

ESPO keeps going – week 3

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## Chinese ports: quo vadis?

In the past weeks, the guest columns by colleagues Peter de Langen and Bart Kuipers for ESPO addressed possible impacts of the Coronacrisis on trade, supply chains and European ports. In this contribution, I like to focus on ports in a country that is taking centre stage not only in the world economy but also in the Coronacrisis, i.e. China. COVID-19 finds its origins in China and it therefore was the first country in the world feeling its full impact on economic life. However, as the number of new daily cases has dropped to almost zero, it is also the first country that has seen a resurgence of economic life through the relaxation of restrictions on firms and people. Recent history has taught us that China shows a remarkable resilience in dealing with external shocks. I believe this resilience is a combination of effective government intervention, the incredible speed with which resources (capital, people and technology) can be mobilized and the strong cultural identity, positivism and unity/community feeling among Chinese people. The country's resilience also generates some side effects: each shock in the world economic system seems to accelerate China's rise as a political and economic power. Despite the country's strong resilience and the growing importance of its domestic market, China obviously is not free from shocks in a globalized world.

Let's go back to the financial-economic crisis which started in late 2008. China still managed to reach 9.4% GDP growth in 2009 compared to 9.7% the year before. In comparison, EU GDP growth dropped to minus 4.4% in 2009. However, this difference in economic growth between the two regions was not reflected on container ports: the total container throughput in the top 95 container ports in Europe dropped by 14.3% in 2009 with some hub ports recording more significant volume losses (e.g. -57% for Constanza, -45% for Thamesport, -30% for Barcelona, -28% for Hamburg and -16% for Antwerp). In China, container throughput dropped by more than 7% in 2009 with Shanghai losing about 11% of its volume and Shenzhen and Hong Kong both more than 14%.

Slower traffic growth, increased competition and growing international opportunities in the aftermath of the financial-economic crisis gave rise to more port cooperation and integration in China. Already in April 2009, the ports of Qingdao, Rizhao and Yantai signed a strategic alliance agreement in which was agreed that Qingdao port act as the leading port and Yantai port and Rizhao port act as assistant ports in view of establishing a regional shipping centre. The port integration wave at provincial level eventually resulted in the creation of port groups such as the Zhejiang Port Group (i.e. Ningbo-Zhoushan and some other

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smaller ports), the Liaoning port group with ports such as Dalian and Jinzhou and the Hebei Port Group which controls Qinghuangdao port, Caofeidian port and Huanghua port.

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 the past decade, the 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 (e.g. in cities such as Chongqing, Chengdu or Wuhan) and seaport regions in the Northeast (e.g. 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 Belt and Road Initiative or BRI, 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, and SIPG which has invested in eight containers terminals along the Yangtze River. At the same time, many inland areas are promoting the construction of dry port logistics parks. In some areas, the government has stepped up to fight fragmentation by developing very large terminal facilities with associated logistics parks.

From an investment perspective, the 13th five-year plan promotes the notion of a 'two-way opening up', i.e. 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 CMHI, Cosco Shipping Ports or Hutchison Ports.

With regard to the internationalisation of Chinese enterprises, also 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 BRI. The role of companies in BRI has been made very explicit in the 13th Five-Year Plan through the ambition to enhance co-operations between China and Belt and Road

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countries, with private and corporatized enterprises taking a leading role. Irrespective of the drivers behind integration, the observed port integration processes are resulting in a wider spatial reach of corporatized and commercially-driven provincial port groups. As a result, CMHI and Cosco Shipping Ports, but increasingly also the integrated provincial port groups, are investing in foreign ports, also in Europe. In the past decade, Chinese port actors have demonstrated major advances in the field of terms of supply chain integration, connectivity, service availability and productivity. At the same time, Chinese port actors seized the windows of opportunity created by the BRI to go international.

The current Coronavirus crisis poses a major challenge for Chinese ports. It is still early days to measure the full impact on the cargo flows, but figures for the first two months of the year already show year-on-year TEU drops of between 10% to 25%. The current decline in demand in Europe and North America will put a downward pressure on port volumes also in the coming months, despite the fact that virtually all ports have resumed activities in the past weeks. Still, I do not believe the current crisis will create a rupture in the trends of integration, hinterland orientation and internationalisation that have characterised Chinese port development in the past decade. Again, they will show resilience. The Chinese use two brush strokes to write the word crisis. One brush stroke stands for danger; the other for opportunity, i.e. every crisis is an opportunity. The European port industry, just like other regions in the world, is challenged to avoid that the current crisis becomes an opportunity for China and a persistent problem for the rest of the world.