

Chapter 1

INTRODUCTION

1.1 Background

The People's Republic of China (PRC) has seen unparalleled economic and social change since it began its reforms in the early 1980s. Spurred by a relaxation of investment controls, deregulation of markets, easing of restrictions on private enterprise and a progressive withdrawal of the state sector from commerce, and supported by substantial investments in physical and social infras-

tructure, the economy has boomed. Growth has exceeded 8 percent per annum (p.a.) for most of the last 20 years, with corresponding increases in the value and the volume of external trade and foreign direct investment (FDI). Between 2003 and 2004, transport demand in terms of passenger-kilometers (kms) grew by 18.1 percent and freight in ton(t)-kms by 28.9 percent. The PRC's share in world trade grew from 5.7 percent in 2003 to 6.9 percent at the end of 2004.



An efficient transport system is crucial to further growth. At the end of the 1980s, users suffered from a limited and poorly maintained road network; old and inefficient equipment; unreliable services; an emphasis on bulk movements of low-value commodities; lack of competition between providers; and low standards of safety, productivity, and customer service. Each mode—road, rail, inland waterway, air, coastal, and maritime—was managed independently. Policies and investments focused on achieving higher outputs with little recognition of the changing needs of the economy. Some deregulation had started in road transport, with state-owned enterprises (SOEs) permitted to offer services outside their main business areas and private operators allowed to transport state goods, but an efficient, competitive road transport system had yet to develop and services remained dominated by the relatively inefficient state sector.

In 1993, with Asian Development Bank's (ADB's) assistance, the Government commissioned a review of its road transport.^[1] The review group recommended separating the Government's monitoring, regulatory, and execution functions; an umbrella transport law to help integrate all modes; improved cooperation between ministries in tackling road safety; improvements at provincial and local government levels (e.g., better information systems, better monitoring of SOE performance^[2]), partial relaxation of passenger fare controls, deregulation of freight tariffs, consistent licensing for interprovincial operators, removal of barriers to out-of-province operators, easier market entry to the trucking industry and a new li-

censing system for freight forwarders); for freight transport SOEs, greater management and operational autonomy, a reequipment program, a more customer-oriented focus and inter-carrier agreements to improve back-haul load factors; a national training strategy implemented through industry associations; and pilot projects to reform SOE management and deal with labor redundancy issues.

A World Bank study examined road freight transport shortly afterwards.^[3] It concluded that the industry was poorly placed to serve the rapidly growing, market-oriented manufacturing and service sectors. Its prescriptions included: refocusing the Ministry of Communications (MOC) in facilitating competitive markets; internalizing the costs of pollution, accidents, and congestion through user charges; establishing basic rules for fair competition and translating them into clear regulatory guidelines; accelerating the growth of private trucking while corporatizing and privatizing SOEs to create a competitive market with a level playing field^[4]; opening up the industry to modern trucking technologies and management methods; fostering intermediaries (consolidators, freight forwarders, and agents); encouraging the development of multimodal, door-to-door services; developing professional associations and other stakeholder groups; and linking road transport policy reforms with those of other sectors, recognizing that road transport is an integral part of a supply chain. Instead of imposing controls through licenses and prescribed tariffs, a simple, transparent system of economic regulation was recom-

[1] NEA Transport Research and Training in association with MVA Asia Limited, *Efficiency Improvements in the Road Transport Sector*, the Ministry of Communications (MOC) and the Asian Development Bank (ADB), December 1994.

[2] In this publication, state-owned enterprises (SOEs) include enterprises owned by all levels of government, whether national, provincial, or local.

[3] World Bank, 1995. *China: Strategies for Road Freight Development*.

[4] This would also require unifying taxation, eliminating discrimination in procurement, ending subsidies, diversifying SOE ownership and separating it from management, delegating more responsibilities to managers, strengthening financial, management, and operational skills, and better corporate planning.

mended , allowing businesses to register without prior approval from transport authorities and freeing operators to set their own tariffs , but prohibiting anti-competitive practices and developing location-specific solutions to environmental and congestion problems.

A great number of these proposals have been implemented. A competitive private sector is now very active in road freight transport. Freight rates are no longer controlled and passenger fares can be set locally within MOC 's guidelines. Many SOEs have been converted into joint-stock companies [5] and many own-account operations have been separated or assigned to another and made to compete in the market. Market-driven reforms continue under MOC's long-term vision for 2020 and its 2001–2010 Planning Compendium for Road Transport Development , boosted by the PRC's accession to the World Trade Organization (WTO) in December 2001.

Before embarking on its 2001 – 2010 strategy , MOC issued a consultative document , Ideas on Road Transport Reorganization , which outlined the following restructuring aims :

- restructuring the SOEs – Separating management and operations from ownership and administration , seeking economies of scale by restructuring major enterprises while leaving smaller ones to fend for themselves. Priority was to be on consolidation to improve market concentration , reducing the large numbers of small , poorly-managed companies , and longer-term planning to balance commercial interests with those of labor.[6]
- capacity restructuring – Modernizing vehicle technologies and improving operating effi-

ciency while raising safety and environmental standards , and achieving a better balance between demand and capacity in all regions and levels of administration.

- operational restructuring – Developing , for freight , an integrated logistics system and , for passengers , a coordinated network of frequent , demand-responsive , high-quality and safe services ; ensuring that access to transport is available to all villages ; improving the quality of services to tourists ; and strengthening support services , including vehicle maintenance and repair.
- transport system restructuring – Enhancing the competitiveness of road transport in a multi-modal system ; improving service integration through terminals and interchanges ; improving productivity through better use of modern information technology (IT) and market-based reform of traditional forms of transport organization.

MOC's plan for 2010 reflects these aims while acknowledging many remaining constraints on the sector's ability to respond to changing demands such as lack of flexibility ; high costs , low productivity , and other inefficiencies ; a poorly-coordinated policy/planning framework and shortcomings in legislation , implementation , and enforcement ; missing links in the trunk road network ; low-quality management , overmanning , and poor use of IT and other technologies ; a poorly-developed system of terminals and interchanges ; lack of equipment standardization ; pervasive overloading of trucks , which causes accelerated

[5] A joint-stock limited company is intended to be independent of its sponsoring government department. It must have , at least , five shareholders , one of whom may be the Government , and a separate supervisory board. Its board has the authority on all key decisions ; the Government acts like a normal shareholder but may not dictate nor intervene in management decisions.

[6] With a large pool of unregistered migrant labor and acknowledged underemployment , the Government is understandably concerned about the impact of SOE layoffs on social stability.

road damage ; and poor safety standards. MOC has adopted an eight-point strategy within a set of overall policy goals that emphasizes strengthening the sector's ability to respond to changing and growing demands , improved integration and coordination of regulations at all levels of government , reducing the incidence of truck overloading and illegal operations , and establishing a fair , competitive market in the supply of transport services.

- road transport market – consolidating the road transport industry , improving the regulatory framework , establishing transparent rules governing management and operations , and accelerating the change of ownership from SOEs to joint-stock companies ;
 - road passenger transport – improving the quality and speed of passenger services , rationalizing route structures , improving accessibility in rural areas , and providing better conditions for passengers ;
 - road freight transport – raising the quality and speed of freight services , reducing overloading , raising vehicle standards (with greater use of containers and larger , multi-axle trucks) , and fostering the development of integrated logistics service providers ;
 - road terminals – improving the planning , location , and management of passenger and freight terminals , and opening up opportunities to private investors ;
 - road transport safety – strengthening safety management through market-entry licensing , tighter controls over movements of dangerous cargoes , monitoring enterprise safety standards more effectively , and upgrading standards of driver training , vehicle repair , and road safety engineering ;
 - road pricing – establishing a more appropriate balance between tolls and other fees as the basis for infrastructure cost recovery ;
 - technology – increasing the take-up of IT and other technologies , improving the efficiency of energy use , and reducing pollution ; and
 - management – developing more effective ways of integrating policy formulation , regulation , planning , operations , and enforcement.
- Further support for policy reform comes from the National Development Reform Commission (NDRC). Its logistics strategy for 2001 – 2020 [7] reviews emerging trends in logistics and supply-chain management and provides policy guidelines for responding to the challenges of globalization , the demands of international and domestic markets , increased supply-chain competition , and the need for greater intermodal transport efficiency. These guidelines focus on :
 - developing logistics infrastructure , including integrated logistics parks , freight-forwarding centers , warehousing , etc. , to improve supply-chain efficiency ;
 - greater use and integration of information systems to link markets and lower transaction costs ;
 - improving the interface between transport modes to lower transfer costs and allow each mode to play its optimal role in the distribution chain ;
 - improving understanding of market requirements among Chinese logistics enterprises ;
 - strengthening management methods among service-providers ;
 - encouraging competition , through simplified market entry , licensing requirements , and appropriate taxation policies ;

[7] National Development and Reform Commission (NDRC) , Logistics Development Strategy 2001–2020 , 2003.

- encouraging the use of modern vehicle and equipment technologies , raising productivity , standardizing equipment , and increasing research and development (R&D) on technological options ;
- strengthening the skills of logistics staff through training and certification ; and
- raising the level of international cooperation in the development of integrated logistics solutions.

1.2 This Project

It is with these strategies as background that the aim of the project was to help the Government improve the performance of road freight and passenger transport through further policy reforms. Its main output was to be a realistic action plan for sector policy reform. This was to be based on a review of the policy and regulatory framework governing the industry , an examination of the factors affecting efficiency and identification of measures to improve it , and a review of the lessons learned from other countries.

The Government is well aware of most of the problems facing the sector. As indicated above , it has identified and included appropriate reforms in its 2001–2010 strategy. This project's task was not simply to repeat the oft-cited benefits of deregulation and free markets , which the Government already knows. Rather , it was to identify those aspects of road transport policy and regulation that are not yet fully effective in meeting the goals of efficiency and demand-responsiveness and to map out a path—the action plan set out in Chapter 9—to achieve the needed changes in a way that will maximize benefits to the economy , while also taking into account and helping ease the

adjustments that will be necessary , some of which (such as those impacting on SOE employees) might otherwise risk social instability.

The study team , made up of specialists from Australia , Canada , United Kingdom , and the PRC , went about its task as follows. Critical issues were identified from information on the structure and performance of the sector , policies and plans for its development , and the institutional and regulatory framework governing it. These were discussed with stakeholders at a workshop in April 2005 before a program of field interviews was carried out. These explored the impact of policy and regulatory measures on the efficiency and demand-responsiveness of selected road freight and passenger services in three provinces : Yunnan , Gansu , and Heilongjiang (Figure 1). Shortcomings in the application and effectiveness of policies and regulations were discussed and compared with approaches taken elsewhere in the world. Reform options were identified for these shortcomings and overseas initiatives—where appropriate—were taken into account and their likely impacts assessed. These were discussed at a workshop held in Beijing in September 2005. The action plan is based on the results of this process.

Originally , the intention was to include Guangdong among the sample provinces , which represents conditions in the more developed eastern region of the country. But with ADB planning a road project in Heilongjiang , the northern province was substituted in its stead. Later , Guangdong was visited to interview transport officials and selected transport operators. While not as comprehensive as the surveys conducted in Yunnan , Gansu , and Heilongjiang , this served to confirm impressions from other sources.

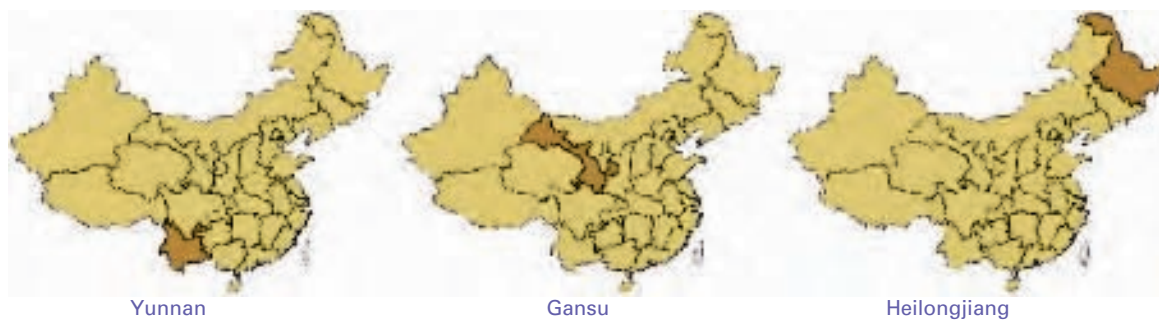


Figure 1 Case Study Provinces

Source : MOC