, which was 50.72 billion yuan and 27.26 billion yuan less than that of Guangdong and Jiangsu and 7.0% and 3.4% higher than that of Guangdong and Jiangsu respectively. However, some new industries such as finance, real estate had only a small share of 32.0%, 100.65 billion yuan and 15.93 billion yuan less and 10.5% and 3.0% lower than Guangdong and Jiangsu respectively. In the aspect of internal structure, the percentage of traditional service sectors in Shandong was 3.9% lower than that in Jiangsu and 5.1% higher than that in Guangdong while the percentage of its new service sectors was 9.9% and 2.0% lower than Guangdong and Jiangsu respectively. Therefore, it is shown that Shandong's service industry is not strong in its strength and awfully poor in its weakness. Compared with Jiangsu, it is weak in total amount while when compared with Guangdong, its weakness can be displayed not only in total amount but in structure.

1.3 Unbalanced Development in Different Regions

Due to their different economic development and natural environment, there are obvious differences among different cities in Shandong province. First comes the unbalanced amount distribution. Qingdao's added value in service industry in 2006 ranked first in the whole province, taking 18.4% of the total created by the whole province, while Heze and Laiwu ranked last with the share of only 1.7% and 1.0% respectively. The cities of the Shandong Peninsula have created 67.0% of the total added value in Shandong province, decreasing by only 0.7% compared with that in 2001, in which Jinan and Qingdao were the two major carriers of Shandong's development in service industry with their share of 32.6% in the total. Second come the great differences in weight. In 2006, the added value of Jinan's service industry took the highest percentage in GDP (47.5%) while Dongying took the lowest (14.1%). Third come the great differences in the contribution rate for GDP. In 2006, among all the cities in Shandong, only Qingdao and Jinan had a contribution rate over 40% (Jinan: 46.6%, Qingdao: 42.9%). Zibo, Jining, Taian, Weihai, Rizhao, Linyi and Binzhou had a contribution rate ranging from 30% to 40% while others below 30% among which Dongying gave the lowest one, 16.6%.

1.4 Low Market-oriented Degree

Restricted by the traditional planned economy, the tendency of welfare and non-socialization has long existed in Shandong's service industry. At present, except those traditional industries which are relatively high market-oriented, the majority, especially those modern ones suffer from monopoly. In 2004, the share of non-public sectors of the economy in Shandong was only 35.9%, while that in Guangdong, Jiangsu and Zhejiang exceeded 40%, among which Zhejiang's 45.8% share was nearly 10% higher than that of Shandong.

1.5 Poor Competitiveness

Poor competitiveness mainly results from the low degree of opening and market development. In 2005, the direct foreign investment of 0.898 billion dollars in service industry in Shandong only took 10% of the total investment of the whole province, while that in Shanghai and Guangdong took an over 30% share. In the recent years, Shandong's service industry has attracted an increasing number of foreign investors, among which the real estate field has drawn the greatest proportion—51.5% of the actual foreign investment in service industry. Korea and Hong Kong still rank top in investment with their 57.9% share of the total in the whole province. Besides, 26 more projects invested by the world top 500 enterprises have been established, among which Peugeot in France and International Paper in U.S. will have their first try in Shandong. All in all, the leading enterprises and the key regions have no obvious influence on the development of Shandong's service industry, and therefore, no compact district with conspicuous features and influential brands has been formed here.

1.6 Shortage in Professionals

Nowadays, a number of professionals are required in our modern service industry, especially in those knowledge-based fields (such as comprehensive logistics, electronic business, computer software, information technology, research and exploration, technical trials, market service and company management and so on). However, little importance has long been put on personnel training in Shandong's service industry, hence resulting in a severe shortage of advanced professionals. At present, Shandong's service industry suffers from a low proportion of employees, low labor productivity and low added value. Compared with that of some developed countries and even of some developing countries, the proportion of service industry in the whole economy of Shandong (32%) as well as the proportion of employees in service industry (29.6%) seems to be too low. According to statistics in 2006, the proportion of service industry in the whole economy of Shandong was 4.3%, 8.2% and 10.2% lower than that of Jiangsu, Zhejiang and Guangdong respectively; its proportion of employees in service industry was 5.0%, 1.0% and 0.5% lower than that of Jiangsu, Zhejiang and Guangdong respectively. In the aspect of productivity, Shandong's labor productivity in service industry was 40215 yuan/person in 2006, which was only 80% of that of Jiangsu, 77% of that of Zhejiang and 62% of that of Guangdong.

1.7 Poor Ability in Support and Service for Production

As is shown in the global economic development and the global industrial distribution, the development of service industry is characterized by the growth of productive service industry. According to the principle that we should try to promote the development of tertiary industry with that of secondary industry and service is expected to serve production, priority should be given to productive service industry. Currently, U.S. is regarded as a quite good example to follow with its over 70% share of service industry in national economy as well as 70% share of the productive sector in service industry. From 1995 to 2003, the proportion of the productive sector in Shandong's service industry decreased by 5.3% and that of the public sector decreased by 1.7%. In 2004, compared with that of Jiangsu (39.5%), Zhejiang (42.1%) and Guangdong (38.4), the proportion of the productive sector in Shandong's service industry was 9.8%, 12.4%, 8.7% lower than Jiangsu, Zhejiang and Guangdong respectively. When it comes to 2005 and 2006, the proportion of Service industry in Shandong's GDP was 32.1% and 32% respectively.

2. Policy Recommendations for the Development of Shandong's Service Industry

Nowadays, with its efforts to build a well-off society in an all-around way and to facilitate its industrialization, urbanization, internationalization and market-oriented economy, Shandong has been of quite a few preconditions for the sound develop-

ment of economy. In this situation, it is the only way for the adjustment of economic structure and the shift of economic growth methods to increase the proportion of service industry in the whole industrial structure and to develop service industry into the pillar industry of the whole national economy. In addition, it is also an internal request of a harmonious society to establish a complete service industry system and supply rich products to fulfill people's material and cultural needs as well as to form a new channel for employment. At present and even for some time to come, the following points should be emphasized:

2.1 Updating Ideas to Make Ideological Preparations

With Shandong being the hometown of Confucius and Mencius, and consequently influenced by Confucianism, a large proportion of people here are still influenced by the out-of-date idea that it is inferior to serve others. In some areas, industrial projects attract much more attention than service ones. Besides, there are still some people with a prejudice against service industry. Therefore, in order to develop Shandong's service industry, first of all, people's minds should be changed to treat the development of service industry as important as that of industry and agriculture due to the close relationship among the three. Second, ideas about employment should also be changed and service industry should be relied on to form another important channel for employment. Third, consumption ideas should be changed to enlarge the demands for service industry and expand the space for its development.

2.2 Facilitating Reform to Provide Favorable Institutional Foundations

According to the general principles in economics, innovation is a significant source of extra profit. As for service industry, this means not only the innovation of service width and depth, that of service ideas and methods, but also that of management systems and operation institutions. First, the institutional reform in some large and medium state-owned companies in service industry is expected to be facilitated to improve the corporate governance, strengthen the internal reform and form an effective system of input and output. Second, the industrialized process of service industry should be enhanced. Third, we should speed up the reform in institutions to conduct the transition of those profit-winning institutions to enterprises or to enterprise-oriented management and to reduce and gradually cancel government's input in them. Meanwhile, those non-profit institutions should be included in the whole competition system to provide service to the whole market. Fourth, the market-oriented reform in service industry should be strengthened to increase the proportion of non-state-owned economy. The layout of the national economy in service industry should be optimized to strengthen the supporting, guiding and encouraging functions of the state-owned sector.

2.3 Improving the Standard of Living to Increase Effective Demands for Service Industry

Many fields in service industry are closely related to the lives of urban as well as rural residents, hence tending to be influenced by them. The income of the urban and rural residents in Shandong ranks eighth in the whole country. Facing such a situation, the policy of income allocation should be adjusted to improve the residents' income and speed up constructing the social security system. In this way, consumption motives will be stimulated and requests for service industry will be increased, hence stronger motive force for the development of service industry. It should be emphasized that, with 62.3% of Shandong's population being peasants, their income must be increased in order to attract them to consume in service industry. First, we should support agriculture more effectively by investing more in agriculture through different channels, improving the conditions for agricultural production, enhancing their abilities to combat natural disasters and improving the comprehensive agricultural productivity. Second, more channels should be created to increase peasants' income, the structure of their income sources should be perfected and industrialized management should be carried out in rural areas. In addition, the transfer of extra labor force in rural areas into non-agricultural industries should be facilitated. Third, special attention should be paid to how to increase the income of those low and middle income peasants. Fourth, peasants' burdens should be lessened to relieve their worries about the consumption in service.

2.4 Speeding up Urbanization to Open up Larger Space for Service Industry

The level of urbanization influences service industry directly. As is shown in the practice of global economy, service industry, especially the modern one, interacts with urbanization. Only with a relatively intensive population will it be possible to form scalable transaction and transportation. Only with a relatively intensive consumption group will it be possible to form a scalable market. Therefore, urbanization should be facilitated to encourage the development of service industry. At the moment, the following aspects should be covered: first, greater efforts should be exerted in the reform of household registration system in which the policies about population flow and migration should be implemented to promote the reasonable flow of urban and rural labor force. Second, cities and towns should be encouraged to enlarge the scale of the traditional service industry, to speed up developing the new industry, to perfect the public transportation network, to facilitate the construction of basic facilities and to improve the environment for investment and life. Third, enterprises in large and medium cities should be encouraged to set up their processing bases, conduct management activities and establish industrial estates in some central towns to realize the accumulation of industries there. Fourth, the urbanization construction in rural areas should be facilitated. More necessary facilities should be built to improve the ability of industrial accumulation. In addition, more efforts should be exerted to establish agricultural product wholesale markets and other specialized wholesale markets. The industries related to the transportation, storage, transaction and technological introduc-

tion of agricultural products should also be developed.

2.5 Improving the Internal Structure to Make a Scientific Plan for Service Industry

The internal structure of service industry should be adjusted effectively to increase its comprehensive profit. First, the traditional service industry should get revived. With their great aggregates, solid bases and great contributions to economic development and improvement of people's living standard, some traditional industries such as transportation, telecommunication, trades and catering are still the key points in Shandong's service industry. Second, productive service industry should be attached more importance to. Some productive service industries such as finance, insurance, real estate, logistics service have long been the weak links in Shandong. Therefore, based on the reality of Shandong, some key industries should be broken through first to help to establish a productive service industry system with wide coverage, strong impetus and many employment opportunities. Third, new service industries should be facilitated. The new service industry with emphasis on information, knowledge and innovation runs through the whole national economy as not only a new highlight in Shandong's service industry but a growth point in the whole national economy. Therefore, more efforts should be exerted to construct relevant basic facilities, integrate resources, expand the space for development, perfect the platform for development, especially to reform those unreasonable systems, increase capital investment in order to develop the new service industry into the pillar of the whole national economy.

2.6 Opening Wider to the Outsider World to Inject New Energy for Service Industry

Against the global depression of economy, transnational corporations begin the new round of industrial distribution adjustment. With manufacturing industry still the weight of this adjustment, service industry's transfer to other nations has become a new hot issue. In this situation, Shandong should speed up its opening to the outside world to strengthen its cooperation with transnational corporations in modern logistics, finance and insurance, business service and so on. In order to achieve that, first, more efforts should be exerted to speed up shifting government functions, build stronger sense of services, simplify approval procedures and improve efficiency in order to create better environment for investment; second, legal construction should be emphasized, especially that related to intellectual property; third, credit construction should be strengthened to build favorable credit environment and market economy orders. In addition, domestic service enterprises should extend to the outside world. As for those dealing with a lot of imports and exports, purchase centers, distribution centers, logistic distribution centers, financial service centers should be established outside China. As for those items with comparative advantages, such as restaurants, medical treatment, folk arts, national culture and so on, chain operation in other countries should also be encouraged.

2.7 Stepping up Personnel Training to Provide Effective Support for Service Industry

A large number of professional are required in service industry, especially in the knowledge based fields. Despite of its rich labor force, Shandong is short of high-quality professionals in service industry. Therefore, it is a necessary measure for the development of Shandong's service industry to cultivate and introduce talents. In order to achieve that goal, vocational education should be effectively developed by establishing colleges and majors specialized in service; a joint system for talent cultivation should be established and domestic as well as foreign management talents in service should be introduced; on-the-job training should be emphasized by adopting the system of professional qualification credentials and efforts should be made to improve the skills of laid-off workers, peasants in service and so on.

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