A great leap forward: how to choose strategies and policies to promote the Chinese service industry

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The development level of the service industry is an important indicator to measure the level of economic and social development and the optimization of the economic structure. As the status of the service industry in the Chinese economy is increasing, it is playing a more important role in boosting economic growth, promoting employment and adjusting the economic structure. China is facing an unprecedented opportunity to develop its service industry. There is vast potential for the future development of producer services, consumer services, and new service industries. Development of a modern service industry should be oriented toward strategies to foster industrial convergence and industrial clustering, boosting creativity and openness. The authorities need to abolish over-regulations on finance, taxation, investment, land and talents, facilitating the development of service industry.

Keywords: service industry, service innovation, integration of service sector, agglomeration of service sector, openness of service sector

The service industry refers to economic activities that produce and sell service products. Service products, unlike other products manufactured by the primary and secondary industries, are intangible, non-physical, un-storable, and inseparable. The production and consumption of service products is in sync. As one of the foundations of the national economy and social development, the level of development of the service industry is an important indicator to measure the level of economic and social development and the optimization of the economic structure. It is also a significant means of improving people's wellbeing. As the status of the service industry in the Chinese economy is increasing, it is playing a more important role in boosting economic growth, promoting employment, and adjusting the economic structure. How to estimate the current situation of China's service industry, to analyze the existing problems, to clarify the future development strategies, and to improve service industry policies remains an imperative and pressing issue both theoretically and practically.

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1. Current situation and existing problems of Chinese service industry

1.1. Current situation

1.1.1. The proportions of the service industry to GDP and to overall employment are increasing

These two proportions are the most important indicators to measure the development level of service industry in a specific region or country. In recent five years, the added value of China's service industry has increased 9.3 percent annually, 1.5 percentage points higher than the growth rate of China's GDP. The proportion to GDP has grown from 43.4 percent in 2010 to 45.5 percent in the third quarter of 2013. The proportion of employment in the service industry to overall employment has also increased dramatically. It has become the most popular industry, and covers a 36 percent share of China's employment market. In the past three years, the service industry has taken in about 7 million job seekers annually, accounting for 70 percent of all new employment. Service industry has already become the major driving force of job creation.

1.1.2. Service consumption is becoming increasingly active

With the advancement of China's urbanization, and increases to Chinese citizens' incomes and leisure time, the Chinese consumption structure has been dramatically upgraded, transferring from goods-oriented consumption to service-oriented consumption. Throughout these years, the proportion of service consumption in the consumption of Chinese urban citizens has escalated, rising from 36.3 percent in 2008 to 38.2 percent in 2011. Service consumption is becoming popular among Chinese urban citizens.

1.1.3. New services are springing up

With the growing introduction of new technologies and service models, new modes of operation have emerged in the service industry, such as E-business, Internet banking, distance education, tele-medicine GIS systems, energy performance contracting, chain operation, and Internet finance. In the first half of 2013, the scale of information consumption reached 2.07 trillion yuan nationwide, an increase of 20.7% on a year-on-year basis. The volume of e-business has reached 4.35 trillion yuan, an increase of 24.3 percent on a year-on-year basis.

1.1.4. China's opening policy has taken a giant leap forward

According to FDI statistics issued by the Ministry of Commerce in October 2013, the proportion of foreign capital utilized by the service industry has surpassed 51 percent of all foreign capital. By taking the advantage of foreign capital, China is stepping into an era of the service economy. The rapid growth of service trade is a highlight of China's opening-up in the service industry. Its growth rate is far higher than that of the rest of the world. China's status in the global service trade has been elevated dramatically, making China the third largest service trade country.

1.2. Major problems

1.2.1. China's service industry is still boxed in by stubborn mechanisms and systems and a low degree of marketization

The system is an important element that determines the growth rate and efficiency of the economy. The service industry cannot develop without robust market mechanisms and orderly market regulations. In contrast to the development models of the primary and secondary industries, the service industry requires a more sound market mechanism and system. This industry is more reliant on advanced production elements and intangible assets such as knowledge and innovation. Except for some traditional service sectors, such as catering and trade, many other sectors are still plagued by the outdated planned economy. Their mechanisms and systems, such as market access and pricing, are still lacking the role of market. These problems are causing the service industry, which should enjoy an extensive market and vast potentials, to lack energy and vitality.

1.2.2. Due to the weak division of labor in society and the propensity of manufacturers to conduct their own services, the demand for the development of the service industry is insufficient

The social division of labor is an important element that determines the advancement of technologies, increases to efficiency, and economic growth. But in the long term, Chinese businesses, no matter large or small, pursue a comprehensive production chain, within which numerous service sectors are established. Because they are not professional providers of services, the production of service products by manufacturing enterprises has severely depressed demand for producer services, and decreased the efficiency and quality of the service industry.

1.2.3. International subcontracting mode will remain prevalent in the service industry

There is a weak correlation between foreign manufacturers and local service industry. Most production chains are short, and producer services lack the space for further development. China's foreign trade growth model has not yet been totally transformed. The growth of international trade still relies on the export of primary goods and international subcontracting. In other words, China is still at the low end of the international division of labor, while the high value-added portion, such as research and design, and brand marketing, is not in Chinese hands. China is a manufacturing hub with a solid foundation and a large potential market to develop producer services. But China, as a manufacturing hub, is large but not strong, its production chain is very short, and the majority of demand for producer services is abroad. These disadvantages mean a lack of support and market for Chinese producer services. On the surface, there is massive room for development, but in reality it is quite narrow.

1.2.4. From the international perspective, the Chinese service industry still lags behind

There is a large gap between China and developed countries and emerging economies, such as other BRICS nations, in terms of the proportion of the service sector in GDP and the proportion of the service sector's share of employment share among all industries. In 2010, the world average level of the proportion of the added value of the service industry was 70 percent, reaching 73 percent in high-income countries and 47 percent in low-income countries. The proportion in China was only 43.4 percent. Although such an indicator is not the only measurement to evaluate whether a country's service industry advanced or not, it still can reflect the overall development level of its service industry.

1.2.5. The international environment for the development of the Chinese service industry is not positive

As of now, there is still much uncertainty about the impact of the global financial crisis, and the global economic recovery is still at a low pace. Lack of demand has increased the international competition in terms of service industry. Developed countries dominate high-end and knowledge-intensive industrial sectors, while emerging markets and developing countries are also developing their own service trades. In the meantime, China is confronted with many problems, such as low-level development, less competitiveness, lack of the ability to explore international markets, blocked channels for international marketing, and lack of core competitiveness in terms of brands, standards, intellectual property rights, and talent. Therefore, both domestic factors and the international environment present significant challenges to the rapid and high-quality development of the Chinese service industry.

2. Areas of the service industry requiring breakthroughs

2.1. Giving priority to producer services and facilitating industrial transformation and upgrading

Producer services are an industry that directly or indirectly provides intermediate services to the productive process. It is an industry whose target is producers. This industry includes many sectors such as transportation, modern logistics, finance, high-tech services, design and consulting, commercial services, human resources, and legal services.

Since reform and opening up, China has built a worldwide reputation for its productive capabilities. "Made in China" has become an integral part of the global economy. However, China has largely relied on low cost labor for the rise of "Made in China." Most Chinese manufacturers are still at the low end of the international industrial chain. Under the negative impact of the increasing cost of labor, the appreciation of yuan, and tougher international trade barriers, "made in China" has met a bottleneck to further development. Transformation and upgrading have become necessary. As an independent production industry, producer services are turning to be the driver of the entire manufacturing industry. Consumer services can give wings and an insightful mind to the manufacturing industry. Not only are consumer services the most important impetus for promoting the transformation and upgrading of the manufacturing industry, but they also point the direction for some manufacturing enterprises to find the right path.

From a practical perspective, in terms of economic growth for developed countries, producer services have become the most energetic sector in the modern service industry. Its development rate has already surpassed that of the manufacturing industry. Many traditional manufacturing enterprises are also seeking to transform into service-oriented enterprises. There is an increasing number of countries and enterprises that pay more attention to elevating their industrial competitiveness and ability to exert control over the global economy by developing producer services. IBM, a former hardware producer, is a perfect example. In 1990s, IBM found itself into trouble as the hardware market shrank. The company's losses in 1993 reached as high as $8.1 billion. At the verge of collapse, IBM was forced to transform from a hardware manufacturer to a software and information-oriented company. The company recovered its vitality and managed to realize industrial upgrading and transformation. It still remains one of the greatest companies providing information technology and business solutions.

China is in a transitional period from the middle stage of industrialization to the late-middle stage. A "dual-wheel drive" managed by both a modern manufacturing industry and producer services will be a long-term and important strategy for China's economic development. We cannot follow the old path to develop the manufacturing industry, nor can we leave the manufacturing industry alone and focus all attention on producer services. We must realize a win-win situation between the manufacturing industry and producer services in terms of labor division, industrial integration, and interaction. China, in particular, needs to focus on the manufacturing industry, the real economy, to develop producer services. By depending on the development of producer services, transformation and upgrading of the manufacturing industry can be realized and competitiveness can be elevated.

A feasible way to promote producer services is to refine its division of labor, encourage the service sector to peel off from these manufacturing enterprises, and carry forward outsourcing. Manufacturing enterprises can separate from their producer services, which were provided in-house, and use outside providers. For example, some sectors such as research, design, internal transportation, and purchasing can be outsourced to producer services businesses. By outsourcing non-core areas to professional service providers, these manufacturing enterprises can upgrade their core competitiveness and drive the development of producer services. This strategy can kill two birds with one stone.

2.2. Nourishing the emerging service industry to produce a new engine for economic growth

The emerging service industry is based on modern ideas, Internet technologies, new marketing approaches, and innovation. It has five basic qualities, including high growth, high technical content, high talent content, high risk, and low consumption. Most sectors of the new service industry enjoy high added value and are less dependent on resources. It is of great importance to transform the pattern of economic development and explore new areas for economic growth.

The emerging service industry has a profound and flexible range of sectors. We can sort it into three major categories. First is the sectors that serve new market demands, such as the energy conservation industry, the maritime service industry, cruise tourism, information and communication services, and creative cultural industries. Second are sectors whose development is built upon traditional service industries by utilizing new resources, technologies and approaches, such as the e-banking industry, tele-medicine, GIS service, online shopping, chain stores, and discount stores. More sectors will emerge along with the development of technologies and business models. The market and the government should join efforts to cultivate the emerging service industry as the new engine to boost economic growth and generate jobs.

2.3. Comprehensively elevating consumer services to better people's wellbeing

Consumer services are an industry that provides ultimate satisfaction to the needs of consumers. Ample goods and a high level service are a guarantee of people's wellbeing. In line with increases to citizens' salaries, the acceleration of urbanization, and changes to the consumption structure, Chinese people are gradually shifting their concentration from basic necessities of life to entertainment. Such a shift also means demand for spiritual satisfaction is taking place of demand for material goods. This shift also implies that developing consumer services is the internal requirement to bettering people's wellbeing.

The income of citizens has multiple levels, and people's livelihood is also diverse. Thus, China has to spare no effort to satisfy various needs of the people by providing abundant services and enhancing service quality. Practically speaking, business services, cultural industry, tourism, the health industry, and services for the elderly should take the priority.

Business service is China's traditional consumer service. On one hand, we should explore its potential; on the other hand, we must accelerate the upgrading of traditional trade services. We need to apply more technologies and modern distribution methods to the commercial and trade circulation field. The development of sectors such as e-business, online marketing, chain stores, and convenience shops, and community greengrocery could be supported. Authorities should encourage urban enterprises to establish commodity networks in the countryside, introducing agricultural products into cities and improving policies for direct agricultural material subsidies and daily necessities going to the countryside.

Three is an unprecedented opportunity for the development of cultural industry. The demands of both rural and urban residents for cultural development are, on one hand, similar, and on the other hand, different. In order to meet the diverse demands for cultural assets, we should expand the range of the cultural industry. On one hand, we have to develop entertainment industries that are favored by the masses. On the other hand, we must be creative and develop new sectors of cultural industry, such as mobile multimedia, digital publishing, cartoons, and games. Integrating the cultural industry with technology and capital will be an important way to boost its development. The magnificent 2008 Beijing Olympic Games and the annual Spring Festival Gala are outstanding examples. The great leap forward of the cultural industry cannot be sustained without capital. From the examples of many successful cultural enterprises, capital market is essential to the prosperity of the cultural industry.

We should develop tourism. Tourist consumption is turning to be a new hotspot. Tourism does not consume much energy, and it can also create massive job opportunities. We should clarify the demand among rural and urban citizens for tourism, promote the diversification of tourist products, enhance the infrastructure of tourist spots, increase the informatization of tourists, strengthen industrial self-disciplines and the construction of integrity. With the increase of tourism quality, China will develop to be a power in terms of tourism.

The healthcare industry is a sunrise industry in the 21st century. America's healthcare industry has already become the biggest industry in its national economy. China's healthcare industry also enjoys promising prospects given the massive demand. But generally speaking, China's healthcare industry is still at the initial stage. The middle and high-end health service market accounts for only a small share, with few famous brands. The industry cannot produce sufficient driving effect. The resources of the healthcare industry are distributed in an unbalanced way, and the contradiction between supply and demand is very obvious. Its industrial system is not complete, and its production chain is also short. We should continue to enrich the content of the healthcare industry, explore the added value of the healthcare industry, expand the production chain of the industry, and cultivate it to be the new pillar of the service industry.

Family and elderly care service industry is an extremely promising consumer service. With the acceleration of urbanization and the pace of life and work, the demand for family service increases. But qualified practitioners are in short supply. Moreover, demand for elderly care is also increasing dramatically. China has the largest elderly population in the world, with 178 million people over 60 years old in 2010. In 2015, the number will surpass 221 million. In 2010, the number of the empty-nest elderly in China, who were 65 years old, was 41.5 million. In 2015, the number will exceed 51 million. As of now, urban empty-nest families make up over 50 percent, while in some large and medium-sized cities, the proportion could hit 70 percent. This new change has had a significant impact on China's traditional practice of family providing for the elderly. The demand for social elderly care is increasing.

We must speed up the development of family and elderly care services. The key lies in two projects and six focal points of work. The first project is the information platform for family and elderly care, and the second project is the training program for family and elderly care practitioners. The six focal points of work include the establishment of the home-based care service network for the elderly, community involvement in home-based elderly care, enhancement of services to support disabled senior citizens, betterment of volunteer and intermediary services, overall development of nursing homes, and nursing and rehabilitation services for the elderly.

2.4. Developing agriculture-oriented service industries and promoting agricultural modernization through the modern service industry

Agriculture is the foundation of the national economy. As a populous developing country, China has to place top priority on the development of modern agriculture. Modern agriculture has profound connotations. In order to realize the modernization of agriculture, one cannot simply focus on growing crops, but must focus on the whole process of agricultural production. Things that happen before and after agricultural production should be managed within the service industry. Experiences from developed countries and our own have proved that developing agriculture-oriented services and establishing a socialized agricultural service system are an effective way to realize the modernization, low-carbonization, and sustainability of agriculture. In order to build powerful, effective and high value-added modern agriculture, the government should speed up constructing and improving a comprehensive service system for agriculture, which includes agricultural financing, technology, logistics, disease control and prevention, quality control of agricultural products, training for the rural labor force, and agricultural machinery leasing. The modern service industry should be conducive to the modernization of agriculture.

China's current agricultural service system has the following problems: the service cost is very high and effective demand is insufficient; the level of service provided by traditional agricultural service suppliers is low, while transaction cost and risks are high; many leading enterprises have met their own bottlenecks in development and failed to lead rural citizens due to the weak comprehensive service network and low level of mass and specialized production. Specialized service suppliers lack the motivation to provide services to scattered demands from rural areas. In order to break the deadlock, the Harbin government has adopted a mechanism, which requires the government, market, and leading enterprises to join forces to explore a new model. It is committed to integrating the development of both rural and urban service industries by connecting cities, rural areas, and professional organizations. It has achieved some initial results.

The joint forces require the government to actively advance a bilateral flow. On one hand, the government should persuade urban service suppliers to provide professional services to rural areas in terms of finance, logistics, marketing, information, and technology. On the other hand, production factors of rural areas need to be pulled together into the leading enterprises (professional associations), and the organization of agricultural production should be increased. Joint forces also require the market to increase the income of peasants so that they can give up the scattered production model, which needs to be replaced by a more well-organized and large-scale model. With a decrease in cost and an increase in quality, it will attract many professional organizations to purchase urban professional services, and integrate urban service suppliers with professional organizations. Joint forces also require the government to support leading enterprises, which should be developed to be a hub where urban professional services and rural citizens are interconnected.

3. Strategies to promote China’s service industry

3.1. The strategy of innovation development

Innovation is the key factor determining the efficiency and quality of the service industry. Innovations in the service industry can be divided into two parts: systematic innovation and technological innovation. If the two innovations can be grasped, then the motive of the development of the service industry will be held.

Under the multiple influences of market access, social reform, and level of openness, some sectors of China’s service industry are monopolized. The monopoly has two orientations——one is industrial monopoly and the other one is ownership monopoly. Industrial monopoly is often seen in sectors such as finance, telecommunication and railways, while ownership monopoly is seen in some modern service sectors such as state-owned service enterprises and public institutions. Monopoly restricts the strengthening of competitiveness in these sectors and weakens the role of the market in the resource distribution in the service industry. Monopoly leads singular business entities and weak risk awareness and competitiveness. This deadlock can only be broken by introducing innovation and international standards and formulating public and transparent norms for market access. Except for a few national security-related industries, which need to be catalogued and stamped as “restricted,” all the rest can have access to the market. Breaking up monopolies and increasing the proportion of non-public economic sectors in the service industry are essential to establishing a fair, efficient and orderly market system of modern service industries.

The focus of system innovation should be set on how to fully arouse market mechanisms to play a fundamental role in developing the service industry. The pricing mechanism is the core of all market mechanisms. Therefore, it is important to streamline the pricing mechanism and learn how to effectively employ such a mechanism to support and facilitate the development of key and weak sectors of the service industry, as well as emerging sectors. As of now, the most urgent change should be to adopt a pricing mechanism equal with the one of industrial consumption in terms of water, electricity, gas, and land. This can help create a much fairer institutional environment. In addition, it is necessary to strengthen the regulation of service prices. The government should further reform of the management system, attempting to establish a pricing system which complies with the requirements of marketization.

Technological innovation is an important impetus for upgrading the modernization and comprehensive competitiveness of the service industry. Technological innovation is derived from investment into research and development. As of now, most countries are increasing their R&D investment in the service industry, especially developed countries such as the US. More investments lead to the advancement of technology in the service industry, which totally changes the mindset that the service industry is labor-intensive industry with low production efficiency.

What's more, IT, especially the Internet, has produced many new sectors and models in the service industry, making this industry more diverse and reachable.

Generally speaking, the level of modernization in China's service industry is still low. The government should re-orient its policy toward technological innovation, advancing the modernization of the industry, cultivating new sections, and increasing efficiency, quality, and the knowledge content of the service industry. By doing so, China's competitiveness in the international market will be enhanced and China will have a bigger say.

3.2. The strategy of integrative development

Inter-industrial convergence has already developed to be an important characteristic of modern industries. Today, the service industry unprecedentedly connected with the manufacturing industry and agriculture. All three have made massive development through integration and interactions. The closer relationship between the manufacturing industry and the service industry can be reflected in the increasing service investment in the intermediate investment in manufacturing enterprises. In most OECD countries, the increased rate of service investment is clearly faster than that of investment in real goods. More manufacturers are accepting services such as deferred payment, training, service contracting, and consulting. Competitive advantages can be acquired in new service sectors.

There are two tendencies that have been shown in the convergence of the manufacturing industry and service industry. One is manufacturing enterprises becoming more service-oriented, and the other is the manufacturing process becoming service-oriented. In the context that IT technology is more profoundly applied, global manufacturing enterprises are transforming from production-oriented manufacturers to service-oriented manufacturers. The most important feature of service-oriented manufacturing is that its products are becoming more diverse and personalized. For now, China is committing itself to exploring a new trail of industrialization, trying to move out of the low end in the value chain. The solution is that China has to put more effort toward developing producer services, facilitating the integration and interaction between producer services with manufacturing industry. This should be a strategy and focus that China maintains in the future.

In the meantime, modern agriculture cannot develop without the support of the service industry. Simple husbandry cannot develop into modern agriculture and raise the incomes of rural citizens quickly. The facts have proved that where agriculture develops well, the traditional agriculture and modern service industry can be integrated dynamically. We need to add catalyst to the development of modern agriculture by deepening the fusion of agriculture and the service industry, which can also broaden the fields of the service industry and the horizons of its practitioners.

3.3. The strategy of agglomerative development

Agglomeration is one important tendency and characteristic of the modern service industry that we have to follow. Today, Chinese governments at every level are emphasizing the agglomerative development of the service industry, trying to develop various agglomerative zones for service industry. The model that accumulates massive service-oriented enterprises and institutions into a specific zone reflects the interior requirement for the modern service industry, which to a large extent defines whether the economic prosperity, influence and competitiveness of a specific city are intensive or not.

The agglomeration of the service industry in space is the inevitable option for economies of scale and scope. But it should be kept in mind that at the initial stage of developing an agglomerative economy, enterprises cannot be agglomerated just for agglomeration. Agglomeration is a path rather than an objective. It should be noted that the strategy of agglomeration cannot simply accumulate a bunch of enterprises that are seemingly connected but are not closely related internally and where synergies cannot be generated. Truly effective agglomerative development refers to a group of physically concentrated and internally connected enterprises, service suppliers, related enterprises, research centers, and industrial associations. They are agglomerated in space and develop competitive advantages.

While developing an agglomeration strategy, it must be kept in mind that true agglomeration must be the independent choice of enterprises, and the government must play an active role in its development, such as improving the construction plan of the agglomerative zone, improving the platform for providing public services to these enterprises, and establishing an evaluation and standard system for the agglomerative zone.

3.4. Two-way openness strategy

The two-way openness strategy has two meanings. Firstly, it calls for the integration of “bringing in” and “going out.” Secondly, it advocates openness to both external and internal markets.

In recent years, as a latecomer, service globalization is taking the lead as the motive, symbol, and indicator of economic globalization. In contrast to the latest international industrial transfer in the manufacturing industry, the new round of transfer is focused on the service industry. In the 35-year history of opening to the outside world, China’s true integration into service globalization began with China’s entrance into the WTO, and the opening of the service industry has been gaining momentum. In 2011, for the first time, foreign investment in the service industry exceeded that in manufacturing industry. The volume of exports and imports in the service trade also been ranked fourth in the world in 2010, four places higher than in 2006.

The “bringing in” strategy should focus on high-end and emerging service sectors. That is because firstly, both sectors are the weak points of the Chinese service industry, which is still labor-intensive. Secondly, high-end sectors and emerging sectors are basically run by state-owned enterprises and institutions, whose rigid systems and mechanisms, as well as the inefficiency, will impede the development of these service sectors. By introducing high-end and emerging service sectors that are related to finance, cultural creativity, industrial design, and professional services, the weaknesses can then be overcome, and through competition and the demonstration effect, the service quality and efficiency of those state-owned enterprises can be improved. With the introduction of foreign investment, it should be noted that the opening process should be gradual and flexible. The opening of the service industry needs to be conducted in a manner that requires focus-orientation and gradual development.

As of now, China's modern industry is stepping into the competition of the international market, but how to "go out" remains a difficult problem. It requires enterprises to enhance their competitiveness and adaptability in the international market. It also demands that the government improve logistics, such as providing tax breaks, advancing export insurance and financing services, offering evaluations of the external investment environment, and strengthening information inquiry, IP protection and legal work. By doing so, Chinese enterprises can be for international competition. This kind of two-way openness, combining "going out" and "bringing in," is the only road that can further elevate the development of China's new emerging industry and its international competitiveness.

In the meantime, national economic security must be given top priority. Generally speaking, the influence of the service industry over national security is more profound than that of the manufacturing industry. For example, credit business, a small sector in the service industry, deals with the credit rating, which is closely related with the stability of China's macro-economy. Another example is auditing, a professional service sector whose size is not large. But if this market, especially its high end, is completely controlled by foreign enterprises, they could manipulate China's economic data.

Complete openness also requires the government to lift restrictions domestically. Today, internal openness in the service industry is still a problem, which is largely caused by monopolization implemented by state-own enterprises and local authorities. Many highly profitable fields restrict the entrance of nongovernmental capital, and the flow of various service elements is also limited. The key to advancing internal openness is breaking up monopolies and carrying forward a policy of unlimited entry. The government should avoid prejudice toward non-state-owned and non-local capital, opening up all service sectors, except for some forbidden areas, to foreign and social capital.

4. Policies to boost the Chinese service industry

4.1. To encourage real-economy-oriented service sectors to take priority in development

The 2008 financial crisis is believed to have been caused by the American and Eurozone economies delinking from the real economy. Germany was not that heavily impacted during the crisis because it had solid real economy. Thus, many voices in the international community have called for the development of real economy. It should be noted that part of the service industry belongs to real economy, while part of it is included within virtual economy. If the service industry becomes too self-centered and breaks away from the real economy, when pressure increases and such a service industry takes up a certain proportion of the national economy, it will result in the hollowing-out of industry. Not only would economic growth be impacted and the gap between the rich and the poor enlarged, but the economic, financial and social risks would also likely increase.

The Central Economic Work Conference in 2011 proposed that Chinese economic development must be based on a solid real economy. Such a statement points out the future direction of the development of the service industry. Without the support of the real economy, and the service industry running in a loop of self-sustenance, the whole social economy will sink into false prosperity. Ultimately the service industry will also shrink. Sustainable development will not be realized. Thus, from the perspective of industrial policy, real-economy-oriented services should be given priority.

4.2. To implement a fiscal and taxation system which is conducive to the development of service industry

4.2.1. The government should improve the public financial administration system and increase investments into the modern service industry

Developing the service industry mainly relies on the market mechanism as the foundation, but in the meantime, government direction as a leading role should also be stressed. Financial policy to guide the service industry should also be improved. The government can increase public investment into the modern service industry by means of well-leveraged policies. The government should also expand is purchase range, balancing the purchases of goods and services. Many fields, such as public affairs, expenditure, conferences, and logistic management can also be included, and by introducing a competitive system, the government should launch open tenders to the entire service industry.

4.2.2. The government should implement a preferential tax policy to bring nongovernmental capital into high-tech service industry

The tax credit policy and the tax deduction range could be loosened, stipulating that nongovernmental capital can enjoy a certain tax holiday if it is invested into the high-tech service industry. What’s more, the tax holiday could also be applied to investment income made from these sectors. Plus, in a certain period of time, the tax credit policy could also be used according to how much investment they have injected into these sectors. Besides, the preferential tax policy can also be enjoyed in terms of revenue recognition and cost deduction.

4.2.3. The government should implement a preferential tax policy for small businesses

These require a flexible tax policy and relevant measures to help them shoulder the heavy burden and expand their profit margins. The government could implement different tax policies for these companies, and encourage them to be innovative, for example by giving corporate income tax exemptions for their R&D investment.

4.2.4. The government should deepen its “expansion reform” on the value-added tax (VAT) in the service industry

Based on Shanghai’s pilot effort to turn business tax into VAT, we can draw lessons and promote this new plan to more regions and sectors.

4.3. To establish a financial policy system that supports the development of service industry

4.3.1. The government should establish a multilayer and diverse financial service system, encouraging the development of angel investment, start-up investment, and financing guarantee agencies

By building up a multilayer capital market system, the government can meet financing demand from different new service sectors. It should be noted that at the very beginning, the size of most non-governmental enterprises in the service industry is small. We can use the experience from South Korea by setting up a service support fund to offer capital to those small businesses whose qualifications are compliant with China’s industrial policy. Considering that most small-sized companies do not have valuable collateral, it is necessary to establish a “grassroots financing system” to help them solve this problem. For example, banks could promote joint guaranty loans for small companies at their start-up.

4.3.2. The government should promote financial innovation in an active and stable manner

As an important component of the service industry, finance could support the production of services. Through financial innovation, people’s demand for finance, such as consumption in advance, will be increased. For many service-oriented enterprises, their core capital is human resources, which means that they lack real assets to obtain loans. However, they are desperate for appropriate funding to help them start up. For example, a reverse mortgage policy could promote the development of elderly care business. There are still many ways to promote financial innovation. For example, we can expand the types and ranges of mortgages, pledges, and guarantees for loans for modern service-oriented enterprises. By doing so, we can escalate our support for the modern service industry and break the development bottleneck. We can also actively develop various and flexible debt financing instruments, such as collective bonds, short-term financing bonds, and medium-term notes for small and medium enterprises.

4.4. To optimize the investment structure of service industry, and adjust the investment policy

Expanding domestic consumption is the basic strategic orientation of China's policy. The focus of investment should be put on emerging industries, advanced manufacturers, and the modern service industry. While expanding the investment size of the service industry, it is also important to optimize the investment structure. The government should properly cut investment into transportation, catering, and accommodations, and allocate additional funds to industries such as hi-tech services, software, and information services, e-business, human resources, cultural innovation, and environmental care. Although having weak foundations, these industries have very promising futures, and should be given special attention.

We should make government investment play as a leader to social investment, attracting more non-governmental funds and transforming from a government-funds-oriented mechanism to non-governmental-funds-oriented mechanism. The government should assume its responsibility as a guider, and leave the market to take care of the funds. By improving the investment environment, the government can build up fairer market access and attract non-governmental capital to invest in service industry. This is the key approach to dealing with the financial problems of the service industry.

4.5. To implement a land management policy conducive to the development of modern service industry

Land management is an important component in the package of policies to boost the modern service industry. In 2007 and 2008, the State Council issued two papers, "Opinions of the State Council Concerning Accelerating the Development of the Service Sector" and "Opinions of the General Office of the State Council on Implementing Policies and Measures for Accelerating the Development of the Service Sector," to urge local governments to arrange the structure of land use and carry out preferential policies for nationally encouraged service industries. These opinions have led the development of the service industry. However, besides these principles, more detailed and practicable ideas are also needed.

The modern service industry is mostly developed in large and medium-sized cities, where land is a scarce resource. With growing economic construction and faster urbanization, the conflict between the modern service industry and the lack of land has become intense. This requires the government to adopt new land management policies, which include supporting institutions that receive land by transfer and facilitating the effort of turning factory buildings, storage buildings, and stock buildings on traditional business streets for the use of IT services, R&D, and cultural innovation. If this is done, the land rights users and land use statements could remain unchanged. Under the regulations of urban design and land use planning, we should make full use of the policy of shifting collective construction land, and encourage modern service industries to exploit these lands. We should also establish a flexible land transfer mechanism and make the government, which has priority in purchasing and storing land, play a more effective role in regulation. Key projects and encouraged sectors have the priority to use the land.

4.6. To improve the soft power of service industry

The service industry is intangible, diverse, and asymmetric. It bears many risks, such as moral risks and adverse selection, so a good credit environment is an important pillar for the service industry. Only by building a complete system of social credit, enhancing its management, respecting and protecting intellectual property rights, and stimulating and implementing proper standards, can the cost of service be reduced, and the efficiency increased. By doing so, the modern service industry can develop in a rapid, sound, and orderly manner.

Talent is the key to developing the modern service industry, and the major investment into the industry is human resources. It is the government's responsibility to cultivate and introduce qualified practitioners into the service industry. The government should also reform the traditional talent-cultivation method by prioritizing training programs, and supporting the development of higher education, training education and training agencies, to cultivate comprehensive and skill-oriented professionals. By introducing new incentive stock options, more high-end talents will be inspired and accumulated in China.

4.7. To perfect the statistical system for modern service industry

China's statistics system for service industry is weak. With changes to the functions and content of the service industry, the former industrial classification method and statistical system have failed to catch up with the times. There are several solutions to the problem. First is to add the service industry into the system of national accounts by supplementing indicators such as size, structure, quality, speed, profitability, and openness to define the range of statistics. Second is to improve the investigation and accounting system and conduct regular economic censuses. Third is to issue quarterly and annual reports, and establish the mechanism of a statistics bulletin. By updating and issuing service industry information and sharing statistical resources within the system, the government can guarantee the accuracy and timeliness of statistics, offering scientific basis for the development of modern service industry.