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Analysis of the Characteristics and Development Direction of Services Trade in Shandong Province of China

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Abstract: Shandong is a significant province for foreign trade in China; however, it still faces shortcomings in the development of its service trade, as outlined below. Firstly, the scale of service trade is limited. Shandong's service trade volume ranked sixth in China in 2022, lagging considerably behind Shanghai, Guangdong, Beijing, Zhejiang, and Jiangsu. Secondly, the proportion of service trade in Shandong compared to the overall national services trade volume falls below the national average, with the per capita scale even lower than the national average. Thirdly, Shandong's service trade accounts for less than 10% of the province's foreign trade, which is 3 percentage points below the national average. The insufficient development of Shandong's service trade is mainly attributed to the weak performance of its own service industry and the limited scale of attracting foreign services investment. Accelerating the development of producer services in Shandong, promoting the intelligent upgrading of consumer services, and continuously promoting reform and opening up in the service sector will be conducive to achieving high-quality development of services trade in Shandong.

Keywords: Shandong; Services trade; Productive services trade

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1. Introduction

Shandong is a major foreign trade province in China. In recent years, the development of foreign trade in Shandong Province has faced complex and severe challenges, with heavy pressure on trade in goods and increasing difficulty in maintaining stable and rapid growth. However, trade in services has maintained a high growth trend. Despite this, the development of services trade in Shandong remains relatively weak. The service economy and services trade are key areas for the future development of foreign trade in Shandong. Studying the current development characteristics of services trade not only helps us better understand the development pattern of foreign trade in Shandong Province but also enables us to identify pathways to improve the high-quality development of services trade in the region.

2. Recent development of services trade in Shandong

In recent years, the development of foreign trade in Shandong has encountered complex and severe challenges, with significant pressure on trade in goods and increasing difficulty in maintaining stable and rapid growth. However, trade in services has exhibited a strong growth trend. In 2022, Shandong's services trade increased by 18.6% year-on-year, ranking sixth in the country.

Shandong has maintained a surplus in services trade for many years, distinguishing it as one of the few provinces in China with such a surplus. In 2022, Shandong achieved a surplus of 63.74 billion Chinese Yuan (CNY) in services trade, marking a 49.3% increase year-on-year. Against the backdrop of China's overall long-term services trade deficit and the perennial deficits of many major economic provinces and cities in services trade, Shandong's surplus reflects a certain comparative advantage in trade, attributable to the coordinated operation of economic development and the internationalization of the service industry.

In terms of services trade scale and foreign trade structure, Shandong falls within the lower end of the first echelon of the country, yet still maintains a considerable gap from Shanghai, Guangdong, Beijing, Zhejiang, and Jiangsu. Firstly, in 2022, the scale of Shandong's services trade reached 311.62 billion CNY, while Shanghai and Guangdong's service trade exceeded 1 trillion CNY each, and the trade in Zhejiang and Jiangsu, ranking fourth and fifth, was 1.7 and 1.3 times that of Shandong, respectively.

Secondly, in terms of the proportion of the national service trade volume, Shanghai, Guangdong, and Beijing accounted for 27.6%, 17.8%, and 16.6% of the national proportion, respectively, collectively surpassing 62%, while Shandong accounted for only 5.1%.

Thirdly, considering the proportion of service trade in total foreign trade, Shanghai's index value stands at 28.1%, with the ratio of service trade to goods trade approaching 1:2.6; Beijing's index value is 21.4%, with a ratio close to 1:3.7; meanwhile, Shandong's index value is 9.4%, with a ratio close to 1:9.6. This indicates an insufficient proportion of service in Shandong's foreign trade structure, with the index value being 3 percentage points lower than the national average level. Detailed data are provided in **Table 1**.

Lastly, in terms of per capita index value, Beijing and Shanghai exhibit per capita service trade scales exceeding 40,000 CNY, while Shandong's per capita scale is 3,055 CNY, ranking not only at the bottom among the top six provinces and cities but also lower than the national per capita scale of 5,639 CNY.

Table 1. Comparison of services trade development between Shandong and the whole country and related provinces and cities in 2022

Area/item	Total volume of foreign trade (100 million CNY)	Total volume of foreign trade (100 million USD)	Account for the national proportion (%)	Service trade accounted for the proportion of total trade (%)
Nationwide	59801.9	8891.1	100	12.4
Shandong Province	3116.2	456.4	5.1	9.4
Shanghai Municipality	16509.7	2454.5	27.6	28.1
Guangdong Province	10661.3	1585	17.8	12.8
Beijing Municipality	9986.9	1472.9	16.6	21.4
Zhejiang Province	5091.2	756.9	8.5	10.9
Jiangsu Province	4002.8	595.1	6.7	7.4

Data source: Compiled according to the data of the Ministry of Commerce of the People's Republic of China and provincial and municipal commerce departments.

3. Analysis of the characteristics and influence factors of Shandong services trade

3.1. The rapid growth of trade in services reveals the disadvantage of scale

While the average annual growth rate of service trade in Shandong is relatively high, the total volume remains low in absolute terms. This recent rapid development can be attributed to the small base of previous development. Many indicators, such as the service trade elevation index and per capita service trade volume of Shandong Province, are lower than the national average. This can be explained by the large population size and the dilution of the index value due to the large scale of goods trade in Shandong. However, the disadvantage of the low scale of service trade in Shandong cannot be ignored. From a dynamic perspective, reaching and surpassing the national average level for relevant indicators in the future will depend mainly on expanding the province's own service trade scale.

3.2. The expansion of trade in services is constrained by the performance of the province's service industry

In 2019, the added value of Shandong's service industry reached 3,764 billion CNY, accounting for 53% of the province's GDP. By 2022, the added value of the service industry in Shandong accounted for 52.8% of GDP, a figure that had remained relatively stable in recent years. However, this percentage is significantly lower than the highest level recorded in the province's history. In 2022, the proportion of the added value of the service industry in Shandong's GDP is just the same as the national average level. In comparison, Beijing and Shanghai stand at 83.8% and 74.1%, respectively, while Guangdong and Zhejiang, two other major manufacturing provinces, are at 54.9% and 54.3% [1]. Additionally, in 2022, only two enterprises in Shandong were included in the list of China's top 100 service industry revenue. The scale and proportion of the service industry within the industrial structure play a fundamental role in determining the scale of service trade and trade structure. The expansion of the scale of service trade in Shandong is limited by the weak performance of the service industry [2].

3.3. Improvement needed in the utilization of foreign investment in the services sector

In 2020, the actual utilization of foreign investment in Shandong ranked fourth in the country, totaling 17.65 billion US Dollars (USD), with the service industry accounting for 70.5%. However, in 2021, although the total foreign investment in Shandong increased significantly to 21.52 billion USD, the proportion allocated to the service industry dropped to 60.5% [3]. Despite the rapid growth of investment in the manufacturing industry, the increase in capital allocated to the service industry was relatively small, rising from \$12.44 billion in 2020 to \$13.03 billion in 2021. During the same period, the proportion of foreign investment in China's service industry showed an upward trend, reaching 77.7% in 2020 and 78.9% in 2021, further widening the gap between Shandong and the national average level.

4. Analysis of the future development direction of services trade in Shandong

4.1. Building a new system of high-quality and efficient producer services

The objective is to construct a new system of high-quality and efficient producer services, facilitating the high-quality development of producer services with distinct Shandong characteristics. As the industry's scale matures, sustained growth relies on perpetual innovation. Shandong boasts a well-developed manufacturing base, diverse industrial sectors, and considerable competitiveness in both domestic and international markets. Additionally, it possesses abundant agricultural resources, serving as a crucial agricultural products hub nationally and globally, featuring numerous renowned agricultural brands. Efforts should focus on harnessing development potential, fostering integration among advanced manufacturing, modern agriculture, and contemporary producer services, nurturing innovation-driven capabilities within producer services, and systematically propelling these industries toward higher value chain segments.

It is essential to incentivize and support enterprises in leveraging new-generation information technology to enhance research and development, design, and production efficiency, seizing opportunities in emerging industry sectors to carve out a new landscape. Priority should be given to the development of producer services such as software and information technology services, intellectual property rights utilization services, inspection, testing, and certification services, marine economy services, modern logistics, business services, energy conservation, environmental protection, and packaging design, among others. This entails enhancing service efficiency and specialization, expediting the convergence of the three industries, and fortifying the foundational performance for services trade development. Advancing the modern industrial system of Shandong necessitates encouraging and supporting enterprises to expand their scale and capabilities through mergers, reorganizations, listings, and other strategic maneuvers, fostering the emergence of large-scale producer service trade enterprises or multinational corporations with robust international competitiveness.

Leveraging the advantages of Jinan and Qingdao in piloting comprehensive reforms within the national service industry is paramount, underscoring the pivotal role of these two major central cities. Capitalizing on the transportation network comprising the Jinghu Line, Shenhai Line, Rilan Line, Jiqing Line, and Qingyan Weirong Line, the distribution of the producer service industry is integrated with modern transportation as a link, shaping a spatial pattern of complementary advantages radiating to surrounding cities. This has led to the widespread formation of high-level producer service industry agglomeration areas boasting substantial industry influence and competitiveness. Innovating service trade models such as "construction + operation" and "transportation + trade" within Shandong's traditional service trade industries, coupled with the exploitation of construction and transportation advantages, will accelerate the expansion of the service trade scale, augmenting the international competitiveness and influence of Shandong service brand.

4.2. Promoting the smart upgrading of consumer services

In the realm of consumer services, Shandong possesses three distinct advantages: population size, consumer market scale, and a surplus in service trade. Leveraging technological innovation and industrial integration, it aims to provide efficient service support for the transformation and upgrading of traditional consumer service industries. This involves comprehensively promoting the digital transformation of traditional service enterprises and fostering the emergence of consumer service enterprises in the cloud system. Scientific and technological innovation will be utilized to drive the transformation and upgrading of traditional service trade sectors such as tourism and culture, further solidifying the existing advantages of service trade surplus.

To support the development of consumer services, the policy system will be further refined. Innovative policies and measures will be devised to meet the requirements of evolving consumption patterns, focusing on the dual upgrading of industrial and consumption structures. Enterprises in the consumer service sector will be encouraged to expand their scale and join the ranks of leading enterprises. They will be guided to prioritize industrial transformation and upgrading and cater to the evolving needs of consumer consumption upgrades. This entails continually expanding the effective supply of services, creating more service consumption scenarios, enhancing the overall experience, satisfaction, and diversity of consumer services, and accelerating improvements in service quality and efficiency.

Efforts will be made to stimulate consumption in key areas of the service sector and support the development of new business models such as cross-border e-commerce. Additionally, the innovation and development of service outsourcing will be promoted. There will be a vigorous push towards developing new forms of service outsourcing grounded in big data, cloud computing, the Internet of Things (IoT), mobile Internet, and social media environments, expediting the digital transformation of the service outsourcing industry.

4.3. Advancing reform and opening up in the services sector

In response to the concentration of foreign investment in the service sector, the objective is to actively attract multinational companies for the establishment of regional headquarters, research and development (R&D) centers, supply chain management centers, logistics distribution centers, and other service institutions in Shandong. The strategic utilization of foreign investment will play a pivotal role in driving technological, format, and mode innovation within the service trade. Special attention will be given to the development of open platforms and carriers, harnessing the roles and functions of pilot free trade zones, national economic development zones, and demonstration zones to comprehensively reform and open up the service sector.

Advancing trials on issues related to competition policy, government management, government procurement, e-commerce, cross-border e-commerce, and other new-generation service trade rules is a priority. Service enterprises are encouraged to actively participate in the formulation of international standards, contributing to the accumulation of Shandong-specific experiences and cases. In the future, China will accumulate design issues in multilateral and bilateral negotiations on trade in services, bolstering its influence and leadership in negotiations. This strategic approach will expedite the development of new advantages in international cooperation and competition within digital service trade.

Focused efforts will be directed at optimizing the quality of foreign investment utilization. Institutional arrangements will be established to facilitate the introduction and management of foreign investment, simplifying processes for business and investment personnel entering China. Ensuring national treatment for foreign-invested enterprises is a key priority. Timely implementation of policies and measures will enhance the legal participation of foreign-invested enterprises in government procurement activities, aligning with industrial policies and fiscal and tax policies. This includes supporting equal participation in standard formulation, in adherence to the law.

Moreover, the service sector will be more widely opened to the outside world, encouraging increased participation of private capital and enterprises. A commitment to enhancing government governance effectiveness in relevant areas will continue. Ongoing improvements in investment in the service sector and the business environment will be pursued. Fiscal and tax leverage will be applied to motivate domestic and foreign investors to reinvest profits, with support for regions implementing incentives for enterprises investing in the service sector. Service sector enterprises will be encouraged to intensify research and development efforts.

Disclosure statement

The author declares no conflict of interest.

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