

The Rise of China's Service Sector

Chong-En Bai

Tsinghua University

Xilu Chen

Chinese University of Hong Kong

Zheng (Michael) Song

Chinese University of Hong Kong

Xin Wang

Chinese University of Hong Kong

September 2021

Summary

China's service sector has experienced a rapid expansion since the late 2000s. According to the official statistics, the service GDP share increased from 43% in 2007 to 55% in 2020. In this paper, we present evidence from additional datasets showing the recent rise of the service sector is a robust phenomenon.

Specifically, we use two firm-level datasets from Chinese government branches outside the National Bureau of Statistics (NBS). The first is the registration records from China's State Administration for Market Regulation (SAMR). The administrative data provides basic information for all firms registered in China (over 37 million active firms in 2019). The second is the firm survey data from China's State Administration of Taxation (SAT). The SAT survey covers about half a million firms. Unlike the widely used Annual Survey of

Industrial Firms conducted by NBS that only covers the industrial sector, the SAT survey covers all sectors and has a reasonably good sectoral composition. The aggregate and regional statistics from the two datasets are in line with those from NBS, confirming that China has undergone a fast structural transformation in recent years.

We then use the firm-level SAT survey data between 2007 and 2015 to estimate firm TFP, capital and labour wedges, and to aggregate them into sectoral TFP and misallocation. We find that service firm TFP grew at an annual rate of 16.2%, double the TFP growth of 7.2% for industrial firms. However, misallocation in service deteriorates much more than in industry, such that aggregate TFP in the industrial sector outgrew that in the service sector by 2 percentage points per year. The lower service TFP growth, together with the increase in the relative price of service goods by the official statistics, suggests that demand-side forces play a more important role in the recent expansion of China's services.