**Research on the Influence of Modern Service Industry Agglomeration on Urban Economy Transition**

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**Abstract.** Under the new normal economic transformation of city in China is a core strategic position in the overall pattern of economic transformation; however, can the modern service industry agglomeration promote the city economic transformation? The paper firstly expounded the connotation of modern service industry and city economic transformation, and analyzed the relationship between modern service industry cluster and city economic transformation, and then analyzed how the modern service industry cluster affect transformation of urban economy, finally put forward the countermeasures of modern service industry cluster promoting urban economic transformation.

**Introduction**

At present, China is at an important stage of economic growth mode transformation in the new normal, and urban economic restructuring in China have a key strategic role in the overall pattern of economic transformation. Urban economic structure is internal form and manner of the integral elements of the urban economy which are interconnected and interacted. Urban economic restructuring is a process in which urban economic structure and urban economic factors continue to reconstruct urban space and maximize value. In the background of production economy replaced by service economy continuously becoming the main driving force, China’s urban development has entered a critical period which accelerates economic restructuring.

**Connotation of Modern Service Industry and Urban Economic Restructuring**

The section headings are in boldface capital and lowercase letters. Second level headings are typed as part of the succeeding paragraph (like the subsection heading of this paragraph). The city is constantly changing and developing, constantly experiencing its life cycle, and the economic structure of the city is constantly developing and changing, the city’s economic transformation and upgrading is a long and complex process. Town and city center will continue to develop along the upgraded version of urbanization, and some big cities will be in the depth of urbanization development, and the development of the service sector is also highly dependent on urban development. Zhao Hong (2009) stated that the purpose of economic restructuring is to rebuild new industrial structure and economic model in line with urbanization requirements and law of urban development requirements, in order to maintain the vitality of the urban economy$^{[1]}$. Urban economic restructuring contains two meanings: one refers to that the mode of economic development has shifted from previous relying on energy consumption and investment-led to rely on scientific and technological progress and improving the quality of workers; the other refers to the upgrading of industrial structure, to use new technology is to develop new industries, and constantly to seek new growth point of industry$^{[2]}$. Therefore, promoting urban economic restructuring must promote upgrading of urban industrial structure, nurturing and developing technology-intensive, low energy consumption and strong spillover effects of the emerging industry, which is the inevitable choice of city economic transformation.
Urban economic restructuring needs inner strength to promote. Among them, the industrial restructuring as a major subsystems, plays a dominant role in urban economic transformation. With the continuous development of the knowledge economy and the deepening of the social labor division and specialization, the modern service industry has gradually become an important direction and content of economic globalization, industrial transfer and structural adjustment, and become an important measure of market development degree of a country, region or city social and market economy. About the meaning of modern service industry, Western scholars tend to use “knowledge services” or “knowledge-intensive service industries”, while in China, the reference to modern service industry first appeared in the report of the Fifteenth CPC in September 1997, then the Communist Party Congress report further stressed that “accelerate the development of modern service industry, improve the proportion of tertiary industry in the national economy”, so that the modern service industry has become China’s industrial development policy in a formal reference. Since then, many provinces and cities in the development of the local five-year plan put the development of modern service industry in a prominent position. Liu Zhibiao (2005), the modern service industry are those that rely on high-tech and modern management methods, operation mode and organizational forms developed, mainly provide producers for intermediate inputs of knowledge, technology, information relatively intensive services, as well as the modern service industry formed from the part from the traditional service through technological upgrading and updating the business model. Therefore, there must be a basic criterion for distinguishing between the traditional service industries and modern service industry, or a larger format and modalities of innovative services, which can be called modern service industry.

Relationship of Modern Service Industry Agglomeration and Urban Economic Restructuring

Modern service industry agglomeration refers to that the modern service enterprises and institutions in the field of modern service interrelated in a certain geographic area high density aggregates to form the upper, middle and lower reaches of structural integrity, full of innovation and vitality of the organism, which doesn’t simply gather in a certain geographical area of service cluster, but a complex having both research and development, information exchange and social management functions. Any region, whether it is a small area or a large integrated economic zone, which has all in the industry are required to form a appropriate scale, reasonable structure, close ties aggregate at the macro so as to get the maximum effect of agglomeration economies.

Since the beginning of the second half of the 20th century, the developed countries as well as some cities in emerging market countries in the transition process have experienced a decline in the share of manufacturing, service sector growth accelerated and exceeded GDP growth and dominating in industrial structure gradually, which led to a fundamental change in the process of urban functions, such as the new US West Coast city of Seattle, San Francisco, Los Angeles and other cities, a well-developed high-tech industry, services, tourism, culture and education industries in transition is successful cultivated to achieve a new development; China Hong Kong convert the structure of the economy several times since World War II, with the rise in processing and manufacturing, modern service industry prosperity represented, industrial structure echelon evolution, it has developed as an intercontinental level economic center. Thus, the new modern service industry can become a carrier and a base of the city’s economic transformation, and its concentration and diffusion effects will optimize the function and structure. Zhang Jia jun (2010) resulted that based on the experience of other countries and regions of the world urbanization and the development of services, industrialized, when industrialization developed to a certain stage, the direct interaction between urbanization and the service industry will gradually increase, urbanization and economic services of these two forces will be to promote the economic growth.

Relations of modern service industry development and urban economic restructuring can form interaction stage trend; there is a clear linear relationship between development of the service and development of the city. If the traditional services for the development of the city is a “assist” role, the
modern service industry directly change the industrial structure of the city, employment structure and spatial characteristics of the city, such as after the 1980s, global urbanization and the growth of the service sector showing a common accelerating trend, scholars have come to the following results by regression analysis: the service sector share of GDP in the world’s 44 countries in 2006 and the corresponding urbanization rate increases by 1%, the service sector share of GDP may correspondingly increase 0.377 percentage points. Some scholars also summed up the evolution of the structure of China’s service industry through empirical analysis and concluded that traditional service with the proportion of the service sector and the service sector share of GDP showed a negative correlation, modern service industry accounting for the proportion of the service industry and the service sector share of GDP showed a positive correlation. Chinese scholars Zhang Shulin (2007) use the data in China from 1995 to 2005 to do an empirical study showing the internal relations of interaction between the modern service industry and urbanization and common development, and there is a dynamic interaction of complementary mechanisms, and it’s concluded that development of modern service and upgrading of industrial structure caused by it become the intrinsic motivation of the formation and development of urban agglomeration. Therefore, the modern service industry is different from the traditional services, its strong agglomeration effects are more effective in promoting the city’s economic development, and promote the development and optimization of urban space.

The Continuous Development of the City Contributed to the Rapid Development of Modern Service Industry Agglomeration

Early urbanization theory is to define the connotation of urbanization migration from rural to urban while the service economy is built on the urbanization on the basis of urban functions. Advanced factors of production, modern services to the urban agglomeration constitute the new content of the urbanization, which is the result from economic development to a certain stage. Singelmann (1978) first studied the relationship between urbanization and the service industry, and proved that urbanization is the reason for the growth of the service sector, which is decided by the characteristics of service product, service products require supply and demand directly face to face, and urban facilities provided the conditions. Furthermore, urbanization has promoted the development of government services and other non-profit service sector. In fact, as early as 1975 Sabo Luo discovered this relationship from empirical analysis in developing countries. Daniels (1991) did an empirical research as an example of US cities and towns of the service sector, it’s stated that the regional market formed by process of urbanization become the basis for the development of the service industry, and the development of urbanization promoted the development and expansion of the service sector. Drennan (1992) did an empirical research on the city of New York, Chicago, Los Angeles and San Francisco, which showed that along with the urban transformation, degree of urban producer service specialization become deeper and deeper, large producer services business mainly gathered in the four cities, the United States became the main place of producer service external output. Harris (1995) took India for example, he did an empirical research on the key role of city has played in the rapid development of its national economy, he considered city is the center of commodity circulation, play a huge network effects, and carry the development of services. Chang G. H. (2006) studied Chinese urbanization and economic growth, which suggests that urbanization through the expansion of the service sector has created many jobs, with respect to self-sufficiency in the agricultural sector, the decision limited the demand for its services, and the market of urban life tends to cause the residents more demand for transportation, retail and other services, urbanization can bring output and employment services.

With China’s recent urbanization accelerating continuously, domestic scholars have done more research in urbanization and service development. Jiang Xiaojuan and Li Hui (2004) found that the level of urbanization is an important factor affecting the proportion of value added services. Yuguo Qin (2004) believes that urbanization is the premise of upgrading of industrial structure, and there exists a close relationship between it and development of services, the process of urbanization
can promote the development of service industry. MA Peng and Li Wenxiu (2010) constructed a model of urbanization and development of the tertiary industry, which showed that the impact of urbanization on the development of tertiary industry was more significant, but urbanization development stage and the type of services affected the development of various sectors within tertiary industry\textsuperscript{16}. Liu Zhibiao (2010) emphasized the upgrading of industrial structure and urban economic restructuring must be based on urbanization, cities and space vector of regions\textsuperscript{17}.

**Modern Service Industry Cluster Promote the City’s Economic Transformation**

Modern service cluster can enhance the ability to integrate resource, reduce production costs, but also conducive to the rapid spread of similar information effectively in the same industry, promote industry technology innovation. Researchers on the evolution of the law of modern service industry development also started from the producer services, evolution of productive service industry can examine industrial agglomeration from the perspective of development and changes. Sam and Kee-Bom (1998) analyzed the development of producer services agglomeration of Seoul\textsuperscript{18}. Around 1980, Secondary industry gradually spread from the city to the suburbs of Seoul and even spread to the surrounding cities, and producer services providing outsourcing services for the manufacturing gradually concentrated in the central area of Seoul, the combined effect came into play. Service industry began to take shape, the government began to pay attention to developments in the region and to guide the adjustment of industrial structure, industrial layout planning, thereby forming a plurality of the core area and the different functional areas, producer services agglomeration entered a rapid development in depth gathering period and maintained a long-term stable development. This analysis showed that the early development of producer services agglomeration in Seoul was to rely on market forces, and on the support and planning of government in the medium-term development, and the service industry agglomeration effect produced is a dynamic value and the change value, at a certain boundary point, the combined effect may be negative, specifically between traffic congestion and increased competition for resources among enterprises, business gathering area which were found no agglomeration economy will be moved to other areas outside, which led to the proliferation of agglomeration.

Ji Yu Hua et al. (2004) did an empirical analysis on industrial agglomeration benefits of Chinese cities\textsuperscript{19}. The results showed that the industrial sector as a whole has not obvious agglomeration effect, but the secondary and tertiary industries have obvious agglomeration benefits. That is, the expansion of city size does not significantly lead to the industrial sector efficiency gains; Improving productivity mainly results from the tertiary industry, its efficiency will be significantly increased with the expansion of the city. This shows that with respect to the manufacturing industry, the combined effect of the service sector in the city is more obvious.

**Impact Analysis of Modern Service Industry Cluster on Urban Economies in Transition**

**Industrial Convergence Brought by Modern Service Industry Cluster Promote Urban Industrial Diversification**

Modern service industry has obvious industry fusion; it can have mutual integration and penetration with walks of life, and this integration can make technical, technological, cultural resources and manufacturing services become one in favor of extending the city’s industrial chain, thus it greatly expands the urban development space industry and optimizes the city industrial and economic structures. Specifically, on the one hand the modern service industry gradually penetrate into the traditional industries, high-tech as the core competitiveness of new industries showed a strong vitality, which has high growth potential and high permeability, and provides a large number of various forms of products and services market; On the other hand, intra-industry mutual penetration between the various departments, extensive application of information technology has brought changes in production methods so that the traditional boundaries between the various production sectors is
gradually breaking down, prompting more interpenetration and integration between departments, the concept of regional markets closely related parties to the transaction is replaced by the concept of market space, the concept of the traditional vendors, “there is a clear geographical scope of competition” has been replaced by a broader and criss-cross concept, and these related business activities, competition and cooperation coexist, walk inside and outside the traditional market, not only promoted the rapid development of related industries, but also changed the life cycle of related industries.

**Scale Effects Formed by Modern Service Improve the Efficiency of the Urban Economy**

Economies of scale is to increase the proportion of output, which is greater than the increase in the proportion of production factors, including internal economies of scale and economies of scale external economies of scale levels. Internal economies of scale generally refers to the internal increasing returns to scale, and through mass production and increased product range, service enterprises make the average production cost decrease with increased production, so as to achieve economies of scale. However, in the modern urban economic development, modern service companies will look for another way to reduce the production cost, more in the “Regional economic centralization” form to find economies of scale, more focused on the overall scale generated by the formation of the whole industry chain service industry bringing about “regional centralization”, which is external scale of economy. The formation of such economies of scale derived from the increase and decrease in the average cost of production of individual enterprises from other enterprises in the same industry expansion in production efficiency, this benefit is mainly due to contact with each other between enterprise scale expansion process, so companies within the industry more geographically concentrated, the greater the income, therefore, this phenomenon is sometimes referred to as “regional economic decentralization”, if more than one industry in a region or a city focused on the formation of economies of scale, it is the urbanization economies, the formation of scale economies derived from the presence of interrelated among industries, from the view of the formation mechanism, this is a higher level of external economies of scale, different companies gathered in a city, you can get a variety of public services provided by city resources, and production costs can be reduced.

**Modern Service Industry Agglomeration Externalities Promote the Expansion of Social Benefits of the City**

Externality of the modern service area mainly appears in the product provided by service and social function carried by services. In the long term, modern service offerings are non-competitive and non-exclusive. Generally speaking, companies producing exclusive merchandise will get nearly all the benefits of goods, and the companies producing non-exclusive goods are facing a lot of income “spillover”, in particular, these “spillover” could produce long-term benefits for society, these products may eventually become a social public service products, such software programming language, cultural products, database resources, asset pricing models are non-exclusive services and products, proceeds received by producers of these products is very limited, and they providing products like it can make the whole region to benefit; On the other hand, the service sector in the development process carrying social function is also growing, especially the development of modern service area can provide new jobs for the city, re-integrate urban resources, rich city’s functionality, and enhance the city’s comprehensive carrying capacity, which greatly contributed to expanding social benefits of urban development.

**Modern Service Help Improve the City’s Innovation Capacity**

Romer pointed out in the new growth theory that economic growth of a country or a region often depends on knowledge accumulation, technological progress and human capital. Modern service area is often the place where knowledge and technology is highly concentrated, which is conducive to technological innovation and technological progress. At the same time, the competing enterprises
concentrating in the region force them to accelerate product development, and continuously improve their management level, so as to promote scientific and technological innovation and technological progress. In addition, the effect of enterprise innovation is easier to spill over to other companies within the cluster region, which is conducive to the exchange of scientific and technological achievements and improvement of scientific and technological level and product quality. Modern service industry gathering enables companies to achieve technology and management experience through close observation of competitors, which makes imitating each other possible.

**Modern Service Reshape Urban Space Layout**

The development of modern service industry can optimize the layout of the inner city, guide the development of modern industrial cities and reshape the city’s economic map, and further optimize the urban spatial structure, promote industrial urban space and urban space as a whole to form a harmonious, harmonious development of relations. The new industry system formed by modern service not only reshaped the modern urban industrial space layout, but also the value of the traditional urban space has been re-mining and upgrading, modern service cluster area can replace the old industrial base of the city in the original, which make the gradual decline of the urban space renew with new vitality and enhance the external image of the modern city and influence, also re-create the cultural taste of the city and recognition, the value of urban space has also been improved.

**Measures of Modern Service Promoting Urban Economic Restructuring**

**Guide Urban Transition Gradually from Agglomeration Specialization to Diversification**

Pei Changhong (2012) proposed the concept of “the volume rate of the economy”, which is the most intensive use of land space. Land prices in urban centers are very expensive, the industry based on centers often has high labor productivity and high returns on investment of the modern service industry, elements gathered in the city center only can be the factors of production with higher value, aggregated industry can only be advanced leading industries \(^{[20]}\). Specifically, city can build a productive service area, service outsourcing agglomeration and headquarters economy gathering area and Creative Industries as the representative of modern service area guide the city from specialization agglomeration gradually to diversification to change urban industrial structure and economic function.

Many cities in China have a strong comparative advantage in manufacturing sector, and this advantage laid the foundation for the development of producer services to expand the demand for space of modern service industry, particularly in opening up new areas of producer services, manufacturing in the production process of self-service links, such as research and development, design, procurement, logistics and marketing gradually began to achieve outsourcing, which is implemented by professional services industry, extends the entire production chain and enhances the value chain. Many cities are beginning to establish productive service area, continue to attract capital inflows, greatly improve production efficiency and profitability, bring new jobs; the development potential of modern service area is huge.

**Improve Productive Capacity of Innovation in the Modern Service Area Continuously**

With modern service industry gathering in the city continuously, traditional urban functional areas are being replaced by modern service area which has become complex scientific and technological innovation, research and development, information exchange and social management functions. Therefore, promoting the development of urban modern service industry needs to turn focus from firm size number to the pursuit of innovation capability upgrading, actively guides high-end enterprises and enterprise in the concentrated area to cooperate to form a space gathering. The Government’s policy needs to ancillary, key incentives need to focus on the implementation of the “promotion innovation of clusters output capacity”, such as intellectual property rights, technical standards, and other processes. In terms of new investment projects, investment in technological
transformation of enterprises, investment in science and technology projects, public service platform construction, and government policies should highlight guidance to support the “cluster innovation capability”, the core value orientation, to the “innovation ability of enterprises and projects”.

**Cultivate Leading Enterprises; Promote the Modern Service Industry Cluster Develop to a High Level of Competition and Cooperation**

In general, as the cluster business models, enterprises are the first to identify and to develop new technology, is also the first enterprise to digest application and spread diffusion in the industrial cluster, play a role in the connection of external innovation resources as a bridge. In this sense, in the modern service area, leading enterprises promote the formation of a high level of competition. Thus, in the modern service industry gathering area, if leading enterprises lead advanced business to gather in the region of the formation of a “team leader”, we can improve the competitiveness of enterprises in the cluster level, and guide cluster enterprises to develop high-level and different qualitative competition. At present, the problem of modern service in many cities in China is the lack of leading enterprises and leading team in the region, which is a prominent issue, which will affect the competitiveness of enterprises and the market opportunities and technical ability to identify, even there will be a problem that its cooperation with foreign companies lacks strong sense of innovation and other issues. Cultivating leading enterprises and leader of the team is a dynamic process of selection, fostering the selection of objects not only considers the scale of enterprises, the selection should also consider the ability to innovate and capabilities to grow, and innovation output of enterprises.

**Strengthening Urban Construction of Soft Environment, and Promote All Kinds of Elements in Modern Service Industry to Gather**

Modern service enterprises in terms of location is different from traditional enterprises, modern service companies are not looking for the lowest production cost place, but tend to choose the place with high government efficiency, relatively complete system, policy transparency, more symmetrical information, legal and orderly market environment, lower transaction cost to seek development. The merits of city’s image and investment of the business environment largely determines the location of the modern service industry, a good image of the city and the investment environment even offset the relatively high production costs caused by the disadvantages, making the modern service industry in the city continue cluster development. Therefore, to strengthen the construction of urban soft environment, we should build liberal freedoms, respect for human capital, stress credibility and fairness, encourage institutional innovation environment; we also should promote the government’s public management and efficiency improvement, make efforts to build such technology, human capital, financing, public management and other forms of public service sharing platform, through the platform the modern service industry cluster development resources can be reflected to give the “sharing” and “interactive” advantage, which can promote the efficient allocation of factors in production.

**Summary**

Modern service industry agglomeration has a positive influence on the economy development, and it can promote urban economy transition; we can adopt some measures to promote urban economic restructuring under modern service industry agglomeration.

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