

The current situation of circulation industry in Shanxi province and its contribution analysis

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Abstract: Circulation industry has increasingly grown into one of the leading industries of the national economy. For Shanxi province, the development of circulation industry provides new ideas for changing its mode of economic growth. However, its current development situation shows that Shanxi province's circulation industry is still less competitive for lack of fully understanding and exercising its leading role. On the basis of the analysis of its current development situation and contribution, the paper puts forward the main problems existing in Shanxi province's circulation industry.

Key words: circulation industry; contribution analysis; circulation organization; circulation business formats

1. The analysis of current development situation of circulation industry in Shanxi province

1.1 The overall size has steadily grown up at an increasingly rapid development speed

Based on big market, large trade, and large circulation, circulation industry has speeded up and the scale continued to increase. During the Tenth Five-Year Plan period, the total retail sales of consumer goods reached 527.36 billion Yuan in Shanxi, up by 78.04% over the Ninth Five-Year Plan period at the annual growth rate of 14.2%, which was 6.2 percentage points higher than the expected target. Particularly, in 2005, the provincial retail sales increased by 93.9% to 140.12 billion Yuan over that of the year of 2000, which was 2.94 percentage points above the average national level.

Circulation industry has employed many workers and created many employment opportunities. In 2005, 1.63 million people were employed in circulation industry, among whom 168 thousand were employed by 1,034 wholesale and retail enterprises above designated size and 3,563 units engaged in the industry.

Circulation industry has accounted for a continuously rising proportion in tertiary industry. In 2005, the GDP of wholesale and retail enterprises was 34.27 billion Yuan, accounting for 21.9 per cent that of tertiary industry, which directly brought about the growth of tertiary industry.

1.2 The organizations and business formats have been diversified

Diversified circulation organizations have been fully developed in Shanxi. Before 1981, state-owned economy took up over 90% of the national market share in Shanxi, and in 2000, over 21%, while in 2005, it only accounted for 15%, the collective economy 8.4%, individually-owned and private enterprises 61%, share-holding enterprises 7.8%, enterprises invested by foreigners or investors from Hong Kong, Macao and Taiwan 3.2%. In 2005, there were 22 markets whose business volume was over 100 million Yuan, and their total turnover reached

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11.367 billion Yuan, in which that of 2 market complexes for agricultural products reached 3.632 billion Yuan.

The structure of business formats has been further optimized, too. Based on traditional business formats, vigorous yet cautious efforts have been made to promote the development of new formats such as supermarkets, convenience stores, exclusive agencies and franchised stores. These new business formats, such as general agency, procurement center, warehouse wholesale and logistics distribution, have become a new growth point for the development of circulation industry in Shanxi.

1.3 The growth of modern circulation industry has accelerated with great potential for development

Modern circulation industry has developed rapidly in Shanxi province, and extended the circulation development models to many industries in the market. Modern marketing methods such as commercial chains, physical distribution, and E-commerce have been promoted, new marketing concepts have been assimilated, and the organization and scale of retail enterprises have been continuously improved.

At first, commercial chains have demonstrated strong vitality and development potential with increasingly clear competitive advantage. In recent years, a group of fast-developed chain enterprises such as Huayu, Meet all, SMS, Hualian. Good and good, Tangjiu convenience stores and Jinhu convenience stores have sprouted up across the province. Among the 7 super-scale shopping mores, three of them have been operated and other four branches are still under construction. The arrival of such international and domestic retail giants as Wal-Mart, Yansha and the Home World has accelerated the modernization of Shanxi province's circulation industry.

By the end of 2006, various types of chain stores had grown to 1119, compared to 569 stores in 2002, with a retail sale of 10.18 billion Yuan at the average annual growth rate of 36.6 percent, accounting for 24.3 percent of that of enterprises above designated size, up by 5.3 percentage points over 2002.

Logistics industry has maintained a good momentum of development. Different types of modern logistics enterprises have come to the fore with their own characteristics. Some enterprises such as Shengtang Logistics Com., Gangyu Logistics, Fenjiu Group and Shanxi Orient Intelligent Material Handling Co., Ltd, have actively explored the market and gained valuable experiences. Based on the three major logistics parks centering around Datong, Taiyuan and Houma, respectively, along the Economic Belt of the Highway from Datong to Yuncheng, Shanxi province has laid a foundation for the development of logistics industry.

Circulation industry has intensified information-based work and E-commerce has steadily developed. 70% of the large and medium-sized enterprises have established their own homepage or website across the province. A lot of government departments have set up work-site portals to share information with the whole society. For example, almost 5,000 enterprises have published online information on the opened Foreign Trade EDI network. Shanxi (CA) Electronic Certification Authority been formed to ensure the security of E-commerce transactions. The establishment of China's Coal Information Exchange Center has marked the leapfrog development of circulation industry's IT application in Shanxi province and laid the foundation for its modernization.

1.4 Urban and rural markets have developed together and household consumption styles have also changed

The consumption structure of local residents has significantly improved with the steady growth of people's income. In 2006, the per-capita disposable income of city dwellers was 10027.7 Yuan, and the per-capita net income of rural residents 3180.9 Yuan, while the Engel's coefficient of urban residents was down to 31.4%, and that of rural residents to 38.5%, indicating an increase in the proportion of expenditures for development and enjoyment. Also, the sales of automobiles in the wholesale and retail enterprises above designated size reached 9.71 billion Yuan, 3.6 times that in 2002.

1.5 The opening up has made new breakthroughs and maintained sound momentum

The import and export trade has continued to expand rapidly and Chinese foreign trade has advanced by leaps and bounds. According to customs statistics, the total import and export accumulated to 20.64 billion USD during the four years period from 2002 to 2006, up by 1.9 times from 2.31 billion USD in 2002 to 6.63 billion USD in 2006 at the average annual growth rate of 30.2%. Export totaled 13.97 billion USD at the average annual growth rate of 25.6 percent, while import reached to 6.67 billion USD at the average annual growth rate of 39.9%.

The opening of Wal-Mart supermarket in Taiyuan, the 45th one opened in China by Wal-Mart, the largest retailer in the world, marked a new breakthrough in the opening-up of circulation industry in Shanxi province. By the end of 2005, there had been 11 of top-500 enterprises investing in Shanxi province. The inclusion of Fenjiu liquor, mature vinegar and fitness equipment and such local specialties as red dates and walnuts in the scope of Wal-Mart global procurement has opened up new opportunities for products made in Shanxi to take their place in the world market. The expansion of foreign retail enterprises has not only injected vitality but also brought in competition in Chinese circulation industry, while the local retail enterprises have actively responded by going out to become more competitive. Some chain enterprises such as Huayu and SMS have begun to go to other economically developed cities such as Beijing, Shanghai and Wenzhou.

1.6 Legal system has been promoted and market order has been improved considerably

During the Tenth Five-year Plan period, with further implementation of related laws and regulations for circulation industry and in combination with the characteristics of Shanxi province, some local laws and regulations, management methods and implementation details, such as the “The Regulations on the Management of Shanxi Liquor Circulation,” and “The Code of Promotional Conduct for Commercial Retail Enterprises in Shanxi province” were drafted, amended and promulgated, providing legal support for the development of circulation industry in the province. Also, 2252 documents were cleaned-up, among which 15 non-legal or non-regulatory documents were abolished, and regional blockades were cleared up, creating conditions for the establishment of a unified large market.

Rectification and standardization of the economic order of circulation industry have also been strengthened across the province so as to create a sound market conditions for its development. The local government has focused on fight against fake and shoddy, copyright piracy and commercial fraud, and carried out special rectification on food and medicine.

Meanwhile, business integrity system has been further promoted. Management files on company credit have been actively set up, the role of Chamber of Commerce and Industrial Associations has been given full play, and professional ethics education have been conducted by launching such trade honesty activities as “malls and shops without fakes”, and “title of Youth Civilization” in depth, with dishonest conduct disciplined in industry council.

2. The analysis of circulation industry’s contribution to Shanxi’s economic growth

Whether a certain industry should be developed or to what extent it should be developed, depends on its contribution to the economic growth. Therefore, this part aims to measure the contribution circulation industry which made to Shanxi’s economic growth. By comparing with that of developed countries, we can give rational guidance and instructions for developing circulation industry in Shanxi.

For statistical convenience, the analysis mainly cited related data from the wholesale trade and retail trade, which are considered as the main part of circulation industry. The contribution of circulation industry to economic

growth can be measured in its contribution to the region's GDP, to employment and to the consumption level.

2.1 Circulation industry's contribution to the region's GDP

The contribution rate of circulation industry to the region's GDP refers to the percentage that the output value of circulation industry accounts for of the GDP of the same period.

In 2005, primary, secondary and tertiary industry accounted for 6.3%, 56.3% and 37.4% of the regional GDP, respectively. Circulation industry only took up 8.2 percent of the GDP, lower than the level of developed countries in the 1990's and showing a falling tendency. According to statistical data from abroad, circulation industry accounts for a rising proportion of GDP. In recent 10 years, contribution rate of circulation industry to national economy in developed countries has generally kept at 15%, while in emerging market economies and developing countries at about 10%.

The output value of circulation industry accounted for about 22% that of tertiary industry in the period from 2001 to 2005, showing it had not yet grown into a pillar of strength of the tertiary industry. Since the above data reflects the contribution of circulation industry to GDP and to tertiary industry, it can be seen that circulation industry has not fully played its leading role in promoting Shanxi's economic development, but with greater development prospects.

2.2 Circulation industry's contribution to employment

The contribution of circulation industry to employment can be illustrated by the contribution rate of employment, which is the ratio of employment in circulation industry and the full-time employment in the whole society of the same year.

Labor force has been orderly transferring between industries. At first labor transfers from primary industry to secondary industry. With further development of economy, it will shift to tertiary industry. Shanxi province's tertiary industry has played an important role in solving the question of employment. The proportion of employment in tertiary industry rose from 15.35% in 1978 to 31.51% in 2005. During this period, the employment increased by 5.35 million persons, in which 3.245 million were employed in tertiary industry, accounting for more than a half. In developed countries, circulation industry has made quite a large contribution to employment, with Japan topped at 22%. By comparison, we can see that Chinese circulation industry has made a relatively low contribution to employment and there is still much space for employment in circulation industry.

2.3 The contribution of circulation industry to consumption level

Consumption is closely linked with circulation under market economy conditions. Consumption decides circulation, while circulation drives consumption. The development of circulation industry increases income level, which in turn directly improves people's consumption level. Circulation industry's development level affects the extent to which consumption can be realized. Total retail sales of social consumer goods is a target used to reflect the contribution of circulation industry to consumption realization.

The per capita GDP of Shanxi province increased to 12,495 Yuan in 2005, doubled over 6,226 Yuan in 2001. Total retail sales of consumer goods also went up to 14.012 million Yuan in 2005, at the average annual growth rate of 15.8% from 7.812 million Yuan in 2001. However, the average growth rate did not continue to rise, instead, showing a first upward and then downward tendency.

3. Conclusions

In sum, we can conclude that compared with developed countries, Shanxi's circulation industry still has serious problems, which are listed as follows:

3.1 The general idea for developing circulation industry has not yet been formed

The leading role of circulation industry has not yet been fully played. Due to its own intrinsic deficiencies in development, on the other hand and the lack of the general idea for its development and the understanding of its role. Whether the development of modern circulation can be expedited has become the key for Shanxi province to improve the speed, efficiency, and quality of economic operations. However, in fact, the manufacture industry is rapidly developing in Shanxi province, while the circulation industry has been relatively lagged, ironically changes the so-called “circulation is a leading factor” into a mere slogan. The local government hasn’t placed enough emphasis on the circulation industry in development strategy, industrial planning, capital investment, industrial order, policy support, funding opportunities, personnel training and so on, which are rather incompatible with its status as “a leading industry”. Therefore, it is urgent for us to adopt the scientific concept of development and rethink the construction and development of the circulation industry.

3.2 Both absolute size and comparative size of Shanxi’s circulation industry are still small

Statistics data shows that Shanxi provincial retail sales of consumer goods in 2005, valuing 140.12 billion Yuan, only reached 2.09 percent in whole country with a value of 6717.7 billion Yuan. Compared with that of Zhejiang province with the value of 463.169 billion Yuan. Shanxi province was less than its one third, and not until 2020, will Shanxi catch up with Zhejiang province according to the goal our government set in Provincial Government First Document (2006) “Measures on Promoting the Development of Circulation Industry”. So from the analysis, we can conclude that although the scale of our circulation industry has improved considerably in recent years, it is still too small in comparison with other developed provinces.

3.3 The circulation industry has a lower entry barrier

The circulation industry can greatly improve employment situation. Since the secondary industry has a higher level of industry specialization, and accordingly demands a higher quality of the employees, it is hard for lots of agricultural surplus labor force with generally poor quality in Shanxi province to engage in this sector. But circulation industry only asks for a relatively low specialization of the labor force since its activities are mainly involved in commodity circulation by manual labor, and, because of its lower market entry barriers and obvious working inclination of “personalization and family”, it is easy for individual commercial operators to enter the market. So we can easily understand that circulation industry is playing an important role in absorbing rural surplus labor force and laid-off workers in Shanxi province.

However, on the other hand, we need to realize that, too low entry barriers lead to the overall low quality of the employees and the limited industrial informationization. Faced with the evolving trends from labor-intensive industries to capital- and technology-intensive industries, the circulation industry in Shanxi province has become out of tune. Moreover, the modernization of the circulation industry calls for the application of all kinds of advanced electronic information technology. All circulation enterprises in Shanxi province, particularly the large ones, are required to improve their employees’ quality so as to keep pace with the development trends of the circulation industry.

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