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"Competition in Socialist China's Coach Industry"

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COMPETITION IN SOCIALIST CHINA'S COACH INDUSTRY

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1. Introduction

From the establishment of the People's Republic of China in 1949 until now, the Chinese Government based the "ownership" of enterprise on the Marxism-Leninism principle of "public ownership". This includes two parts: one, the enterprise of that "ownership of the whole people", which may be implied as a state-run enterprise; the other, the "collective" enterprise. At the end of 1985, the Industry Production Value of these two public forms of ownership was 98.1 per cent of the total Industry Production Value in China (Yu, 1987). Under the socialism regime in that period, "competition" had a specific meaning, and its purpose and dynamics differed substantially from the meaning of competition in western countries. For instance, the motive force behind the western free market competition was an "invisible hand" which was sustained by pursuing maximum profit. Whereas the driving force behind socialist competition was "socialist consciousness" and "spirit of contribution", which has little to do with production profit nor with occupancy and coverage in a particular market. The purpose of socialist competition is "to optimise the best and to eliminate the worse based on the public ownership, under national planning and regulation, on the prerequisite of serving socialist construction" (Zhan, 1987).

Therefore, in the coach industry, which supplied long-distance road transport passenger services, nearly all of the 2000 enterprises which embraced coach operations were state-run, with the Ministry of Communications (MOC) being the dominant operator. The remainder of enterprises were "collectives". Since 1978, the government has conducted economic reform and, consequently, the long-distance road passenger transport market has changed and has diversified. The stimulus of this change and diversity comes partly from the pressure of the rapid increase in travel demands caused by the booming industrial and agricultural developments which bring with them more commercial and social activities, and partly from the "multi-composition" policy which encourages collective and private enterprises to enter the market. In its ten years evolution to date, there is now a multi-form of competition more along the line of western concepts of competition. Not only do the various forms of ownership compete with each other, but there is also competition between state-run companies.

How many different types of enterprise compete with each other in the market? What sorts of deregulation, or reregulations, were carried out? What are the advantages or weakness of a government-run company? What is the function of government in this competition? Do governments usually favour state-run companies? Do users of the service get any benefit from competition? What is the trend in future? These are the main questions that give a rough chart of the issues to be covered in this paper.

Before studying the characteristics of the coach industry, it would be beneficial for readers to avoid any misunderstanding of the situation in China by noting the following definitions of technical terms:

1). Coach industry:

All road - based passenger transport which runs services intercity, intertown or between cities (or towns) and rural areas. Intracity commuter carriers are not involved here (which would be defined as the " bus industry" in China).

2). Coach company:

In China, some road transport companies are composed of a mixed structure of freight divisions (or "fleets") and coach divisions (or fleets). Some are pure, independent coach companies. In order to unify the concept, the "coach company" here implies both cases.

3). Long-distance road passenger transport:

It covers either intercity, intertown, between city and the countryside, between the town and the countryside, or between countryside and countryside. It does not cover intracity services, although the average travel distances of long-distance road passenger transport has remained at 33--45 km in forty years. The coach vehicles in China are called "long - distance passenger vehicle" (Chang Tu Ke Che), in contrast to the bus (Gong Gong Qi Che) with its relatively shorter travel distances in the city.

2 Characteristics of the Coach Industry -- Pre-economic Reform

A summary of the characteristics of the coach industry before economic reform is as follows:

- a) Mono- (or oligopolistic-) operator(s) in a particular region with a so-called "seller's market";
- b) Involvement of governments;
- c) Demand was far greater than supply.

-----Organisational structure:

Three levels formed a road transport company in a province before 1978 in all mainland provinces, autonomous regions and municipalities.

1).Provincial (Autonomous Region,or Municipality) Road Transport Company (PRTC)

Each PRTC usually ran from 2000 to 3000 coaches covering about 10 prefectures .The PRTC had obligations for achievement targets of transport production which were issued by both provincial government and by the Bureau of Communications(BOC) in the province. The targets included passenger-kilometres volume per period (month/quarter/year), passenger-journey volume per period, revenue, profit, and vehicle utilisation level.

One of the functions of a PRTC was to apply for and to obtain investments from higher authorities (that is, local governments, BOC or MOC) in order to extend their fleets, to renew their vehicles, to build, or maintain, terminals and stops, or to improve employee's welfare. The second function of a PRTC was to apply for and to obtain various quotas, for example, vehicles, petrol, employee vacancy, and land usage. The third function was management and administration which involved allocating the targets to lower level prefecture companies, planning route network in the province, and dealing with potential problems occurring with neighbouring provinces (across common boundary routes etc.).

2).Prefecture (or City) Road Transport Company (FRTC)

Each FRTC ran from 170 to 200 coaches covering 8 to 12 counties. They were the physical operational entities in contrast to the functions of pure management and control of PRTC. The routes and the timetables in the prefecture were made by the local BOC (government) and the PRTC, and were then to be the responsibility of the FRTC. The routes passing across the boundary of the province would be negotiated and arranged by the PRTC with the corresponding PRTC in other provinces. The individual FRTC owned nearly all of the terminals and stops in the prefecture. Any non-PRTC coach fleet should apply for the use of the terminal to one FRTC in that region if their fleet wanted to use any of the PRTC's facilities. All revenue produced by a FRTC was turned over to the PRTC. All expenditure and investments were supplied by the PRTC.

3). The county fleets of FRTC

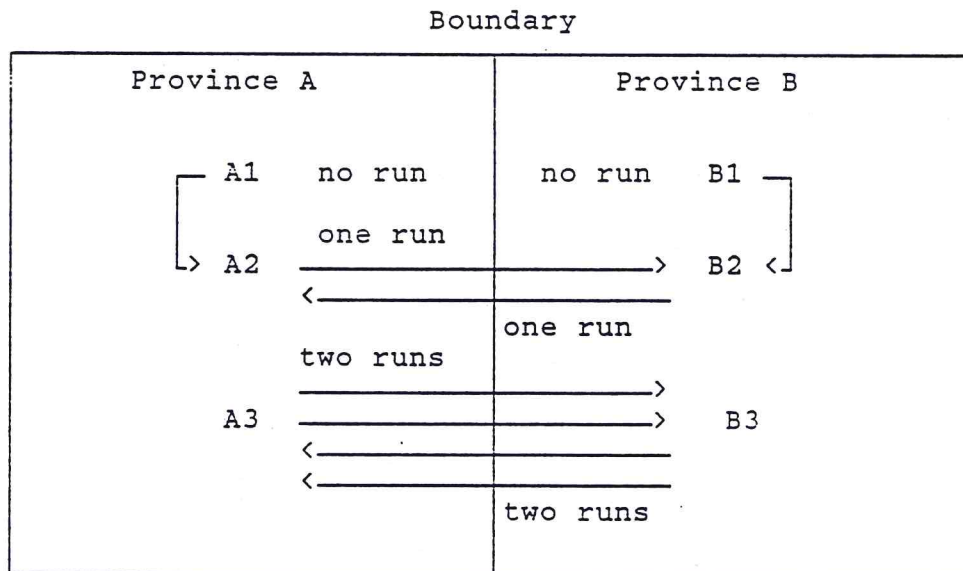
They carried out the runs and executed the routes and timetables in a particular county. All revenue were turned over to the FRTC. All expenditures were supplied by FRTC. In some counties there were collective coach fleets which operated the runs in local county boundaries. Those fleets were the only competitors outside of the PRTC.

-----Collaboration and the "Equivalent Run" rule

Before 1978, potential spatial (e.g. routes) or temporal (e.g.timetable) competition was greatly eliminated by the government's and by PRTC's arrangements -- that is, by collaboration between regions.

The popular (or official) spatial collaboration method was the "Equivalent Run" rule (see Figure 1). According to this rule, if PRTC A at place A2 has one run a day to place B2, the PRTC B at place B2 can only have one run to place A, equivalently. If PRTC A does not run from A1 to B1, then PRTC B should organise a trip from B1 to A1 via B2, or some where else. This rule did simply and effectively transform potential competition into collaboration between two PRTCs probably because those PRTCs were the only government representatives in that province.

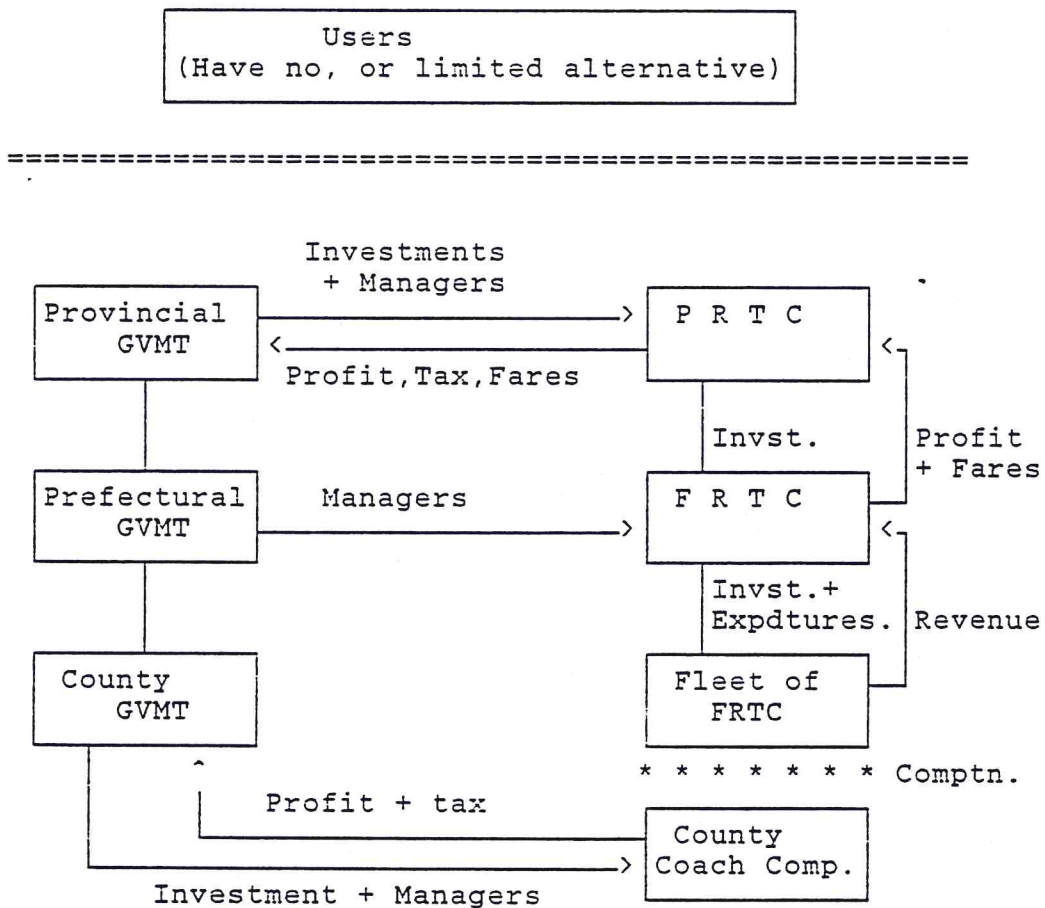
Figure 1. "Equivalent Run" Rule of Collaboration in The Territory of Two Coach PRTC -- Pre-economic Reform



----- Government, Operator and User

The tripartite relationships are shown in Figure 2. The government owned the whole property of the enterprises, made investment, decided operating targets, obtained all profits, and selected managers. The (state-run) operators were representatives of governments. Enterprise was a unity of proprietary right and operational right. Users faced a seller's market which was supplied by a mono-operator or by oligopolistic arrangement. There were rigid fare and fixed patronage which resulted in limited alternatives for users.

Figure 2. The Interaction and Relationship Between Governments, Coach Operators and Users --Pre-Economic Reform



3. Background to Change and Diversity

There were three factors impelling the Chinese Government to adopt vigorous measures for the deregulation of the industry, in the view of the authors: pressure caused by increasing transport demand; government financial constraints; and changing attitudes toward "competition".

1) The pressure of transport demand

A brief description for the feature of passenger transport in China in the last decade is shortage of supply in all-mode and in all-time.

"In all-mode" indicates that all modes of transport could not meet the overall demand of travel, including railways, road, water and aviation. Railway passenger train capacity was overloaded 40 per cent, which was calculated nationwide. In some trunk intercity lines the capacity was overloaded by 100 per cent. Civil aviation tickets had to be booked fifteen days in advance on most routes. Road passenger transport also was subjected to high pressure. From 1981 to 1986, passenger loading volume to vehicle capacity ratio steadied at about 0.85 nationwide, and exceeded 0.90 in seven provinces. This should be assessed by considering the fact that the maximum average ratio should not exceed 0.70 according to the reasonable service quality (based on safety and comfort).

"In all-time" implies that consumers suffered from travelling possible through the whole year, and year after year.

From 1949 to 1987, the annual increase rates of passenger-journey volumes and passenger-kilometres volumes of coach transport were 24.3 per cent and 16.6 per cent, respectively in 38 years. The figures were the highest among all modes. From 1979 to 1987 in eight years the corresponding volumes mentioned above had tripled (see Table 1 and Table 2).

2). The financial limitation for enlarging state-run coach fleet

In thirty years from 1949, the government put 4 billion Yuan (previous value) to the fixed assets of road transport companies (including freight transport). According to a policy research report of the MOC (Research Institute of Highway Science, 1986), in the seventh Five-Year Plan (1986-1990) the average annual increase rate of passenger-kilometres on long-distance road coaches will be higher than 14 per cent. In order to meet the demand, the total amount of investment on renewal and appending the state-run vehicles would be a shortage of 456.4 million Yuan (A\$ 150 million) if there is no change current policies. This figure represented more than the total yearly profit and tax the governments obtained from the coach companies between 1979 and 1985.

On the other hand, other industries have also strived for huge investments from the government. For instance, the energy resources industry and the railways had ever larger financial requirements.

TABLE 1. ANNUAL INCREASE RATE OF PASSENGER-JOURNEIES
IN ALL MODES FROM 1949 TO 1987 IN CHINA

MODE	PASSENGER TRANSPORT VOLUME (COO. PERSONS)				
	1949	1979	1987	AVE. ANNUAL INCREASE % TO 1987	
				FROM 1949	FROM 1979
RAILWAY	102970	856110	1124790	6.5	3.5
WATER	15620	243600	457790	9.3	8.2
AVIATION	270	2980	10130	10.0	16.5
ROAD	1802	1786180	7014580	24.3	18.6
TOTAL	136950	2896660	8610260	11.5	14.6

Sources:

1. " China Economic Almanac 1982 " . Economic Publication, Beijing.
2. " China Economic Almanac 1987" . Economic Publication, Beijing.

TABLE 2. ANNUAL INCREASE RATE OF PASSENGER-KILOMETRES IN
ALL MODES FROM 1949 TO 1987 IN CHINA

MODE	PASSENGER.KM. VOLUME (BILLION.PERSON.KM.)				
	1949	1979	1987	AVE. ANNUAL INCREASE % TO 1987	
				FROM 1949	FROM 1979
RAILWAY	13.0	121.4	284.3	15.2	11.2
WATER	1.5	11.1	19.9	7.0	7.5
AVIATION	0.2	3.5	18.7	12.7	23.3
ROAD	0.8	60.3	269.7	16.6	20.6
TOTAL	15.5	196.9	592.6	10.0	14.8

Sources:

1. " China Economic Almanac 1982 " . Economic Publication, Beijing.
2. " China Economic Almanac 1987" . Economic Publication, Beijing.

3). The change of attitude towards competition by government

In " The Resolution For The Reform of Economic Regime" by the Chinese Communist Party Central Committee in 1978, it was indicated that " the lack of motivation in our enterprises precisely demonstrates the various maladies in the current economic regime..." and " to establish the proper relationship between state and enterprise ... is the key link of the whole reform of economic regime". In 1983, the Minister of Communications stated the "Multi-economic composition in the transport market" policy, which encouraged private and collective transport business to enter the market. In 1985, The MOC declared that there will be two changes in the government functions starting from that year. One was to change from only look after the directly subordinated companies (e.g. state-run) as before to govern whole transport industry in future ; Another was to change from only having responsibility for the production of enterprises to take charge of administration for the whole transport market in future

4. Component and Scenario of Competition

Nowadays, the peculiarities of competition in China's coach market are:

- (a) non-monopoly;
- (b) imperfectly; and
- (c) strongly influenced by governments' interference.

Competition in the coach industry emerged in 1980, and was boosted in 1984--1985. In 1980, the first private-run commercial coach appeared in the transport market, operating a route between towns in Henan province, which is located at the right centre of China. In eight years, private-run coach operation, were developed gradually, now reaching more than 34,400 in twenty nine provinces and municipalities. The largest private runners own 35 vehicles and they are called the " New Millionaires (Xin Bai Wan Fu Weng)" by the local people.

Meanwhile, multifarious collective companies have expanded to approximately 9,300 vehicles at the end of 1987. These sorts of passenger carrier are mainly based in about 2400 county towns and some small cities sprayed around the country.

In addition, the bus industry, which was conventionally restricted to operate only inside the boundary of cities, "infiltrated" into the market. From 1982, the central government reformed their administration divisions. A "city" no longer has its traditional definition: it not only includes itself but also covers a number of counties nearby. Therefore, to operate the routes outside a traditional "city" to towns certainly followed a logical train of thought. As a matter of fact, the substantive motivation of the "infiltration" was the difference in the fixed price between bus operations and coach operation. Bus price was 0.015 -- 0.020 Yuan / passenger-km (Wang, 1988) whereas coach price was 0.24 Yuan / passenger.km. All bus companies were state-run and all of them were losing money except in two cities. As a result, bus-run coach routes became an effective method to reduce subsidisation, at least from the local governments point of view. For instance, the Bus Company in Shi Jia Zhuang city in He Bei province had 355 vehicle, of which 117 were changed to run long-distance routes in 1985.

The National Tourist Bureau possesses large, luxury imported coach fleets in twenty nine provinces. The total number was estimated in 1986 to be about 2000. These air conditioned vehicles have been the most favourable received by long-distance travellers since they joined the market.

Numerous institutions, enterprises (not including road transport companies) have their own fleets for business and for employee-communal usage. Sixty per cent of the total number of coaches in China (210,000 coaches) are dispersed in those establishments. In recent years, lots of them have joined in the competition for providing commercial passenger transport. Because these coach's costs are quite often put into other accounts instead into an account by themselves, the prices of those coaches are much more competitive than that of a transport company.

Nevertheless, the state-run road passenger transport companies still play a dominant role in the market. state-run enterprises own 90,000 coaches which is 37 per cent of the total coaches and buses in the country by the end of 1986 (see Table 3). A evolutionary comparison of vehicles of state-run, collective-run, and private-run from 1981 to 1986 are listed in Table 4.

TABLE 3. LIST OF COACH AND BUS STATUS IN CHINA (,000)

	1949	1979	1985
Coach and bus number	4.8	99.2	210.3
annu. incr. %	---	10.62	10.8 (to 1949) 11.3 (to 1979)
of which coach and bus under MOC			
number	3.1	35.6	90.6
annu. incr. %	---	8.48	9.6 (to 1949) 14.3 (to 1979)

Sources: Derived from " Corpus of Transport Statistic Data " , 1987, The Statistical Bureau of The Ministry of Communication, Beijing.

TABLE 4. A COMPARISON OF VEHICLES, PASSENGER-JOURNEYS AND PASSENGER-KILOMETRES IN VARIOUS OWNERSHIPS IN CHINA FROM 1981 TO 1986

	1981	1982	1983	1984	1985	1986
Vehicles:						
S /run	48096	52342	57702	63691	72972	78934
Collective	1358	2482	2778	5021	7640	9332
Private	----	----	----	5647	19342	34372
Passenger-journey Volumes: (000,000)						
S /run	2546	2835	3188	3641	3844	3907
Collective	6	9	11	22	36	46
Private	----	----	----	----	434	760
Passenger-kilometres: (000,000)						
S /run	82735	94248	106375	126031	143880	152422
Collective	979	1527	2174	6055	11113	14752
Private	----	----	----	----	12645	22084

Sources: Derived from " Corpus of Transport Statistic Data " , 1982, 1983, 1984, 1985, 1986, 1987, The Statistical Bureau of The Ministry of Communications, Beijing.

The state-run companies has a huge passenger transport network including 100,000 terminals and stopping facilities, 4 billion Yuan assets and nearly one million employees (including freight transport). They moved 3.9 billion passenger-journeys and 152.4 billion passenger-kilometres in 1986 which was 82.9 per cent and 80.5 per cent, respectively, of the whole industry.

The interesting change was that the state-run companies re-formed and the size of them tended to be smaller. This transformation commenced in 1983--1985. The function of conventional PRTCs in the market were crippled because the change of the links between the PRTC and the FRTC. With the increase of economic function of prefectural governments, the profit, tax and fare of a FRTC were collected by a prefectural government directly --- no longer by way of the PRTC --> provincial government. The high rank of management staffs of FRTC were also appointed by the prefectural governments. Consequentially, the PRTCs became unpractical and there are only two of them existence now (Yun Nan PRTC and Zhe Jiang PRTC). Those re-formed smaller companies have similar performance in smaller boundaries as the PRTCs' did before. Giving an example, here, the Jiang Su PRTC was split into 13 independent city companies which matched the 12 prefectures and Nan Jing city in the province.

Therefore, the frequency of friction amongst the boundaries was much increased. For instance, a route from Nan Jing to Shang Hai will now cross six boundaries instead of two before. When the "Equivalent Run" rule performs, from the users' point of view, there would be more services and alternatives for them. From the operators' view point, the situation forced them to compete with each other in departure and arrival times or in service improvement.

Coach competition commonly manifests itself in spatial and temporal ways in China like in most other countries. Competition in spatial terms was mainly interpreted as transport "pivots", which usually means cities, and trunk links between the pivots because of the high profitability potential. Comparatively, the routes linking little towns and country areas were not so competitive as the trunk routes.

Cheng Du, the capital city of Si Huan province, which is located in the southwest of China, has had an experience in coach competition as a pivot. in October 1985, there were more than 200 coaches (which were run on behalf of fifty enterprises) that competed at the North Railway Station under the administration of BOC in the city. The BOC arranged for the permission of entry, the number(s) of runs, and the time schedules. There were 334 runs, 9,000 passengers were moving each day, in contrast with 260 runs provided by the PRTC and only 5,400 passengers would be moving if there were no such diversity.

The 47 km long route between Han Dan city and Xing Tai city (both of them have a population of 700,000 in He Bei province) was a intense passenger flow connection. A strong competition between a combination of two bus companies in the two cities, and a combination of two coach companies in the two cities, was launched. In the half year from June, 1984, prices went down 40 per cent from 2.00 Yuan per person to 1.20 Yuan per person. Services were added to give a headway of 10 minutes in the peak hours. Users got great benefits and the operators were still above the breakeven point financially.

The route between Shen Yang and Fu Shuen in Liao Ning province was 45 km long. Because of the numerous commuters it has a dramatic attraction for many coach operators, of which there were about 60 state-run coaches (30 in each FRTC), 40 private coaches, 10 collective-run and 10 coaches belonging to various institutions and organizations. In about one year before 1985, there are lots of conflicts in relation to the uncontrolled time schedules. In order to get access to customers, coaches were stopped on streets, and blocked each other. In September, 1985, the BOCs in the two cities cooperated to set up a united administration system so that the arrangement of time schedules were approached successfully.

5. The Government Function in Competition

(1) Administration

There are nine different government departments that directly influence the coach industry. They influence the competition in varying degrees. The structure of these links is demonstrated in Figure 3. The nine separate departments have the follows functions.

-----Transport Administration Bureau (TAB) reports either to the Bureau of Communications(BOC) at provincial and local level or to the TAB in the MOC at central government level. The TAB is in charge of permission and cancellation of operational licences, routes and time schedule administration, pricing, vehicle log control, and a transport administration fee (1.0--1.5 per cent of revenue).

-----Road Administration Bureau collects road maintenance fee (15 per cent of revenue) from the industry.

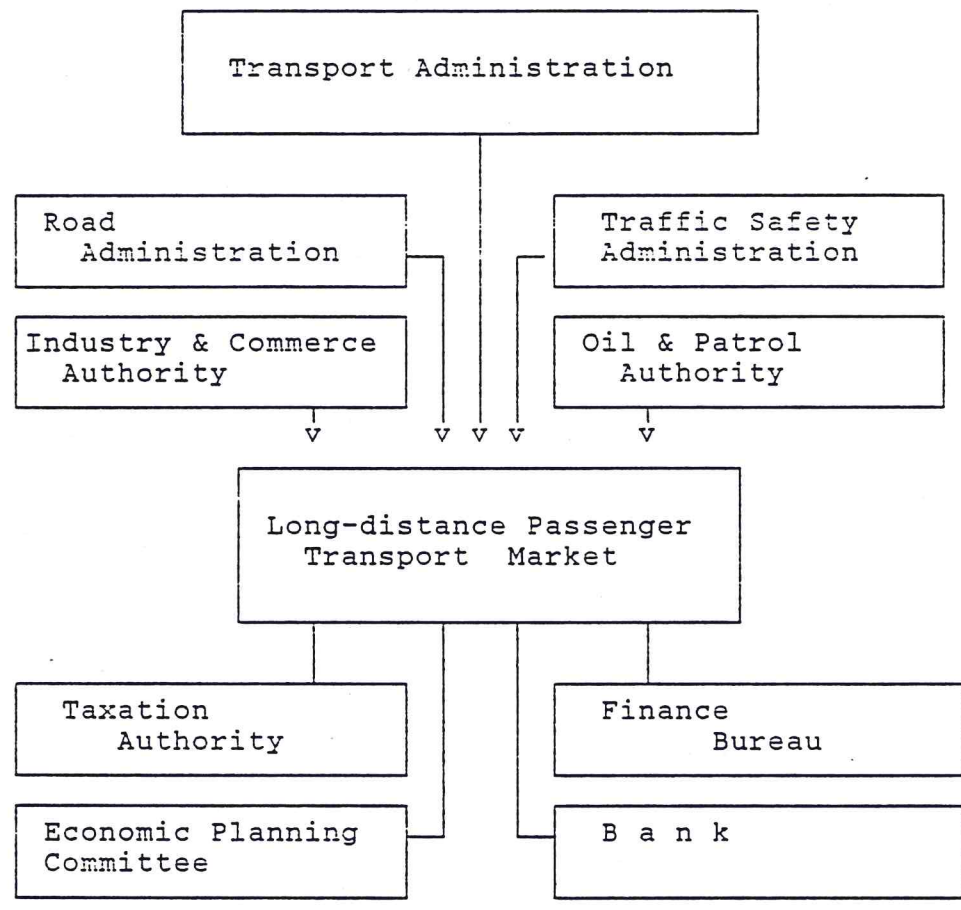
-----Traffic Safety Administration are in charge of qualifying all vehicles' technical and safety standards.

-----Industry and Commerce Authority will examine the qualification for the commercial licence of each coach enterprise.

-----Oil and Petrol Authority allocates the petrol quota which is very limited. Petrol cost is the highest item (32--35 per cent of total cost, in state-run companies) of transport cost so that it is one of the most sensitive factors. Private companies usually can only buy petrol at the market price (1.3--1.5 Yuan per litre) which is almost twice as high as the "planning price" (0.7-0.8 Yuan per litre), whileas there is 18 per cent of total petrol at the market price for state-run companies.

Figure 3.

INTERACTION BETWEEN DEPARTMENTS AND COACH INDUSTRY



-----Taxation Authority . Currently, there are eight different types of taxes for the state-run and collective coach enterprises. The tax policy for private business are quite loose. According to a investigation report (Song, et al, 1985^b), until 1984, the Taxation Department in central and provincial governments did not have a precise taxation policy for private business. Taxation for private transport could be ten times different in two close-by counties .

-----Financial Bureau mainly influences state-run enterprises which have a obligation of a certain amount of profit target to government. The target is set by the Financial Bureau in governments.

-----Economic Planning Committee has a right to allot a new vehicle quota which certainly is a critical factor for the coach industry.

-----Banks have become more and more important since 1983. From that year governments no longer freely invest to state-run enterprises and the money should be borrowed from banks if the bank holds that the usage of the money is profitable and legitimate. Most private coach runners obtained funds from banks when they commenced operations.

(2) Regulation and deregulation

Several deregulations have been introduced since 1978.

(a). Price

The pricing regulation was changed from a fixed (0.24 Yuan per passenger-kilometre) to a "semi-fixed" price which allows the fare to vary by 10 per cent of the fixed price in general operational conditions, and by 15 per cent in remote or mountainous areas. In other words, there are still price controls in the market.

(b). Entry application

The prohibition for private coach operations has been abolished. Each qualified legal person with a qualified operational background (vehicle, capital, and experience etc.) is permitted to apply for an operational licence, officially.

(c). Taxation and Fare

Abolished the Adjusting Tax (20 per cent of profit before tax) in 1986 ; Increased Road Maintenance Fare to 15 per cent of turnover from 9--12 per cent in various provinces in 1985; Added a new Vehicle Purchase Fare of 10 per cent for domestically-made vehicle price and 15 per cent for imported vehicle price from 1986; Increased rate of depreciation from 5.2 per cent to 10 per cent for state-run enterprises in 1986.

(d). Modified previous Road Passenger Transport Standard with the aim of being more flexible for private and small collective companies. For instance, the standard was changed in the terms of relating to terminal usage and operation, ticket printing and control.

3) Organizer

It is impossible for China's coach market, at this stage, to follow a rule in competition without government organization. The proof for this could be what we discussed in the third section.

4) Strengthen state-run enterprises

To strengthen the dynamics of large and middle scale state-run enterprises is a firm government policy of economic reform (Yu, 1987). For the coach industry, governments, as shown in Figure 2, support state-run companies in various ways: financial, vehicle quota, petrol quota, and prerogative of operation in routes and time schedule. It is possible that there are a number of realistic considerations of why governments are taking actions in favour of state-run operators except the ideological explanation which have been discussed in many ways by many economists and philosophers.

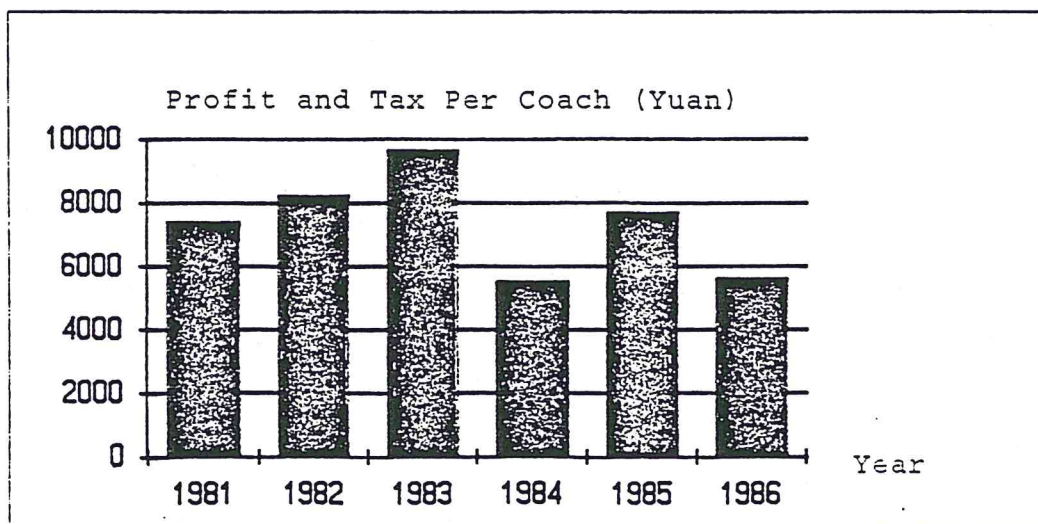
--- The official statement is that in the future " the socialist state-run economy will still play a leading role in the whole national economy. To consolidate and to develop the state-run economy are the critical requirements to ensure the collective ownership economy could go ahead along a socialist direction, and to ensure the private economy serves socialism" (Communique' of The Twelveth Chinese Communist Party National Conference, 1982).

--- "Public ownership" economy has been in the coach market for forty years. It has already formed a mechanism system and has played the part of a main force of the road passenger transport as detailed above.

--- State-run enterprises are the constant financial income resources for governments, though the vehicle-profit-and-tax has descended from 1983 (see Figure 4).

--- State-run enterprises are quite steady operators in the coach industry usually without diversion to other industries so that it is possible to avoid the supply fluctuating sharply in the market.

Figure 4. GOVERNMENT PROFIT-AND-TAX PER COACH FROM STATE-RUN PASSENGER TRANSPORT ENTERPRISES FROM 1981 TO 1986



Sources: Derived from " Corpus of Transport Statistic Data " 1982, 1983, 1984, 1985, 1986, 1987, The Statistical Bureau of Ministry of Communications, Beijing.

6. Conclusions

1). Competition has emerged in the coach industry in China since the government changed its economic policy. The monopolistic aspect of state-run enterprises has been eliminated, or is being eliminated.

2). "Competition" now is unperfected by the theory of western economics. For instance, the price is not absolutely free and still comes under the jurisdiction of a part of "national economic planning". On the other hand, the overwhelming majority of state-run enterprises in the market does not necessarily indicate that there is a monopoly situation.

3). Through competition the users unquestionably have obtained benefits: travellers are more convenient to obtain access to coach services: prices have gone down in absolute or in relative terms; the services have been improved. From another view point, the operators, especially the state-run companies may incur deficits in the competition scenario if they do not improve their services and management.

4). The changes of governments' structure and the functions influence the structure and organization function in the industry. The financial relationship is a key link.

5). From the stand of governments, the income collected from state-run companies has been reduced dramatically in spite of there are some other factors influenced else, e.g. inflation makes costs going up. Concurrently, governments have to take a biased policy in favour of state-run operators for political and economic reasons. Nevertheless, the government stride forward towards the goal of commercialisation in the coach industry.

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