

# To Develop Modern Services of Liaoning Province of China by Utilizing Foreign Direct Investment

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## Abstract

To develop modern services is the key to the economic transformation and upgrading of Liaoning province of China, and utilizing foreign direct investment(FDI) in high-end services can improve the development of Liaoning province's modern services effectively. At present, the scale and proportion of FDI in Liaoning's modern services is quite small, and they are unevenly distributed in industries and regions. In order to promote the development of modern services, Liaoning province needs to open further to the outside world, rely on its regional central cities, take advantage of Liaoning's manufacturing industry, give full play to the functions of the free trade zones, and strengthen talents introduction and training, thus to attract more FDI to flow into modern services.

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## 1 Introduction

The conception of “modern services” was firstly posed by China in 1997. According to the 70th articles of the Ministry of Science and Technology of China, modern services is mainly supported by modern science and technology, especially information and network technology, and is established based on new business models, service modes and management methods. It includes not only

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new service forms emerging with technological development and social progress, but also transformation and upgrading of traditional services with modern technology. After long-term development, China's economic and social development has entered a new period that needs manufacturing and service sector as "double engines". Modern services are characterized by high intelligence concentration, high added value, low resource consumption, low environmental pollution and industrial clustering, and are important symbols of a region's comprehensive competitiveness and modernization level.

Nowadays as the scale of international modern services transfer is rising rapidly, Liaoning province of China should seize the opportunity, set up strategic plans to absorb foreign direct investment(FDI) to undertake international modern services transfer. To absorb FDI in high-end services can improve the development of Liaoning province's modern services effectively, thus to promote the industrial structure optimization and upgrading and economic transformation of Liaoning province.

## **2 Literature Review**

There are many aspects that can influence the competitiveness of a country(region)'s service sector, among which opening up is considered as one of the important ways, and is the factor that academia discusses most. Generalizing current literatures, the influence of FDI in service sector on a country(region)'s economic growth can be realized through various spillover effects, such as capital effects, technology effects, trade effects, employment effects, industrial linkage effects, etc.

The studies on Mexico by Cardenas(2003), on Hungary by Hun Akbar and Mc Bride (2004), and on Turkey by Denizer(1999) all show that FDI in banking sector can enrich financial product varieties, improve and optimize market structures, and promote the rapid economic growth of the host country. The study by Jensen(2004) shows that the largest gains to Russia after its accession to WTO will mainly come from liberalization of barriers against multinational service providers, compared with the effects of tariff reduction and improved market access. The study by Konan(2006), Jensen(2007), etc. reveals that FDI in service sector has positive effects of promoting production efficiency in manufacturing, thus will promote the growth of manufacturing.

In previous studies, many Chinese scholars focus on the relationship between FDI in service sector and China's economic growth. The study by Zhuang Lijuan, etc. (2005) shows that there exists a one-way Granger causality relationship from FDI in service sector to economic growth. Technology effects, trade effects and employment effects are the most remarkable elements that FDI in service sector contributes to economic growth. The empirical study by Zhao Yujuan(2011) shows FDI in service sector evidently promoted China's economic growth. The empirical study by Yao Zhanqi(2013) finds that the added value of service sector

and GDP have positive correlation with FDI in service sector. Fernandes, etc. (2102) point out that through price reduction, quality improvement, service variety enrichment and knowledge spillover effects, FDI in service sector can stimulate foreign and domestic service providers to increase their efficiency, thus to improve the development of domestic services. The research by Li Changqin(2015) shows that FDI has promoted China's export in services through direct and indirect ways, thus effective measures should be taken to attract FDI to service sector. Based on the empirical research of 25 provinces in China, Li Yang, etc. (2017) have studied the regional differences of employment effects of FDI in service sector, and find that the employment effects of FDI in China's service sector are evident.

Many studies have also been made from the perspective of FDI in service sector of Liaoning province. After analyzing the industrial characteristics of FDI in service sector, Wang Shaoyuan(2009) puts forward that Liaoning province should strengthen its opening up both to the domestic and foreign markets, attract more FDI to modern services, improve talents training and establish service industrial clusters, etc. The study by Li Yuan(2010) shows that the increase of FDI in service sector contributes to the overall growth of FDI in Liaoning province, and suggests that differential policies should be used to steer the direction of FDI in service sector and optimize FDI sources. Liu Zhizhong(2010) studied the economy-driving effects of FDI in service sector in Liaoning province and concludes that among the four effects of FDI in service sector on the economic growth of Liaoning province, capital effects and industrial structure effects are positive to the economy, while employment effects and system effects are not evident. Wang Qian(2014) analyzed the Performance Index of the FDI in services in Liaoning province, and the conclusion shows that the FDI in service sector of Liaoning is subject to low structural level, low opening level and imperfection of laws and regulations.

### **3 The Utilization of FDI in Service Sector in Liaoning Province**

According to statistics, the gross product of the tertiary industry of Liaoning province was 1324.3 billion RMB in 2015, accounting for 46.2 percent of Liaoning's GDP, while at the same time the gross product of the tertiary industry of China was 50.2 percent, which was beyond half of the GDP for the first time. So the proportion of the tertiary industry of Liaoning was below 4 percent of the national level. The total economic growth rate of Liaoning was 3 percent in 2015, while the growth rate of the primary, secondary and tertiary industry was 0.3 percent, -0.1 percent and 2.8 percent separately. Thus the contribution of the tertiary industry to Liaoning's economic growth accounted for 95.4 percent, which showed that service sector became new dynamics for Liaoning's economic development. In 2016, the tertiary industry accounted for 51.5 percent of

Liaoning's GDP, which was close to the national level, i.e. 51.6 percent. But there still exist some problems in Liaoning's service sector, such as low market competitiveness, weakness in innovation ability, low degree of openness, shortage of talents, etc.

In order to improve the development of service sector of Liaoning province, especially modern services, Liaoning province has put forward a series of policies and measures to attract FDI in service sector. Liaoning government issued the "Implementation opinions on further opening to the outside world and actively utilizing foreign investment" in May, 2017, which shows FDI in finance, securities, futures, insurances, etc. will be encouraged, foreign investment access restrictions will be eased in areas of accounting and auditing, architectural design, rating service, etc., and telecommunication, internet, culture, education and transportation sectors will be orderly opened up. All of these will be beneficial for foreign-funded enterprises to invest in modern services in Liaoning province. Later in August, 2017, the State Council of China also initiated policies to encourage the growth of foreign investment. It suggests to encourage foreign investment transfer to western regions and the old industrial bases in northeast China, to optimize the structure of service trade by utilizing FDI, and to direct FDI to high technology and high value-added service sectors.

The characteristics of FDI in service sector in Liaoning province since 2011 are as follows.

### 3.1 The Scale has been Falling after Rising

FDI in service sector in Liaoning province rose from 1.7 billion US dollars in 2005 to 12.8 billion US dollars in 2014 with rapid pace. But the scale has been falling since 2015, from 3.7 billion US dollars to 1.9 billion US dollars in 2016 and 2.2 billion US dollars in 2017, as shown in table 1. But at the same time, the proportion of FDI in service sector to the total FDI in Liaoning province was below 50 percent before 2014, but reached 70.7 percent in 2015 and 65.5 percent in 2016, which was relevant to the quick reduction of the FDI in manufacturing of Liaoning province.

Table 1: The proportion of FDI in service sector in Liaoning province(2011-2017)  
(billions of USD, %)

Year	2011	2012	2013	2014	2015	2016	2017
The amount of FDI	24.3	26.8	29.0	27.4	5.2	3.0	5.3
The amount of FDI in service sector	11.6	10.3	11.5	12.8	3.7	1.9	2.2
The proportion of FDI in service sector	47.9	38.3	39.5	46.8	70.7	65.6	41.6

Source: The Yearbook of Social Economic Statistics of Liaoning Province(2016, 2017).

### 3.2 The Industrial Distribution is Unbalanced

The industrial distribution of FDI in service sector in Liaoning province is of big

difference. Real estates and other traditional services are the main targets for FDI inflow. The proportion of FDI in real estates was 38.88 percent of the total FDI in service sector, while the proportion of wholesale and retails was 7.61 percent, and the proportion of hotels and catering services was 3.53 percent in 2014. The total proportion of the three industries was beyond 50 percent. The trend became more obvious in 2015. The proportion of FDI in real estates was up to 73 percent of the total FDI in service sector in 2015, as can be seen in table 2. While the scale of FDI in scientific research, technical services, geological prospecting, financial services, telecommunication and other technology-intensive and knowledge-intensive emerging industries was small. The proportion of FDI in scientific research, technical services and geological prospecting was only 1.5 percent. The industrial distribution of FDI is unbalanced, and FDI in modern services is specially less.

Table 2: The industrial distribution of FDI in service sector in Liaoning province (2011-2015) (millions of USD, %)

sector	2011	2012	2013	2014		2015	
				amount	ratio	amount	ratio
Transport, storage and post	86.6	671.3	1430.4	211.1	16.45	300.2	8.19
Information transmission, computer services and software	278.5	886.8	993.2	1333.1	10.38	44.2	1.20
Wholesales and retails	1030.7	78.2	1208.7	976.7	7.61	90.6	2.47
Hotels and catering services	96.8	510.5	180.3	452.7	3.53	4.7	0.13
Financial services	269.2	250.7	252.1	919.1	7.16	168.1	4.59
Real estates	6975.5	4582.6	5772.6	4991.5	38.88	2700.3	73.65
Leasing and business services	678.7	502.9	661.2	1037.9	8.08	166.7	4.55
Scientific research, technical services and geological prospecting	548.5	1063.4	402.1	556.8	4.34	56.2	1.53
Management of water conservation, environment and public facilities	432.7	55.1	66.6	43.5	0.34	101.7	2.77
Services to households and other services	1005.4	746.3	295.1	259.9	2.02	25.8	0.70
Education	0.01	0.02	--	0.65	0.005	--	
Health, social security and social welfare	0.07	0.35	1.1	0.26	0.002	0.31	0.009
Culture, sports and entertainment	221.2	227.6	212.8	153.7	1.20	7.7	0.21
Total	11623.9	9575.8	11476.2	12836.7	100	3666.3	100

Source: The Yearbook of Social Economic Statistics of Liaoning Province(2012, 2014, 2016)

### **3.3 The Regional Distribution is Unbalanced**

FDI in service sector in Liaoning province mainly flows to two major cities, which are Dalian and Shenyang. From the perspective of the amount of FDI, the FDI inflow to Dalian was 14 billion US dollars, and to Shenyang was 4.52 billion US dollars in 2014. The FDI of the two cities accounted for 67.6 percent of the total FDI in Liaoning province, and the proportion of the other 13 cities of Liaoning province was only 32.4 percent.

On the whole, there still exist some problems in the FDI in service sector of Liaoning province at present, such as the overall level is low, the structures are unreasonable, the technology spillover effects are small, modern services are not competitive, the talents are insufficient, etc.

## **4 Countermeasures and Suggestions for Promoting the Development of Modern Services of Liaoning Province by Utilizing FDI**

After the international financial crisis, the new round of international industrial transfer focuses on services. Many enterprises in developed countries take cost and structure optimization strategy and refocusing strategy, and show strong interest in service outsourcing. The scale of international services transfer is rising with economic development, and it's shifting to high-end services. It moves to developing countries rapidly in the form of transnational merger and acquisition. For developing countries, undertaking international modern service transfer by utilizing FDI is an effective way to promote the adjustment of their economic structures and the optimization and escalation of industrial structures to adapt to the new situation of opening up and to improve their comprehensive economic strength.

So Liaoning province should have deep understanding of the regularity of international transfer of services and promote the development of its modern services by utilizing quality FDI in service sector rationally and effectively.

Thus Liaoning province should take targeted strategies, seize the valuable development opportunities and take the following measures.

### **4.1 To Strengthen Opening up**

The openness and competitiveness of modern services of Liaoning province is lower than its manufacturing. Drawing on the experiences of Liaoning's manufacturing and based on the location advantage, Liaoning should strengthen its openness of service sector by actively attracting FDI into modern services, thus to improve its comprehensive level and competitiveness.

### **4.2 To Guide the Flow of FDI**

Liaoning province should strengthen macroscopic readjustment and control of

investment, balance preferential policies, guide FDI to flow to technology-intensive and capital-intensive modern services, bring into play the merging effects of human capital and knowledge capital in advanced productive service industry, and moderately decrease FDI in low-technology and labor-intensive services. Liaoning should also actively guide FDI to flow to finance, scientific research, technical services, geographical prospecting, public facilities management, social security and social welfare, etc. to promote the coordinated development of service sector.

### **4.3 To Rely on Regional Central Cities**

Liaoning province should foster several regional central cities in modern services by increasing investment in infrastructure and optimizing urban systems, and let them play leading roles in attracting FDI in modern services. Based on the preferable investment trends in leasing and business services, real estates, information transmission, computer services and software in Shenyang city and Dalian city, Liaoning should undertake outsourcing of high-end services and make use of technology spillover effects of FDI to promote the development of human capital and to improve its international competitiveness in modern services.

### **4.4 To Take Advantage of Liaoning's Manufacturing Industry**

As one of the coastal provinces who set up the earliest economic development zones in China, and with developed economy and convenient transportation, Liaoning has good momentum in the service sector and has basic condition for attracting FDI in modern services. Liaoning should take the advantage of its advanced manufacturing and the opportunities of the transformation and upgrading of its manufacturing to attract FDI to set up productive service enterprises. To be specific, Liaoning should make full use of the supporting policies of the State government for the productive services in Shenyang, Dalian and Yingkou, etc., strengthen international cooperation, and encourage foreign-funded enterprises to set up modern productive service enterprises, headquarters and branches of various functions, R&D centers, operating bases, etc.

### **4.5 To Give Play to the Functions of the Free Trade Zones**

Liaoning pilot free trade zone was established in April, 2017. It includes three parts which are separately located in Dalian, Shenyang and Yingkou city. Within the free trade zone, Liaoning should give full play to the exploratory policy advantages, unify laws and regulations on domestic and foreign investment, promote orderly opening up of modern productive services, implement negative list management system, and set standard systems for modern services in terms of service process, quality and content, etc. referring to the standards and practices of modern services in developed countries, thus to create a sound market environment for the entry of FDI in modern services. Areas of architectural design, accounting and auditing, trade and logistics, e-commerce, financial service, etc.

should be attached importance to for opening up in the free trade zone.

#### **4.6 To Strengthen Talents Introduction and Training**

In addition to the talents training in modern services by local colleges and universities, Liaoning province should also strengthen introduction of overseas talents and improve talents supply in modern services.

#### **4.7 To Encourage Local Enterprises to Actively Cooperate with FDI**

Since more foreign-funded enterprises in service sector adopt localization strategy, they are willing to cooperate with enterprises in host countries, which provides win-win opportunities for both sides. Domestic enterprises should seize the opportunity to cooperate with foreign-funded enterprises in forms of joint venture, non-equity arrangement, strategic alliances, etc., thus to realize advantage complementation and resource sharing, and to improve its overall competitiveness and technology progress.

#### **4.8 To Strengthen Supervision of FDI**

More FDI in service sector may increase the concealment of transfer price by foreign-funded service enterprises and cause tax loss, and some foreign-funded service enterprises may create monopoly in certain areas. So the local government should strengthen international tax cooperation, enhance supervision of internal pricing and unfair market competition of foreign-funded service enterprises, and improve antitrust legislation by drawing on the experience and research results of developed countries.

## **5 Conclusion**

Since there still exist some problems in the FDI in service sector of Liaoning province at present, such as the overall level is low, the structures are unreasonable, the technology spillover effects are small, modern services are not competitive, the talents are insufficient, etc., Liaoning province needs to open further to the outside world, rely on its regional central cities, take advantage of Liaoning's manufacturing industry, give full play to the functions of the free trade zones, and strengthen talents introduction and training, thus to attract more FDI to flow into modern services and to promote the development of its modern services.

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