

CAN CHINA'S SERVICES SUSTAIN ECONOMIC GROWTH?

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Executive Summary

1. China's service sector has grown rapidly in recent decades and significantly contributed to the economy in terms of both output and employment. However, there remain sizeable development gaps in terms of structure, productivity and competitiveness.
2. The current structure of the service sector in China is still dominated by traditional low-end and labour-intensive industries while upgrading to modern, knowledge-intensive services is at the initial stage.
3. The low competitiveness of the service sector reflects state dominance and lack of foreign direct investment. The current barriers to FDI inflows work against the restructuring and upgrading of China's service sector.
4. Private and foreign entries in some service sectors remain difficult despite accession to the WTO (World Trade Organisation) in 2001. Examination and approval procedures are complex, access standards are vague and transparency is low, thereby increasing hidden costs and impeding competition.
5. Institutional restrictions, barriers to trade in services and lack of effective regulatory supervision and enforcement are major obstacles to promoting the efficiency and competitiveness of the service sector.
6. Policy reforms such as deregulation and attracting foreign investment in services could encourage innovation and raise the quality of services. This will help facilitate economic development and inclusive growth through a rise in overall welfare and living standards.
7. In light of ongoing industrialisation and urbanisation, the service sector is well positioned to expand and modernise in the future. Services will help rebalance the Chinese economy away from its heavy reliance on manufacturing and exports. It therefore plays an important role in the country's future economic growth.

8. In the coming years, service sector deregulation could accelerate on the back of a slowing industrial sector and the leadership's increasing emphasis on innovation and entrepreneurship.
9. The establishment of the Shanghai, Tianjin, Fujian and Guangdong free trade zones in the last few years can be seen as a testing ground for the government to implement further liberalisation in services.
10. If services sector growth is to be sustained, manufacturing is vital. The "Made in China 2025" initiative could spur the further growth of services while the latter could in turn enhance manufacturing productivity and increase the overall competitiveness of businesses.