

## Analysis of the Factors of Service Economic Development

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**ABSTRACT:** In the early stage, when most scholars studied the development level of the service industry, they still analyzed the service industry as a whole, and took the change of income level as an important factor affecting the development of the service industry. However, government constraints, legal environment and scientific and technological level have different effects on the development of the service industry from different degrees and perspectives. However, with the continuous progress and development of the society, the service industry will also develop to a wider depth and dimension. This paper focuses on the analysis of the related factors affecting the development of the service industry in the economy from the perspective of income level, government restriction, legal environment and science and technology level.

**KEYWORD:** Income level, Government constraints, legal environment, Science and technology.

### Introduction

When the economy reaches to a certain stage, the development of the service industry will surpass the manufacturing industry and become the main driving force of the national economy. The proportion of the service industry, with the rising economic development, is a generally recognized law. With the rapid development of the national economy, the modern service industry is becoming increasingly prominent in the national economy, and it is no longer a "marginalized or luxurious" economic activity. It plays an important role in increasing employment, adjusting the industrial structure, improving people's living standards, promoting national economic growth and maintaining social stability. However, how to solve the problem of obviously low proportion of service industry and slow growth of service industry needs to be studied. Therefore, there is an increasing demand for research on the factors influencing the development of the service industry.

Due to the large demand and income elasticity of the service industry, with the improvement of the per capita national income level, people's demand for high-end service products will increase, which is also an important reason for the continuous improvement of the service degree of a country's economy (the added value of the service industry in GDP and the proportion of the employed population in the service industry in the total employed population).

### Results

Eichengreen and Gupta (2009) examined the relative size of service sectors changes with growth. First, there are two waves of service-sector growth. The share of output in the service sector began to grow at relatively adapted income levels, but the growth rate did not decline with the growth process until the per capita income reached around \$1,800 (assessed in 2000 dollar purchasing power), which was the first wave. With per capita

income reaching around \$4,000, the services' share of sector output began to rise again before finally reaching equilibrium, in the second wave. Second, there was an upward movement in the second wave of service sector growth after 1990. That is, the second wave of growth after 1990 began on lower income levels than before.

But some scholars have also questioned these propositions. Kuznets (1975) believes that the share of total national output does not change significantly with the per capita income level. Falvey and Gemmel (1996) argued that while the hypothesis that services are resilient to revenue demand was supported in earlier empirical studies, it was not supported in recent empirical studies with improved methods and data optimization. They used cross-section optimization data from 60 countries to reestimate revenue and price resilience in service demand. The conclusion shows that, on the whole, the service industry does not show revenue elasticity in demand, but different service product sectors have their demand.

Of course, the key to these differences lies in the difference of statistical object and data, if only as the final consumer goods service as the research object, then the demand of service is significantly related to per capita national income level and demand income elasticity, but if include the final demand as the research object, then service demand is not necessarily per capita national income and demand elasticity, because service demand as intermediate products and demand as trade products is related to its industry correlation and service trade freedom.

**Government constraints**

Although some studies have shown that the scale of government promotes economic growth, others have come to the opposite conclusions. And the excessive size of the government in hindering economic growth is more obvious in the service sector. The government's restriction role on the development of the service industry is mainly reflected in the following aspects.

First, the government will regulate the service sector because of its particularity. The dual attributes besides the economic attributes of the service industry may be too much valued, thus leading to state-owned monopoly operation. Financial industry, for example, involves the country's financial security, telecom industry involves the national information security issues, culture and media industry often involves ideological issues and so on, so in many countries, these service departments are state-owned monopoly, do not allow private capital and foreign capital to enter, and this may inhibit the development of these industries. Countries with large governments tend more likely to regulate services, which can hinder. Eschenbach et al (2005) studies of 24 countries in transition in Eastern and Central Europe showed that deregulation of services has greatly promoted the development of services in these countries.

Second, the government's control of the service industry has squeezed out the investment of private capital in the service industry, thus limiting the development of the service industry. Compared to the private sector, the public sector tends to be less motivated for profit, and its servicing is often underpowered. Therefore, when the government controls more economic resources, the market space of independent external services industries may be relatively small, and the government's public expenditure will even intervene in many service departments that can be market-oriented and squeeze out the private sector, resulting in the insufficient development of these service industries. When the government has a strong ability to control the economic operation, especially when it can invest or control the flow of investment, there is often a strong incentive to invest in large industrial enterprises to boost economic growth or increase tax revenue. For example, in the economic development process of East Asian countries such as Japan and South Korea, the government has adopted industrial policies to support industrial development. On the contrary, due to the generally small scale of the service industry, it is difficult to have an immediate effect in driving economic

growth, and it is also difficult for the government to tax from it. Therefore, the government often lacks the motivation to give the necessary support to the service industry.

**Legal environment**

Service output has the intangible characteristics. For example, the results of R & D activities are often just invisible knowledge or trade secrets, and the marginal cost of copying these outputs is very low, thus making it more difficult to protect them in transactions. In such circumstances, without external forces to protect the execution of the contract, it is more difficult for the supply and demand parties of the service industry transaction to form stable expectations of the interests and risks of the transaction than that of other industries. If the independent judicial system can effectively play the function of third-party contract execution, it will greatly alleviate the difficulty of service transaction. Compared with other industries, some unique industrial characteristics of the service industry determine that its development is more dependent on the external contract execution environment.

In addition, the service industry output often lacks unified evaluation standards, most are personalized customized products; or as Eswaran et al. (2002) said, product differentiation and diversity are the key characteristics of property, so that the service industry mainly adopts personalized transaction methods. This personalized transaction is easy to cause mutual locking between both parties of the transaction. When the external legal environment is difficult to guarantee the effective implementation of the contract, the two parties of the service transaction locking threat and the accompanying opportunistic behavior may actually lead to the transaction will not occur, thus hindering the development of the service industry.

**Scientific and technological level**

From the perspective of horizontal development, the modern service industry plays a more and more obvious role in promoting the development of productive forces. First, the knowledge-intensive service industry is developing rapidly. At present, foreign developed countries are driven by technological innovation, especially information technology. The service industry has achieved rapid development and become the industrial form with the highest proportion of GDP. With the expansion of the industrial scale of the service industry in developing countries in the future, the added value of the global service industry in GDP will continue to rise. Second, the development of emerging areas of the modern service industry was accelerated. The wave of new technology revolution mainly information technology has fully penetrated from manufacturing industry to service industry. The service industry has begun to develop in the direction of information, network, intelligent, personalized and cluster, and knowledge service industry and professional service industry have begun to become hot spots and new growth points of development.

From the perspective of vertical development, the service industry is increasingly inseparable from the development of science and technology. First, the modern service industry is the main user of technology. Modern service industry is mainly the use of science and technology for more fine professional division of labor, the traditional upstream enterprise internal organization service activities outsourcing, by the specialized talents and professional technology service enterprises or institutions application special knowledge and practical experience, to provide customers with a certain field of professional services, so as to improve the service efficiency and service quality, and effectively reduce the transaction cost. Second, the service industry guides the development direction of new technologies. First of all, the service industry carries out its own technology development, that is, the service enterprise's own "production" technology. Second, as users and promoters of specific technologies, service enterprises also have a considerable impact on the technology development of technology providers.

**Conclusion**

The main reason for the transfer of employment to the service industry is the transformation of total consumer demand and demand structure. This structural change is inevitable. There is the structural difference in productivity between the economic sectors. At the beginning, it is conducive to the increase of employment in the industrial sector. With the increase of income level and the growth of demand for services, the tertiary industry sector became the main sector. The development and demand of the service sector will rise as people's income level.

Under the guidance of policies, enterprise development can more directly and accurately understand the guidance of the government, and also understand the market to a large extent, so as to produce products more in line with the market demand. Therefore, the interdependent relationship between the government and the enterprise is also reflected. The preferential support policies of the government involve departmental investment attraction, tax reduction, financing support, environmental optimization, employment and wisdom introduction and other aspects, which directly or indirectly promote the healthy development of enterprises.

When a country has a good legal environment, it can restrict the private sector and provide good private property protection, promote the private sector investment in material capital and human capital, and promote economic growth; on the other hand, it can provide an efficient judicial system as a third party to resolve disputes between the private sector and its contracts with the public sector, thus promoting social division of labor and transactions, thus promoting economic growth.

The integrated development of modern service industry and science and technology is conducive to the international transfer of the service industry. The major adjustment of the world industrial structure has been made and will be realized more through the international transfer of industries, and the continuous integration of science and technology and modern service industry has promoted the international transfer of industries. It is conducive to industrial agglomeration and development. At present, the cluster industrial agglomeration formed in the regional background is developing rapidly. For a certain region, realizing the continuous integration of high and new technology and the modern service industry is conducive to creating a soft environment to attract enterprises to gather, and enhancing the function of human capital and knowledge capital "transmitter" played by the modern service industry. It is conducive to the upgrading of the industrial structure. The wide application of information technology in modern service industry makes the industrial development effectively break through the limitations of region and space. The intensification of global competition makes the cycle of industrial technology upgrading become shorter and shorter, thus promoting the optimization and upgrading of the industrial structure. It is conducive to the integrated development of the industry. The integration of high and tech technology and modern service industry, especially the application of information technology in modern service industry, makes the original clear boundary between different service industries increasingly blurred, and industrial integration has become an irreversible trend.

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