

Reforms of China's State-Owned Hotels and Related Issues (Summary)

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Since the founding of the People's Republic of China in 1949, state-owned companies have formed the basis for the country's economic activities. However, during the 1990s, they began to succumb to competition from foreign and non-state-owned companies and rapidly lost their grip on the market. Moreover, a steady stream of companies fell into the red, with about 40% of state-owned companies posting a deficit in 1998.

As a result, the Chinese government became strongly aware of the need for reforms among state-owned companies in the mining and manufacturing sector in particular, and from around the end of the 1990s, it began to promote powerful reforms, such as declaring ailing companies bankrupt and implementing personnel reductions through massive layoffs. Consequently, state-owned companies in the mining and manufacturing sector are undergoing a transformation, from a position in which their survival was protected by the state to one in which they are entities that could be culled by the market mechanism.

In relation to this, unlike those in the mining and manufacturing sector, state-owned companies in China's hotel industry are still the main force in the industry and are a key presence that has created past development. More specifically, as of the end of 2003, state-owned companies accounted for 553,642 rooms in 5,622 hotels (hereafter referred to as state-owned hotels), accounting for 55.8% of all rooms and 57.7% of all hotels.

Moreover, operating revenue in the hotel industry as a whole was around RMB98.3 billion that year, with 41.7% of this generated by state-owned companies. Furthermore,

over the decade from 1994 to 2003, 6,756 hotels were established, with about half of these being developed by state-owned companies.

Thus, state-owned companies in the hotel industry have played a key role. However, if we shift the frame of reference to management, we can see that the advantage they have in numerical terms is completely disappearing. In addition, just as with state-owned companies in the mining and manufacturing sector, they are falling behind as inefficient, uncompetitive organizations.

Consequently, the Chinese government initially attempted a policy of "separating ownership and management", which involved trying to reform state-owned hotels by introducing policies aimed at increasing the autonomy of management, while maintaining the state-focused corporate ownership structure. However, this policy was watered down in practice, due to opposition from the various government institutions that owned such hotels, and the policy did not have the anticipated effect. Therefore, new reform techniques are currently being sought to replace this policy of "separating ownership and management".

Accordingly, while pointing out that the reforms of state-owned hotels aimed at "separating ownership and management" are approaching the limits of their effectiveness, this paper states that new reform techniques that could replace this policy are being tried, such as business mergers and privatization of state-owned hotels. However, these new measures are also not without their problems. Therefore, this paper discusses the issues involved in adopting these new reform techniques.