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Business-related services (BRS) and the competitiveness of the manufacturing industry in China's transition economy: a panel study analysis

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Abstract :

I. Theoretical premise

Before the outward-looking reforms began in China's planned economy, the country's manufacturing industry and BRS could be characterised as follows: at a resource allocation level, the government exclusively encouraged development in manufacturing while neglecting and even halting BRS. At an organisation level, BRS providers were often in-house units within a company rather than an independent sector. These practices were a necessary part of China's "get ahead of the West" strategy in place at the time. Differences in price arose between industrial products and BRS and because at the time financial pressure was limited, the manufacturing industry exploded.

Starting in 1978, China's switch from a planned to a market economy progressively subdued the imbalance between BRS and the manufacturing industry, but interaction between the two sectors remains largely dysfunctional.

Even today, Chinese manufacturing firms rarely choose to subcontract services, despite the fact that the specific services they cannot provide themselves are often those that would considerably improve their competitiveness. These include services whose access to the market is strictly controlled by the State, those that are not categorised as the firm's primary legal business (and therefore prevents the company from producing them itself), as well as services in capital-, technology- and knowledge-intensive sectors or ones that allow significant economies of scale.

II. Case study

Data was collected between 2000-2002 in 31 provinces, cities and regions in mainland China. We used data envelopment analysis (DEA), setting relative productive efficiency and capture rates as output, and labour, fixed assets and liquid assets as input. Original statistics were provided by MacroChina Database. Due to time constraints, this data was not adjusted for inflation.

III. Conclusion

Developing BRS is essential if China's manufacturing industry is to stimulate technological creativity, acquire intellectual property and develop well-known brands capable one day of competing with industrialised countries. All levels of local government must rapidly abandon their

traditional preference for encouraging manufacturing over services and do everything possible (especially through the use of technology) to establish an equilibrium between these sectors to ensure that BRS develop at an equal pace with manufacturing.

Encouraging the subcontracting of services is key to achieving these changes. From a macro-economic point of view, the decision to subcontract is based largely on price. To reduce costs, the government must continuously improve the country's institutional framework. In terms of micro-economics, service provider efficiency is the determining factor. Policies must therefore be developed to facilitate market access, simplify registration procedures, and ultimately create a more competition-friendly environment. At the same time, the government must actively encourage reform in poorly-performing, service-sector SOEs and make stricter budget control and better management obligatory. Only the best information, competitiveness and reputation, made possible by a competition-friendly environment, will convince manufacturing firms to sub-contract services.

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