

The SWOT Analysis of Modern Service Industry Development in the Old Industrial Bases

Wang Shuli, Wang Yibing

School of Economics, Wuhan University of Technology, Wuhan, P.R.China, 430070

(E-mail: wangsl@whut.edu.cn)

Abstract: As the most potential industry in the knowledge economy, the modern service industry plays an increasingly important role in economic development. In this paper, the SWOT analysis of modern service industry has been done in the old industrial bases where the technological renovation leads to industrial decline. The results show that geographical position's superiority, abundant natural resources, complete industrial system, convenient transportation condition and government policy support etc. are the strengths and opportunities of modern service industry development in the old industrial bases. While lagging development level, imperfect service support system, deficient human resources, lack of technical innovation ability and serious social problems etc. will bring negative impact to the modern service industry of the old industrial bases.

Key words: The old industrial bases; Modern service industry; SWOT analysis

1 Introduction

As the major gathering zone of the industrialization stage in the world, the old industrial bases have made an important contribution to the world economy. However, the outbreak of the third industrial revolution had led to a decline of the old industrial bases, such as slow growth, high unemployment, environmental degradation and other issues. The development of modern service industry which is seen as a new service industry mainly relies on the information-intensive and knowledge-intensive service industry. With the knowledge and information element occupying an increasingly important position in economic development, the modern service industry has become one of the richest potential leading industries. The development of modern service industry plays an important role in the structure upgrade, the conversion of economic growth and the efficiency improvement of manufacturing industry. In this paper, SWOT method will be used to analyze systematically the development of modern service industry from the strengths, weaknesses, opportunities and threats in the context of the old industrial bases, which has a very important theoretical and practical significance for the development of the old industrial bases and the policy formulation of modern service industry development.

2 The SWOT Analysis

SWOT which was put forward by the American scholars in the early 1980s is a method of enterprise competition analysis. It analyzes deeply the enterprise's advantages and disadvantages and its position of competitive advantages, which can be used to provide the decision-making basis for the enterprise development strategies. 'SW' is used to analyze the enterprise's strengths and comparative analysis with its competitors, while 'OT' is used to analyze the impact of external environment on enterprises. Currently, SWOT method has gone beyond the traditional scope of business analysis, and widely be used in other areas.

2.1 The strengths analysis of modern service industry development

(1) Excellent location. The old industrial bases are large-scale heavy-industrial concentration areas, formatted during two times industrial revolution. After years of development, facilities and consumer markets surrounding the old industrial bases have been very mature and excellent location provides a tremendous development opportunity for modern service industry. For example, Germany's Ruhr is located in the most developed European economy "Golden Triangle", which not only provided favorable conditions for development, but also provided a broad market for the development of modern service

industry because around 100 km of the Ruhr area is Germany's largest consumer area with the large consumer capacity. The old industrial bases in Northeast China is located in the center of Northeast Asia, adjacent to North Korea, South Korea, Russia, Japan, with Dalian, Dandong and other five out of the harbor, excellent location provides unique conditions for its development of modern service industry.

(2) Rich natural resources. The old industrial bases are established based on the abundant natural resources, rich mineral resources, water resources, fuel and energy resources help achieve the glorious history of the old industrial bases. For example, Lorraine, France is rich in the mineral resources, coal, minerals, rock salt reserves; old industrial area in central British is rich in iron ore and coal resources, which plays an important role in the industrial development in the UK early; Kyushu, Japan is rich in fuel and power resources, and vast deposits of water resources, which plays an important role in the process of capitalist industrialization in Japan; Germany's Ruhr old industrial area is rich in coal resources, which has about 652 100 million tons of hard coal reserves, and the Ruhr coke also enjoy a high reputation in the world; the old industrial bases in Northeast China is rich in the mineral resources and oil resources, which also has made great contributions to the glorious history.

(3) A good industrial basis. Industrial cluster zone was formatted for the purpose of saving freight cost and energy conservation, and showed the characteristics of significant aggregation and association in the process of the old industrial bases. Hence, the industry has an absolutely dominant position in the economic development of old industrial bases, the relatively complete industrial system and good industrial basis has laid a solid foundation for modern service industry of the old industrial bases. For example, after World War II, Germany's Ruhr industrial area is intensive in the steel rolling, steel making, oil refining, iron, shipbuilding, automobiles, electrical equipment manufacturing and many other plants, which makes it a relatively complete industrial system and a good industrial foundation. Industrial zone in Northeast China has formed a number of Large-scale and more competitive enterprises in respects of the automobile industry, petrochemicals, equipment manufacturing, steel, green products, agricultural products processing and high-tech industries, and has wealthy industry agglomeration effects (Ren shuyu, 2003).

(4) Convenient transportation conditions. Convenient transportation conditions of the old industrial bases provide unique advantages on the transportation, postal services and other modern producer services. For example, the German Ruhr area is the most dense waterway network in West Germany, and its convenient water transportation led to the glorious development history of the Ruhr industrial area; France Lorraine area is also very well-developed in the railway and shipping; convenient traffic conditions in Japan Kyushu industrial zone not only makes it a link between Japan and Northeast Asia, but also become the geographic center of Northeast Asia area; the old industrial bases in Northeast China has formed a transport network with road, railway, waterways, air and pipeline, and the bottlenecks of communication infrastructure has been alleviated which become a strong support for the regional economic development.

2.2 The weaknesses analysis of modern service industry development

(1) The overall development level of modern service industry lags behind. The old industrial bases are a gathering area mainly including the coal, steel and other heavy-industry, its core technology is the steam engine, power, gas engine technologies brought about by the first and second industrial revolution. However, since the 1950s, the third industrial revolution brought the new materials, new energy technology, microelectronics, space and marine technology and so on, which promote a large number of high-tech industries. The eventual recession of the old industrial bases are result from unable to adapt quickly to changes in market demand. Modern services such as e-commerce, information services, and finance and insurance industries are based on the third industrial revolution, while the development of high-tech industries of the old industrial bases lags behind seriously; the serious shortage of absorptive capacity of high-tech industries also severely hampered the

development of modern service industry.

(2) Imperfect service support system. Modern service industry needs a comprehensive and complete industry support system as its development basis (Da Shangping, 2008), while the industrial structure of the old industrial bases are irrational. The proportion of Heavy-chemical industry such as steel, coal is too large, and the proportion of light industry is relatively backward. In fact, in addition to heavy-chemical industry, light industry also plays an important role in the industry support system of modern service industry. The serious imbalance of industrial structure in the old industrial bases results in inadequate service support system and the low quality and efficiency of modern services. The status of industrialization constraints the development of modern service industry in the old industrial bases, which in turn constraints the development of modern service industry. On the whole, the imperfect service support system makes it difficult to create a positive interaction mechanism between modern service industries (especially modern producer service industry) and industry.

(3) The lack of human resources. Once, in the brilliant development history of the old industrial bases, the human resources played a huge role. However, with the emergence of the decline crisis in the old industrial bases, the outflow of a large number of professionals led to severe human resources crisis. In addition, the development of modern service industry doesn't show obvious advantage to absorb labor force (Hao Chunlu, 2009). Innovative, management and technical talents needed by information services, E-commerce, finance and insurance, R&D can't be met. The lack of human resources, in particular the lack of top talents, has become one of the key factors which restrict the development of modern service industries in the old industrial bases.

(4) The low ability of technical innovation. The generation of recession of the old industrial bases is due to the low technical innovation, as a result, it can't absorb the new materials and new energy technology, brought about by the third industrial revolution, to adapt to rapid changing market demands. Poor technical innovation makes the industry development of the old industrial bases lag behind; the imbalance of high-tech industrial distribution becomes one of the main hindering causes of development of the old industrial bases. As we all know, the fundamental cause of changes in the economic structure is the innovation and technological progress, the poor capability of independent innovation greatly slows its pace of development of modern service industry to certain extent.

2.3 The opportunities analysis of modern service industry development

(1) The government enforced revitalization strategy of the old industrial bases. The phenomenon of recession in the old industrial bases, which led to by the third industrial revolution, has caused extensive concern in each country's government. And they all carried out the relative policies to revitalize the old industrial bases according to their own situation of the old industrial bases. Such as, one of the revitalization strategies is to rapidly develop the service industry or committed to adjusting the industrial structure. The governments' strongly support of the service industry development has brought an opportunity of development to the service industry. Such as, in order to achieve high-level industrial structure and "service" of the regional economy, Germany's Ruhr rapidly developed the service industry in its revitalization of industrial area (Wang Hui, 2005). After several years' industrial restructuring, the service industry has become Ruhr's main part of industrial structure, and it has been achieved high-level and rational industrial structure. Besides, in order to revive economy, Japan's Kyushu set up the revitalization group of the coal area and carried out the "New Industrial Cities Law" to revive its industrial area's economy (Li Junjiang, 2004). And in China, CPC National Congress clearly stated the strategy of revitalizing the northeast old industrial bases, put forward the transformation and revitalization of the northeast old industrial bases from a strategic perspective.

(2) The coming of "service economy" era. The world economy has entered a "service economy" era, and the global industrial structure, in general, is showing the trend of

transformation-from “production as the center” to “service as the center”. The service industry plays an increasingly important role in economic development, and especially, the modern service industry has become a major force in promoting economic growth. According to the World Bank data, the proportion of added value in service industry reached 76.5% in 2006, which nearly reached 3.5 times compare to the proportion of industrial added value. At the same time, some developing countries, such as China, from the year 1986 to 2008, the proportion of service industrial added value is from 29.1% to 40.1%. Meanwhile, the service industry increasingly becomes technology-intensive and knowledge-intensive in the context of the service industrial rapid development (Zhu Caifeng, 2009). And the modern service industry which can represent the advanced productive forces has become one of the important symbols that measure the level of economic and social modernization. Therefore, the development of modern service industry has become an irresistible trend in the development of global economy, which can play a promoting role to the development of the modern service industry in the old industrial bases.

(3) The promoting tide of international industrial transfer. Since the 90s in the 20th century, with the increasing cross-border activities, the increasingly prominent role of the multinational corporations greatly promoted the development of the international industrial transfer, which led to a new tide of the international industrial transfer. The tide of the international industrial transfer not only will make the old industrial bases become the important area where can attract foreign capital and technology (Jiang Zhou, 2006), but also will bring the conditions and opportunities for revitalizing old industrial bases and promoting the development of regional service industry. The opportunities that the international industrial transfer has brought about mainly have three aspects: capital, technology and management. And the inflow of external capital, technology and management can make up the insufficient of the old industrial bases, especially make up the serious lagging development of technology, which caused by its inadequate capacity of technological innovation. Meanwhile, the old industrial bases can obtain large financial support and technological overflow in the international industrial transfer, and can create the suitable soft environment of international industrial transfer. Besides, the advanced technology, management and capital which brought by the international industrial transfer bring a good opportunity for the development of the modern service industry in the old industrial bases.

2.4 The threats analysis of modern service industry development

(1) Intensive competition of the external market. Intensive competition from external market is not only one of the reasons that traditional industrial dominance gradually lost in the old industrial bases, but also the enormous challenges for the revitalization of the old industrial bases and the development of the modern service industry. The external competition is an important reason that lost of the advantages and recession of the leading industry in the old industrial bases. The coal, steel and other heavy industry are the main industries of the old industrial bases, but these heavy industries gradually loss their dominance in the fierce market competition with the outbreak of the technological revolution and economic structural change. In addition, the coming of the knowledge economic era and the less market competitive strength of the modern service industry which started late in the old industrial bases, the competition of the external market is a threat for the development of the modern service industry.

(2) Ideologically lagging consciousness. Sufficient natural resources and industrial development for several years of the old industrial bases have a certain impact on people’s thinking and behavior patterns. The proud history of the old industrial bases has caused the durance of the people’s mind, and the current recession has made people not willing to see the former glory as fall like a meteorite. Therefore, they believe the industrial decline of the old industrial bases will be able to reproduce the yesterday’s glory, which resulted the government and the people of the old industrial bases have had a idea of “important industry, unimportant service”. From the development of modern service industry in different areas, the

old industrial bases particularly slow in the development of modern service industry, one of the important reasons is that the public lack the proper awareness and understanding of the service industry, the traditional concept that industry is important but service is not is still exist. The lagging consciousness of the old industrial bases, to some extent, has negative influence to the development of modern service industry. Modern service industries, such as information service, e-business, finance, insurance, etc. are set high barriers to entry and the narrow scope of market access, and close the door for the vast majority of potential investors.

(3) The serious social problem. After the 50s in the 20th century, the change of the world energy structure triggered the industrial chain of the old industrial bases collapse, which based on the coal industry. The industrial concentrated recession led to massive unemployment together with the labor force is difficult to transfer to other industries, which led to the result that the old industrial bases appeared difficult to get rid of high unemployment pressure. With the increasing unemployment, the old industrial bases produced a series of serious social problems. Such as, the household income was decreased and the debt was added due to the out of work, which led to a difficult life; earning less and living difficultly led to people in the old industrial bases become to lack moral, health decline, binge drink and the spread of drug use; people's living pressures led to disintegration of the family and various social problems (Yang Zhenkai, 2008). Therefore, the recession of the old industrial bases made it become the concentrated area of social problems. On the one hand, a variety of social problems caused by the recession of the old industrial bases will have negative impact on the development of modern service industry; on the other hand, the recession of the old industrial bases led to a large number of unemployed people, because of reduction in income led to massive population outflow which will finally reduce the service demand of the old industrial bases.

3 Conclusions

This paper made a systemic analysis on the development of the modern service industry in the old industrial bases, namely, analyzed its own advantages and weaknesses, and opportunities and threats existing in external environment. Predominant geographical position, abundant natural resources, complete industrial system, convenient transportation condition, government policy support and macroeconomic circumstances etc. are the strengths and opportunities of modern service industry development in the old industrial bases. While lagging development level, imperfect service support system, deficient human resources, lack of technical innovation ability, lagging consciousness and serious social problems etc. will bring negative impact to the modern service industry of the old industrial bases. The economy revitalization and industrial restructuring of the old industrial bases need to start with the weaknesses and threats of the development of modern service industry. Such as, perfect the service support system, vigorously introduce and train the talent, improve the capability of technological innovation, change the traditional consciousness and give great efforts to solve existing social problems.

References

- [1] Ren Shuyu, Jia Zhonghai, Wang Hong. The Difficulties and Countermeasures in Revitalizing the Northeast Old Industrial Base [J]. *Macroeconomic Research*, 2003,(10):13-18 (In Chinese)
- [2] Da Shangping, Wang zhongji. The Current Situation, Problems and Countermeasures of the Modern Service Industry Development in Jilin Province [J]. *Statistical Research*, 2008,(1):71-75 (In Chinese)
- [3] Hao Chunlu. The Strategy of Modern Service Industrial Development-Report of Shenyang, China [J]. *Social Science Journal*, 2009,(2):127-129 (In Chinese)
- [4] Wang Hui. The Analysis of Revitalizing Strategy in Tiexi Old Industrial Base [D]. Jilin: Notheastern University, 2005 (In Chinese)

- [5] Li Junjiang. The Enlightenment of Transformation in Overseas Old Industrial Bases [J]. *The New Long March*, 2004,(13):37. (In Chinese)
- [6] Zhu Caifeng. Research on Modern Service Industry's Contributions to National Economy [D]. Beijing: Beijing University of Posts and Telecommunications, 2009 (In Chinese)
- [7] Jiang Zhou. Research on the Revitalizing Strategy of Northeast Old Industrial Based on Regional Economic Cooperation [D]. Jilin: Dongbei University of Finance and Economics, 2006 (In Chinese)
- [8] Yang Zhenkai. Study on Recession Mechanism of Old Industrial Bases: Countermeasures about He Reconstruction of China's Northeast Old Industrial Base [D]. Jilin: Jilin University, 2008 (In Chinese)