PORT GOVERNANCE IN CHINA

AN INTEGRATED ORIENTATION

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Recent Chinese policy evolution and directions on port governance have managerial implications for Chinese ports, local port groups and port bureaus. Three main principles underpin these policies: an increased focus on port integration and cooperation, a strong orientation towards hinterland development, and the opening-up of the Chinese port sector to both accepting investment from and investing in foreign entities.

COOPERATION FOCUS

Port cooperation and integration has become a hot topic in China against the background of slower traffic growth, increased competition and growing international opportunities.

There is a significant rise in port integration initiatives in China since the early 2000s. We can interpret this result in two ways. One approach is to conclude that the port devolution process to the more local level has not resulted in excessive self-interest and ambitions of individual ports, but has actually enhanced their sense for cooperation and coordination.

Another possible perspective is that the port devolution process made government agencies at higher levels, i.e. national and provincial, work out schemes aimed at avoiding duplication of facilities, overcapacity and excessive competition in a seaport system characterized by a highly decentralized governance structure. In our view, both perspectives have played a role, although regional differences exist in the relative contribution of each perspective. While a few examples are discussed below, we stress that integration and cooperation schemes are currently rolled out in all coastal provinces.

Dalian Port Group and Jinzhou port, both located in Liaoning Province in the northeastern part of China began to cooperate with each other in 2006. In the framework of the OBOR initiative, Jinzhou port transferred additional shares to Dalian Port Group. Since 2014, Dalian Port Group holds 19.08% of the shareholding of Jinzhou port making it the main shareholder. In June, 2017, it was announced that Liaoning province will form a new company to run its ports, and China Merchants Group will purchase a controlling stake. Based on Dalian Port Company and Yingkou Port Group Corporation, a new Liaoning Port Group will be set up to integrate the coastal ports in Liaoning province.

Hebei Port Group Company, the largest bulk cargo handling company in the world, owns Qinghuangdao Port, Caofeidian Port and Huanghua Port. The company itself is controlled by Hebei province. In December, 2015, the Tianjin Port Group Company and Hebei Port Group Company signed an agreement to form a 50/50 joint venture company Jinhaiyi Port investment. The company is planned to purchase some berths in Tianjin port and Huanghua Port. In May, 2016, Hebei Port Group subsidiary

Qinghuangdao Company and Tianjin Port Group established Bohai Jinyi Port investment development Company.

In April, 2009, the ports of Qingdao, Rizhao and Yantai signed a strategic alliance agreement in which was agreed that Qingdao Port would act as the leading port, and Yantai Port and Rizhao Port act as assistant ports, with a view towards establishing a regional shipping centre. Qingdao Port has set up a container company in cooperation with Rizhao Port and Weihai Port.

At the end of September, 2015, the port complexes of Zhoushan and Ningbo in Zhejiang province merged to form the largest port group in the world handling some 880 million tons. The Ningbo Port group was renamed to Ningbo-Zhoushan Port Group Company. Next to the creation of Ningbo-Zhoushan Port Group, Zhejiang Province has set up a company named Zhejiang sea-port group, which is devoted to integrate the five ports of Zhejiang province.

INLAND CONNECTIVITY

The international distribution systems in China initially were very much focused on the large export flows centred around major gateways along the coastline, mainly in the Pearl River Delta and the Yangtze River Delta.

In more recent years, growing consumption in China has also given a strong impetus to the development of distribution structures for import flows. In geographical terms, the distribution systems in China are no longer only located near the main gateways along the coastline, but have expanded to major inland locations in the West, for example in cities such as Chongqing, Chengdu or Wuhan and seaport regions in the Northeast, for example near the Bohai Rim Ports.

Major infrastructure investments in highways, railways and inland terminals have facilitated the increased participation of these regions in distribution networks and a rising penetration of containers inland. The One Belt, One Road (OBOR) initiative, particularly the Belt part, and the 'Go West' policy give a prominent role to rail, and where available also barges, in securing future domestic and Eurasian freight mobility.

Chinese seaports are rapidly developing dry, inland ports to compete for hinterland access and to gain a competitive advantage. A good example is the port of Tianjin which has built and helped to build 21 dry ports in Northern and Western China. Another example is the cooperation between the Port of Dalian in the Liaoning Province and the Port of Changchun in Jilin Province of Northeast China. At the same time, many inland areas are promoting the construction of dry port logistics parks.

Some 60% of the inland ports on the Yangtze River, representing 84% of total throughput, have outside ownership, among them the Shanghai port operator SIPG (Shanghai International Port Group) and Cosco. In some areas, the government has stepped up to fight fragmentation by developing very large terminal facilities with associated logistics parks.

For example, the Chongqing government has centred dry port development around two very large terminal facilities along the Yangtze River, including at Cuntan and Guoyuan, which both feature large logistics parks right behind the terminals.

TWO-WAY OPENING UP OF THE SECTOR

The 13th five-year plan promotes the notion of a 'two-way opening up', which is to say attracting foreign investments and encouraging Chinese enterprises to go abroad. This policy direction is also having an impact on the functioning and role of seaports. Foreign players are in principle allowed to invest in and operate ports without a local Chinese partner. In practice, there are no cases in which a foreign operator or investor has a majority shareholding in a Chinese container terminal.

Foreign investors typically end up either engaging into partnerships with local port business groups who have a majority shareholding, or, in case the local port business group does not have a majority share, are forming partnerships with Chinese or Hong Kong terminal operators such as China Merchants Holdings International (CMHI), Cosco Shipping Ports or Hutchison Ports Holdings.

In the medium term, it is not likely that we will see a massive influx of foreign terminal operators in China's terminal operating market despite a governance framework that allows such moves.

First of all, the incumbent large Chinese or Hong Kong terminal operators have an edge given their already strong presence in China and related expertise in dealing with the local markets and the local port governance arrangements.

Secondly, the slowdown and capacity situation in Chinese container ports means that many foreign global terminal operators such as DP World, APM Terminals and PSA are now giving priority to terminal investments in emerging economies of Southeast Asia, Latin America, Africa and Eastern Europe. The FTZ policy might accelerate the opening up of a select group of Chinese seaports.

With regard to the internationalisation of Chinese enterprises, Chinese terminal operators are increasingly exploring international expansion and investment opportunities.

Compared to other global terminal operators, the international expansion strategy of Chinese terminal operating companies seems to be strongly embedded within geo-economic and geo-political policies of the Chinese government.

The internationalisation of Chinese terminal operating companies such as CMHI and Cosco Shipping Ports is supported by Beijing in view of creating champions able to play a role on the international scene and to support broader policies such as the OBOR initiative.

The role of companies in OBOR has been made very explicit in the 13th Five-Year Plan through the ambition to enhance co-operations between China and Belt and Road countries, with private and corporatized enterprises taking a leading role.

Also individual Chinese port groups are taking actions to strengthen their role on the international scene. For example, Qingdao Port, China-Africa Development Fund and the National Development Bank Qingdao Branch signed a strategic cooperation memorandum to further implement the OBOR National Strategy and to share information and resources in view of developing African ports and related infrastructure.

There is also a noticeable increase in sister port agreements with ports which are strategically located from an OBOR perspective.

CHINA'S GROWING LEADERSHIP ROLE

The Chinese government introduced a new port governance model in 2004 aimed at a further decentralisation through the development of autonomous and commercially driven local port entities. In-depth discussion on port governance in China can be found in a 2017 academic paper on the matter authored by Yang Zhongzhen and myself.

In the past decade, Chinese port actors have demonstrated major advances in terms of supply chain integration, connectivity, service availability and productivity.

The policy of the central government to establish FTZs in a number of seaport areas created new opportunities and challenges in this respect. Furthermore, Chinese ports have developed a much stronger orientation on hinterland development through corridor and dry port development. The OBOR initiative and the 'Go West' policy are pushing ports to focus more on rail, and, where available, also barges.

The rise of port integration initiatives in China is one of the most visible developments of the past decade. Irrespective of the drivers behind integration, the observed port integration processes are resulting in a wider spatial reach of corporatized and commercially-driven local port groups. This development does not imply a return to a more centralised governance model that was in place in the first two phases of port governance evolution. CMHI and Cosco Shipping Ports, but increasingly also the integrated port groups, are investing in foreign ports.

REFERENCES

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ABOUT THE ORGANISATION

PortEconomics is a web-based initiative aiming at generating and disseminating knowledge about seaports. It is developed and empowered by the members of the PortEconomics group, who are actively involved in academic and contract research in port economics, management, and policy. Since October 2012, Port Technology International and PortEconomics have been engaged in a partnership. www.porteconomics.eu

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