

Countermeasures Taken by China Railway in the Competition of Transportation Market

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Abstract

The market share of railway transportation is in the downwards trend. In order to reverse this trend, the railway has taken a series of countermeasures which have resulted in obvious effects.

- 1.To set up the railway freight and passenger transport marketing system which can meet the requirement of market.
- 2.To make the railway transport enterprises operational mechanism be matched with market economy.
- 3.To improve the service quality both in freight and passenger transport.
4. Restructuring will be continued and deepened in order to establish the tariff mechanism, which will be suitable for market.
5. It is the important measure to increase the passenger trains traveling speed for strengthening competitiveness.
6. According to demand from the market, the new service items related should be introduced.

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7. The marketing information system should be established and improved.

Key words: railway, competition, transportation market, countermeasure

As the improvement of China transport market, the competition among the different surface modes becomes fierce. As the leading mode, the railway's passenger transport marketing share has been decreasing during the recent years gradually. Take the examples of both passenger traffics and turnover among the modes, the figures indicates such decreasing as follows:

For passenger traffics:

Year	Percentage	Passenger Numbers
1990	17.6%	948.88 million
1995	8.7%	1020.81 million
1996	7.5%	935.51 million
1997	6.9%	919.19 million

For passenger turnovers:

Year	Percentage
1990	53.4%
1995	38.8%
1996	36.4%
1997	35.5%

The freight traffics and freight turnover by the railway among the modes appears the same decreasing trend.

The reasons why the marketing share by the railway has been decreasing are as follows:

1. Being stick to the conventional ideas; the internal management system can not be matched with the marketing mechanism, nor with the transport market. The ideas formed under the command economic system have not been changed, and because of this, no market-orientation system and meeting the customers' requirement has been established. The railway has not established any mechanism, which focuses on meeting the shippers' and passengers' requirement as the essence of railway transport operations. Railway sector continues to maximize the transport operational efficiency based on its own features. It never realizes that more transport capacity can be supplied than demanded within several years in the domestic transport market. The systems of internal management, institutional organization and transport frameworks are not revised accordingly, and these delay the marketing strategic progress.

2. Highway and aviation sectors have been developed substantially. In 1998, the investment for highway was 190 billion Yuan, which was more than three times compared with railway investment. The construction for expressways totaling 1487KM are completed and the total operational length reaches 6258KM, which is the No.8 in the world. Meanwhile 12600KM expressways are under construction. The achievement is more remarkable if it includes high-grade roads. As for aviation sector the huge investment during the several years has already generated huge capacities by airWorts. The modernized and king-sized airplanes are imported. Therefore in China transport market, railway is no longer the leading mode and it has to compete with highway and aviation. The railway is weakened by the development of highway and aviation in terms of its competitiveness in both freight and passenger transport.

3. The original transport service can not meet tile customers' requirement. As the establishment of socialist market economic system and social further progress, the mere traveling arrangements for the passengers and wagons allocation for the shippers can not meet their requirement. Efficiency and low cost are the common requirement for the customers. The passengers require comfortable and fast traveling service while the shippers need suitable wagons, timely and convenient service for freight transport so as to arrive at destination. The customers compare the tariff among the modes. The original transport service by railway can not meet the requirement of passengers and shippers, and competition makes the railway provide new service items.

The various policies adopted by the China railways

In order to change such kind of negative situation, railway sector takes a series of measures and remarkable achievements have been reached by considering the features of the state infrastructure and the railway transport enterprises, namely “ integration of transport facilities, production and departments” .

1.To set up the railway freight and passenger transport marketing system which can meet the requirement of market. With the marketing-orientation system it is to restructure the current railway transport organizations and framework, namely, to set up and to improve marketing organization and to change completely the original institutional organization which focused on the transport operations. In this way, macro-marketing mechanism supported by transport dispatching system will be established. The marketing organization will cover the staffs who are the most marketing-orientation and the most capable for marketing. They will secure market investigation, product development, tariff setting, transport capacity distribution and after-sales service. Through strengthening enterprises marketing functions, the problem of transport providing service to market will be solved through system. Through “four ratings” checking, the responsibility system will be set up so as to deal with separation of transport and marketing. The “four ratings” are: passengers to take trains, freight cargoes to be shipped by railway, passenger trains punctual departure and arrival, and realization of freight transport plan.

2.To make the railway transport enterprises operational mechanism be matched with market economy. Through setting up the appropriate marketing system, the enterprise and government functions by railway transport enterprises will be separated and to reach the targets of eliminating financial losses and re-employing the redundant staff it is to establish the incentive system which will meet the requirement of market competition, and the purpose is to link the revenues with cost and wages in the enterprises. The financial settlement will be done according to operational revenues, the more revenues, the more salaries. Through the incentive mechanism, the pressure will be distributed to all the staff in the various levels. The marketing responsibilities for everyone will be secured. The evaluation performance will be done based on the targets as set previously. Those who miss the targets will take the

related responsibilities regardless of individual or entity. The staff can only have the job through competition.

3. To improve the service quality both in freight and passenger transport. A complete new impression will be formed in the market. The quality guarantee mechanism which can meet the requirement of market will be established, this mechanism will mainly focus on passenger trains operational punctuality and timely delivery for freight trains. One is to improve passenger trains punctuality statistics and analysis system and to set up indicators for statistics and analysis purposes. More incentives will be applied according to the passenger trains punctuality and to improve responsibility of passenger trains punctuality. The punctuality rate will be linked with individual and entity. The other is to provide all the better services to meet the requirement of passengers and shippers with safe, fast, convenient and comfortable service. The passenger and freight services will be standardized. The focus will be on new service trains, such as the fast speed trains, trains leaving in the evening and arrival in the morning, baggage trains, scheduled freight trains, and through trains for bulk commodity. The high quality trains with competition will be operated, so as to improve the economic performance and to generate the social impact in a wider area.

4. Restructuring will be continued and deepened in order to establish the tariff mechanism, which will be suitable for market. The previous rigid and flat nation-wide tariff will be changed and the flexible tariff mechanism which can meet the requirement of change of market will be established. Tariff is the important factor considered by the passengers and shippers in the competitive transport market when they select a mode among the others, also it is the important mean to regulate the supply and demand in the market. The leverage function of tariff should be maximized. The tariff mechanism should be established which can make quick responses when there happens changes in the market. The tariff should be of regularity and be flexible. When the railway enterprises competitiveness is being strengthened, these transport enterprises should solve the issue of non-official sur-charges in particular. The issue of sur-charges at own will should be abolished through the system. Meanwhile, the abnormal intra-competition by abusing tariff decreasing function in order to seek sector's benefits should be eliminated since the railway's benefits will be impacted negatively and normal transport order will be jeopardized.

5. It is the important measure to increase the passenger trains traveling speed for strengthening competitiveness. On April 1, 1997 and October 1, 1998, China railway twice increased traveling speed of passenger trains, this means that the passenger trains traveling within 1500KM can leave the originals in the evening and arrive at the destination in the next day morning, taking Beijing as the center. The passenger trains traveling within 700KM can start in the morning and arrive at the destination in the evening. The remarkable increasing of traveling speed of the passenger trains means the upgrading of the passenger trains from a low level. In particular, beginning from October 1, 1998 the new train operational chart was implemented, the permitted traveling speed on the trunk railway lines, such as Beijing - Harbin, Beijing-Guangzhou, Beijing - Shanghai, etc. Increases to 140AN, the distance with permitted speed extends to 445KM from 268KM. This further meets the fast transport requirement by the passengers. The railway passenger traffics, especially the through traffics indicate the further potentials and competitiveness. The competitiveness by the railway passenger transport in the market has been strengthened greatly. Two flights from Ji'nan to Beijing have to be canceled and the part of the bus services between Beijing and Tianjin have to be terminated. Some of the governmental departments along the fast traveling speed railway lines specifies that the civil servants must take trains to Beijing for their business trips. The traveling speed increasing for the railway passenger trains generates a huge positive impact and great appreciation is received from the society.

6. According to demand from the market, the new service items related should be introduced. With careful design and development the transport service items should be adjusted fully. A series of new service items will be introduced and further optimize the operational programs for both freight and passenger trains. The more fast speed trains will be operated and the more trains leaving in the evening and arrival in the next day morning will also be operated. The community inter-city trains will be operated according to the specific demand, these trains has the short headway, less coaches but fast speed. The number of fast trains is doubled compared with the original operational chart. The number of the trains leaving in the evening and arriving in the next day morning is 2.5 time compared with the original operational chart. In some areas the community inter-city passenger trains and tourist trains also operated and these trains have the features of short headway, less coaches and fast speed. Seven baggage trains have been operated. The organizational transport methods for “five scheduled trains”

are improved. The through transport trains for bulk commodities are operated and heavy axle load trains are operated. The new transport service items are warmly welcomed by the passengers and shippers. They play the important roles for marketing development.

7. The marketing information system should be established and improved. With the strong information means, the effective operational enterprise marketing mechanism will be established and this will facilitate the close cooperation and coordination among the entities of transport organizations, administrative management, etc. They will be closely linked together among the market investigation, products development, capacity allocation, operational organization, etc, this will make the enterprises have a quick response against the market. It is to establish information processing mechanism which can reflect marketing situation and to focus on the construction of railway passenger ticketing reservation system, to speed up the construction of freight transport marketing and operational administrative system in order to catch up the marketing information and railway transport capacity status. The constructed electronic ticketing system network on computer basis provides great convenience to the passengers and this is the important factor to attract the passenger traffics. Shanghai railway administration has already constructed an electronic ticketing reservation system network among Shanghai, Nanjing and Hangzhou areas and it has linked with nineteen railway stations. Now forty-four railway stations can issue tickets by using this system and 80% tickets are now issued through computers. The railway passenger electronic reservation ticketing system in Ji'nan railway administration has covered thirteen-four railway stations and the administration is covered by the network. Harbin railway administration has constructed railway passenger electronic ticketing center. There are thirty-three medium and large railway stations that have already been linked under the electronic ticketing reservation network. It handles 90% electronic ticketing operations within this administration by computers. Due to the above-mentioned operations, the railway enterprises have the opportunities to demonstrate fully their high efficient and fast speed advantages in the areas of meeting the market requirement and in operating non-scheduled passenger trains especially. In 1999, the electronic ticketing reservation systems for five major trunk railway lines are linked and then such links is also applied to the major railway stations for express trains. In the area of freight transport operations, it is started to freight transport marketing and operations management system construction. Within the nation-wide railway management by computers has been applied to the freight transport planning. Such

kind of management methods are now used from the shippers' requesting wagons, till preparing transport planning, contracts signing, loading and actual performance checking. A series of management system covers freight transport planning, technical planning, transport program, daily wagons requesting and actual loading. That is to say that freight transport planning will be integrated with transport capacity, technical planning is very close to actual transport operations, daily planning follows transport planning, high centralization provides service to new marketing situation. It is to establish a competitive, strong function, quick responsive for market changes in order to effectively provide guidance to the railway transport operations, railway freight marketing and operational management system.

The results, achievements and restructuring measures in the next step

In 1998, China railway passenger transport made remarkable achievements. In spite of the traffic volumes decreasing and transport revenues decreasing by other modes, the railway passenger transport revenues was increased 11.6% and passenger numbers also increased 0.9% compared with 1997, of which, through transport traffics increased 5.6% and the turnovers increased 4.0%. The wagons loading rate is increasing remarkably. After October 1, 1998, the daily wagons loading number reached to 76262 for the nation-wide and transport revenues was 260 million Yuan. The increasing rate was 10.3%. In 1998, aviation sector suffered a financial loss while railway sector eliminated financial loss valued 1.9 billion Yuan.

In order to keep the good development trend in the competitive transport market, further restructuring must be continued in the areas of system, mechanism and operational ways. It is a great progress to implement assets operational responsibility system for China railway sector in terms of operational management way. This system will make China railway change from operational type into assets operational type. It will also solve the more various complicated issues formed in the command economic system. In 1999, China railway transport enterprises will implement assets operational responsibility system and this can be observed as the organizational guarantee for enhancing railway competitiveness in the transport market. The assets operational responsibility is a kind of operational responsibility system. Under this system the Ministry of Railways (MOR) acts as the owner's

representative of the state assets, while the various railway administrations, acting as the legal bodies, operate these state assets, to prevent any assets loss and make the assets be value added as the essence with the target of improving assets operational efficiency. With implementation of this system, the base is the secure the railway administrations as the market players and twelve rights are decentralized as follows the operational right within its administration, transport planning right, financial revenue and expense right, overhaul expense right, equipment upgrading planning right, locomotives and rolling stocks procuring right, assets treatment right, operational investment right, salaries allocation right, labor employment right, organizational and institutional establishment right, and materials procurement right. Meanwhile, the operational responsibilities of the railway administrations are clear, they include to maintain the state assets owners equity, to secure the rate of state assets integration and value added, the rate of return for operational assets, revenue submitting rate of investment, the target for eliminating financial losses and more gains. This is to secure transport operational safety. During the implementation period of assets operational responsibility system, one sensitive issue is the relationship between the nation-wide railway unified command and the railway administrations' autonomous operations. One fact for China railway transport is that the inter-administrations traffics are the major operations, the trunk railway lines undertake heavy loads with limited capacity. In spite of that, the major commodities transport imposed by the national government must be secured and the macro-regulating operations should be guaranteed. Therefore, the unified commanding within the nation-wide sector is absolutely necessary. In order to maximize the benefits for the railway administrations, the marketing players, under the circumstance of securing the nation-wide railway sectors benefits, the interfaces should be defined clearly between the railway administrations' autonomous operations and nation-wide railway sector's unified commanding. The transport unified commanding should be the railway's internal transport operational organizing performance, administrative performance and regulating performance, rather than operating performance and marketing performance. The major function is to secure the smooth operation for the trunk railway lines, to maintain transport operations orders, to implement macro-regulation, to carry out monitoring and coordination and to enhance the benefits for all. It should provide service to the railway's administrations autonomous operations and to the marketing of the transport enterprises. The railway administrations should maintain the prestige of transport operational unified commanding and MOR should reach the target, namely, to provide service to the enterprises operations by using the way of

unified commanding. This change must be realized.

The China railway has already been decided to take “the up and down” separation as the orientation for railway system restructuring, namely to separate the ownership and management of the infrastructure from the railway operation service. But there are constraints in the China railway system that we have to adopt the gradualism. Currently it is not mature to implement such separation between passenger and freight transport, also the simultaneous separation can not be done among the departments of the locomotives rolling stocks, permanent way, signaling and telecommunications. Therefore, it is realistic to start “the up and down separation” in the area of passenger transport service for the China railway. By establishing regional passenger transport companies and to set up passenger transport quality guarantee system, it is to secure the target of improving passenger transport quality and step by step to implement “the up and down separation” . In 1999, the passenger transport companies will be established in the railway administrations of Hohhot, Nanchang, Kunming and Liuzhou and there are no sub-administrations in these four administrations. These passenger transport companies will provide the service in the third quarter, this year. Meanwhile, in other ten railway administrations, one or two pilots will be selected for setting up passenger transport companies. The establishment of passenger transport companies will be done on the basis of the current implementation of assets operational responsibility system, regardless of original institutional organizations. They will be the market players with autonomous operation right and be independent financially. The passenger transport companies will be facilitated to renovation of system, establishment of the new operational mechanism, to attract investment both from and out side of the railway sector, even from the overseas. Then the target of multiple investment sources will be realized. This will establish the interest community by the way of assets, and this will facilitate to separate the social functions from the railway sectors, then the real operational benefits for railway passenger transport can be reflected.

The China railway transport enterprises are developing in the competitive transport market.

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