

## The Impacts of KFC on China's Economy

**Abstract:** Based on the input-out table (1997) of China, we studied the direct and indirect impacts of KTF on Chinese economy. Our research shows that, according to the fixed price of 1997, in 2000, the direct contributions of KFC are as follows: (a) KFC invested 2.7 billion Yuan (RMB) into China's domestic economy, which created great initial demand; (b) KFC created about 3000 job opportunities within the chains of the company; (c) the tax payment of KFC to Chinese government was 0.42 billion Yuan (RMB); (d) KFC indirectly provided 0.16-0.23 million job opportunities for Chinese employees; (e) it also indirectly created tax contribution of 0.325 billion Yuan (RMB) as tax contribution to the Chinese governments; (f) the total multiplier of KFC's input for Chinese economy is around 2.6.

### 1. Direct impacts of KFC:

Through the survey made by the Yum Restaurants in China last June, 2001, we got a comprehensive understanding of the performance of KFC in China. The survey covered all the chain-stores of KFC in China except in Xi'an, the content of the survey concerned all the following aspects: turn-over, operation costs, paid-in assets, capital investment, employment costs and tax dues paid. From their answers to a series of well-designed questions, such as the conclusion of the turnover of KFC in the year 2000 which was three billion nine hundred twenty five million three hundred and fifty thousand RMB was finally reached.

All the chicken used as raw materials by KFC was purchased in domestic China, with a total cost of six hundred twenty five million eight hundred thousand RMB. Under the item of "other foodstuff", altogether five hundred forty-four million six hundred and sixty thousand RMB was spent in China, accounting for 73.1% of the whole expense. The rest of the money (altogether two hundred million three hundred and ninety thousand RMB) was spent in the procurement outside China (mainly the seasonings imported from America) and this part of imports would result in an over-flow effect.

The direct impacts of KFC on China's economy are composed of four parts: first, the purchasing expenditure on chicken and other foodstuff. This equaled nearly 40% of the total amount of the initial paid-in capital to China's economy by KFC, which is two billion nine hundred fifty four million six hundred and twenty thousand RMB; second, the operation expenditure. In the year 2000, this reached two hundred seventy million nine hundred and sixty thousand RMB, which was 9% of the initial paid-in capital to China's economy by KFC; third, the rental fee. In the year 2000, the total amount of the rental fee was three hundred seventy five million seven hundred and twenty thousand RMB, accounting for 12.7% of the total paid-in capital; and fourth, the construction expenditure. This accounted for 7.15% of the total paid-in capital reaching two

hundred eleven million four hundred and seventy thousand RMB in the same year. The above four items jointly took up 68.45% of the whole paid-in capital by KFC in 2000. This reflects the industrial characteristics of KFC as a fast-food industry, that is: high reliance on raw materials, operational sites as well as to constructions.

I would like to call your attention on the differences between the two groups of concepts. The first group includes “annual turnover” and “paid-in capital”. With all the expenses on employment and imports, as well as the taxes paid to the government and the profits which can not be immediately revealed was deducted from the annual turn-over. We get the “paid-in capital” which was the amount injected by KFC directly into China’s economy. As a result, both direct and indirect impacts will contribute to China’s economy. In 2000, the turnover of KFC in China was three billion nine hundred twenty five million three hundred and fifty thousand RMB. On the other hand, the amount of expenses on employment was three hundred and seventy three million four hundred and ten thousand RMB, four hundred twenty million seven hundred and thirty thousand RMB on governmental taxes, and two hundred seventy seven million five hundred and forty thousand RMB imports on imports. According to the above data, the amount of the “paid-in capital” was finally got.

The second group includes “direct impact” and “direct injection”. The latter means the two billion nine hundred fifty four million six hundred and twenty thousand RMB injected by KFC in the year 2000; while “direct impact” includes not only “direct paid-in capital” but also capital which was spend on wages and governmental taxes. From the lists under the item “employment expenditure”, it shows that the same as its chain-stores in most of the other countries, KFC China has a large number of employees whom are paid by the hour, they account 82.3% of the total number of employees. However, the expenditure on their wages only takes up 56.7% of the whole. This shows as a reflection of the fact that the wages of the workers paid by the hour are comparatively lower than that of the formal workers. And there is another expenditure which is deemed as a part of “direct impacts” but not as a part of “direct paid-in capital”, that is, the expenditure on governmental tax. In 2000, the government received one hundred twenty two million nine hundred and seventy thousand RMB taxes directly from KFC and over twenty five million RMB indirectly. This is a manifestation of the characteristics of China’s tax system with indirect taxes as a principal part. Companies just have to pay a little “added tax” to local government. Likewise, we can see that foreign companies do not have much burden of paying taxes.

## 2. Impacts on the Upper-stream economy from KFC

Firstly, the comprehensive impacts on the upper-stream economy from KFC: in the year 2000, the 1 billion nine hundred seventy six million five hundred and eighty RMB initial investment by KFC indirectly brings five billion four hundred and three million six hundred and eighty thousand RMB added value altogether, therefore the average multiplier of the investment is 2.73. That is to say that every time KFC spends one Yuan in purchasing semi-finished products and raw materials, 2.73 Yuan end demands will be created by KFC in other departments. In this way, China’s gross economic values increase.

Some industries, such as, financial sector, insurance sector and planting sector, can be greatly influenced by initial investments. This shows that financial and insurance sectors belong to the

fundamental service sectors and possess high positions in the production chain such in agricultural industry. Every time KFC spends one Yuan in these sectors, end demands valued from 16.77 to 55.85 Yuan at most will be finally elicited. However, this influence is not so obvious on other sectors like in food- manufacturing sector, warehousing sector, drink-producing sector, post offices, and hotels. The multipliers in these sectors are relatively small, between 1 and 2. However, as to the 22 sectors which have been regulated and merged, no multiplier value in these departments is less than 1. This reflects that KFC has indeed created the expansion effect in every sector from which procurements are made.

Secondly, the new issue, that is, how many new job opportunities are provided indirectly by KFC's procurement from upper-stream sectors?

In accordance with the "Adjusted Approach of Average Job Opportunity Cost Calculation", the investment in the upper-stream sectors by KFC in 2000 could offer one hundred and forty thousand potential job opportunities for China. That is to say, by spending every ten thousand Yuan, KFC can create 0.7 job opportunities. Since the employment multipliers in the 22 upper-stream sectors, including planting sectors, financial sectors, insurance sectors, and educational sectors are all more than 1, we can see that all these sectors belong to labor-intensive industries and every time KFC makes a procurement valued ten thousand Yuan, more job opportunities will be created in these sectors than in other ones.

### 3. The impacts of KFC on the lower-stream economy

The comprehensive impacts of KFC on the lower-stream economy: the multiplier of the investment made by KFC in the lower-stream sectors was 2.239 in 2000, which was a little lower than that of the investment in the upper-stream sectors. Furthermore, the amount of the investment made by KFC on the lower stream sectors was far less than that in the upper stream sectors (which was only 38.7%). Nevertheless, the multiplier of the investment on the lower stream is also smaller, so, all in all, the impacts of KFC on the lower stream economic sectors are relatively smaller. If we use it as a criteria, the impacts of KFC on the lower stream sectors (which is one billion or even hundred twelve million nine hundred and seventy thousand RMB) are only one third of that on the upper stream sectors (which was five billion four hundred thirteen million six hundred and eighty thousand RMB).

The multipliers engendered by KFC in different industries among the 20 sectors positioned in the lower stream of the production chains are different. Among them, the multiplier in the "highway transportation sector" which is 21.172 is the biggest; the second is in the "literary and broadcasting sector", which is 18.534; while the multiplier in catering sector is 10.194. These figures show that there are great industrial chain effects in fundamental service sectors and KFC, as a famous brand in service sector, brings sound impacts to China's economy through the industrial chain effects in service sector.

The impacts of KFC on job market through its investment in the lower stream sectors: Here we still use "average salary calculation" and "adjusted average job opportunity cost" to assessing the effects of KFC's investment in the job market in the lower stream sectors.

According to the "average salary calculation", in the year 2000, KFC made seven hundred sixty five million and fifty thousand RMB investments in the lower stream sectors. And two hundred seventy nine million and fifty thousand RMB increase in salaries are brought. If we distribute the

increase into various divisions, and then divide the various parts by the average salaries of the various divisions, we get to know that KFC has created thirty eight thousand seven hundred thirty nine more job opportunities in the lower stream sectors. Among the 20 sectors positioned in the lower stream of the production chains, we find that in “highway transportation sector”, every time KFC spends ten thousand, 18 job opportunities will be created, while in the catering sector, 3.47 job opportunities will be created too. This again proves that these two sectors are labor-intensive ones.

Since the adjusted job opportunity cost is bigger than the average salary, so effects on employment are reduced. However, in the year 2000, KFC provided twenty seven thousand eight hundred and forty nine job opportunities for the lower stream sectors according to the latter calculating method.

#### 4. The direct and indirect impacts of KFC in the year 1992 on China's economy

In order to reveal the development tendency of KFC in China and its impacts on China's economy, we made an assessment of the direct and indirect impacts of KFC in 1992.

Direct impacts: In 1992, the turnover of KFC was seventy million eight hundred and twenty thousand RMB, which is less than one hundred million. And they only spent forty eight million one hundred and twenty thousand as initial paid-in capital. Since we did not acquire any information about the KFC's expenditure on salaries, we could only roughly speculate that the sum of their salary expenditure and their profits was twenty million. Among this, the expenses on production, management, and capital expenditure could surely be recognized as the direct paid-in capital in that year, and could bring direct impacts to China's economy. At the same time, the taxes paid by KFC in that year which was five million six hundred and seventy thousand RMB, was also a part of the direct impacts.

Indirect impacts: In accordance with the input-output sheet of China in 1992, we classify the sectors inside KFC according to its expenditure in 1992, and we get 19 sectors. Since there is no data of imports in 1992, we have to assume that the purchasing effects did not exert any influence on foreign countries, (as a matter of fact KFC purchase potato chips and other foodstuff from America), and on this basis we calculate the introduction output and output multiplier.

In 1992, the forty eight million one hundred and twenty RMB initial paid-in capital finally created one hundred twenty one million RMB demands, and the multiplier was 2.52. Among all these, the multipliers in public services sector, financial sector and insurance sector were 30.71, 16.38, and 8.92 respectively. This shows that early in the 90s, these fundamental sectors indeed had great links with each other.

Besides, we can see clearly that that among the forty eight million one hundred and twenty thousand RMB initial investment

- (1) The final capital depreciation was ten million one hundred and eighty thousand RMB, and the depreciation multiplier was 0.21. The depreciation multiplier in the public service sector was 1.3.
- (2) The increase in salaries was twenty million one hundred and seventy thousand RMB, and the average salary multiplier was 0.42. The multipliers in public service sector, educational sector and insurance sector were all more than 1.
- (3) The tax multiplier was 0.1 which indicated that the forty eight million one hundred and

twenty thousand RMB initial paid-in capital made by KFC in 1992 could bring four million eighty thousand revenue for Chinese government.

- (4) The profits multiplier was 0.27 in 1992 which was higher than in 2000. This shows that the average profit rate in the past decade has fallen greatly and this tendency has already been shown in the impacts of KFC on China's economy. However, the profit multiplier in coal gas industry was below zero in 1992, which was actually a result of the price system change that year.
- (5) The employment multiplier in 1992 was 1.55 which was got by "average salary calculation". On average, every ten thousand RMB KFC spent in China could bring 1.55 job opportunities. And, among the 19 sectors related to KFC, the multiplier in public service sector was the highest. Other sectors whose employment multiplier were bigger than 1 included educational sector, financial sector, insurance sector, mechanical sector, construction sector and comprehensive technological sector.

## 5. Conclusions

We have used the China's input-output sheet in 1997 assessing the direct and indirect impacts of KFC on China's economy. The result shows that seen from the quantity alone, in the year 2000 the direct contribution made by KFC to China's economy was as follows if we calculate it by the same price as that in 1997:

- (1) KFC invested directly two billion seven hundred and forty million for the upper stream and lower stream sectors and a large quantity of initial demands had been created.
- (2) KFC provided job opportunities for five thousand two hundred and one formal workers and twenty four thousand and sixty casual laborers.
- (3) KFC offered four hundred and twenty million RMB tax for Chinese government.

Besides, KFC also brought indirect impacts to China's economy, including:

- (4) Indirectly provided one hundred and sixty thousand to two hundred and thirty thousand job opportunities which were ten times more than the formal employees of KFC.
- (5) Turned in three hundred and twenty five million RMB taxes for Chinese government indirectly. Plus the direct taxes, altogether KFC created seven hundred and forty five million RMB tax revenues for Chinese government.
- (6) In the year round 2000, the output multiplier of KFC was 2.6. That is to say, every 1 Yuan spent by KFC in China would create demands valued 2.6 Yuan. This is another channel from which KFC made its contribution to the enlargement of China's domestic needs.

If we compare the data of 2000 with that of 1992, we will find that:

- (7) The initial paid-in capital in 2000 by KFC was fifty six times more than that in 1992.
- (8) The job opportunities created by the initial paid-in capital by KFC in 2000 was at least 22 times more than that in 1992
- (9) Tax paid by KFC to Chinese government was altogether seven hundred forty five million RMB in the year 2000; while the figure was only ten million four hundred and sixty thousand RMB (five million six hundred and seventy thousand RMB direct taxes and four million seven hundred and ninety thousand RMB indirect taxes.) The former was more than 50 times more than that of the latter.

- (10) In 2000, the initial paid-in capital made by KFC brought five hundred and twenty million RMB capital formations to China which was 50 times more than that in 1992.
- (11) In the year 2000, the profits increase of China's economy brought by the initial paid-in capital was four hundred and ninety one million RMB which was 38 times more than that of 1992.

At last, I want to point out that readers should view the results analyzed in this paper carefully and modestly. This is because we calculate them on the basis of the data of 1992 and 1997, and the initial paid-in capital is assessed by the price system of 1997. Besides, the assumption that China's economy is a closed one can also result in some mistakes. All in all, if we can get more detailed data, more input-output sheets of recent years, and more fundamental social accounting matrix, we can get more accurate results. Finally, it should be confessed that although KFC has contributed a lot in providing China with a large amount of investment and in enlarging China's domestic needs, it also brings competition to the other shops in catering industry, and new unemployment will be resulted in. However, this does not belong to the scope of our research. If we have any further achievements in this field, we can have a more comprehensive understanding of the total impacts of KFC on China's economy.

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