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## Reserch on search on service industry innovation based upon ECFA

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### ABSTRACT

With global economic integration, the economy and trade relationship between both sides of the Strait become more and more harmonious increasingly. The paper aims at the characteristics of modern service industry, combines service trade joints in Economic Cooperation Framework Agreement (ECFA) and starts from the connotation and characteristics of modern service industry so as to analyze the current situation of mainland service industry and explore the innovation approach of Mainland China modern service industry in ECFA framework.

### KEYWORDS

ECFA; Modern service industry; Innovation; Mainland china; Taiwan.



## INTRODUCTION

With more and more frequent economic and cultural communication between both sides of the Strait, "Economic Cooperation Framework Agreement" (hereinafter "ECFA") signed in June 2010 starts the new historical stage of economy and trade cooperation between both sides of the Strait. The Early Harvest plan of goods trade and service trade became valid on 1 January 2011<sup>[1]</sup>. The investment and trade cooperation between both sides was in one-way status before 2009. Taiwan opened 100 industries, covering retail industry, beverage industry, automobile and personal computer manufacturing industry<sup>[2]</sup>, to mainland enterprises in July 2009 and most fields opened were located in service industry as well as relevant manufacturing industry with high density and intensive labors. Hence, the development of research on mainland modern service industry innovation based upon ECFA is practically significant to deepen service trade connotation of both sides, elevate the complementary of modern service industry of both sides and boost economic development.

## ANALYSIS ON RESEARCH STATUS

### Research on service industry innovation

The academic field begins the research on service industry innovation late at home and abroad, thus, there are few research achievements at present. It can be classified into "service science" and "modern service" in discipline name and they are slightly different from each other in connotation: the "service science" is prone to computer science, operations research, etc.; the "modern service" tends to management, information, etc.; but they all stand in the innovation of service industry. The major research achievements include:

In 2005, IBM established SSME discipline (Services Sciences, Management, and Engineering) and issued "Service science: A new academic discipline" and other articles which introduced the definition of modern service science as well as contents and methods of research on service science<sup>[3]</sup>. Bill Hefley, etc. researched the relationship among service science, management and engineering discipline<sup>[4]</sup>; Ching M. Chang researched service elements and specific operation of industry & enterprise, service system project and other fields systematically<sup>[5]</sup>; Bernd Stauss explored relevant concepts of service science based upon international discussion on current situation, opportunities and limitations of service science<sup>[6]</sup>. In terms of scholars in China, Li Qi researched the fundamental of modern service, basic laws of development, generic technology and generic service of modern service, etc.<sup>[7]</sup>. Liu Aizhen conducted the research on the presentation and method application of concept definition, classification, market characteristics, quality monitoring, operation mechanism and other theories<sup>[8]</sup>; Gao Xinmin, etc. deeply analyzed the concept, connotation, classification system and theoretical basis of modern service industry, concluded the development tendency of global modern service industry in that time and put forward the strategies<sup>[9]</sup>. Sun Haiming conducted systematic research on industrial organization for modern service industry<sup>[10]</sup>. Zhang Runlong, etc. introduced the whole framework of service science as well as its main contents<sup>[11]</sup>. Wang Shuliang, etc. based upon the analysis on the origin of service science, researched service business process, service project, service management, IT service management and other contents<sup>[12]</sup>.

### Research on ECFA

Most research on ECFA started in 2009, the retrieval with "ECFA" as keyword was carried out in CNKI and there were merely over one hundred articles among which most were descriptive reports or analytical articles but few focused on academic research on the innovation of mainland modern service industry in ECFA framework. Therein, the most representative academic viewpoints include:

Gu Shengzu, etc. maintained that more Taiwan service industry would enter Mainland China markets after ECFA was implemented and both sides shall initiate the advance cooperation on modern service industry, such as, logistics industry, financial industry, etc. so as to boost regional economic integration<sup>[13]</sup>. Wu Qing, etc. held that most Taiwan-funded enterprises in Mainland China have the problems like small project scale, weak rooting awareness of enterprises, etc. thus, it is required to focus on reasonable planning on investment attraction and strengthen high technology and investment attraction of modern service industry<sup>[14]</sup>. Sheng Jiuyuan believed that the economic cooperation between both sides is the effective integration process of elements and also reconfiguration process of industry and relevant resources and there must be industrial adjustment and substitution in such period, thus, the reasonable compensation and the fair distribution mechanism of benefits shall be established as soon as possible<sup>[15]</sup>. Wang Jianmin deemed that there are some uncertainties in subsequent development of ECFA in people's high evaluation and expectation and we must judge their influence in correct, scientific and calm way<sup>[16]</sup>.

### Commentary on references

In general, the references are characterized by: I. There are more research on the theory of modern service industry or service science but fewer on the practice; II. There are more analyses on current situation of mainland service industry but fewer comparative studies on modern service industry of both sides; III. There are more researches on the functions and effects of ECFA but fewer researches on the connotation and innovation of service trade; IV. There are more simple data lists in articles but fewer case and empirical researches. In view of different emphases between "modern service" and "service science", this text, starting from fundamental of modern service and based upon economics, management, e-commerce and

statistics discipline system, is to conduct comparative research and enhance the exploration on practice of Mainland China modern service innovation.

**RESEARCH ON MAINLAND CHINA AND MODERN SERVICE INDUSTRY INNOVATION BASED UPON ECFA**

**Research premise**

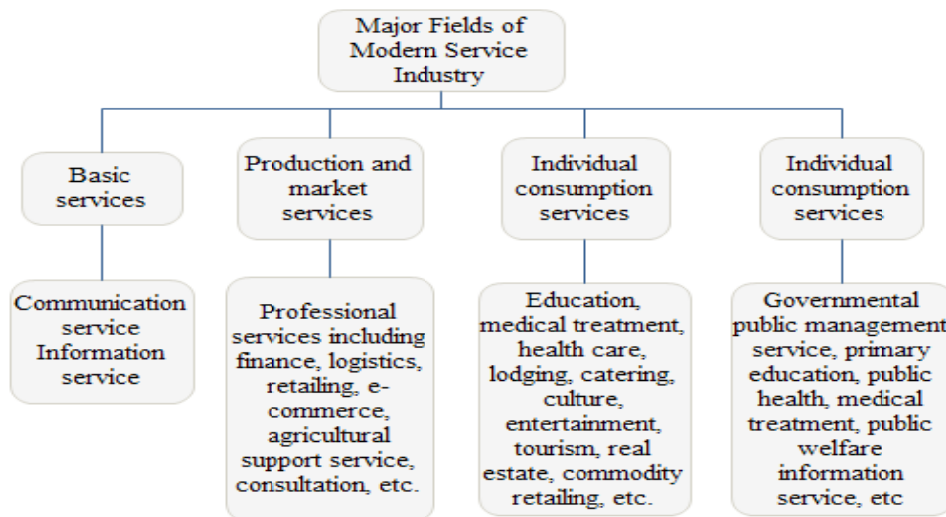
ECFA, as a comprehensive and integral regional cooperation agreement, is in line with the general orientation of regional economic integration at present. However, due to some uncertainties, the economic integration of both sides in ECFA will be a progressive long-term process. The special historical cultural background will lead to the difference between development characteristics of modern service industry and that of service trade or modern service industry in original system. That whether the existing research conclusions and viewpoints are applicable shall be proved by the practice and supported by the theories.

**Analysis on the connotation and characteristics of modern service industry**

Adam Smith raised his view on service industry in 1776 and maintained that the service industry is not important for economic development<sup>[17]</sup>. Nonetheless, the current situation indicates that the global service industry has been over 60% of GDP, the service industry of developed countries is over 70%, but the service industry in China is only 40% of GDP<sup>[18]</sup>. The major problems are shown as below<sup>[19]</sup>: the dominant traditional service industry in industrial structure and low ratio of modern service industry; insufficient emphasis on labor forces input in service industry, lower ratio between labor forces employed in service industry and total labor forces employed than that of most developing countries and lack of modern scientific technologies in support and application; unbalanced regional development and the large urban-rural gap; imperfect laws and rules on modern service industry and low market specification degree.

**Basic connotation of modern service industry**

The modern service industry mainly refers to the service industry with intensive information and knowledge developed upon information technology, modern economic and management system. It not only includes burgeoning service industry but the technical improvement and upgrade of traditional service industry. Its nature lies in the modernization of service industry<sup>[20]</sup>. Major fields of modern service industry are shown as Figure 1<sup>[21]</sup>:



**Figure 1 : Major fields of modern service industry**

**Obvious characteristics of modern service industry**

With the function of knowledge production and services supply, modern service industry has the obvious characteristics that are different from other industrial clusters<sup>[22]</sup>:

Collect knowledge and provide technical service for other industries—modern technology and new management technology are widely applied in service industry and be provided with higher diffusion velocity and effect than manufacturing industry.

Knowledge innovation mechanism---Realize knowledge transfer upon coordination of modern service enterprises and then enhance the competitiveness of all clusters in the whole service industry by imitation of member enterprises.

Chain effect——Attract enterprises beyond the cluster to join, which is like the population in ecology, the larger the scale is, the more the enterprises will join; meanwhile, it boosts the birth of derived companies in service industry.

Accumulative effect—Provide external resources required by enterprises in clusters and promote resource sharing, technical diffusion, information flow, horizontal contact, vertical support and mutual learning.

### **ECFA Early Harvest**

The Early Harvest of service trade is listed in Article 8 of Chapter IV of ECFA "Early Harvest of service trade: in order to realize the targets of this agreement, both parties agree to implement Early Harvest plan to service trade departments listed in Attachment IV and the Early Harvest plan shall be implemented immediately when the agreement is valid."The specific contents of Early Harvest Department of Service Trade and Opening Measures are shown as below:

#### **Opening commitments of non-financial service departments in Mainland China**

Commercial service: accounting, auditing and bookkeeping in professional service, computer service, relevant software implementation service, data processing service as well as research and experimental development service of natural science and engineering in research and development service; conference service and professional design service in other commercial service.

Communication service: audiovisual service-video distribution service, including distribution service of entertainment software as well as sound recording;

Relevant health service and social service (except for services listed in professional service): Hospital service;

Transport service: Maintenance and care service for the plane in air transport services.

#### **Opening commitments of financial service departments in Mainland China**

Including insurance and relevant services; not including the bank of securities, futures or insurance, other financial service, securities, futures or relevant services.

#### **Opening commitments of non-financial service industry in Taiwan**

Research and development service in commercial service industry;

Meeting service industry in other commercial service industry- It refers to the business activity to provide the meeting or similar events with the plan, organization, management, sales, etc. (including foreign exchange and beverage service) as well as exhibition service industry- limited to professional exhibition hosted jointly;

Other specialty design service industry-all interior design and professional design service industry, including the design of clothes, jewelry, furniture and other commodities as well as the design of personal and family articles, visual communication design, packaging design and other services.

Audiovisual service in communication service industry-motion picture projection service industry (Chinese films and joint films);

Distribution service industry: broker's service industry (except for movable objects)-the industry, with billing as per times or reward as per the contract, which collects the commission by mediation of both parties in the selling or buying of tangible commodities

Entertainment, culture and sports service industry (except for audiovisual service industry)-Sports and other entertainment service industry;

Computer reservation system in air transportation service industry.

#### **Opening commitments of financial service industry in Taiwan—Banks and other financial services (not including securities, futures and insurance)**

Upon the analysis on clauses above, the conclusion below can be drawn:

The clauses in Early Harvest of both sides are not reciprocal. Compared with opening part of Taiwan, the development region and space is much larger in Mainland China and Taiwan government has refined and limited the development fields inside Taiwan Island

Seen from specific contents of clauses, most fields involved are service fields with low technical content (in terms of computer and internet service field, the technical barrier has been very low actually for the realization of standardization agreement).

These clauses center on basic services, production, market services and partial individual consumption service, but basically not involved in public service aspects.

It is considered that there is still uncertainty, which may affect the effect of service trade in ECFA framework, in general environment; hence, it is necessary to discuss the way to integrate the service of both sides.

#### **Ways of Mainland China modern service industry innovation**

At present, the coordinated growth of Mainland China economy forms excellent layout in coastal regions and the investment from Taiwan mainly centers on the coastal regions in Mainland China, with provinces and cities on the east bank of the Strait in dominance (Shanghai, Jiangsu, Zhejiang, Guangdong and Fujian). Although mutual market opening of both sides in ECFA may intensify internal market competition and lead to certain impact on some industries<sup>[23]</sup>, yet the complementary between Taiwan economy and Mainland China economy as well as their regional advantages are the bases to

boost economic cooperation of both sides...There is the actual demand for staggered development and coordination of the economy of both sides<sup>[24]</sup>.

### **Optimize Mainland China investment environment**

To optimize Mainland China investment environment is the important guarantee to implement Early Harvest Plan of ECFA in service trade. Taiwan makes great efforts to boost the upgrading of an industrial structure and it is inevitable that the high technology is transferred to the Mainland China. We shall improve and optimize investment environment continually and formulate preferential policies with purpose according to the types and characteristics of relevant industries in Taiwan and the actual development situation of industrial structure so as to seize opportunities in new Taiwanese investment storm.

The government shall mainly emphasize the planning on favorable announcement image and scheme to the public, provide excellent official affairs services, especially optimize the active service provided by Level I governmental investment promotion department to Taiwanese enterprises and governmental working process, provide quality service, issue tax reduction or exemption as well as reward, promote the construction of modern service industry, introduce the capital and resources and fully employ high-quality Taiwanese service industry resources.

### **Guide the orientation of Taiwan capital in scientific way**

The key point to boost service trade between both sides further is to guide the orientation of Taiwan capital in scientific way. What is the most important at present is to combine characteristics of current Taiwan industry transfer, research service industry of both sides deeply and analyze the market economic structure, development direction and resource superiority in different places; as for specific contents of Early Harvest Plan of ECFA in service trade, enhance service industry cooperation level of both sides, positively guide Taiwan capital flowing to the badly needed service field with high industrial relevancy and high knowledge density and utilize knowledge and technical spillover effect brought by Taiwan service enterprises.

### **Develop service industry market in Taiwan**

The Early Harvest Plan of ECFA further boosts the mutual opening of service markets on both sides. The modern service industry is extremely developed in Taiwan and its characteristics are shown as below<sup>[25]</sup>:

Continual improvement of professional degree and strong relevancy to the manufacturing industry;

Obvious spatial concentration in urban areas and science parks;

Gradually extended scope based upon manufacturing globalization.

There is interaction effect in investment of both sides and the Mainland China investment toward Taiwan also boosts Taiwanese investment toward the Mainland China. Although the Mainland China and Taiwan are nearby and with the same cultural background and race, yet different resource superiorities have different attraction. With mutual origin, common culture and language, there are few barriers between both sides in service trade, which is beneficial for Mainland China enterprises to develop markets in Taiwan and promotes interaction of service trade investment of both sides.

## **CONCLUSIONS**

Compared with the Mainland China, the service industry in Taiwan is characterized by rapid development speed and high level. Upon several externally industrial transfers, it is urgent for Taiwan service industry to transfer with manufacturing industry externally. At present, the implementation of Early Harvest Plan in ECFA framework can attract Taiwan enterprises to provide investment toward the Mainland China, improve modernization course of Mainland China service industry and boosts the superior upgrading of the tertiary industry.

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