

# Study on Modernization of Transport Governance Systems in China

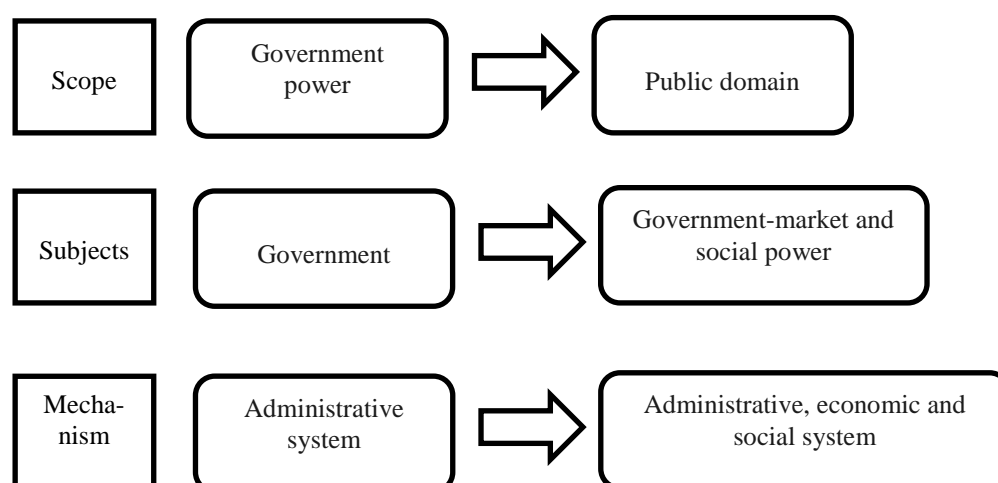
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## I. Introduction

State governance is a system of mechanisms and regulations, covering political, economic, social, cultural, ecological and other fields, transport included. Transport governance is subject to state governance, but also an integral part of the state governance system. Similar to state governance, the modernization of transport governance means the scope of governance is expanded from the field of government power to the public domain, the main subjects of governance expanded from government to government-market and social power, with the governance mechanism improved within the surrounding administrative, economic and social systems.

In the administrative system, the improvements include accelerating the transformation of government functions, further promoting governance coordination of transport and other fields, improving the integrated transport system, optimizing the coordination of central and local governments, and speeding up rule by laws in transport etc. In the economic system, the improvements include dealing with the relationship between government and market, deepening the reform of transport investing and financing system, and improving the mechanisms of transportation transformation and upgrading etc. In the social system, the improvements include the further play of social power on government and market supervision etc.

Figure 1 Governance System Modernization



## II. Unique Experiences in China

After the reform and opening up, a series of reforms in China's economic, administrative and social system are also reflected in the field of transport, and transport governance has undergone a long-term evolution and made great progress toward modernization.

### 1. History of transport governance evolvement in China

#### (1) Opening up (1978-late 1990s)

The Third Plenary Session in 1978 was the turning point of China's economy, leading to the gradual transformation from a highly centralized planned economy to a socialist market economy by 2000. In this context, transport governance has also gone through transforming, including liberalizing the transport market and establishing social investment and financ-

ing mechanisms etc.

Regarding railway transportation, the central government still undertook capital investment for construction, and the income was collected and passed on to the central government.

Regarding road transportation, it was considered timely to start collecting vehicle purchase surcharges, road passenger surcharge, and raise the standard of road maintenance fee etc. for road reconstruction and new projects. In December 1984, the 54th executive meeting of the State Council made an important decision on "loaning to construct roads, collecting fee to pay loan," and established China's toll road system.

Regarding port transportation, from January 1986 and onwards, the management system was changed from management by the central government to "dual leadership, the local government as the core." Port investment and construction began to open to local governments and social capital leading to a consensus on "Who invests, who builds, who uses, who

benefits."

Regarding aviation, the aviation department and enterprises were divided, local governments and domestic enterprises were allowed to set up airlines and invest in the construction of airports. In the 1990s, the Civil Aviation Administration of China (CAAC) also undertook reform to award administration rights of airports to local governments.

## (2) Integrated transport development (2000-2010)

At the beginning of the 21st century, especially after China's accession to the WTO, China's economic integration into the process of globalization accelerated, which greatly stimulated the transport demand, while China's transport supply capacity was improved enormously. The contradiction between economic, social development and transport "shortage" was relieved; the development of an integrated transport system has become a common goal. The central government has been playing a better role as the top-level designer through a series of transport planning.

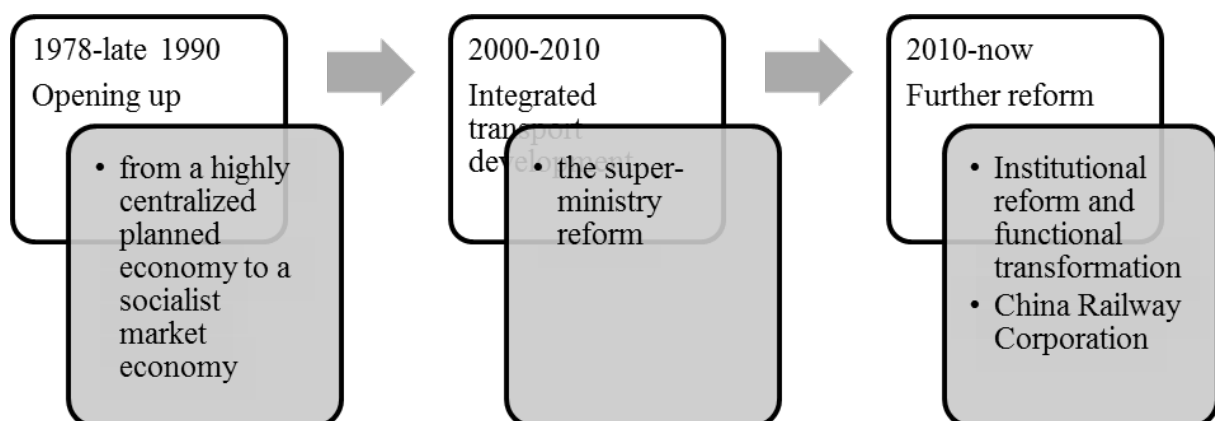
Under the background of the super-ministry reform in 2008, the Ministry of Transport was set up, including the Ministry of Communications, the State Administration of Civil Aviation, the State Post Bureau and other agencies, with the duty of instructing urban transport assigned to the MOT from the Ministry of Construction.

## (3) Further reform (2010-present)

Currently, reform of the administrative examination and approval system and speeding up the transformation of government functions are the main tasks identified by the "Institutional Reform and Functional Transformation Program for the State Council" approved by the 1st Session of the 12th National People's Congress.

In March 2013, the division of government administration and enterprise management commenced. The responsibilities of railway planning and policies were transferred from the Ministry of Railways to the Ministry of Transport. The China Railway Corporation was formed to assume corporate responsibility for the Ministry of Railways.

Figure 2 History of Transport Governance System in China



## 2. Current Status Evaluation

In the past three decades, China's transport governance has continued to modernize itself, but there are still many problems which lead to the failure of the transport system to achieve maximum public interest.

### (1) Imperfect institutional system

Firstly, there is no basic law covering the whole field of transport in China. Secondly, the transport legislation is lagging behind the requirements of economic and social development. Thirdly, the effectiveness of transport laws and regulations is not strong and coordinated.

### (2) Unclear positioning of government and market

Under the socialist market economy, the functions of the government and the market are not clarified. Governments still have the "offside" tendency of guiding markets. And there are still some problems from "lack of government" in some areas, and government power is "fragmented."

### (3) Lack of social power evolvement

Including transport, community and other social organizations are extremely lacking in China's governance system. The excessive strength of state power leads to the weakening of social power and the lack of social self-organization.

## III. Economic and Social Trends in China

For the next period, the construction of transport infrastructure is still an important

investment growth point in China, especially in the economically backward areas, imparting a stronger public welfare attribute to the transport infrastructure.

Meanwhile, since the supply of transport infrastructure has been greatly improved, the quality of transport services for the people becomes more important. So more diversified market players should be introduced in and play a greater initiative to participate in state governance, and the role of government should be changed from capital investors to order investors, providing rules for different market players and constraining them to comply.

It is forecast that by 2050, more than 80% of the population in China will live in the major urban agglomeration. Complex urban transport and urban agglomeration transport put forward new governance requirements. And with the 4th industrial revolution, and a new crossing-industries transport eco-system will come into being, which also calls for new governance.

## IV. Future Transport Governance System in China

The modernization of transport governance is dynamic. From the vertical perspective of time, it transforms into a new balanced governance structure because of changes in comparative advantages etc. From the horizontal perspective of space, there is no uniform standard of governance modernization, and it is an optimal choice with distinctions due to the development stage and endowed characteristics of different countries. Generally speaking, China's governance modernization should adhere to the rule of law, take governments as the lead-

ership, and coordinate market and society to play important roles.

## 1. Adhere to the rule of law

### (1) The basic law for transport

It is necessary to protect citizens' transport rights through legislation. The status of transport as public services and transport policy orientation should be identified by a basic law for transport, as well as clarifying the developing direction of "innovation, coordination, green openness and sharing." In addition to this, it is suggested to establish a systematic, authoritative public transport policy-making procedure through legislation.

### (2) Transport entities

One of the keys for achieving transport governance modernization in China is to implement the separation of governments and enterprises, and regulate the transport market. Therefore, it is necessary to identify subject qualification of market players through legislation including investors and financing entities, constructors and operators, and propose clear legal norms of various types of transport activities focusing on market access and exit.

### (3) Transport planning

At the national level, it is necessary to further improve the statutory status of integrated transport planning to an authorized law. It will be necessary to clear the leading role of transport sector in integrated transport planning work and introduce a regulated administration approach, including standardized procedures, forms and contents for integrated transport planning, and further refine specific projects and funding sources.

### (4) Regulation consolidation

In order to justify the conduct of transport entities, it will be more efficient to form transport behavior laws and related technical standards favorable for entering the international market after systematically consolidating the administrative regulations formulated and issued by transport administrative departments.

### (5) Regulations for new transport

It has become necessary to introduce new administrative regulations to regulate new business modes in the transport industry.

First, take autonomous vehicles for example. Work on related laws and regulations should be on the agenda, including issues such as research on establishments and improvements of relevant technical standards for vehicles and infrastructures, revision on Road Traffic Safety Law, and setting guarantee mechanisms for testing and commercial applications.

Second, take shared transport as an example. As a new business mode generated by the development of mobile Internet technology, it not only affects the traditional urban transport business, but also produces different labor relations and customer-service relations. The Ministry of Transport has introduced relevant guidances, including "the Network-Reserved Taxi Administrative Interim Measures," "Encouraging and regulating Internet-rental Bike Guidance," and "Guidance on Promoting Car Internet-rental." It should be further regulated from the level of transport behavior laws in the future.

## 2. Government Leadership

In the field of transport in China, the roles of governments include that of an investor, financial entity, producer, and administrator etc. In the new value orientation, the role of governments will undergo a major change and transform into a social supporter, providing public services, developing and maintaining orders etc.

### (1) Government sectors

The most important role of the Ministry of Transport should be an independent regulatory agency in the future, playing as the most important transport criteria developer and issuer regarding transport infrastructure and services, long-term strategic planners, executant and regulator of laws, system designer etc., while enhancing specialty and inclusiveness. At the same time, it is important for the MOT to further strengthen its coordination with other departments and clarify the corresponding responsibilities to reduce conflicts. And it is also important to re-adjust the central and local governments' power and responsibility, adhere to the established rule of "local affairs, local management."

### (2) Cross-regional organizations

With the integration of China's major urban agglomerations accelerating, transport integration has become necessary. However, there is still a lack of regional level of transport organization, although there are some pioneers who have released integrated a transport plan, such as the "Beijing-Tianjin-Hebei Integrated Transport Plan" released in 2015.

A "planning - legislation - policy" collaborative development system should be established in the future so as to develop a reasonable plan for promoting the coordinated and ordered

development, to ensure the smooth implementation of the planning objectives, and to promote long-term and efficient implementation of regional synergic strategy. At the same time, it is also essential to establish a regional coordination mechanism to justify benefit and input sharing between the central and local governments, according to the attributes of different projects.

### (3) Government-market

As we know, the ideal state between governments and enterprises is complete separation. Governments should play the role of establishing and maintaining market orders to create a transparent and unified market, preventing and getting rid of local and departmental protection, breaking monopoly and encouraging fair competition.

But the transport industry is unique in that some products are provided as public or quasi-public goods, therefore, governments are responsible for direct investment, or encouraging private capital to participate in constructions through subsidies and tax incentives etc. As a result, state-owned enterprises such as government-endorsed transport financing platform will continue to play an important part. In a modernized transport governance system, a healthy capital cooperation relation between governments and enterprises should be formed, in the form of PPP or public services purchasing etc.

## 3. Market Power

In a modernized governance system, it is necessary to bring full play of market participants interacting with governments so as to meet the needs of market development and improve governance effectiveness and efficiency. In



China, the most important is to deepen the reform of state-owned enterprises, actively promote the establishment of a modern corporate system and all-around corporate governance structure, and introduce non-state capital in. At the same time, it is suggested to cultivate industry associations playing the function of industry autonomy as a bridge and link between governments and enterprises.

#### 4. Social Power

Given the rapid economic development in China, the logic in the state-led top-down, government- market cooperated governance lies in how to achieve faster transport modernization and support economic development more effectively. It is necessary to advocate social participation in cooperative governance. The premise of social power's participation in transport governance is support by the state. Governments should decentralize to self-governing local organizations in villages and cities, non-profit organizations etc., so as to make transport system more flexible and inclusive of the interests of various groups. And it is important to build a reasonable negotiation process to develop a whole society's extensive consultation regarding transport planning, construction, and operation covering the whole country. **KIEP**