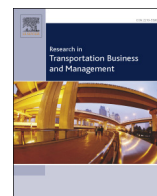




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## Port governance in China since 2004: Institutional layering and the growing impact of broader policies

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### ABSTRACT

This paper builds further on the work of Cullinane and Wang (2007) and more recent work on (port) governance in China. We argue that the market environment in which Chinese ports operate is quite different compared to ten years ago. The global and domestic economic slowdown and structural changes in the economic base have affected seaport volumes and freight traffic growth. Fears for port capacity shortages have made room for over-capacity. New geo-economic policies such as the 'Go West' strategy and the 'One Belt One Road' (OBOR) initiative, the implementation of modern corporate governance principles and the establishment of Free Trade Zones (FTZs) are affecting the Chinese container seaport system. The above factors have triggered a number of strategic and managerial implications on Chinese ports: (a) an increased focus on seaport integration and co-operation, (b) a strong orientation on hinterland development through corridors and dry ports, (c) a two-way opening up of the seaport sector by combining initiatives to attract foreign investments and trade to Chinese ports with an internationalisation of Chinese port-related companies. We demonstrate that these changes have triggered processes of institutional layering in port governance without breaking out of the development path initiated by the Port Law of 2004 and related policy initiatives.

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### 1. Introduction

The past 65 years have brought significant changes to China's economic and political landscape and the Chinese society at large. The Communist rule under leadership of Mao brought a centrally planned economy to China in 1949. The central government exerted strong control over all lines of economic life through the so-called 'Lines and Blocks Administrative System' supported by powerful state-owned enterprises (SOE). China slowly started to re-establish international relationships with third countries in the 1980s after the introduction of the 'Open Door Policy' of Deng Xiaoping in 1978. The Chinese economic system embraced the 'Chinese Socialism Market Economy' principle. The eventual goal of Chinese modernization was to build a xiaokang 小康, or a well-off society (see e.g. Ash, 2006; Yeung & Shen, 2004). A long series of institutional reforms were effectuated to support the country's rapid industrialization and urbanization and to facilitate the corporatisation and privatization of SOEs. The clear path disruption in

China's economic policy brought by Deng Xiaoping's policy in 1978 was followed by a more path dependent and incremental transition 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. Cullinane and Wang (2007) examined economic reform in China since the introduction of the open door policy with a particular focus on seaport policy and governance reform. They concluded that a three phase development path led to a decentralisation of the port governance system. The Port Law of 2004 could be regarded as the ultimate embodiment of the gradual shift from highly centralised ownership and decision-making to a port governance landscape that offers more room for corporatisation and private sector participation. In the same paper, they argue that "it is still too early to tell whether the latest phase of reforms will prove to be successful in solving China's port problems - particularly the capacity issue" (Cullinane & Wang, 2007: p. 331).

This paper builds further on the work of Cullinane and Wang (2007) and more recent work on seaport governance in China. We argue that the market environment in which Chinese ports operate is quite different from ten years ago. The global and domestic economic slowdown and structural changes in the economic base have affected seaport

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volumes and freight traffic growth. Fears for seaport capacity shortages have shifted to overcapacity concerns. Moreover, new geo-economic policies such as the 'Go West' strategy and the 'One Belt One Road' (OBOR) initiative, the implementation of modern corporate governance principles and the establishment of Free Trade Zones are affecting the Chinese container seaport system. We argue in this paper that the above factors have triggered a number of strategic and governance implications on Chinese ports: (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 through investments in foreign ports.

The paper is structured as follows. First, we analyse the market environment of the Chinese seaport system with a specific focus on macro-economic developments, dynamics in cargo flows, the impact of trends in shipping and logistics and the recent evolution of port/terminal productivity and capacity. Section 3 elaborates on a range of broader policies directly or indirectly affecting the governance and functioning of Chinese seaports. In Section 4, we provide an overview of the evolution of port governance in China driven by legislative and planning initiatives and processes of institutional layering after the Port Law of 2004. Before moving to the conclusions, part 5 focuses on the strategic and managerial implications of all these developments on the role and functioning of local port groups and port bureaus.

## 2. Dynamics in the market environment

### 2.1. Macro-economic situation: lower growth but increasing global significance

China experienced a strong and sustained GDP growth since the late 1980s which peaked to a level of 12–14% in the years before the start of the financial and economic crisis. After a historically low growth rate of just above 6% in Q1 2009, GDP growth gradually slowed down from about 10% in early 2010 to 6.7% in the first quarter of 2016 (Fig. 1). Despite this lowest growth since Q1 2009, there are several indicators (such as industrial production, retail sales and imports and exports) showing that the economy is picking up some speed in early Spring 2016 after two to three years of a clear slowdown.

The Chinese economy is witnessing a shift from industrial production to the services or tertiary sector. This shift has accelerated in the past few years. The data of the National Bureau of Statistics of China shows that the share of the tertiary sector in total GDP rose from 22% in 1980 to 33% in 1990, 40% in 2000, 43% in 2010 and over 50% in Q1 2016. The share of the secondary sector, which includes goods and

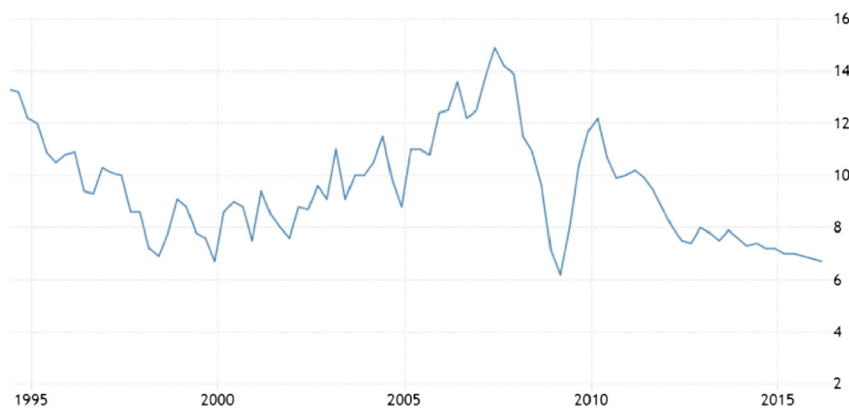
productions industry and construction, fluctuated between 40 and 45% in the period 1970–2010, but saw a sharp decline from 45% in 2010 to around 40% in early 2016. The primary sector (mainly agriculture) currently accounts for about 9% of GDP.

Export growth has been a major component supporting China's rapid economic expansion. The shift to the services industry combined with a weaker global trade situation have put a downward pressure on the value of exports since 2014. Still, China is becoming an ever more important player in the world economy. The share of China in global exports rose from 12.3% in 2014 to 13.8% in 2015. The major exported goods in terms of value include mechanical and electrical products (41%), high tech products (20%), clothing, textiles, footwear, furniture, plastic products and ceramic (16%), motors and generators (5%) and integrated circuits (5%). The United States (18% of total exports) and the EU (16%) remain the most important trading partners in value terms.

According to 2014 figures reported in UNCTAD (2015), China accounted for 68% of global maritime iron ore imports in tonnes compared to 10% for Japan and 9% for Europe. This is mainly the result of China's share of 50% in the world steel production. Moreover, China represents 20% of the global coal imports and is the world's most important importer for a wide range of agricultural products, energy and minerals. The recent slowdown in the Chinese economy has contributed greatly to lower commodity prices on the world markets, thereby affecting the economic situation in some of the mining countries such as Brazil, Australia and South Africa, and to historically low freight rates and time charter rates in the dry bulk markets. In value terms, China's main imports are mechanical and electrical products (34% of the total value of imports in China) and high tech goods (23%) according to data of the National Bureau of Statistics.

### 2.2. The demand for cargo handling in ports

Fig. 2 provides an overview of the main seaports in China and the major multi-port gateway regions. The allocation of ports to specific regions is based on the multi-port gateway region concept as defined by Notteboom (2010), and has been cross-checked with the spatial insights on the Chinese seaport system presented in Yap, Lam, and Notteboom (2006), Pan, Cao, Liang, and Wei (2014), Feng and Notteboom (2013) and Wang, Ducruet, and Wang (2015). Extant literature in port economics and port geography includes a wealth of papers dealing with competition and development dynamics in specific multi-port gateway regions in China. For example, Comtois and Dong (2007), Cullinane, Teng, and Wang (2005a), Rimmer and Comtois (2009) and Fu and Chen (2012) discuss the specific nature of competition and seaport development dynamics in the Yangtze River Delta. Wang and Slack



Source: based on data available at [www.tradingeconomics.com](http://www.tradingeconomics.com)

Fig. 1. GDP annual growth rate in China – quarterly data for the period 1994–Q1 2016.

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