

MULTIPLICATION IN TRANSPORTATION AND COMMUNICATION SYSTEMS IN CHINA AND ITS PROBLEMS—FOCUSING ON OVERLAND TRANSPORTATION

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INTRODUCTION

THIS paper examines the so-called multiplication process in the Chinese economy since the early 1980s, focusing primarily on overland transportation which is under the jurisdiction of the Ministry of Communications. Multiplication as used in this paper means the multiplication of enterprise management systems and the pluralization of ownership systems which have been introduced under China's economic reform programs.

Prior to the recent reforms, China had attempted several times to renovate its transportation and communication systems. But none of these succeeded in removing chronic obstacles blocking transportation development. These obstacles included such things as excess administrative control on enterprises, insufficient entrepreneurship, the monopoly of state-run enterprises, and the so-called *tiaokuai fenge* or problems caused by regional sectionalism and vertical alignment of business activities along the lines of government bureaucracy. Efforts to overcome these deficiencies in overland transportation were started around 1983. New enterprises were allowed, or even encouraged, to enter the transport business, and the role of government offices in charge of transportation was modified. These two steps marked a shift away from the system of directly controlled state enterprises to the system of indirect macro control on overland transport services in general. The third element of the reform was the introduction of a whole range of production responsibility systems. These initial renovation efforts have brought about significant changes in the transportation business. Enterprises under diverse ownership systems have emerged, a transportation market has been created allowing companies to compete, and enterprises have come to enjoy more independence than before.

Since the early 1980s, the overland transportation sector has undergone a significant change. This paper examines the changing configuration of this sector as well as the problems involved in this transformation. It looks particularly at: (1) the relationship between transportation enterprises and the government which is responsible for traffic control and transportation administration; (2) the systems of responsibility adopted as part of the reform of transportation enterprises, and the impact the change in management system has had on enterprise performance;

(3) how individually-owned (private) enterprises, the symbol of management and ownership multiplication, have developed; and (4) how *tiaokuai fenge*, having plagued the system for years, has been or not been overcome in the course of the reforms.

I. CHANGES IN TRANSPORTATION ADMINISTRATION

A. Control of Road Traffic

As of the end of 1986 China had a total of 963,000 kilometers of roads (780,000 kilometers paved). Running on these roads that year were 2,460,000 trucks, 960,000 buses and passenger cars, 2,290,000 transport tractors, and 1,480,000 motorbikes (figures for civilian use vehicles only). From the beginning of the 1980s the number of vehicles increased sharply but the road system grew only gradually.

China's road traffic control systems are complicated and cause confusion. Take for instance the traffic safety control structure in Neijiang City, Sichuan Province. The structure is comprised of three institutions: (a) the Neijiang traffic control office (*jiaotong-jianlisuo*), (b) the Neijiang city public security bureau's traffic patrol unit (*jiaotong-dui*), and (c) the Neijiang city traffic safety office (*jiaotong-anquan-bangongshi*). The first is responsible for traffic safety over the entire city and belongs to the Neijiang Prefectural Bureau of Communications (responsible for Neijiang City and eight counties in Neijiang Prefecture). The second undertakes traffic control within the city limits and belongs to the public security bureau. The third was established to strengthen the municipal government's project team charged with traffic safety (*jiaotong-anquan-lingdao-xiaozu*), [2, p. 323]. Particularly the first two (the former controlled by the traffic administration and the latter by the public security administration) undertake largely overlapping duties. For this reason macro control of transportation in the city does not function smoothly.

The State Council of China on October 7, 1987 issued a circular concerning reforms of the country's road traffic control systems [5, 1987, p. 475]. The circular stated that road traffic should be unilaterally controlled by the Ministry of Public Security and its branch offices. The circular, however, did not carry enough authority to preclude the conflict of jurisdiction over a number of complicated matters. Later, on October 13 of the same year, the State Council enacted a regulation on "road control" which authorized local governments to approve the establishment of traffic inspection offices. This was followed on March 9, 1988 by another regulation on "road traffic control" which empowered public security bureaus to carry out the same duties. These two regulations, giving the same authority to two different government bodies, brought about a good deal of confusion. The Qingdao City government, for instance, convened a meeting of officials from the communications bureau and the public security bureau to secure approval of a proposal for the establishment of a Qingdao City road traffic inspection organization which the city's communications bureau had proposed in November 1987. But differences arose on the issue, and neither side would give

in, each justifying its position on the strength of provisions of one of the said regulations. An assistant to the mayor bemoaned that the lack of consistency in State Council regulations was creating more troubles for local government [4, September 14, 1988].

The lack of a unified policy has aggravated sectionalism between administrative offices. In September 1979 the State Planning Commission and Ministry of Communications promulgated a decree entitled "Stipulations on the collection and utilization of road construction and maintenance taxes." The decree was intended to encourage local governments to undertake road construction by giving them the power to collect road construction taxes [5, 1986, p. 314]. In May 1985 local governments also started to collect a vehicle purchase surcharge as a source of a funds for road construction. This has led to all provincial, prefectural, municipal, and county governments now being allowed to collect a variety of taxes to finance road construction. As a result, the decentralization of power to collect funds has become firmly established and there has been a steady increase in the miles of roads laid over the past few years.

But negative phenomena have also accompanied this process. The worst is the irrational, arbitrary collection of taxes, fines, and other levies from local transport enterprises. The situation has become truly chaotic. The state-run Taiyuan Motor Vehicle Transport Corporation (Taiyuan-qiche-yunshu-gongsi) in Shanxi Province, for instance, reported that the amount of fines it paid as a percentage of its annual profits rose from 0.69 per cent in 1985 to 3.75 per cent in 1986 and then to 7.31 per cent in 1987.

Negative manifestations of regional sectionalism also plague road traffic administration. In some parts of Shanxi Province, for instance, exorbitantly high road tolls were levied on vehicles using local roads, allegedly in order to protect local coal resources. Thus the parochial views that local governments have taken toward the transportation system and traffic costs have contributed to the problem. Added to this is their failure to make a fair assessment and distribution of the cost burden on the local economy. These all have generated enormous administrative abuses everywhere.

In the absence of mechanisms to check regional sectionalism, problems have arisen in some areas regarding the appropriate use of locally collected taxes and levies. This applies in particular to the above-mentioned road construction and maintenance tax. The revenue from this tax does not fully meet road construction and maintenance costs. However, according to inspections conducted in 1985 and 1986 in some provinces and cities, this revenue is frequently privately misappropriated, dissipated through other purposes, wasted, monopolized by certain sections in government offices, or otherwise misused. In an effort to cope with this alarming phenomenon, the State Economic Commission, State Planning Commission, Ministry of Finance, and Ministry of Communications issued a directive on "Rules for managing road construction funds" [4, February 25, 1987]. But the political corruption in this area seems too deeply embedded to be eradicated by using administrative measures only.

TABLE I
AMOUNT AND MILEAGE OF CARGO TRANSPORTED BY TRUCKS

	Amount of Cargo Transported by Trucks (100 Million Tons)			Mileage of Cargo Transported by Trucks (100 Million Ton × Transport Distance in Km)		
	MOC-related	Non-MOC	Total	MOC-related	Non-MOC	Total
1980	5.38	24.66	30.04	244.2	457.9	702.1
1981	5.33	23.92	29.25	243.7	474.8	718.5
1982	6.18	25.31	31.49	294.6	596.6	891.2
1983	6.43	27.37	33.80	327.8	659.5	987.3
1984	6.59	45.45	52.04	347.7	1,182.0	1,529.7
1985	6.55	49.87	56.42	349.2	1,418.5	1,767.7
1986	6.87	45.53	52.40	364.6	1,589.2	1,953.8
1987	7.01	52.03	59.04	386.5	2,059.6	2,446.1
1988	6.80			417		

Sources: [5, 1986, p. 220] [5, 1987, p. 251] [5, 1988, p. 335].

Note: The non-MOC sector includes non-MOC state enterprises, individually owned enterprises, and joint enterprises of several such individual enterprises.

B. Administration of Road Transport Enterprises

Official policy toward the transportation business is that it should be controlled from a macro perspective based on the principle of *duojia jingying tongyi guanli* (many enterprises, single control). But the real problem in administrating transportation is the parallel existence of too many control systems. There are too many rival government agencies, all of them claiming to have the power to approve or disapprove the establishment of new transport enterprises and claiming as well the right to set rates and charges on transportation.

Central government offices also lack the concept of unitary control over transportation. In June 1988 the Ministry of Construction, the Ministry of Public Security, and the National Tourism Administration got together and jointly enforced provisional measures on the management of taxi businesses in urban areas. On the strength of these measures, the urban construction bureau of Qingdao City, under the Construction Ministry, repeatedly requested permission from the municipal authorities to establish its own passenger transport control offices. Thus, the provisional measures apparently obstructed the normal functioning of the local transport administration as they run counter to the basic principle of unitary control over the transport business by the Ministry of Communications [4, September 14, 1988]. Nor is macro-control function sufficiently performed even within the central government. There are too many instances, as in Qingdao, where local transport businesses have to comply with too many control centers.

II. MULTIPLICATION IN OVERLAND TRANSPORT ENTERPRISE SYSTEMS

A. Overland Transport Business

The figures in Table I indicate the amount of cargo carried by trucks in the

TABLE II
PERFORMANCE OF LOCAL STATE-RUN OVERLAND TRANSPORT ENTERPRISES

	(Million yuan)				
	1978	1980	1985	1987	1988
Operating revenue	5,477 (100)	5,509 (101)	8,452 (154)	9,805 (179)	11,176 (204)
Operating cost	4,298 (100)	4,466 (104)	7,001 (163)	8,672 (202)	9,936 (231)
Business tax paid	163 (100)	162 (99)	263 (161)	301 (185)	346 (212)
Total profit	975 (100)	816 (84)	1,002 (103)	533 (55)	478 (49)
Total transport cost	4,000 (100)	4,036 (101)	6,311 (158)	7,844 (196)	8,899 (222)
Cost per 10,000 ton-km (yuan)	1,571 (100)	1,656 (105)	1,811 (115)	2,011 (128)	1,922 (122)

Sources: [5, 1986, p. 219] [5, 1988, p. 343] [5, 1989, p. 532].

Note: Figures in parentheses are the index with 1978 taken as the base year.

1980s. In the past eight years the total cargo volume has nearly doubled, and the ton-mileage figure has grown by 3.5 times. Especially spectacular has been the growth of cargo hauled by bodies unconnected with the Communications Ministry. These are overland transport enterprises run by non-MOC government agencies, individually owned enterprises, and joint enterprises set up by individual transporters often through the mutual efforts of several households. They are outside the jurisdiction of the Ministry of Communications. This reflects the fact that the "open economy" caused an increase in the demand for general transport services which in turn drew new enterprises into the overland transport business. But the growth in the size of this business sector has itself generated new problems.

The foremost problem is that besides the transport enterprises controlled by the Ministry of Communications, there are also a large number of such enterprises under the control of other government agencies, and these carry a large amount of the cargo in the overland transport business. As a result there is a lack of market order. The non-MOC sector comprises transport enterprises directly managed by the ministries of the Machine-Building Industry, of the Coal Industry (reorganized into the Ministry of Energy Resources in April 1988), of Commerce, of Railways, and of Agriculture, Animal Husbandry, and Fishery, as well as those run by state-owned mining and manufacturing enterprises. A large number of diverse bodies have increasingly entered into transport services since the economic reform program began to be put into practice. This "multi-headed" situation has compounded transportation problems making them even more difficult to overcome.

A second problem is the stagnant performance of local state-owned transport enterprises. The enterprises under the Ministry of Communications are subdivided into those directly run by the MOC and those owned and operated by provincial governments. The latter have suffered from particularly poor performance in recent years. The figures in Table II show this.

Table II indicates the rapid increase in the operating cost, total transport costs, and business tax (*yingye shui*) expenditures incurred by transport enterprises. Apparently the transportation business is suffering high costs and heavy taxes,

TABLE III
PERFORMANCE OF OVERLAND TRANSPORT SERVICES IN 1988:
BEIJING, GUIZHOU, AND GUANGDONG

	Overland Transport Enterprises		Individually-owned or Joint Enterprises			
	Passenger Transport (10,000 Persons) by Buses	Cargo Transport (10,000 Tons) by Trucks	Passenger Transport (10,000 Persons)		Cargo Transport (10,000 Tons)	
			by Passenger Cars	by Other Motorized Vehicles	by Trucks	by Tractors
Beijing	2,779	4,272	206	2	1,441	1,068
Guizhou	7,644	547	3,112	4	3,831	638
Guangdong	29,785	1,727	24,459	1,608	14,125	13,268
National	455,566	68,018	122,940	44,005	99,415	106,103

Source: [5, 1989, pp. 526-29].

Note: Joint enterprises comprise several individually-owned enterprises.

while operating revenues have been increasing much more slowly. This has caused a sharp decline in profits which has affected all medium-sized and small local transport enterprises.

The shift from state monopoly to open market has caused a drastic expansion of China's overland transport capacity. The share taken by individually owned enterprises experienced a particularly spectacular growth. Table III provides a performance comparison of trucking and other vehicle services in Beijing Municipality, Guizhou Province, Guangdong Province, and the nation as a whole. Beijing has the largest number of vehicles per population and area, and the best road situation. Guizhou Province, largely mountainous, is one of the poorest provinces in the country (with a personal consumption per capita of 288 yuan in 1985, the nation's lowest). Guangdong Province, bordering on Hong Kong and having three special economic zones, is China's bridge to the external world. Of the three areas, Guangdong has the highest degree of development in individually owned enterprises and joint enterprises of individual transporters, and Beijing has the lowest. Road conditions are miserable and the number of vehicles is the smallest in Guizhou Province, but even there individually-owned and joint transport services are better developed than in Beijing. This indicates that individually-owned transport services are spreading vigorously all over China.

This spreading has created a competitive situation, and medium-sized and small state-run transport enterprises, which are no larger than individually owned enterprises, find themselves in serious difficulty sandwiched between the large enterprises and individual transporters. In Anshun Prefecture, Guizhou Province, the number of local state-run transport enterprises decreased from forty-one to twenty-one between 1980 and 1986, with their total profit squeezed from 200,000 to 80,000 yuan. The number of employees working at these enterprises also dropped from 2,956 to 1,240 persons during the same period. In most other

economic areas larger enterprises with modern equipment always have the competitive edge. But in the overland transport business the merit of economies of scale does not work as effectively. Of course, a large state-run transport enterprise with its own vast national transport network can take advantage of economies of scale. But this does not apply to local state-run transport enterprises with their scope of business being limited to their localities. Under this constraint, it is difficult for them to compete successfully with individually owned enterprises. All the more so if they lag behind these private transporters in finely tuning their services to client needs.

In the areas of taxes, costs, and expenditures, local medium-sized and small state enterprises are handicapped more than individually owned enterprises. The latter has to pay three different taxes, whereas the local state enterprise has to pay two additional taxes for a total of five. For costs, the individually owned enterprise needs to take into consideration only fuel, repairs, tires, taxes, and other small costs, but the state enterprise has also to consider depreciation and management costs. In expenditures the state enterprise has to shoulder the burden of retirement insurance funds to be paid in pensions to retirees. Government agencies also use their authority to extort money from the enterprises under their control [4, May 23, 1987].

A report from Zunyi City, Guizhou Province, complained about the unequal competitive conditions between state-run and individually-owned enterprises, the former having to shoulder far heavier burdens than the latter. The report cites such extra burdens as: (a) unequal taxation, (b) an unequal enterprise tax calculating formula which works to the advantage of small enterprises and against large and medium-sized enterprises, and (c) unequal opportunities for bank loans. According to the report, under the current system private businesses with good performance can get bank loans more easily than state enterprises which are suffering a deterioration in their positions [4, December 14, 1988].

The Jiange County Motor Vehicle Transport Corporation in Sichuan Province is a typical example of the problems facing local state-run transport enterprises and the reasons these companies are suffering business difficulties. This company has been in a serious plight for the past few years despite great efforts made by the management and workers to improve performance. According to the company, the causes for the poor performance are numerous. (1) The price of gasoline has risen. The number of vehicles operated has increased in the past few years but the amount of gasoline supplied at the official price is pegged at the 1982 level, compelling the company to buy higher priced gasoline from other sources. (2) The transport rate system is irrational with the standard rates frozen for the past thirty years. (3) Tax burdens are too heavy. The primary taxes include a business tax (3 per cent of operating revenue), an urban construction tax (5 per cent of the business tax), a vehicle and ship utilization tax (thirty yuan per ton of cargo capacity), a land and buildings tax (levied on the site and building floor space used), an educational tax (1 per cent of the business tax), and a road construction and maintenance tax (15 per cent of operating revenue). (4) Surcharges of various kinds are compulsorily collected under a variety of pretexts. The courts of justice,

broadcasting stations, public security units, and other agencies extort money claiming the need to cover such outlays as public relations costs, service charges, and the like. (5) Free use of the company's vehicles by government agencies [4, June 22, 1988].

As is clear from the above, the central, provincial, municipal, and county government offices siphon off money from the company in taxes, contributions, and by other means. Many of these taxes and levies are irrational and unjustifiable. For instance, the urban construction and educational taxes are linked to the business tax and are obviously redundant. The levies mentioned under (4) are nothing but extra-tax exactions and are apparently unjustifiable extortions by the authorities. All these indicate the presence of structurally unfair practices that the privileged state bureaucracy is eager to benefit from.

Some local state-run transport enterprises are doing sound business. According to reports, twenty-two such enterprises in Ningxia Autonomous Region have chalked up profits since 1984. Their success is explained in part by their emphasis on passenger transportation and the introduction of large trailers replacing smaller trucks. But more importantly they reportedly obtained contracts to transport coal from shippers in other provinces and autonomous regions, including Henan, Shanxi, and Tibet, thus succeeding in tapping new demand [4, October 24, 1987]. But there is reason to question the soundness of these success stories. Generally inter-regional operations lead to larger business costs due to higher operation cost and accident probability, and companies operating such services across regional borders are often subject to dual taxation. The purchase of trailers naturally must have pushed up operating costs. Also, the cargo involved is coal which is an industrial raw material known to yield but small value added. Even in Japan, transport companies are said to have to do rate dumping quite often in similar trans-border operations. We suspect that in the Ningxia case the companies might have chosen rate dumping rather than keep their vehicles idle. If this is the case, the transport companies in Ningxia may be undermining price and rate stability in other provinces and regions by operating their coal services based on Ningxia. If so, this is obviously an unhealthy business practice.

In the above cited case of the Jiange County Motor Vehicle Transport Corporation, we mentioned irrational transport rate systems and rising fuel prices, in addition to taxes and other levies, as burdening the enterprises. Rate systems and fuel prices have not yet been dealt with, so we will take these problems up now.

1. *Problems of the transport rate systems*

In September 1988 officials in charge of transport rates and charges from eleven provinces and municipalities held a conference and discussed the rate systems of local state-run transport enterprises. There it was recognized that the rate systems then in effect had remained at the 1960s level while transport costs had risen to the 1980s level, and because of the gap between low rates and high costs, one-third of the overland transport enterprises across the country were doomed to operating in the red. The situation worsened after 1987 as revenues did not cover costs

under the current low rate systems. It was found that the profit/fund ratio for the overland transport industry as a whole had declined to 2.4 per cent in 1988, and the ratio was expected to fall to minus figure in 1989, causing all overland transport enterprises to suffer losses. The conference proposed a review of the transport rate systems [4, September 24, 1988]. But it will take more time before transport rates can be generally raised.

2. *Rising fuel prices*

The central government in 1983 introduced a contract responsibility system for oil producers. Under this system, oil producers would be able to export or sell domestically at international prices that portion of their oil output that exceeds their contracted level. This led to the advent of "high priced oil," and the dual oil price system (see [1]). Prior to this, the state-run or collectively-owned overland transport enterprises relied on fixed-price oil supplied regularly by the state oil corporation. But introduction of the price multiplication measure immediately sent liberalized oil prices sky-high as the prices were to be set through negotiations between oil dealers and users. Oil was diverted to the liberalized market, and in recent years fixed-price oil has been in short supply. These circumstances have directly hit the transport business. Take the case of a state-run overland transport company in Linfen Prefecture, Shanxi Province. Since 1985 this company has been able to meet only 45–49 per cent of its fuel needs with fixed-price fuels (0.728 yuan per kilogram for gasoline and 0.552 yuan for light oil). The balance has had to be met through purchasing high-priced liberalized oil (1.1 yuan per kilogram for gasoline). Even so, they sometimes run short of fuel. In 1986 the aggregate profits earned by state-run transport corporations in Linfen Prefecture were down by 116,000 yuan from the previous year, and more than 70 per cent of the profit decline was due to the cost of oil. But despite the fuel-induced plight of many enterprises, gasoline stations have mushroomed along all major roads in China [4, February 18, 1987].

The rampant brokerage by privileged bureaucrats in the government and the state oil corporation explains the high price of oil. China's price reform is taking place in the absence of citizen vigilance and without recognition of people's rights, and this offers the privileged classes ample opportunities for lucrative graft and black market operations. The Linfen situation noted above is not an isolated case. In Shandong Province, for instance, the fourteen local state-owned transport corporations had to suspend operation of more than 25 per cent of their trucks and buses after August 1988 due to the shortfall of gasoline. Black marketeers moved in which boosted gasoline prices further. Finally in January 1989 the Shandong provincial government had to release 10,000 tons of fixed-price oil for state transport enterprises to alleviate the situation (2,350 tons for trucks and 7,650 tons for passenger cars) [4, January 14, 1989].

B. *Management Reforms in Overland Transport Enterprises*

1. *Institutional reforms*

Governments in capitalist countries have been introducing independent accounting systems into public transportation services, which emphasize the balancing

of revenues and expenditures, the acquisition of necessary funds through individual company efforts, and the disposal of profits at a company's own discretion. These measures are aimed at raising the efficiency of public services in an effort to lessen the burden on state finances. Similar reforms were launched in China in the 1980s. The institutional reforms carried out so far have taken the following four forms: (a) the contract management responsibility system made up of (i) a system in which a fixed contracted amount of profit is transferred to the government, (ii) a system in which a progressively larger amount of profit is transferred to the government, and (iii) a system in which dividends are paid to the government out of the profits gained; (b) the lease management system; (c) a system in which a factory manager is responsible for managing the whole assets; and (d) joint stock companies. The first is the most widespread at present.

There is as yet no overall national study available of how the management reforms are going at overland transport enterprises. To shed some light on this issue, I will refer to a report of a questionnaire survey on sixty-eight overland transport enterprises in Anhui Province which follow independent accounting systems. This survey was conducted in the first half of 1988.

(1) Manner in which the contract responsibility system is implemented within each enterprise (sixty-eight replies): (i) responsibility is prescribed for each vehicle and each person (fourteen enterprises, 20.6 per cent); (ii) responsibility is prescribed for each vehicle and each work team (four enterprises, 5.9 per cent); (iii) responsibility is prescribed on the basis of service lines for each vehicle and each work team (none); (iv) responsibility is prescribed in diverse forms (thirty-six enterprises, 53.0 per cent); (v) other ways or lease system (seven enterprises, 10.3 per cent); and (vi) absence of any contract responsibility system (seven enterprises, 10.3 per cent).

(2) Results of the reforms (sixty-two replies): (i) conspicuous improvements compared with the pre-reform period (five enterprises, 8.1 per cent); (ii) somewhat better than before (twenty-five enterprises, 40.3 per cent); (iii) little improvement to speak of (thirty-one enterprises, 50.0 per cent); and (iv) no positive results (one enterprise, 1.6 per cent).

(3) Obstacles hindering reforms (multiple entry: eighty-two replies): (i) irrational policies (twenty enterprises); (ii) shortage of fuel and cost increases (forty enterprises); (iii) unavailability of loans and the resulting impossibility to make investments (twenty enterprises); (iv) insufficient internal financial reserves and too heavy cost burdens (two enterprises). These replies are interesting because they indicate where obstacles to reforms lie. Close to 60 per cent of the enterprises complained about fuel shortfall and cost increases. This may show that the afore-cited case of the Jiange County Motor Vehicle Transport Corporation represents a general trend.

(4) Views of the rapid increase in *shehui cheliang* (the vehicles owned by transport enterprises controlled by government agencies other than the Ministry of Communications) (sixty-five replies): (i) the *shehui cheliang* practice should be encouraged (five enterprises); (ii) its rapid development should be restricted to a moderate degree (fifty-eight enterprises); and (iii) let it develop freely (two enterprises).

(5) Opinions on the current transport rates (fifty-two replies): (i) they should be raised (fifty enterprises); (ii) they should be reduced (one enterprise); and (iii) they can stay at the current level (one enterprise). Most enterprises thus think that reforming the current rate system is an urgent necessity.

(6) Concerning cargoes (sixty-five replies): (i) more than 50 per cent of cargo is from specific shippers (thirteen enterprises); (ii) 30–50 per cent from specific shippers (twenty-four enterprises); and (iii) there are no specific shippers (twenty-eight enterprises). As many as 40 per cent of the enterprises have no specific, year-round customer for whom they ship. In Japan local-service transport companies usually obtain 60 per cent or more of their cargo from specific shippers and a transport company without stable customers cannot obtain a license as a local-service trucker. Extrapolating from the Japanese case, it may be said that there is already an oversupply of transport capacity in Anhui Province. The poor performance of local state-owned transport enterprises (Table II) helps support this observation.

The general picture provided by the above survey is that: most enterprises have introduced the contract responsibility system in one form or another; the reforms have produced some positive results though to different degrees; but the reforms face serious problems due to the government's "irrational policies" including the inadequate transport rate level which needs to be rectified; government control on *shehui cheliang* is quite loose, and this generates excessive competition in the market.

2. *Contract management responsibility systems*

Of the systems introduced under the current enterprise management reforms, the contract responsibility system has been the one most widely adopted by Chinese enterprises. Under this system, the state and the enterprise agree on the basic amount of profits to be transferred from the latter to the former, and the enterprise contracts to fulfill this. The portion of profits in excess of the contacted amount transferred is divided between the two parties. This has been the system adopted by most transport enterprises. For instance, the China Road Transport Company (Zhongguo-qiche-yunshu-zonggongsi), the largest overland transport corporation in the country with its head office in Beijing and branches in seven major cities, in January 1987 introduced a version of this system which put responsibility for the contract on the presidents. Under this system were its branches in Tianjin, Fanglang, Wuhan, and Kunming. The president of the head corporation and the presidents of the branch corporations entered into a contract which set targets for the amounts of profit, volumes transported, costs, vehicle operation rates,¹ and allowable accident rate. The targets were set for each branch corporation individually. If all the targets were achieved, the presidents and vice-presidents of the branch corporations would be entitled to 300–500 yuan in annual bonuses, but in case of failure they would pay penalties [4, February 18, 1987]. The Tianjin

¹ The share of the vehicles in operation against the total number of owned vehicles. The number of the vehicles in operation can be derived by deducting the number of vehicles out of service for repairs and scrapping from the total number of owned vehicles.

branch corporation experienced a business crisis as soon as the contract was signed. In the first half of 1987, the branch reported 2,235 idle vehicle-days² and as a result suffered an estimated loss of 7,460 yuan. The low official rates were pointed out as one of the basic factors that has aggravated the situation thus far [4, September 24, 1988].

But the contract management responsibility system has a number of weaknesses. (1) Management tends to pay attention only to the economic indicators, or to the contracted amount of profit to be paid to the higher agency. Managers often become interested only in achieving the economic targets set for each team (comprising several vehicles) or each vehicle, and ignore personnel management. (2) Management and personnel often begin to act with a short-term perspective, ignoring the repair and maintenance of equipment. (3) Profits reserved within the enterprise tend to be divided among management and employees and not appropriated for investment. (4) It is difficult to precisely measure the adequacy of the contracted amount of profit, and the portion to be transferred to the upper echelon body is often determined by the bargaining power of the enterprise concerned. This undermines the healthy planning of state revenues, capital accumulation by the contracting enterprise, the employees income, and personnel positioning inside the enterprise. (5) Corruptive practices such as nepotism and kickbacks in return for favors tend to spread [4, July 2, 1988]. It is apparent from the above that how well or poorly this system is implemented depends largely on the quality of enterprise leadership and cadre, but there is no proper way of evaluating their quality.

3. *The present state of lease management systems*

Then Prime Minister Zhao Ziyang, in his report to the Second Session of the Sixth People's Congress in May 1984, said that small state-run enterprises could shift to individual or collective management responsibility systems or to lease management systems. Following this proposal, the number of enterprises leasing out equipment increased. In this system borrowers can retain all their revenue after they have paid the lease fees. In the overland transport business, truck leasing has spread.

Experience so far has shown that this type of business has no bright future in store. In Liaoning Province two transport enterprises started experimental lease businesses in 1985 but have not succeeded so far. The difficulties encountered have been: (1) Lease businesses by medium-sized and small enterprises must follow rules set by higher authorities, but it teams and groups or even individuals inside an enterprise wish to lease out trucks or other vehicles, there is no authority to approve this leasing. Therefore no official license can be issued for such leasing. (2) With transport demand remaining generally low, it is not certain whether businesses based on equipment leasing can pay. (3) The lease fees are relatively high. Having to make nonproductive outlays such as pensions for retirees, leasing enterprises set high lease charges to obtain revenues to offset such expenses. (4) Transport enterprises are not well organized to handle lease businesses. Intro-

² The number of vehicles multiplied by the days out of operation.

duction of lease contracts tends to turn general production planning, financial affairs, vehicle repairs, and other elements of business into disconnected pieces. This raises the total amount of clerical work, but personnel cannot be increased accordingly [4, July 18, 1987]. Of the above difficulties, the third well reflects the ignorance enterprises in socialist society have about lease management. Capitalist leasing firms determine lease fees taking the following four factors into account: (a) the loans required to purchase the equipment to be leased, (b) interest on the loans, (c) handling charges accruing to the leasing firm, and (d) the remaining value of the equipment at expiration of the lease contract. The lease fee is calculated by subtracting (d) from the total of (a), (b), and (c), and the fee is made payable in installments spread over the lease period. The lease fee should not be calculated based on simply the leasing company's expenditures.

4. *The prospects for joint stock companies*

The "joint stock" system that had existed until the early 1950s was revived following the economic reforms in the 1980s. But this system refers generally to the formula of collecting funds from the public at large, and many such cases are in fact just the issuance of debentures.

Three enterprises belonging to the municipal cargo transport collective enterprise, under the bureau of communications of the Jiamusi City municipal government in Heilongjiang Province, introduced a "joint stock" system in December 1986. This was done in the following manner.

(1) Funds were collected through the creation of several kinds of "stock." One was the "state stock" covered by various state loans extended to the enterprises as well as the portion of business taxes returned to them. The funds already held by the enterprises were referred to as "collective stock." Funds the enterprises took in from other enterprises and individuals were called "individual stock." The last was subdivided into "basic stock" and "variable stock." The basic stock was in the form of shares valued at 200 yuan each, and the investor could hold any number of such shares. The investor also could buy any number of "variable shares," but the shares of this kind had a fixed repayment term set somewhere between one and five years.

(2) A list of the stockholders was made, and their representatives elected. All employees who had bought a 200 yuan "basic stock" share became a stockholder in the enterprises. Stockholders have the right to elect and be elected one of the stockholder representatives or executives.

(3) The stockholders hold general meetings and elect the executive board. The president assumes responsibility for the enterprise under the guidance of the executive board [4, April 15, 1987].

For these three enterprises in Jiamusi, the introduction of the "stock system" was considered the key element of the economic reforms. But this system is greatly different from what we understand in capitalist society as a joint stock company. In the Jiamusi case, even state loans and the enterprise's own funds are considered "stock." If people buy stock shares when there is no stock market, such stock shares are not marketable except when they are sold to the enterprises

that have issued them. Such stock shares are more rightly called debentures. The "variable stock" shares are veritable debentures as they are to be repaid in one to five years. True, general stockholders meetings are statutorily held, but their substantive functions are not clarified. Nor do the very people who adopted this system seem to have a clear understanding about the relationship between the ownership of stock shares and the right to ownership and management of the enterprise. In my view, this may rightly be called the resurgence of cooperative enterprise rather than the advent of a joint stock company. It seems this type of reform is intended to get the employees more actively involved in enterprise affairs by turning them into intra-enterprise fund providers [4, April 15, 1987]. The indications are that the appearance in China of joint stock companies as we understand is a development for the distant future.

C. Individually Owned Transport Enterprises

1. General picture of individual transporters

In 1956 there were 560,000 private transporters, but later, as collectivization proceeded, they essentially ceased to exist as a category. In July 1981, immediately after the economic reform program was launched, the State Council announced new policy stipulations for nonagricultural individual commercial undertakings in urban and rural areas. This decree revived individual commercial ventures as a socialist form of labor. Later the right of persons to engage in individual business was guaranteed and the government began to take measures to encourage such business following the promulgation in October of the same year of a policy statement entitled "Some regulations for opening the door, activating the economy, and resolving employment problems in urban and rural areas." This was followed by other similar statements including "Some problems about the present agricultural economic policy" (1983) and "A ten-point policy for further activating the rural economy" (1985). Individual entrepreneurs rapidly sprang up and flourished. Individual transport ventures (including boat operators) grew from 19,000 households in which 23,000 persons engaged in business in 1981 to 120,000 households with 176,000 persons in 1983, and then further to 990,000 households with 1,550,000 persons in 1985. The number of vehicles owned by individual transporters for 1984–88 is shown in Table IV.

Individual transporters are concentrated in Jiangsu, Zhejiang, Guangdong, and Shandong provinces, all economically advanced coastal areas. Individual transporters in Jiangsu in 1984 owned 1,300 trucks and 113,000 tractors. In Zhejiang in 1985 120,000 households were undertaking transport business in which 180,000 persons were engaged. It is characteristic of individual transporters that many of them use tractors for commercial transportation services [3, 1986, p. 531].

2. The business environment for individual transporters

Despite their spectacular growth, the business environment for individual transporters is still harsh. It is not unusual to hear reports of people who failed in business and committed suicide. One individual transporter in Shijiazhuang City, Hebei Province, committed suicide after he was unable to repay his debts. An

TABLE IV
VEHICLES OWNED BY INDIVIDUAL TRANSPORTERS

	Trucks (A)	Buses and Passenger Cars (B)	Total for (A) & (B)	Tractors
1984	16.78	0.58	17.36	278
1985	27.35	1.14	28.49	394
1986	31.2	3.4	34.6	175*
1987	34.9	7.3	42.2	262
1988	45.1	15.3	60.4	298

Sources: Figures for 1984 and 1985 are from [5, 1986, p. 531]; for 1986 from [3, 1987, pp. 398–99]; for 1987 from [3, 1988, pp. 492 and 494]; and for 1988 from [3, 1989, pp. 403 and 405].

Note: The asterisked figure is for transport-purpose tractors; the others are totals of all types of tractors.

article analyzing the cause of his death pointed to the chaotic transport market situation and loose management, in addition to the factors particular to that individual. His was not an isolated case. There was also a report that individual transporters in Wuqiang County, Hebei Province, experienced a business crisis in 1985. One after another they had to sell or register the scrapping of their vehicles [4, January 1, 1986].

In some agricultural areas individual transporters are suffering from extreme business stagnation. The situation in Huguan County, Shanxi Province, attests even more clearly than the above-mentioned suicide case to the lack of a viable administrative policy as the factor behind the stagnation. According to a report published in July 1987, only 7 per cent of the 394 individually owned trucks were in operation for three months or more of the year, and another 17 per cent were in operation for less than three months; the rest remained idle. The major reasons for the large number of idle trucks were: (1) the administration had no macro policy controlling individually-owned trucking businesses, and failed to curb the increase in transport capacity, although it was clear that the capacity had exceeded local transport demand; (2) there was an insufficient amount of fuel supplied to individual transporters; (3) more than ten different taxes were levied on individual transporters; (4) finances were tight for the truck owners; (5) most trucks were too old for adequate maintenance; and (6) some trucks were seized by local authorities for a long time which was an infringement on legitimate individual business rights.

The resulting stagnant business situation gave rise to other serious problems: (1) Banks suffered from a huge number of unpaid loans which in turn negatively affected the rural economy as a whole. (2) A new group of poor families (*kunnanhu*) emerged. Those who ventured into the individual transport business were mostly courageous and able people with some personal savings, but because of their heavy debts they were ruined and joined the ranks of the poor. (3) The confidence of the people in the policies of the Communist Party was seriously

undermined [4, July 11, 1987]. Fostering individual entrepreneurs was to be a key element in the economic reform program as a whole. If China fails to react with appropriate policies to correct the difficult situation facing these entrepreneurs, the consequence will be ever greater social chaos.

CONCLUSION

A number of conclusions can be drawn from this study. One is that the decentralization of power is aggravating the "multi-headed control" phenomenon within the tripartite relationship of the central government, local government, and enterprise, and it has been local government that has emerged as the most powerful of the three. Also it is local government that has been impeding the progress of reform most seriously. Enterprise reform has brought the contract responsibility system into widespread use, but the defects in the system have begun to appear. There is no environment for fair competition and, in dealing with the government, what counts most is the bargaining ability of the enterprise's top management. Most state-run and collective transport enterprises suffer from irrational and arbitrary taxes and other levies which continue to rise. They have been hurt by the rapid rise in fuel prices. They have also fallen victim to the irrational transport rate systems which have remained unchanged for many years. All of these have pushed the transportation industry into its present critical business situations. The large transport enterprises directly controlled by the Ministry of Communications are also struggling with unstable conditions; individual transporters, whose numbers have increased rapidly, face the same difficulties confronting medium-sized and small state-run transport enterprises. Not only individual transporters but also enterprises controlled by state agencies other than the Ministry of Communications have joined the transport market, and they constitute a major factor unsettling the market. The number of MOC-controlled vehicles is relatively small and their economic performance has not been impressive which makes it difficult for the MOC to impose order on the transport market. Conflicts are serious between government bodies over the issue of which one should be authorized to control the whole transport system. Socially unfair practices exploit the system's contradictions, and these are becoming more serious and conspicuous as China struggles to press forward with its economic reforms.

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