

Railway Diversification in China

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Economic Reforms

China's National Railways (CR) is diversifying its business on a massive scale within the context of the national policy of economic reform and opening up to the outside world. In the mid-1980s, the Communist Party of China and the government set the tone for economic development of large- and medium-sized state enterprises based on the slogan, 'Keep the main business, but diversify', as well as on a series of other important policy directives. In 1984, under the banner of this slogan and other guidance, China's National Railways broke with the long tradition of being merely a rail passenger and freight enterprise and started setting up businesses in other areas.

Growth of Diversified Businesses

In the last 10 years, China's National Railways has used its niche in the railway industry, regional areas, resources, capital and manpower to diversify, extending operations from passenger and freight transport to services both inside



Peking West Station, opened early 1996, is the largest railway station in Asia. Its huge building provides ample space for various diversified business activities. (CR)

and outside the traditional train operations in markets at home and abroad. The business sphere is ever-widening; in many cases, new businesses were literally started from scratch. Small businesses were built into big ones at a brisk pace. By late 1985, the National Railway system had created 1,504 new businesses. Staff exceeded 40,000, income reached 6.3 billion Yuan racking up a profit of about 170 million Yuan. During the Seventh Five-Year Economic Plan (1986–

1990), business diversification looked to the market, quickening the pace of development. During this time, both business gross income and net profit increased substantially. By the end of 1990, the entire national railway system had blossomed into 3,900 businesses with fixed assets of 1.34 billion Yuan, and 237,000 employees. 1990 showed a gross income of 6.28 billion Yuan, with a profit of 1.29 billion Yuan. During the Eighth Five-Year Economic Plan (1991–1995), the National Railways grew at the fastest pace since 1949 while its diversified businesses also experienced relatively rapid growth. Everyone in the railways worked toward building strong leadership, achieving integrated planning, expanding business areas, promoting industry and commerce, and strengthening management—requirements set forth by the Railway Ministry in the slogan 'Grasp opportunity, accelerate development, promote new business diversification' and in the Eighth Five-Year Plan outlining the development for diversified businesses until year 2000. By the end of 1995, the various business units totalled over 8,000, with assets estimated at 32.3 billion Yuan, representing an increase of 450% over the 5.9 billion Yuan



Longrui Hotel run by China Railway's Kunming Railway Bureau

(CR)

assets in 1990. Fixed assets were pegged at 7.1 billion, an increase of 430% over the 1.3 billion Yuan fixed assets in 1990. Net assets of 12.1 billion Yuan comprise 37.5% of total assets. Business income for 1995 reached 29.8 billion Yuan. Business income for the Eighth Five-Year Plan totalled 97 billion Yuan, which compares favourably with the 21 billion Yuan total business income generated during the Seventh Five-Year Plan, representing an increase of 360% at an average annual increase of 36.5%. The railways generated profits of 3.44 billion Yuan in 1995. The total profits for the Eighth Five-Year Plan was 12.9 billion Yuan, or an increase of 190% over the 4.4 billion Yuan generated during the Seventh Five-Year Plan at an average annual increase rate of 21.1%. During the Eighth Plan, taxes reached 5.02 billion Yuan, representing an 95.3% increase over taxes of 2.57 billion Yuan during the Seventh Plan.

Types of Diversified Businesses

For the last 10 years, China's National Railways has pursued diversified businesses using market demand as a yardstick, placing priority on developing passenger and freight-forwarding services to establish key businesses. To increase passenger comfort and freight convenience, and to expand the service scope and variety, the National Railways opened 255 'trackless train stations' to reach remote areas away from railway lines. Door-to-door delivery services require new facilities so new storage- and freight-handling facilities were built. Hotels, guest houses and restaurants have been built near railway lines and in large and small cities and towns, to provide better services for a wide variety of domestic and international customers. Travel agencies established by the diversification have passed the 100 mark, and service the entire nation. Tours and trav-



Open-air market operated by Shenyang Railway Bureau in Jinzhou. The slogan says 'Protect consumer interests and support market economy'.

(CR)

el services are available to large- and medium-sized cities and popular tourist destinations in China, Southeast Asia, Russia and European countries. Diversified businesses handling bulk cargo, have developed at a favourable pace. By the end of 1995, income from large-scale rail-related businesses accounted for a huge 40% of all income generated by the business diversification. The National Railways used its own capital, human resources, technology, land and equipment to vigorously develop businesses

ranging from construction, real estate, and value-added manufactured goods. In cases with the appropriate preconditions, The National Railways has also expanded its economic activities through agriculture, livestock farming, mining, and production of building materials. At present, business has diversified in ten main areas: freight forwarding, warehousing, commerce and trade, overseas shipping, container shipping, food and beverage service, travel, advertising, real estate, mining, building construction



The East Express Company, a subsidiary of Shanghai Railway Bureau, offers on-board food and beverage services.

(CR)



Newly-constructed station building in Lake Baykal region, Siberia. The project was undertaken by Harbin Railway Bureau's International Economic and Engineering Cooperation Company. (CR)

materials, international trade, etc. These economic pillars involve a huge range of business giving the National Railways a well-rounded economic profile.

Business has been diversifying for just over 10 years, but it is already benefiting the entire system; it is a crucial pillar supporting development of manpower, improving life, and adding sparkle to local economies. Consequently, it is making a major contribution to China's National Railways as follows:

First, by 1995, diversification income amounted to 47.2% of all railway transportation income and total profits from diversification exceeded those of the transportation sector itself. The still-incomplete statistical data suggest that diversification income from 1986 to 1995 totalled 128.9 billion Yuan, producing profits of 18.3 billion Yuan. Taxes paid to local governments by diversification businesses totalled 6.1 billion Yuan, and taxes paid to the Railway Ministry totalled 3.2 million Yuan. 350,000 railway employees were dispatched to new assignments. The transportation business received economic support in terms of wages, bonuses, staff housing allowances, and welfare facilities from the diversified businesses totalling 17.85 billion Yuan.

Second, the construction and renovation of transport-related customer facilities has

improved the efficiency of the transport sector as well. To compensate for lack of capital to develop railways, an aggressive funding programme has been undertaken, the quality of many railway waiting rooms has been improved by renovation and new construction, high-quality equipment has been installed in almost 10,000 carriages, 1,692 warehouses have been built, the freight-handling area has been increased by almost 9.47 million m², expanding storage capacity to nearly 68 million tons and increasing daily in/out movement of goods

to 1.7 million tons, greatly alleviating freight bottlenecks.

Third, diversification has prompted attention to market demand, and has expanded the railway's readiness to deal with the outside world. Diversification has forced the railway to explore its market adaptability and responsiveness.

The benefits can be seen in the 'trackless train stations', the new warehouse facilities, the special lines servicing special needs, the improved service facilities, and the overall increased sensitivity to market demands. Not only does diversification enable rail transport to handle ever-growing freight volumes, it also contributes to the evolving shape of the transportation market. The value-added manufacturing, construction, commerce, service and R&D sectors are each aggressively pursuing market-oriented competition. Diversification continues under the slogan, 'Commercialization, collectivization, scale merits and internationalization'.

Industrial production groups and key enterprises were established one-by-one in rapid succession. Starting in 1993, the Railway Ministry focused on creating and developing companies under its direct



Kindergarten in Siberia constructed by Harbin Railway Bureau

(CR)

supervision including the China Railway International Service Company, the China Railway Import-Export Company, the Hua-Tieh Estate General Company, the Hua-Yun Travel Group, and other economically-viable businesses. Last year, companies to be organized eventually as subsidiaries of the Ministry of Railways were established in Hong Kong, Shanghai's Pudong district, Xiamen (Amoy), Shenzhen, Hainan Island, and other coastal economic zones. These groups and key enterprises take advantage of their niche in rail transport to aggressively open and develop coastal and border regions and river ports to promote international business. By the end of 1995, China's National Railways international trade programme had already pulled in business worth more than 5 billion Yuan, had attracted foreign investment of more than 800 million Yuan, and led to the creation of some 78 joint enterprises with foreign companies.

Fourth, diversification brings the sparkle of economic activity to local regions, benefitting society as a whole. To meet the requirements of the huge number of consumers using passenger and freight services in rural areas, the diversification is engaged in aggressive expansion of food and beverage outlets, commerce, entertainment, real estate and hotels, guest houses and other related businesses. This creates small economic zones centred on train stations and freight facilities serving as engines of vigorous local economic activity. Some railway-related enterprises take advantage of poor transportation, high freight demand and rich natural resources by entering into joint ventures with local companies to operate factories, and build freight forwarding stations and private spurs. This helps carry quality rural products to remote markets, which in turn supports the local economy and brings obvious social benefits.



Minibus manufactured by China Railways' Wanda Motor Company in Guiyang. The minibus is still a major form of transport supplementing railways in China. (CR)

Future Prospects

The Ninth Five-Year Plan will be a period of even greater importance to the business diversification. Recently, the Railway Ministry prudently summarized the experience of the Eighth Plan and studied how rail-related enterprises developed abroad. Based on the points raised, the Ministry set forth a list of requirements and changes for the Ninth Plan. In terms of structure, the emphasis will no longer be strictly on key industries, but on all-around diversification. In terms of management, diversification will proceed by linking small, dispersed units into units of larger economic scale. In terms of administration, there will be a shift from assessing diversified business separately to a new trend towards combined assessment. To effect this important strategic change, the diversification businesses must respond to the market by vigorously ex-

panding the ten key pillars while trying to develop new technologies and leading-edge industries. Future plans include building a new railway infrastructure to support the five special economic zones, specifically, building the Beijing-Kowtoon Line, and the coastal lines, developing the Yangtse River region, building overland links between Asia and Europe, and developing the Tumen River region. These five zones will form the foundation for the expansion of China's railways and economy. At the same time, more links will be created, transportation gaps will be filled, and science and technology will be developed to the limits.

By 2000, the annual income, profits, total assets and other main business indicators should be double the figures at the end of the Eighth Plan. With strengthening merits of scale, and gradual rationalization of production, China's National Railways faces a new chapter in a multi-faceted business modernization programme. ■



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