



Index of Postal Freedom

China - China Post



Overview

China's postal service, **China Post**, has among the largest delivery networks in the world, with 77,000 post offices. Its more than 500,000 postal employees serve China's 1.3 billion inhabitants, delivering over 7 billion letters and 95 million parcels annually and generating over \$7 billion in revenue (2005 statistics).

Today's China Post dates from the founding of the Communist regime in 1949. The postal service for decades remained an appendage of the government. Only in the 1980s, when China moved toward limited liberalization, were big state units formally restructured as state-owned enterprises (SOEs) and given a degree of operational freedom. But SOEs were by no means set free -- they remain wholly controlled by the Communist Party and subject to its largely opaque decision-making processes.

Because of its size and complexity, China Post was the last large state organization to be restructured as an SOE. However, additional reform of the postal service has stalled. Moreover, since postal rates have been kept artificially low, traditional mail services operate at a loss and require subsidies.

China Post has long provided services beyond mail delivery, the most important being money deposit and remittance. Hundreds of millions of Chinese keep their savings with the Post, even though it pays very low or, with inflation, even negative rates of interest. Migrants from rural China regularly use the Post to send an estimated \$30 billion in remittances back to their inland families. Until 2003, the Post was required to keep its deposits in state banks. Such banks were directed to pay a slightly higher (state-controlled) interest rate on Post deposits. The difference between what the Post paid out and what it earned on deposits long provided the primary subsidy to support universal mail service.



The last ten years have witnessed a whirlwind of modernization in China with a growing economy, increasing cash reserves, and China's entry into the WTO. With the passage of a limited and still vague postal reform bill in 2005, parts of the postal sector have come alive. What is now the China Post Group (still owned by the state) has been active in protecting its traditional monopoly on personal domestic mail under 350 grams and leveraging its network to hold on to exploding new markets.

Liberalization

As the red-hot Chinese economy has sprinted forward, reform of the traditional mail system is still in the initial stages. Modernization and competition have taken place in economically vital sectors of courier service (business express mail), electronic communication, and banking. China Post still maintains a legal -- if hotly contested and often unenforced -- monopoly on mail and parcels weighing 350 grams or less. Profitable intra- and inter-city express mail service (EMS) has been the main battleground, where local and foreign competitors face formidable opposition from regulators loyal to state-owned China Post.

Until 2005, the State Post Bureau had a dual role -- it was both the regulatory authority on all postal matters and the organization which delivered the mail. In every area it could control, it has been slow to innovate and sought to block potential competitors from breaching its monopoly.

China Post did establish its own Express Mail Service (EMS) in 1980, recognizing it as a high-potential market. Since China Post had no international capacity, international EMS was opened to foreign carriers in the mid-1980s. But those carriers -- including FedEx, UPS, DHL and TNT -- were prohibited from handling domestic EMS until roughly 1995. Since that time, foreign carriers have lobbied to extend their reach into Chinese domestic markets. Thousands of local Chinese carriers have also sprung up, serving cities and high-volume routes, often on a semi-legal basis. Meanwhile, China Post has sought -- through subsidiaries and joint ventures -- to participate in lucrative international markets, primarily intra-Asian express mail and package delivery.

Efforts to open up China's domestic mail market and to establish the long-term legitimacy of local carriers have largely failed. Legislation to reform the postal



system has been drawn up by China Post insiders who sought to protect China Post monopolies and to tilt the playing field in lucrative emerging markets. In effect, China Post itself drew the line between what in China are called "Post-exclusive" and "non-Post" services -- services which foreign and local carriers alike claimed should be opened to full competition under WTO. These competitors to China Post complained that a sector operator -- the subsidized Universal Service Provider of traditional mail service -- should not be allowed to set the rules for an entire industry.

The last three years have seen an explosion in non-mail services provided by China Post -- primarily banking and financial services. Such services are closely linked to industrial development and are profitable for China Post. Besides express mail, savings banks, remittance transfers, Internet banking, and logistics services -- all leveraging the ubiquitous China Post network of post offices -- have evolved at breakneck speed. Moreover, the China Post network is established in rural China, and so the government has used the China Post infrastructure as a conduit to bring small loans, insurance, ATMs, and Internet transfers into the backcountry.

Life insurance sales represent the next business venture for China Post. In June 2008, China Post Group received the go-ahead to launch China Post Life Insurance Company Limited. The new company has stated that it will target farmers, low-income urban residents, and migrant workers in particular.

Privatization

Postal regulatory functions were separated from postal business functions of the State Post Bureau with the creation of China Post Group (CPG) in December 2006. On the one side, the State Post Management Bureau (SPMB) was set up as the agency which regulates postal services nationwide. On the other, CPG, with registered capital of 80 billion yuan (about US\$11.5 billion), was established as the operational arm with four segments: postal services, logistics and express services, private document services, and financial services.

Still wholly owned by the state, CPG has launched subsidiaries which have entered into joint ventures with domestic and foreign companies. Certain profitable units have even been packaged for limited IPOs to raise private



capital, but the fact that the state continues to play such a large role in ownership has scared away most potential investors.

The traditional mail service (China Post) is now the major sub-unit of the CPG. But CPG is building a massive savings bank, a major insurance subsidiary, a nationwide business logistics operation, and an airfreight line. Both local and foreign competitors in hot new revenue markets contend that the State Post Management Bureau continues to set aside and favor CPG operations, especially in business EMS. CPG counters that it needs the profits of EMS to subsidize its Universal Service operation and has even pushed for increased taxation of foreign and domestic competitors to support traditional mail.

Competition

There is virtually no nationwide competition in the core letter mail business because postage prices are held low for political reasons. A letter can be sent from Shanghai to Yili, some 4,500 km away, for what amounts to pennies. China Post still holds roughly 90 percent of the domestic market, although it has faced the most pressure in emerging industrial centers.

Today, however, there are over 100,000 foreign and non-state express mail service providers that carry out about 80 percent of same-city express mail delivery and over 50 percent of trans-province business express mail services. Such firms can handle mail under 350 grams so long as it is not personal mail. Foreign firms like DHL, UPS, TNT and FedEx have taken most of the international freight forwarding market. China Post, through a co-operative agreement with Dutch TNT, holds only about 25 percent of that business.

New legislation may give China Post's Express Mail Service the sole authority to handle documents weighing under 150 grams, effectively forcing most domestic express companies to shut down, as 90 percent of their business is derived from handling such small items. It presumably would prevent foreign and private firms from handling business from online retailers.



Outlook

Observers say it is unlikely that the Chinese government will allow foreign competitors significant entry into what is considered a semi-strategic sector of the economy. Moreover, the Chinese continue to reevaluate the role of foreign investment all across their economy in light of their strategic priorities and their obligations under WTO. Postal reform is still “under consideration” but it appears likely that the government will promote a Chinese small package competitor and discourage foreign companies through a variety of subtle (but still WTO compliant) restrictions.

The most that can be expected in the medium term is legal clarification of boundaries so that the mail industry can develop with more certainty within the booming Chinese economy.

Useful links

[China Post Article in Beijing Review](#)

[China Business Services on the 2006 Draft Reform Law](#)

[TNT and China Post](#)

[A History of China Post](#)

Consumer Postal Council

1600 Wilson Boulevard

Suite 900A

Arlington, VA 22209

Tel 703.312.4563

Fax 703.312.4564

<http://www.postalconsumers.org>