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CHINESE ECONOMY TRANSFORMATION-MANUFACTURING AND AGRICULTURE INTO THE SERVICE SECTOR

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Abstract:

Purpose –*The main purpose of this study is to understand and examined the Chinese economy transformation from manufacturing and agriculture to service sector in 1983 to 2013.*

Design/methodology/approach*–Secondary data sources are used to achieve the study objectives. We used data sources i.e.National Bureau of Statistics of China, World Bank and CIA Fact Book.*

Findings*–The analytical results showed that Chinese economy has been changed from manufacturing, agriculture to service sector. But speed of this transformation is little slow based on some circumstances.*

Originality/value*–No other paper has looked at these sorts of data, collected from these sources in China. Moreover, the results of this study provide a valuable reference for managers, researchers.*

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1. INTRODUCTION

In fact the most important feature along with the economic growth path is the structural change or structural transformation, i.e., the reallocation ofresources across industries and sectors. The hypothesis that economicstructural changes necessitate economic growth can be traced as earlyas Lewis (1954). Twenty-five years later, Nobel Laureate Simon Kuznetsmade an even stronger proposition that "it is impossible to attain highrates of growth of per capita or perworker productwithout commensuratesubstantial shifts in the shares of various sectors" (Kuznets, 1979).The quantification of the effect of structural change on economic growthbegan with Chenery et al. (1986).Since the commencement of her economic reformin 1978, China hasbeen growing at nearly double digits per year in average for the pastthree decades in terms of GDP. China offers a unique laboratory for testingthe relationship between structural change and economic growththroughout the history of mankind (Wang et al., 2014).

In terms of conventional classification, an economy is divided into three sectors, that is, agricultural (or primary), manufacturing (or secondary) and service (or tertiary) sectors. The agricultural sector consists of farming, forestry, animal husbandry and fishery. The manufacturing sector is composed of mining, construction and manufacturing (Luo, 2001). All other economic activities which are not covered by the agricultural and manufacturing sectors are broadly defined as services and hence belong to the service sector. They include services provided for the agricultural sector, activities associated with the supply of water, electricity and gas, transport and communications, wholesale and retail trade, finance and insurance, business and personal services, and community and social services. Services can be broadly distinguished between two types, that is, the old and new services. The old or traditional services include petty trading, domestic services, catering and hotel services. The new services are generally associated with communications, business and legal practice, culture, research and education (World Bank, 2005). The latter are tradable internationally and hence are also called tradable services.

The main purpose of the study is to explore that what are the structural changes of the Chinese economy. Hence, contribution of this paper is to address the following research objectives:

- To understand the structure of Chinese economy in terms of GDP.

- To shed light on the main pillars of the Chinese economy.
- To examine the bottlenecks of sector development

The remainder of this paper is organized as follows. Section 2, research methodology demonstrated. Section 3, review of Chinese economy is presented and consequences of slow growth of service sector are explained in Section 4. Section 5, transformation into service industry is given. Finally, a paper conclusion is given in Section 6.

2. RESEARCH METHODOLOGY

We used secondary data sources to accomplish this study objective. Secondary data sources are useable because: easy availability, faster collection and cheaper to collection.

Therefore, we used following secondary data sources for this research.

- National Bureau of Statistics of China
- World Bank
- CIA Fact Book

Further, we used some instances to demonstrate and achieve study objectives.

3. REVIEW OF CHINESE ECONOMY

The Chinese economy has witnessed tremendous transition and growth since 1978 when Deng Xiaoping introduced China to capitalist market reforms and moved away from a centrally planned economy. The resulting growth has persisted for the last 35 years; its gross domestic product (GDP) has seen an average annual growth rate of 10.12% between 1983 and 2013, making China's economy the second-largest in the world. China's transformation from a sleeping rural, agricultural giant to manufacturing and service sector kingpin had brought rapid infrastructure development, urbanization, rising per capita income and a big shift in the composition of its GDP.

China’s GDP is broadly contributed by three broader sectors or industries. It is presented in Figure 1. The primary industry (agriculture), secondary industry (construction and manufacturing) and tertiary industry (the service sector). As per the 2013 data, primary industry accounted for 10% of GDP, while secondary industry accounted for 44%, and tertiary industry 46%. It is

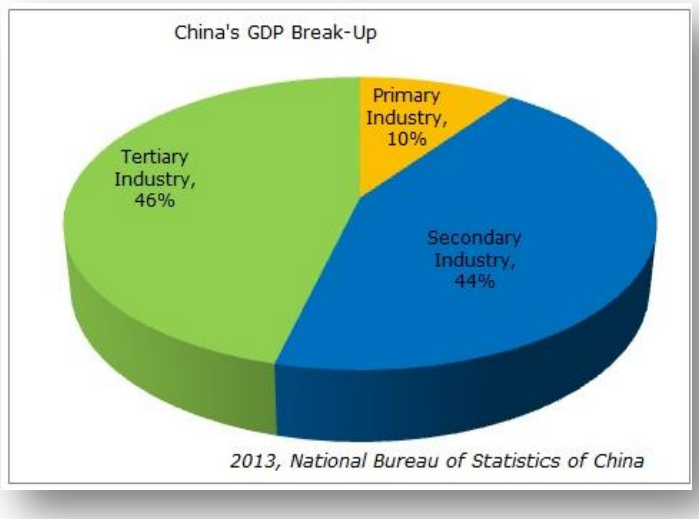

Figure-1. GDP Breakup

3.1 Agricultural Sector

China is the world's largest agricultural economy with farming, forestry, animal husbandry and fisheries accounting for approximately 10% of its GDP. This percentage is much higher than developed countries, such as the United States, the United Kingdom and Japan, where agriculture makes up about 1% of GDP. The chart below shows the trend in the share of agriculture in GDP (1983-2013). Though the percentage has gradually decreased over the years, it still accounts for approximately 34% of the total employed population. Over the last seven years, the share of agriculture as part of GDP has held more or less constant at 10%. Figure 2, describes the agriculture GDP since 1983-2013.

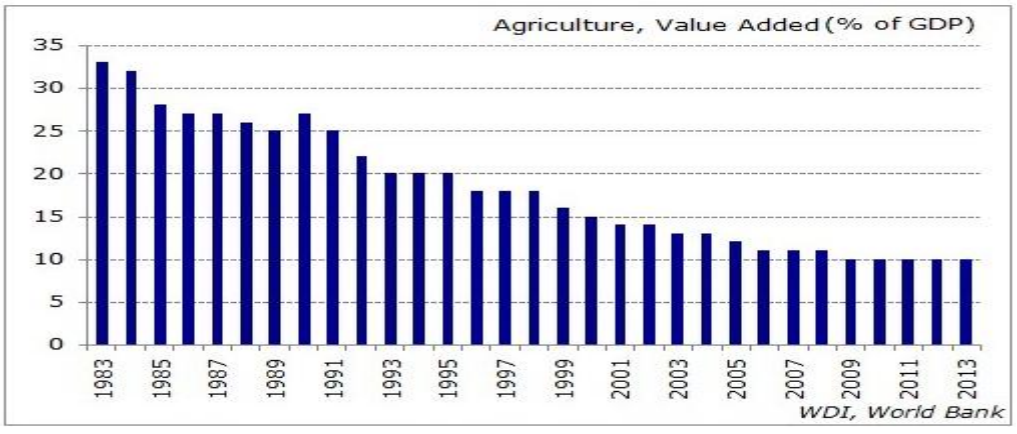

Figure-2. Agriculture GDP

The economic reforms of 1978 changed the face of agriculture in China. Prior to these reforms, four out of five Chinese worked in agriculture. But this changed as property rights in the countryside took hold and led to the growth of small nonagricultural businesses in

rural areas. De-collectivization, coupled with better prices for agricultural products, led to more productivity and more efficient use of labor. The other major change took place in 2004 when the farm sector started to receive increased support under a major shift in economic policy wherein the government came up with policies to support the agriculture sector rather than overtax it, which was the previous policy.

3.2 The Industry and Construction Sector

Construction and industry (including mining, manufacturing, electricity, water and gas) accounted for 44% of China's GDP in 2013. Industry is the bigger contributor (84% of the secondary industry), while construction accounts for just 7% of overall GDP. The chart below shows the percentage of secondary industry in China's GDP from 1983 to 2013. Overall, this sector has held its dominance and seen minimal change in its percentage composition in the overall GDP over the years.Figure 3. Presents the secondary industry percentage of GDP since 1983-2013. Approximately 30% of China's employed population works in these secondary industries.

Figure-3. Secondary Industry GDP

The share of secondary industries as part of GDP in China is more than in countries such as India (25%), Japan (26%), the U.S. (20%) and Brazil (25%). China is a world leader in industrial output, including mining and ore processing, processed metals, petroleum, cement, coal, chemicals and fertilizer. It's also a leader in machinery manufacturing, armaments, textiles and apparel. Add to that, China is a top manufacturer of consumer products, a leader in food processing, and a major maker of telecommunications equipment. It's a growing manufacturer of automobiles, train equipment, ships, aircraft and even space vehicles, including satellites.

3.3 The Service Sector

China's service sector has doubled in size over the last two decades to account for about 46% of GDP. In 2013, it surpassed China's the secondary industries for the first time. Within the service sector are transport, storage and post (5% of GDP), wholesale and retail trades (10%), hotel and catering services (2%),financial services (6%), real estate (6%) and mishmash of services categorized as 'other' (18%) as shown in given Figure 4.

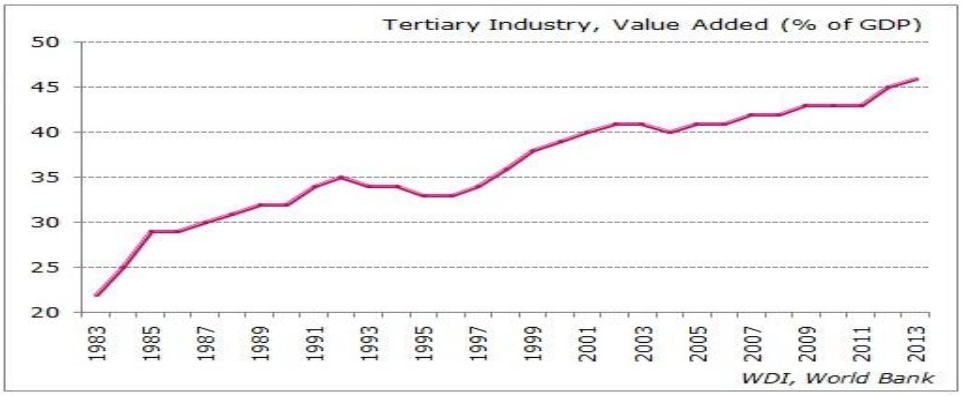

Figure-4 GDP of Tertiary Industry

China's focus on manufacturing left the service sector to its own devices for many years, with both substantial barriers to trade and investment and every reason to circumvent them. The service sector paid no heed; its growth has gotten the attention of the government, which instituted a five-year plan in 2011 to prioritize the development of service economy along with trade in services (TIS). Still, the services sector's share of GDP in China is much lower than countries like the U.S. (79%), Japan (73%), Brazil (69%) and India (57%).

3.4 Case: Hangzhou Financial Services

Hangzhou enjoys a solid industrial base, which is reflected in three aspects. Firstly, in total overall financial activity, Hangzhou ranks No. 5 in China after Beijing, Shanghai, Shenzhen, Guangzhou. Secondly, Hangzhou has a sound IT foundation, as it is a national base for electronic information, software, export and innovation, digital entertainment and e-government pilot Thirdly, Hangzhou is home to many large companies. In 2007, eleven companies were short-listed in top 100 highest revenue software companies, two were short-listed in top 10 Chinese software brands, and eighteen traded in the stock market. Hangzhou also enjoys an ideal geographic location. It is a central city in the Yangtze River Delta adjacent to Shanghai Financial Center. Hangzhou also has a quite large talent pool.

The 30 plus higher education institutions in the city deliver nearly 300,000 graduates every year,, including a large number of young people who are skilled in Japanese, Korean and English. In the mean time, Hangzhou has also developed preferential policies to encourage entrepreneurial talents to build up business in Hangzhou. Based upon these advantages, Hangzhou Municipal Government has established a development-oriented strategy for the service sector, which aim for Hangzhou to be reputable as an internationally renowned financial services outsourcing hub, a leading domestic development center for software outsourcing and a host of application management centers for small and medium-size enterprises It will be a city of three districts and multi parks. In developing finance services outsourcing, Hangzhou emphasizes financial software outsourcing and high-end business process outsourcing. It is trying to build a support base for financial services (R&D), as well as to provide high-end financial processing services. Financial services outsourcing has become one of the most important components of Hangzhou's outsourcing industry. In 2008, offshore services outsourcing contracts exceeded 200 million USD; among them, 86 million USD were financial services offshore outsourcing (43.08%). Hangzhou hosts several leading financial services outsourcing companies, including DaoFu (State Street) Zhejiang Branch, which provides 300 million USD in global trust outsourcing services for State Street, and Hengsheng Electronic, which develops financial software and holds about 80% of market share in China. In addition, Hangzhou has also set up the "International Alliance for Financial Services Outsourcing" as a preparation for the future creation and development of proprietary brands.

4. WHY CHINESE SERVICE INDUSTRY GROWTH IS SLOW?

The few gaps have impeded the slow growth of service sector of Chinese economy.

4.1 Structural Shortage of Talent

Although China is a country with a large population, it is facing a prominent problem of structural shortage of talent as it falls short of interdisciplinary high-end talent (all-round talent skilled in techniques and proficient in foreign languages and management) and applicable technical talent (for instance, entry-level programmer skilled in programming). Education or training of talent for the service sector is insufficient, and also there is a lack of fiscal, taxation and credit means of support. According to statistics from the National

Development and Reform Commission of China, nearly 50% of high-end service industries in China fail to hire enough qualified talent.

4.2 Lack of Guiding Policies and Incentives

Governments at all levels do not fully understand the development laws of the service sector and fail to enact relevant supporting policies or measures over the sector, while the existing policies lack pertinence and thus are not practical enough; governments continue to favor the manufacturing sector, because of which manufacturing enterprises are unwilling to divest their internal producer services (such as production logistics) so as to enjoy more preferential policies. The existing preferential policies for the service sector pose overly high thresholds for small and medium service enterprises which, without receiving sufficient government support in terms of market entry, credit guarantees, financial services, talent training, etc., do not show much enthusiasm with staring new business or innovating.

4.3 Infrastructure Not Well Developed

Most cities in China lack well-developed IT infrastructure and supporting IT application platforms, and as a result the needs of small and medium service enterprises for business operation could not be fully satisfied. The broadband coverage rate in Beijing is 55%, which is far lower than the average level of 80% in London, New York and Tokyo. The situation in China's tier-two and tier-three cities is thus conceivable.

4.4 Poor Availability and Accessibility of Government Services

The per capita governmental financial spending in Chinese cities is generally low, and the resource investment in public services from governments is inadequate; the procedures are overly complicated, resulting in low working efficiency; governmental functional departments, scatteredly distributed, are isolated from each other in data and process management and lack cooperation; government departments do not make full use of advanced information-based technology to provide public services. For example, custom clearance in Shanghai takes 8.7 days on average, while the time in South Korea is 5.3 days, which is 1/3 shorter than that of China.

4.5 Ecosystem Not Well Developed

General public lacks awareness or concept of services. Both consumers and customers have yet to fully recognize the value of services provided by third parties. Services are often not

standardized or credible enough and there is a lack of healthy and sustainable cooperative relationships between the government, enterprises, industry associations and citizens.

4.6 Unattractive Urban Environment

Imperfection remains with many cities in business environment (basic business infrastructure, corporate culture and systems, etc.), social environment (social order, social insurance, urban and rural co-ordination, etc.) or living environment (housing, education, health and ecology, etc.), which might reduce the cities' ability to attract investment and talent.

5. Economy Transformation into Service Sector

Recently, global competition in the economy is shifting from the cargo trade to the service trade, and the level of advancement of the service industry and service trade has become a major indication of a country's level of modernization. To take a higher position in international competition, China must devote greater effort to the development of its service trade. Subsequently, China's service trade continued growing in 2013. The total volume of service imports and exports from January to November 2014 was $484.7 billion, a rise of 12.4 percent. The whole year's volume is estimated to reach a record high of $520 billion, or a year-on-year growth of 11 percent. This volume, however, is still much smaller than that of developed countries; and the quality is lower, leaving ample room for China to upgrade its trade pattern. China's service trade has developed significantly in recent years, thanks to the continuous increase in the country's position in international trade. In 2012, China's service trade accounted for 5.6 percent of the world's total, making the country the third in the world. Forty years ago, it was only 0.6 percent. It is estimated that China will still rank third in 2013. However, the country's service trade is still disproportionate in its overall trade pattern. Of the world's nearly 200 countries and regions, the top 20 economies in service trade are mostly developed countries.

As China's service trade has suffered a deficit for 12 successive years. It was not only an inevitable result of the dramatic increase of imports after China joined the World Trade Organization, but also because of the huge gap between China and the major developed economies in service trade power. Generally speaking, service trade makes up 70 percent of the global economy. In major developed countries, service trade accounts for about 80 percent of the national economy. In the world's total export volume, service trade makes up

20 percent. In China, however, the export of service accounts for less than 9 percent of its total exports. Great changes have taken place in the global structure of service trade. Capital-intensive trades, such as transportation, telecommunications and banking, and technology-intensive trades have replaced traditional trades, such as tourism and sales service as the major elements of the world's service trade.

In fact, China mainly relies on traditional trades such as tourism and transportation for its service trade. It is still much weaker in capital-intensive and technology-intensive services. That's why its service trade remains powerless in international competition. In recent years, high value-added services such as computers, insurance and financing have been growing fast, but they still account for a very small part of the country's total volume of service imports and exports.

However, the global trend of services becoming tradable is beginning to change the deeper structure of international trade. The first round of globalization was the restructuring of the manufacturing industries' supply chain. Now, the global distribution of transnational manufacturing companies is basically completed.

6. CONCLUSIONS

It is fact that China's economy has grown by leaps and bounds over the last several decades but still has a ways to go to modernize and reach parity with more-developed countries. Its service economy is now the largest contributor to its GDP, but its size still lags that of other developed nations. China's leadership is focused on changing this, however, with its 12th Five Year Plan, which addresses its dependence on exports. Its construction and industrial sector it still outsized, as befitting a still-developing nation, and its agricultural sector contributes 10% to GDP, way above the 1% of more developed nations. Researcher can conduct future study on how to increase transformation of Chinese economy into service sector, and how this speed of transformation can be increased?

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