

## Introduction

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## — Introduction —

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In 1980 the kinds of the state unified distributed materials were enumerated to 837 items, while in 1993 they decreased to only 11 items. Output of products within the national economic plan formed only 6.8% of gross national products in 1993. It is estimated to descend to around 4% further in 1994. \*(1) In 1981 the volume of selling to the projects of national economic plan formed 77.2% of total sales by the government related firms treating production materials, nevertheless in 1991 the volume indicated only 17.0%. (Table 1)

Observing from the transition of state authorities that have jurisdiction over the circulation of the production materials, before 1975 it was under the control of the State Planning Commission or the State Economic Commission, reflected the colour of planned economy, but after 1975 it was treated independently as an important factor of national economy. In July 1993 the Ministry of Supplies was integrated finally to the Ministry of Internal Trade that established in same month. (Table 2) Planned economy system in China is transforming to market economy system rapidly. "Goods" are changing to "Commodities, and "Circulation" is taking place of "Allocation."

Concerning circulation, we are apt to watch the circulation of consumer's goods that directly connects with consumer's interests. However we should pay attention to the circulations of production materials that are closely related to proper resources shares, fair formation of prices, and removal of the local economic blockage in order to develop sound market economy as a result.

In November 1993, the Ministry of International Trade and Industry of Japan reported the difference of intermediate cost of manufacturing industries between Japan and other countries. Japanese manufacturers paid 12.7% more, compared with manufacturers in U.S.A., and 41.5% more, compared with in Hong Kong on occasion of purchasing intermediate goods of same quality and same quantity. The difference caused high costs of production in Japan, and in its turn for high consumer prices. The Ministry explained the cause of the difference is that Japanese manufacturers procure their materials from their affiliated companies usually, regardless of prices. \*(2)

Declaring that the appropriate circulation systems of production materials should provide more "Channels" and less "Damming Points", the Government of China endeavors to eliminate the monopolised circulation system and the disproportionate trades with special relations, and to build the circulation systems through which anybody can buy any material for the fair price at any time.

In 1981 there were about 28 thousand government related trading firms on the production materials. In 1992 the number of the trading firms have rose to 72 thousand, and their employees were counted 1 million 350 thousand against 689 thousand in 1981. The main reason of the rapid increase is the entry of private trading firms to the market of the production materials. (Table 3) But the role of each firm has not been clarified in the circulation systems of the production materials. One of the reason for opacity of their roles would be explained by the intricate systems of the circulation. Another reason, needless to explain, is the insufficiency of the information about the circulation systems.

"Lack of Production materials" ranks high position always in surveys on facing difficulties or management problems for enterprises in China. (Table 4-6) Upstream industries that must deal with various ranges of manufacturing and assemble industries, especially with hi-tech industries

have not been developed enough in China at the present stage. However those kinds of upstream industries should emerge; moreover, we could see a sharp increase in the number of those firms in near future. In which case, it should be much necessary for us to realise the circulation systems of production materials in order to eliminate the monopolised systems and the disproportionate trading relations.

Choosing 7 production materials, we shed some light on their present circulation systems in the following first part. And we clarified the functions and the activities of the futures markets that stand at a very important part in process of market price formation, of the material trade centres that are the original circulation systems of China, and also of material circulation in free trade zones in second part.

\*(1) Speech of Vice-premier Zou Jia Hua at National Conference for Planning, 9th. Dec.1993.

\*(2) *Nihon Keizai Shinbun* 11th Nov.1993.

**TABLE 1 PROPORTION OF SALES VOLUME BY DESTINATIONS**

YEAR	(100 million yuan)		(% )	
	IN-PLAN	NON-PLAN	IN-PLAN	NON-PLAN
1981	345.5	102.1	77.41	22.8
1983	539.6	161.3	84.2	15.8
1985	635.4	454.5	58.3	41.7
1987	709.5	870.7	44.9	55.1
1989	535.1	1839.5	22.5	77.5
1991	538.1	2633.7	17.0	83.0

Sources: *China today: materials and equipment*

**Table 2 Transition of the Authorities Concerned to Materials**

Year &Month of Establishment or Undertaking	Name of the Authorities Concerned
1949.	財政經濟委員會計劃局物資分配處 (Office of Material Distribution, Planning Bureau, State Finance and Economic Commission)
1952.	財政經濟委員會物資分配局 (Bureau of Material Distribution, State Finance and Economic Commission)
1953.5	國家計劃委員會物資分配局 (Bureau of Material Distribution, State Planning Commission)
1954.	國家計劃委員會物資分配總合計劃局，重工業產品分配局，燃料電力分配局，機電設備分配局 (General Planning Bureau of Material Distribution, Bureau of Product Distribution of Heavy Industries, ... of Fuels and Electricity, and ... of Equipments, State Planning Commission)
1956.5	國家經濟委員會物資供應局 (Bureau of Material Supplies, State Economic Commission)
1958.6	國家經濟委員會物資分配總合局，冶金產品分配局，燃料產品分配局，機電產品分配局供應局 (General Bureau of Material Distribution, Bureau of Product Distribution of Metallurgy, ... of Fuels, and ... of Equipment, State Economic Commission) 國家經濟委員會建材局，同化工局物資平衡處 (Office of Equivalence, Bureau of Construction Materials, and ... of Chemical Materials, State Economic Commission)
1959.8	國家經濟委員會物資辦公室 (Office of Supplies, State Economic Commission)
1960.5	國家經濟委員會物資管理總局 (General Bureau of Supply Administration, State Economic Commission)
1963.5	國家物資管理總局 (State General Bureau of Supply Administration)
1964.9	物資管理部 (Ministry of Supply Administration)
1970.6	國家計劃委員會物資局 (Bureau of Supplies, State Planning Commission)
1975.11	國家物資總局 (State General Bureau of Supplies)
1982.5	物資部 (Ministry of Supplies)
1993.7	國內貿易部 (Ministry of Internal Trade)

Sources: *China today; materials and equipment circulation, Dictionary on material management of China*

\* Some names in English are not approved by Chinese Government officially.

**Table 3 Number of Firms Concerned to Materials and their Employees**

(10 Thousand)

YEAR	FIRM		EMPLOYEE	
	Govern. Owned Firms	including Private Firms	Govern. Owned Firms	including Private Firms
1981	2.8	-	68.1	-
1985	3.3	-	84.3	-
1990	4.4	-	110.5	-
1991	5.1	-	116.1	-
1992	5.0	7.2	94.8	135.0

Sources: *China today; materials and equipment circulation*  
*Statistical yearbook of China 1993*

**Table 4 Facing Difficulties for Enterprises to Improve the Quality and to Increase the Kinds of their Products in China**

FACING DIFFICULTIES	NUMBERS OF RESPONDING ENTERPRISE			
	First	Second	Third	Total
Lack of materials	10	11	4	25
Lack of funds	22	7	6	35
Unfit facilities	2	7	6	35
Lack of talented persons	0	3	8	11
Governmental interferences	3	11	7	21
Unexpansible space	2	9	2	13

Source: *Studies on price reform in China 1984-1990*  
 (41 Chinese manufacturing enterprises responded)

**Table 5 Management Problem of Japanese FDI in China**

FACING PROBLEM	PER CENT
Material procurement in China	72.7
Price hike	34.8
Delivery & transportation on export and import	31.8
Quality control	31.8
Labou & personnel management	30.3

Note:

(1) Survey conducted by the Japan-China Investment Promotion in the Autumn 1992.

(2) 71 manufacturing enterprises responded to the survey.

**Table 6 Managment Difficulties of American FDI in China**

FACING DIFFICULTIES	NUMBER OF FIRMS	PER CENT
Material Procurement	38	62.3
Equilibrium rate of exchange	33	54.0
Lack of independence	31	51.0
Application of the law	26	42.6
Floating capital	23	37.7

Sources: *U.S. direct investment in China, 1980-1991*, by Zhang Ben, Fudan Univ. Press, 1993.  
(61 American manufacturing enterprises responded)