CHINESE SEAPORT GOVERNANCE

REFORM AND THE INFLUENCE OF BROADER POLICIES

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The past 65 years have brought significant changes to China's economic and political landscape and the Chinese society at large, influencing the degree to which China's ports are centrally governed. This paper explains the early stages of port organization which saw port governance centralized, and which has since been succeeded by a stage in which broader economic policies have increasing impact.

CENTRALLY-PLANNED GOVERNANCE

The gradual reform of seaport governance in China covered three phases. The first phase covers the period 1979–1984, which was characterised by a centrally planned economic system with strongly centralised decision-making. The changes in China's economic policy brought by Deng Xiaoping in 1978 was followed by long transition period towards a market-based economy. Chinese national reforms and the transfer of power from the central government to local governments had an impact on the governance of seaports. The combination of insufficient funds for port development and lagging efficiency improvements caused severe port capacity problems in the early 1980s.

DECENTRALIZATION

The second phase covers the period 1984-2004 and initiated a process towards decentralisation. With the exception of Qinghuangdao, which stayed under central government control, all other ports ended up being controlled either by central and local governments or by only the local government. The port authorities received regulatory powers, but at the same time their status as state-owned enterprises (SOE) pushed them to become more market-oriented, for instance in terms of investment decisions. The devolution process opened new channels for port development funding, i.e. via local governments, foreign investors, i.e. via joint ventures as long as the investor's stake did not exceed 49%, and commercial banks. The new governance system resulted in the gradual entry of foreign private investors in Chinese ports, particularly in the container business as exemplified by the investments of port operators Hutchison Port Holdings (HPH) and PSA International (PSA). However, the government remained de facto in the driver's seat when it came to port planning and secured the biggest share of the revenues collected from port terminal operations.

THE PORT LAW OF 2004: TODAY'S CORNERSTONE

The third phase in Chinese port governance reform started with the Port Law of 2004 and the related 'Rules on Port Operation and Management'. Both pieces of legislation led to a further decentralisation of port governance in China and opened the path to processes of corporatisation of port authorities and the introduction of modern corporate governance principles in the seaport system. In order to end the dual role of port authorities as both regulator and port operator, the new governance framework aimed at strictly separating these functions via the establishment of so-called Port Administration Bureaus and separate port business companies or groups. Moreover, the Port Law made an end to port ownership by the central government. The ceiling of 49% for foreign investors was abolished which in theory opened possibilities for foreign players to invest in and operate ports, even without needing a local Chinese partner. Policy formulation and strategic port planning falls under the responsibility of the central government and the respective provincial governments, so any plans of local governments need to be approved by these higher authorities.

NEW POLICIES

The consecutive port reforms shifted seaport governance in China from a highly centralised ownership and decision-making to a port governance landscape that offers more room for corporatisation and private sector participation. At the same time, Chinese seaports have been affected by a series of other policy initiatives, in particular the ongoing corporate governance reforms, the 'Go West' policy, the One Belt One Road Initiative and the Free Trade Zone (FTZ) policy.

First, many of the actions of the Chinese government in the area of corporate governance are having a direct impact on the functioning of the Chinese seaport system. China's accession to the WTO urged the Chinese government to take measures so that companies can operate following international trade rules, and to make progress in developing a sound intellectual property rights (IPR) system. Furthermore, the fight against corruption has affected administrative processes, reporting practices and the mobility of government officials, also in ports. For example, the managing bodies of ports are facing more rigorous reporting procedures in terms of cargo flow information and statistics, safety and security, staff training and business or government events. The financial flows related to seaport investments are now subject to higher requirements in terms of transparency and economic feasibility considerations.

Second, the Central Government in Beijing initiated the 'Go West' policy in 2000 in view of energizing the local economies and improving people's living standards in the western parts of China. Compared with coastal areas, the West suffers from a poorer economic foundation, which can be attributed to historical reasons and geographical factors. This policy has been associated with Hu Jintao and Wen Jiabao as a goal for mainland China to reach by the year 2020. Xi Jingping supports the 'Go West' policy by partly embedding it into the One Belt One Road initiative (OBOR), which has recently been renamed to Belt and Road. The Go West policy brought higher throughput perspectives for coastal ports and intensified competition among Chinese ports to serve the growing inland regions.

Third, the OBOR initiative was launched in September or October 2013 by President Xi Jinping to foster economic cooperation from the Western Pacific to the Baltic Sea and to break the connectivity bottleneck in Asia through infrastructure investments. The OBOR program is a centrepiece of Xi Jinping's foreign policy and domestic economic strategy. The initiative covers a land-based (in essence rail-based) Silk Road Economic Belt (one Belt) including a zone of influence on both sides of the Belt, and a 21st century Maritime Silk Road (one Road). The initiative covers six economic corridors. China's motives to launch the OBOR initiative are of a cultural, historical, geo-economic and geo-political nature. Chinese seaports are actively developing strategies to link up to both the maritime and rail-based opportunities brought by the initiative.

Fourth, the Chinese government initiated a policy in 2013 aimed at the development of pilot free trade zones in some coastal port cities. The first FTZ was launched in Shanghai in September, 2013. The China (Shanghai) Pilot Free Trade Zone (SHFTZ) is comprised of four areas under the special administration of Customs: Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Free Trade Zone. Except for the latter, all zones are located in or near the seaport terminal activities of Shanghai.

The FTZs should support Shanghai's further development into an international shipping centre. These zones are open to foreign market players and offer the possibility to set up distribution systems for a broader Asian market without the burden of having to pay customs duties in China. The Chinese State Council extended the initiative in April, 2015 by opening three additional FTZs in Guangdong, Tianjin and Fujian. At the same time, the Shanghai FTZ was expanded to incorporate three new areas. A third group of FTZs was announced in early Spring, 2016.

The FTZs, many of which are located in seaport areas, have thus become a kind of proving ground of the Chinese government, testing new sets of economic policies and governance reforms. While the creation of FTZs is helping China to increase economic activities in designated regions of the country, it is important that the experiences gathered through FTZ policy can serve as input for the formulation of further nationwide social, economic and governance reforms.

STRATEGIC AND MANAGERIAL IMPLICATIONS FOR CHINESE PORTS

The port governance principles as laid down in the Port Law of 2004 are still standing today. Still, the recent policy evolution and directions on port governance in China combined with the broader policies discussed earlier (i.e. OBOR, FTZs, corporate governance and 'Go West' policy) pose a few strategic and managerial implications on Chinese ports which affect the role and functioning of the local port groups and port bureaus.

Three developments are key in this respect: (a) an increased focus on port integration and co-operation, (b) a strong orientation on hinterland development through corridors and dry ports, (c) a two-way opening-up of the port sector by combining initiatives to attract foreign investments and trade to Chinese ports with an internationalisation of Chinese port-related companies. These topics were previously addressed in my contribution on port governance in China in Issue 75 of *Port Technology International Journal*.

REFERENCES

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ABOUT THE ORGANIZATION

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.

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