

MARKET-ORIENTED OPERATION OF URBAN WATER SUPPLY

NANPING MUNICIPAL GOVERNMENT

Water is the source of life and civilization. It is the basis of sustainable development and ecological balance. A society's water supply is an indication of its level of science, technology, and economic development. Especially during the transition period from the planned economy to a socialist market economy, urban water supply marketing has become more and more important.

Nanping (or Minbei, as it is also called) is the northern gate of Fujian province. It is to the west of Jiangxi and to the north of Zhejiang. Its four towns, five counties, and one division cover an area of 26,300 km². With a population of 3 million, it is the largest administrative area in the province. Through Nanping, Fujian maintains close economic ties with surrounding areas and



Taiwan, China. Wuyishan has been cited as a top tourist destination for its natural beauty and historical significance.

In the last 20 years of economic reform and open-door policy, Nanping has undergone tremendous changes and achieved much in construction, infrastructure, and economic development. Its gross domestic product (GDP) increased 11 percent annually from Y877

million in 1978 to Y20.94 billion in 1998. During the eighth five-year plan and the first two years of the ninth, Nanping's economy developed especially quickly. GDP doubled in 1988 and again in 1994, six years ahead of plan, boasting yearly average increases of up to 20 percent. Nanping connects Fujian with the inland areas, especially those along the middle and lower reaches of the Yangtze River, and plays an important part in constructing the economic belt along the two sides of the Taiwan Straits. It must therefore reform its construction investment system and develop all its public utilities, not just its urban water supply.

PRIVATIZATION OF URBAN WATER SUPPLY

Thanks to economic reform, the People's Republic of China has greatly improved its urban water supply. More and more funds are invested in construction; water supply capacity is being expanded and improved continuously, benefiting more people; construction regulations are being perfected; and water supply and conservation technology is progressing. However, with the rise in living standards, people are bound to have a greater demand for water. Traditional management fetters the development of the urban water supply industry. The industry should therefore be reformed in keeping with the requirements of the socialist market economy.

Market-oriented urban water supply is a requirement of the socialist market economy. At its 14th conference, the Communist Party resolved that the goal of economic reform is to establish the socialist market economy, in which market mechanisms under macroeconomic control are fundamental. The reform of State-owned enterprises, the pillars of the national economy, is key to achieving this goal.

For years, the urban water supply industry has produced few benefits. Under the socialist market economy, however, the monopoly will be subjected to market forces, especially competition. In the past, governments were the only investors in urban water supply projects. After construction, the waterworks were turned over to State-owned enterprises.

The enterprises should perform not only general corporate functions such as seeking maximum profit and preserving and adding to the value of national property, but also social responsibilities such as improving the residents' quality of life. Since urban construction in general suffers a serious shortage of funds, the water supply industry must become market oriented.

The city is at the foot of a hill and beside a cascading river, so water pressure is uneven. Additional midway pressure pump stations must first be established. In addition, a computerized management system is required to maintain the pressure balance.

Nanping has abundant water, especially surface water. Most factories and mines supply their own water. Their small-scale water production, however, raises production costs. If market-oriented reforms are not carried out, the sustainable development of urban water supply enterprises cannot be assured.

URBAN WATER SUPPLY SITUATION

In the past, urban water supply enterprises enjoyed political, financial, and technological support from the State. They were overstaffed monopolies. Their managers and staff were complacent, lacked an operating strategy, and had no concept of market risk. The result was low productivity. Because the attitude of management and staff was "wait, depend, and claim," they failed to use government resources wisely.

Now the water supply enterprises face a shortage of funds. They require large investment and a long recovery period. There are few investors other than governments. The management system is inadequate. A major problem in the transition to the socialist market economy is the lack of effective supervision and management that will stop the waste of State property. The present relationship between the municipal government and enterprise is that of authority and authorized operator, not of investor and operator. When the enterprise profits, the staff gains from it; but when it loses money, the government makes up the deficit. The govern-

ment has unlimited responsibility to an enterprise, and the enterprise cannot manage itself.

Water pricing violates the law of value. It is extremely difficult to adjust prices. Theoretically, price is the money equivalent of compensating the water supply enterprise. It should be composed of the cost of operating the enterprise plus reasonable profits plus taxes. Price is decided by value, according to the basic law of commodity production and exchange. However, the government is often restricted by political factors when setting and adjusting the price. It must take not only the management capability of the enterprise and residents into account, but also the social effect, which requires a water supply enterprise not to seek maximum profit. Even if the enterprise suffers serious losses, it has to continue operating. One water company in Nanping, for example, spends Y0.665 to produce 1 m³ of water, but charges only Y0.65. Although it is debt-ridden, its main goal is social stability, and so it must continue to operate the way it does.

Management is bloated and its methods remain backward. Another problem is that urban water supply enterprises in mountainous areas are numerous and small-scale. Fettered by an underdeveloped economy and small-production mentality, they are difficult to harness for urban development. Furthermore, because market forces are not fully effective in resource distribution during the economic transition period, the water supply enterprises are inefficiently run by poor-quality staff, make do with old equipment and backward production technology, and are wasteful and expensive.

CREATING MARKET-ORIENTED URBAN WATER SUPPLY

At its 15th conference, the Communist Party stated that public ownership must be understood thoroughly and diversified. It advocated the bold use of all management and organizing methods for large-scale socialized production, and the development of productive forces, undoubtedly including market-oriented urban water supply. Because Chinese cities are so diverse in terms of geography, economics, population, and environment, old concepts must be

discarded and new mechanisms that meet the requirements of the socialist market economy established. The urban water supply sector should be gradually but completely transformed from a welfare-type to a market-oriented industry.

Direction and Goals of Urban Water Supply Reform

The urban water supply industry affects public welfare. Its products are basic necessities. It is different from other industries in that water enterprises cannot be allowed to go bankrupt. They must be under constant government macro-management and supervision. The goal of reform is to introduce a new mindset and management system in order to ease the transition to the socialist market economy. Under such a system, enterprises can strengthen their management, raise their level of efficiency and operations, raise and maintain the quality of their products and services, and make a profit. Reform is not a short-term solution; it does not merely involve raising funds while neglecting the long-term interests of enterprises and the State, or lightening the State's burden by reducing financial subsidies. Reform should proceed according to the Corporation Law and the policies of clearly defining property rights, authority, and responsibility; of separating government and enterprises; and of using scientific management techniques.

Reform of enterprises should be accompanied by reform of government organizations. Government should cease to interfere in the internal management of enterprises, which should gradually become independent and assume sole responsibility for their profits or losses. Government should plan industrial development and construction, and ensure that the water supply industry delivers water of sufficiently high quality.

Expanding Services

For years, the water supply industry has had only one product—running water. It offers little other than pipeline repair and maintenance, and marketing of water supply and heating installa-

tions. Overstaffing has contributed to loss of profitability. Enterprises must behave like businesses. They must broaden their areas of service, streamline their administrative structure, optimize labor productivity, and reorganize redundant personnel. They may also diversify.

The Jiangling waterworks in Hubei, for example, set up a chemical plant, a water supply installation factory, and water-saving facilities. It invests in developing new water-related products. It combines self-selling and marketing. As a result, its business is booming. The Nanping waterworks also diversified in order to solve its overstaffing and deficit problems. It established the Yanshui Restaurant and Yanchun Pure Water Plant, and reduced redundant personnel.

Enterprises should consider establishing secondary businesses as a means of absorbing redundant personnel and increasing profitability, but they should go further and transform themselves into modern, market-oriented industries. Their main business should be separate from their secondary businesses, and the two businesses should be assessed separately. By doing so, the water supply enterprises will improve the management of their main business and avoid losses. But if the secondary business profits are used to make up the losses of the main business, price distortion will intensify in the main business and affect its development.

Reforming the Investment System

Urban water supply must be one step ahead of demand. However, enterprises cannot depend on government investment. Only private and foreign investment can meet the demand for the funds and technology required to build new waterworks and enlarge the capacity of existing ones. Enterprises must explore various ways of raising funds and experiment with selling shares.

They should learn from foreign experience in managing natural monopoly industries. They should promote competition and standardize investment, construction, operation, and management. The government should ask for bids to determine which companies will

have a special permit to run the urban water enterprises in assigned areas within allotted time periods. The agreement between the government and the companies will define the parties' duties, rights, and benefits. The government should draw up long-term development plans for the water supply industry in order to encourage enterprises to enlarge production scale and to protect their rights. For their part, enterprises must achieve the production goals and provide the social services defined by the government.

Tariff Reform

In recent years, the pricing system has been gradually liberalized. Although the production cost of running water has risen steeply, its price has been so controlled by the government that the enterprises have suffered losses. In order to encourage enterprises to manage themselves effectively, gain profit, and fulfill their social function, the price system should balance government control and market forces. A rational price is the cost plus tax and profits (with a profit rate of 15 percent), and includes the seasonal, structural, and graduated prices. Prices will eventually be determined by market forces, so that the enterprises can both support their staff and fund water supply development. In the meantime, research should be carried out on water pricing. Foreign experience can guide enterprises in adopting appropriate procedures for price setting, and for public participation, social consultation, and price comparison. A price classification system should be formulated and reasonable minimum and maximum limits on profit rate set. A supervision and inspection system should be implemented, and price structuring should include not only production cost but also the cost of research and development.

Using Technology to Transform Enterprises

Most water supply facilities are out of date and cannot meet the needs of modern cities. Enterprises should not only be subjected to market forces, but also cooperate with institutes and uni-

versities in research on management, production, and marketing. They should decrease losses, improve water quality and pipeline network safety, reduce redundant personnel, and raise working efficiency.

A widespread problem in the industry is the lack of scientific personnel. Some staff members are poorly qualified. Since water supply facilities require the use of an auto-operating system, the enterprises should ensure that young staff members are trained appropriately to ensure that they are at the forefront of production and that their creativity is brought into full play.

Establishing a New System

Reforms should encourage enterprises to form water supply consortiums. Large enterprises should take over small, technologically backward companies that fail to reach national standards of water quality, quantity, and pressure. By designating operators and distributors, enterprises can (i) solve problems such as decentralized management and waste of funds and resources, (ii) engage in large-scale production and give full play to its benefits, and (iii) rationally distribute water resources.