

CHINA SERVICES SECTOR ANALYSIS

China Snapshot

Capital: Beijing

Population: 1.3 billion (WB 2011)

Currency: Renminbi Yuan

GDP (constant 2000 US \$ billion): 3.5 (WB 2011)

GDP per capita (constant 2000 US \$): 7,417.9 (WB 2011)

GDP Growth: 9.8% (WB 2011)

Services industry value-added (% GDP): 43% (WB 2011)

Services industry value-added (annual % growth): 9.1% (WB 2011)

Employment in Services Sector: 34% (WB 2010)



1. Overview of the Chinese Economy

Since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented one that plays a major global role - in **2010 China became the world's largest exporter**. Reforms began with the phasing out of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, creation of a diversified banking system, development of stock markets, rapid growth of the private sector, and opening to foreign trade and investment. China has implemented reforms in a gradualist fashion. In recent years, China has renewed its support for state-owned enterprises in sectors it considers important to "economic security," explicitly looking to foster globally competitive national champions.

The restructuring of the economy and resulting efficiency gains have contributed to a more than **tenfold increase in GDP** since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2012 stood as the **second-largest economy** in the world after the US, having surpassed Japan in 2001.

The average annual % GDP per capita growth from 2000 to 2011 was 9.5%; the average annual % GDP growth from 2000 to 2011 was 10.2%

The development of the **Services sector** in China has been **constrained** by the country's focus on manufactured exports and the substantial barriers to trade and investment in the services sector. The Services Sector still accounts for a smaller percentage of GDP than the global average for developing countries.

Nevertheless, China committed to a dramatic **opening of its services sector** when it acceded to the World Trade Organization in 2001: **from 2006 to 2010 the world ranking of China's export of services climbed from no. 8 to no. 4.**

In the **12th Five-Year Plan** (2011-2015) the Chinese Government is according strategic priority to the development of Services and in particular **Trade in Services** (TIS). China is committing to a more proactive opening-up strategy in key Services sub-sectors such as **finance, logistics, education, healthcare** and it is aiming to rank among the top exporters for **transport, tourism and construction**, sub-sectors in which has revealed a comparative advantage.

The Plan seeks a collaborative development for TIS and trade in goods using the scale advantage of trade in goods to trigger TIS development and increase its share in total foreign trade. China not only aims at enlarging the scale of TIS (to reach a target of USD 600 billion in 2015) but also increasing its technological and knowledge intensity to enhance international competitiveness.

To further push TIS development the Government is willing to accelerate the formulation of new Regulations on Promoting Trade in Services and to improve the legal and fiscal system for Services sectors to create an enabling business environment and to re-direct foreign investment toward Services.

Effort will be put into a more systematic organization of TIS through the designation of a TIS focal point and the establishment of a coalition comprising government departments, chambers of commerce, business associations, trade promotion organizations and firms. TIS promotions organizations will be built to provide services such as consultancy, professional training, technical tutorship and overseas promotion.

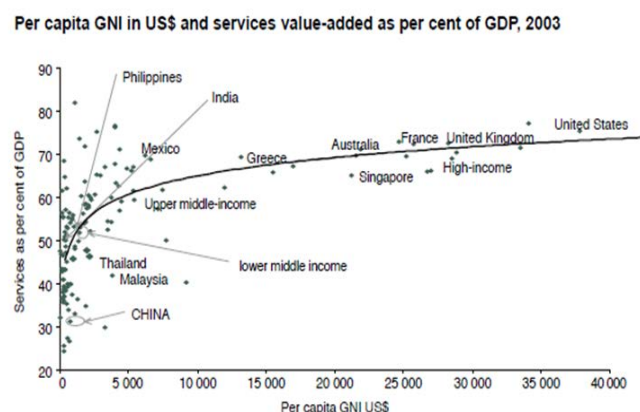
The key sectors for TIS development identified in the Plan are the following:

- Financial services industry (Micro-enterprise development, scientific innovation, green economy, cross-border operations of enterprises, new service formats such as online trading, as well as innovative financial products and services models)
- Logistics industry (Professional, information-based modern logistics systems, third-party logistics, construction and linking-up of the logistics infrastructure, logistics efficiency and reduction in logistics costs)
- High-tech services (information services, software development, information systems integration services, internet value-added services, information security services and digital content services)
- Business services (Accounting, auditing, taxation, engineering, consulting, standards certification and accreditation, credit evaluation, brokerage, management consulting, market research and other professional services)
- Tourism (domestic tourism, development of outbound tourism, protection and development of tourism resources)

2. Role of Services in Chinese Economy

The Services sector has grown strongly, but it is still **smaller than it should** be for an economy at China's stage of economic development (see Figure 1). Unlocking the enormous potential of the services sector is needed to strengthen the business sector, provide jobs for a rapidly growing labour force, facilitate trade, accelerate the adoption of advanced management methods and increase overall economic efficiency.

Figure 1:



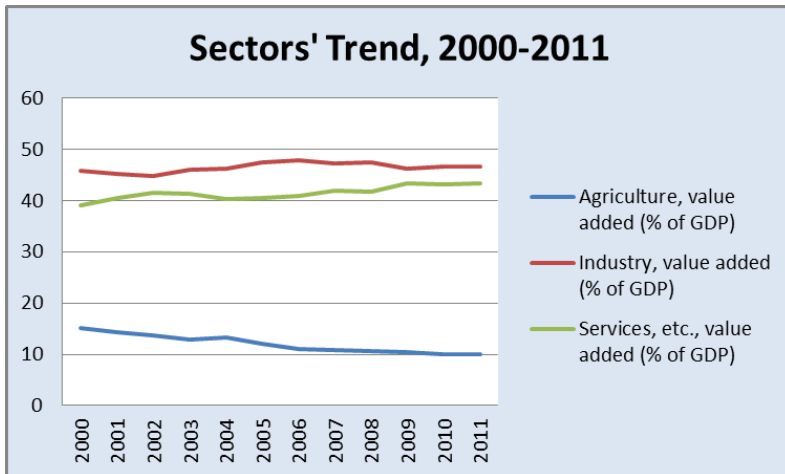
Source: Australian Government, Department of Foreign Affairs and Trade

Figure 1 shows China's positioning in **2003**. The contribution of services to China's overall output was substantially lower than in many economies at comparative levels of income and fell below the curve that plots per capita GNI against the share of services in GDP. Taking into account the **updated data** (GNI per capita USD 2,635 and Services value added as % of GDP 43% in 2011) China, even if still positioned under the curve, is gaining in terms of Services Sector contribution to GDP.

China already started to address its neglected services sector in its Tenth Five-Year Plan, 2001-05. The average **annual % growth of Services value added** for the last ten year is **10.8%** (WB).

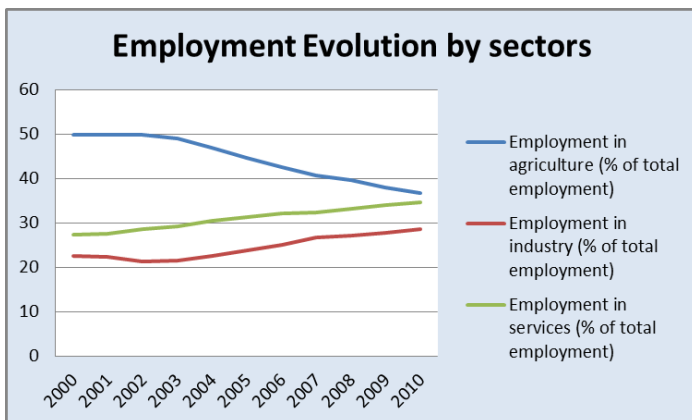
Figure 2 and 3 shows respectively the trend of the Services Sector's share in GDP, vis-à-vis Agriculture and Manufacturing, and the evolution of employment by sector. The breakdown by sector of the Chinese economy in 2011 and its labour force distribution are shown in Figure 4 and 5.

Figure 2: China Sectoral Trends (% of GDP), 2000-2011



The Services Sector is approaching Manufacturing in terms of value added and is already employing more labour. Agriculture despite being continuously decreasing in terms of value added, remains the most labour-intensive industry.

Figure 3: Employment by sector, 2000-2011



Source: World Bank, databank

Figure 4: China Economy Breakdown, 2011

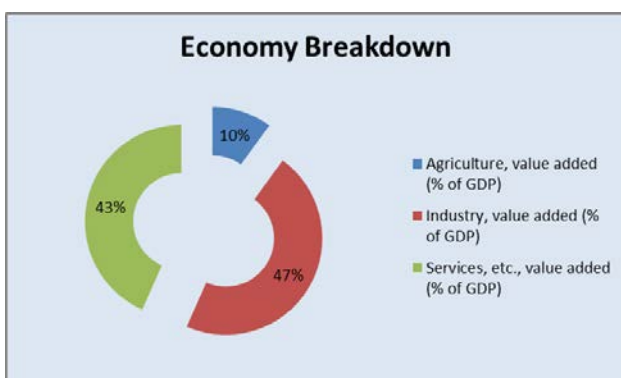
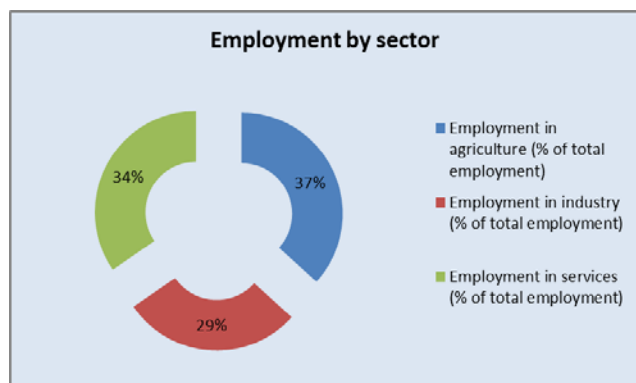


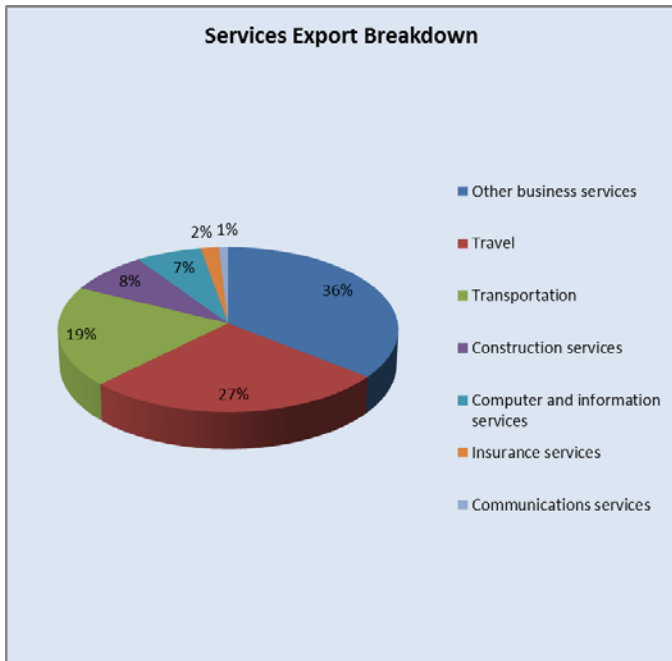
Figure 5: China Labour Force, 2010



Source: World Bank databank

Figure 6 shows the Services Export Breakdown and Figure 7 shows the Composition of the Tertiary Industry by sector.

Figure 6: China Services Sector Export Breakdown, 2011



Other business Services, accounting for 36%, is the largest component of China Services Export.

In other business services normally are included:

- Leasing
- Legal, accounting, management consulting, and public relations services
- Advertising and market research services
- Research and development services
- Architectural, engineering and other technical services

Source: Trade Map, ITC

Figure 7: China Value-Added and Composition of the Tertiary Industry by sector, 2005

Sectors	Value added (billion yuan)	Share of GDP (%)
Tertiary industry	7,343	40.1
Wholesale and retail trades	1,353	7.4
Transport, storage and postal	1,084	5.9
Real estate	824	4.5
Public management and social organizations	683	3.7
Financial intermediation	630	3.4
Education	566	3.1
Information transmission, computer services and software	477	2.6
Hotels and catering services	419	2.3
Services to households and other services	313	1.7
Leasing and business services	291	1.6
Health, social security and social welfare	293	1.6
Scientific research, technical services and geological prospecting	205	1.1
Culture, sports and entertainment	119	0.6
Management of water conservancy, the environment and public facilities	85	0.5

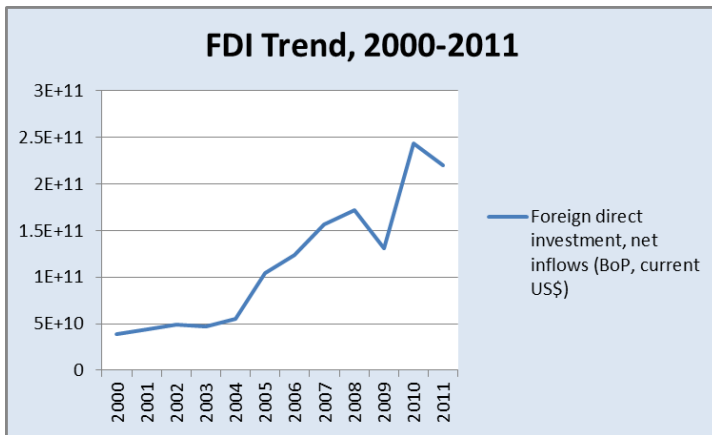
Transport, storage, post and telecommunications recorded unprecedented growth from 2004.

More recently education, health and social services are gaining ground.

Source: International Institute for Sustainable Development, 2010

3. The role of Foreign Direct Investment

Figure 8: China inward FDI Trend, 2000-2011

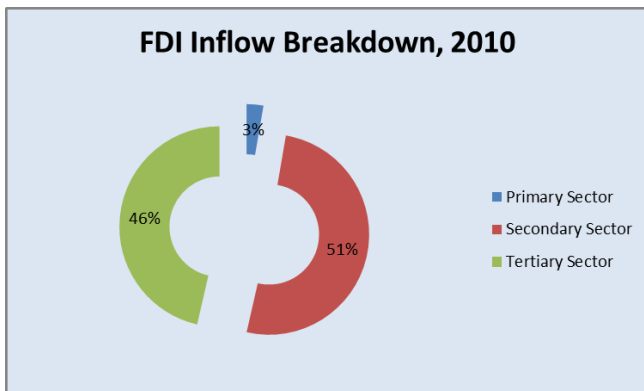


It is important to note that the services sector has become extremely important in **China's inward FDI flows**.

Source: World Bank, Databank

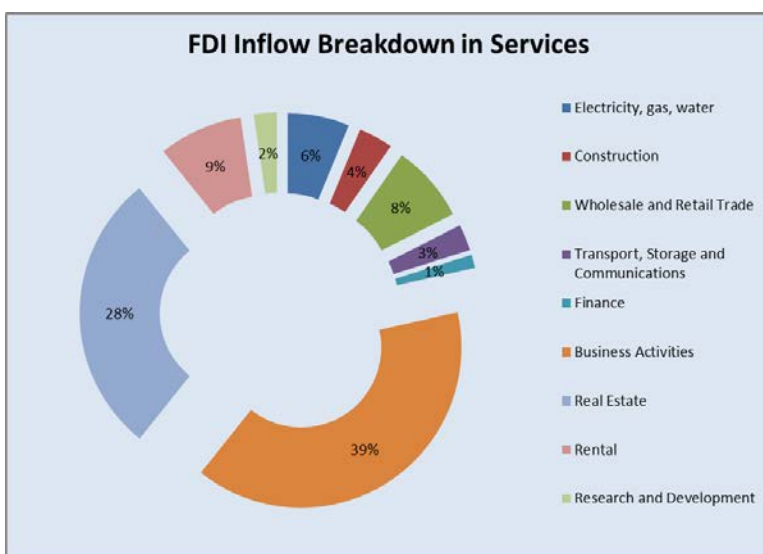
Figure 9 highlights the share of FDI directed to the Services Sector compared to Agriculture and Manufacturing; Figure 10 provides a deeper understanding of how the FDI inflow is distributed within the Tertiary Sector.

Figure 9: China FDI Inflow Breakdown, 2010



Source: Trade Map, ITC

Figure 10: FDI in China's Services Sector, 2010



Source: ITC Trade Map

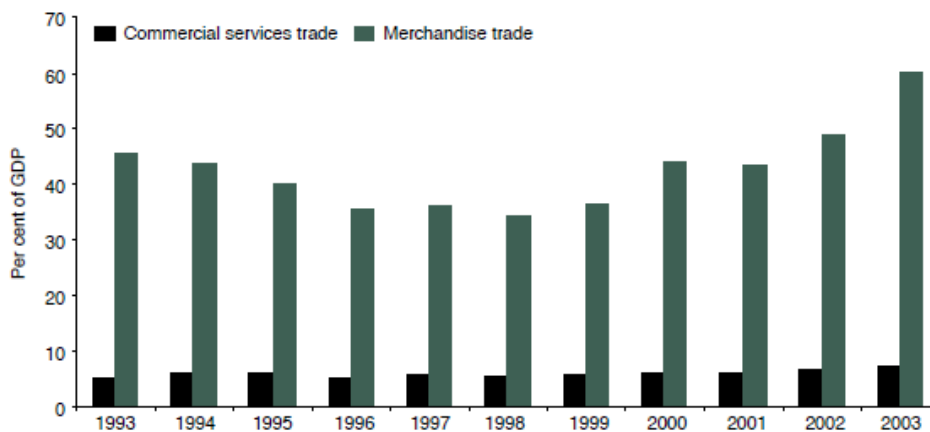
4. Trade in Services

Notwithstanding the growth of the Services Sector, **in terms of trade** China is still focusing mainly on **merchandise/goods**. Figure 11 gives an idea of the shares of trade in goods and services between the '93 and '03; Figure 12 shows more recent data (2005-2011). The proportion of Total Trade in Services (Import and Export) as of foreign trade is relatively low and Trade in Services is imbalanced between different regions and sectors. Even if in 2011 the **trade in services as a % of GDP was still less than 6%**, significant improvements have been made in the last years. From 2006 to 2010 the total value of China's Trade in Services rose from USD 191 billion to 362 billion, up by 89% in total and 17.3% on a yearly basis. **In the same period of time the ranking of China's export of services climbed from no. 8 in 2006 to no. 4 in 2010**¹.

The total import and export of Trade in Services in 2011 accounted for USD **420 billion**; as already mentioned the Chinese Government aims to reach 600 billion in Trade in Services in 2015.

Figure 11: Trade in goods and services as % of GDP, 1993-2003

Openness index, trade in goods and trade in services as per cent of GDP, 1993–2003



Source: Australian Government, Department of Foreign Affairs and Trade

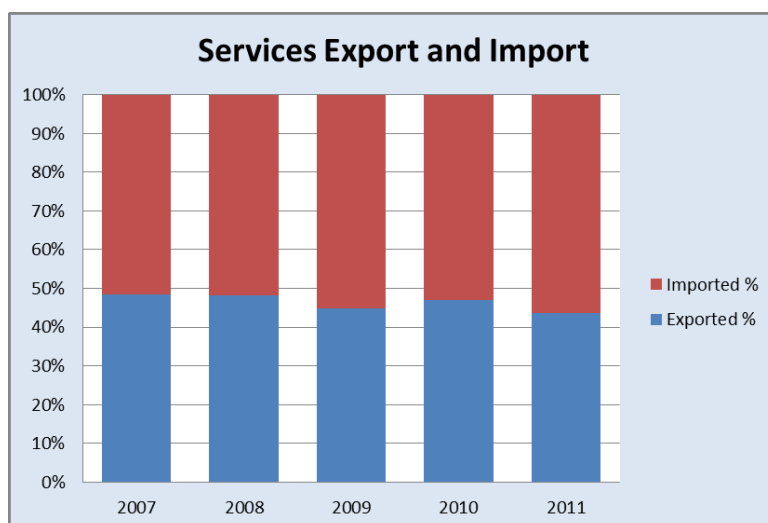
Figure 12: FDI in China's Services Sector, 2010

	2005	2006	2007	2008	2009	2010	2011
Trade in services (% of GDP)	7.7	7.9	8.0	7.2	6.1	6.2	5.8
Merchandise trade (% of GDP)	63.0	64.9	62.3	56.7	44.2	50.1	49.8

Source: World Bank databank

As Figure 13 shows the **Services Account Balance** in the last 5 years has always been in slight deficit, **China is a net importer of Services products**.

Figure 13: Services Export and Import, 2007-2011



Source: ITC Trade Map

¹ 12th Five-Year Plan for Development of Trade in Services

The deficit is mainly attributable to the sectors of transportation, insurance services, and royalties and license fees which is not surprising given that these are non-labour-intensive activities taking place in a relatively labour-abundant country, as Figure 14 is showing:

Figure 14: Services Account Balance, 2011

Service label	Balance in value in 2011, US Dollar
Total services	-54481440
Other business services	25030880
Construction services	11041428
Computer and information services	8319105
Communications services	646959
Financial services	105022
Personal, cultural and recreational services	-224304
Government services, n.i.e.	-383524
Royalties and license fees	-13801627
Insurance services	-16422624
Travel	-23958760
Transportation	-44834008

Surpluses are recorded in other business services, constructions services, computer and information services, communications services and financial services.

Source: ITC Trade Map