Port Governance in China

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The context of this presentation

- An introduction to the concept of port governance
- A brief introduction to the recent port development in China
- An analysis of port governance in China
- The conclusion
The definitions of port governance

If defining the port as a corporation, thus,

○ “The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the corporation, such as the board, managers, shareholders, and stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.” (OECD, quoted in Brooks and Baltazar, 2002: n.a.)

○ Therefore, the strategies to achieve corporate objectives, the stakeholder community structure, and a triangular framework of ‘environment-strategy-structure’ become the core that forms the content of corporate port governance.
The definitions of port governance

If emphasizing the networked interdependence of different actors and sectors in a given society, governance may be better regarded as

1. a set of institutions and actors that are drawn from but also beyond government,
2. the blurring of boundaries and responsibilities for tackling social and economic issues,
3. power dependence involved in the relationships between institutions involved in collective action,
4. autonomous self-governing networks of actors, and
5. the capacity to get things done which does not necessarily rest on the power of governments to command or use their authority. (Stoker’s (1998) ‘five propositions’)

Power relations are played out both internally and externally to the port as an operational and political unit. (Wang & Slack, 2002)
Justification of governance approaches to port systems

- Stakeholder communities have expanded and complexified tremendously out of reform schemes from the traditional state monopolies (Notteboom & Winkelmans, 2002).
- Governance approaches seek to emphasize the informal character of institutional arrangements, an essential element in the understanding of China’s institutional culture in the port industry (Wang & Olivier, 2003).
- Governance approaches should be theoretically formulated in such a way to avoid the pitfalls of universal reform discourses through stronger qualitative understanding of the institutional embeddedness of industrial change.
Our Approach to Port Governance

- **Axis one:** *spatial-jurisdictional scales* along themes of which is the power distribution.
- **Axis two:** *Stakeholder community* dimension relates to issues of ownership, the various participants and relevant business networks, but also questions of cultural interfaces when expanding the community towards foreign participation.
- **Axis three:** *logistical capabilities*, which is about the cluster of port activities and port-related value-added logistics (VAL)
A brief introduction to the recent port development in China
Preferential Port Development Policies since the 1980s

- Although with a long coastal line, China had a long history being a ‘continental country’ until the 1980s.
- Recent boom of China’s international trade using ports as the major interface.
- 1985: A first strategic document was the *Interim Regulations of the State Council of the PRC on Preferential Treatment to Sino-Foreign Joint Ventures on Harbour and Wharf Construction* promulgated and implemented by the State Council.
- Consistent with the first step towards reforms, the Eighth (1991 – 95), Ninth (1996 – 2000) and Tenth Five-Year Plans (2001 – 2005) have placed port development among top priorities in the Chinese agenda of development, especially since the 1990s.
Decentralization of power

- Before 1980, the port industry typically fell under highly centralized control.
- In the 1980s: “the dual leadership mainly led by the Ministry of Communications (MOC)”
- In the late 1990s, it was gradually shifted to a “the dual leadership mainly led by local authorities”, implying that local municipal governments were expected to act as both landlord and regulator, thereby enhancing local governments’ intervention in port affairs.
- Port authorities were either created or transferred to municipal authorities as well as endowed with financial autonomy in the routine administration and operation of ports.
Foreign participation

First foreign participation in China’s ports appeared in the early 1990s when Hong Kong-based Hutchison Port Holdings (HPH) started operations under JV agreement in Shanghai and Zhuhai in 1993.

By the end of 2001, there were 25 container terminals being jointly owned, managed, or operated by foreign enterprises.
Sino-Foreign Joint-ventures Set up in Mainland Chinese Ports (2002)

The total container throughput in Chinese mainland ports will reach 50 million TEUs in 2004.
Development of Coastal Ports in China

- 9.5% annual growth of total throughput vs. 19% annual growth of total number of large berths in 1999-2002;
- More and more berths are not developed within the MOC system (Ministry of Communications); and
- More user-dedicated terminals have been developed at 2nd-tier port-cities.
The legal system

The legal structure of the maritime sector was not laid down until the early 1990s when the Maritime Code was adopted.

- First, land (except rail) as well as maritime spaces were conferred to a single authority, the MOC, who is responsible for policy formulation in maritime strategy. Concerning ports, the granting of berthing rights to foreign ships falls under the Ministry’s powers, while it is also responsible for comprehensive national port planning and national policy formulation.

- Second, the Maritime Code has levied the ban on foreign companies engaging in construction and operation of Chinese ports.

The most significant legal progress is the first Port Law of People’s Republic of China, passed in June 2003 by the National Congress and to become effective in 2004.
Port governance and scalar politics in China: from the national to the local
(1) **The role of government bodies at various levels.**

- **Central Government:** the Port Law of China put in effect since January 1, 2004
  - Ports are now under municipal administration
- **Ministry of Communications (MOC)** decides how to use ‘deep-water coastal lines’, and the local determine the use of other coastal lines.
  - The MOC decides the features of main ports through its ‘Port Allocation Plan’
  - Central government does not invest and operate ports
  - Foreign investors are allowed to invest and operate Chinese ports
- **Role of Provincial Governments:**
  - Involved in formulating the Port Allocation Plan
  - But do not invest, operate and administrate directly
- **Role of City/Municipal Governments:**
  - Administrate through Port Administrative Bureaus
  - Do not invest and operate directly
- **Role of Port Administrative Bureaus**
  - Provide physical infrastructure needed;
  - Prepare the master plan of port for the city/municipal government;
  - Provide supportive services for port/terminal operations;
  - Negotiate concessions of terminal operation and other landuses with firms
(2) **The port community being restructured**

- Changing role of port authorities: efforts have been paid to separate terminal operation from administration and other port supporting activities, indicating a governance toward efficiency is undergoing;
- MNCs in port business (HIT, PSA, P&O Ports for example) entered major ports by operating some container terminals, indicating multiple port operation in and beyond China become a reality and horizontal (intra-firm) linkages established;
- Various ownership structures used;
- Multiple terminal operators serving a single port is encouraged, indicating intra-port competition intensified;
- Shipping lines (both Chinese (COSCO and China Shipping) and international (Maersk) have been invited for terminal operation/management (indicating that vertical integration being considered)
The Ownership Structure:
(1) Shanghai Model

- Shanghai Government
- Port Authority (SPAB)
- Subsidiary Firm with Controlling Share (Shanghai Port Group Co.)
  - Terminal JV A
  - Non-domestic firm
  - Terminal JV B
  - Non-domestic firm
The Ownership Structure: (2) Shenzhen Model

- **Shenzhen Government**
  - **State-owned Corporation A**
    - **Terminal JV A**
      - **Non-domestic firm**
  - **State-owned Corporation B**
    - **Terminal JV B**
      - **Non-domestic firm**
  - **Port Authority without Holding Shares in Terminals**

Directions:
- Leadership without direct financial interest from the terminals
- Leadership with direct financial interest from the terminals
Port-Port Relationship:
Ownership Structure of Container Ports in HK-PRD Region

Guangzhou Port Authority
- 51%

Shenzhen Port
- 50%

Chi-Wan
- 32.5%

She-Kou
- 25%

Yantian
- 48%

Hong Kong Port (Kwai Chung Terminals)
- 100%

Guangzhou Container T
- 49%

PSA
- 5%

Kerry
- 25%

CSX
- 100%

COSCO
- 17.5%

Maersk
- 3%

P&O Ports
- 5%

COSCO-HIT (~15%TEU)
- 50%

Swire
- 17.6%

Hutchison Port
- 100%

Modern Terminal Ltd MTL (~30%TEU)
- 55.3%

CTH (~30%TEU)
- 49%

Hutchison International Terminals (HIT)(~50%TEU)
- 100%

CSXWT Hong Kong (~5%TEU)
- 5%

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Some Implications

- Different objectives set by the private investors/operators and the state-owned firms, following principles set by local port authorities.

- The choice of JV partnership. E.g.: the Shanghai Port Administration Bureau has formal guidelines for partner selection:
  - 1) the financial situation of the firm,
  - 2) its performance record as terminal operator,
  - 3) its ability to attract more shipping lines and to set up more routes, and
  - 4) its relationship with Shanghai
(3) **The logistic capacities of major ports**

Several trends have been identified in this regard:
- Every port and port-city is trying to have container terminals
- While old ports such as Shanghai and Guangzhou become more comprehensive in terms of cargo types handled, younger ports tend to be simpler in its cargo structure, and a geographical separation of container ports and the ports for bulk cargo starts to be seen.
- Although lots of ‘logistics park plans’ made by most port cities such as Shanghai, the activities of value-added logistics are limited due to the trade nature of export dominance.
- Most ports have limited land under its authority. It is the city governments rather port authorities that try to lure the FDI by setting up Economic Development Zones (Kaifaqu) outside the port areas. And ports are at least ‘half-ladder lower’, administratively, than the Kaifaqu set up by its municipal or provincial government. As the result, the use of coastal land is determined by the local government, who often ignores the port development plan in order to use the land to attract investments for industrial sectors.
The changes triggered

Beyond individual port communities:

- Port-city relationship: while the global total logistics systems make ports as a more integrated component along supply chains, port-cities want their own ports to become a more integrated component of their own cities, or alternatively when this goal could not be achieved, at least the coastal land within their jurisdiction is considered as a lure to attract investment which is not necessarily international.

- This ‘alternative’ is supported by the general investment policy of China today: “The party that invests, will make the decisions, and take the benefit and the risk as well” (谁投资, 谁决策, 谁受益, 谁承担风险)
A Case of Port-city Competition: Shanghai vs. Ningbo & Zhoushan of Zhejiang Province
Discussion and Summary:

Port governance has been changing fast and dramatically in the past 20 years in China in all three axes in our conceptual model:

- Along the axis of *spatial-jurisdictional scales*, we see that the power over port development has been decentralized dramatically, which has led to great incentives for local governments and foreign investors/operators; the competition at both port level and terminal level are intensified. The MOC seems to have been left behind to do any overall planning, when the local governments are heavily involved to make use of port as a means of city competition, which may lead to over-investment in port.

- Along the axis of *stakeholder community*, the entry to the port stakeholder community has been largely liberalized. However, in addition to market considerations, some players are more preferred than others due to local interests and cultural/ethnic network embeddings.

- Along the axis of *logistical capabilities*, younger ports tend to focus on simple structure, and have industrial development zones located nearby to strengthen the overall competitiveness, however, within port (area), most ports do not have much land to develop port-related logistics under port authority.
The changing scalar port governance in different directions

![Diagram showing scalar governance, stakeholder complexity, and logistics complexity in different directions.](image-url)
Conclusion

- The port competition has become city competition due to heavy involvement of the local governments in port and the development of export-processing industries nearby.

- It becomes hard to measure the port competitiveness alone, because the coastal industries and port are two interrelated frontiers that the coastal cities are competing with, and both of them are developing fast.

- Since the national port allocation plan is left behind, it is possible to reach the synergy between nearby ports through terminal-level cooperation, since many ports are of multiple terminal operators and some MNCs are in several Chinese ports already, and division of services could be developed through the market forces.

- However, the localism may slow down such a synergy or prevent it from happening.

- All these facts and development processes explained today show that ports in China cannot be seen simply as corporate; they are deeply embedded in the development of coastal cities. They are of double identities: a component of global supply chain driven by the market forces, and a tool for city competition in China driven by the local governments.
Thank You and It’s Q&A Time!