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THE HONG KONG POLYTECHNIC UNIVERSITY

Department of Logistics and Maritime Studies

Coastal Reform in China: Impact of Path Dependency on
Port Governance

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A thesis submitted in partial fulfilment of the requirements
for the Degree of Master of Philosophy

August 2010

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ABSTRACT

There is a global trend to devolve port governance through institutional reforms, built on the belief that the efficiency of port operation can improve because the devolved units, notably local governments and the private sector, have a better understanding of local conditions for port operation. Despite the general consensus on devolution, port reform processes vary across regions in shifting control power from central to devolved units, during which local governance structures are reshaped with dissimilar patterns for implementation. The regional difference in reforming port governance through the identical trend of devolution raised an interesting research question on idiosyncrasy of individual ports, which has been deficient in literature. Such idiosyncrasy was regarded as essential in proposing the best practice for guiding the reform process, especially in developing and transition economies where not only the port capacity meeting the demand of soaring trade volume but also the shape and mode of port operation once under centralized governance system is challenged.

In this respect, an important question has yet to be addressed. Does the presence of distinctive institutional frameworks affect the likely shape of the process of change and the resulting outcomes? Policy-makers can proceed to localized interpretations and face limitations in their abilities of applying the reform tool, which was practiced in other ports. In this case, the institutional setting stands as factors creating asymmetric implementations when generic solution applies to other geographical scales. By bringing in historical

institutionalism and path dependence theory, this study constructs a conceptual framework to examine two case studies—in-depth within-case study of Tianjin port and comparative case study of Tianjin port and Yantian port. Through investigating two successive reforms in Tianjin, a major seaport in China, since the 1980s, the within-case study found that the process and outcome of the second reform could be constrained by the first one with little change in the governance approach by port authority, which secured the exclusive path of individual port in institutional reforms. The analysis was embedded within the process of thick institutionalization, during which informal institution in port governance was reshaped with its interaction of changing formal rules, to indicate the incentives of political actors in maintaining certain institution in governance in response to the changes in formal rules. Such institutional consistency in Tianjin port's second reform indicated that a generic solution to reform could be difficult to change the port governance structure in developing economies with stabilized historical tradition if other complementary steps were not implemented to offer incentives to break such a tradition.

To support the argument in the within-case study, the pilot experimentation of Yantian port to separate port operation and administration in 1993 was introduced as a control case to compare with the process of Tianjin case in the second port reform, which was required by the central government to separate its port operation and administration. Through comparing the processes to institutionalize the structural change, the comparative case study found asymmetric

implementations were created as Tianjin port secured the historical tradition in strategic activities even after the restructure of governance system but Yantian port established independent port operation from administration with the break with tradition under planned economic system. Thus, this study argues that similar reforms could follow diversified asymmetries in different geographical regions with political-cultural traditions standing as causal factors. In this respect, port policy decision-makers should be cautious rather than *a priori* accepting generic solution put forward by global institutions. The case study serves as an ideal base to extend similar analysis towards other regions and develop a general theory explaining the ways institutional and political traditions affect the process of reforming a unique, in certain respects, economic sector and, not least, better understanding the evolution of port development.

Keywords: port governance; historical institutionalism; path dependence; decentralization; China

ACKNOWLEDGEMENTS

First, I owe my deepest gratitude to my supervisor Adolf K.Y. Ng, for his continuous support in my MPhil program. Dr. Ng was always there to listen and to give advice. He taught me how to ask questions and express my ideas from an academic perspective. He guided me to approach a research problem and the need to proceed the problem with strict and serious manner. He encouraged me to discuss with other scholars to improve my theoretical discussion. I also thank a group of academic staff in the Department of Logistics and Maritime Studies at the Hong Kong Polytechnic University, Prof. John Liu, who as my co-supervisor played an important role in facilitating my field trip in Tianjin, as well as Dr. Mike K. H. Lai, Prof. Hong Yan, Dr. Meifeng Luo and Dr. Li Jiang, whose suggestions are valuable to improve my research.

A special thanks goes to Dr. James J. Wang, an associate professor in the Department of Geography at the Hong Kong University, who is most helpful in organizing the interview list and approaching people in the list during the field trips to Tianjin port and Yantian port. He also encouraged me at the very beginning of my MPhil study. Without his encouragement and kind help, the empirical investigation could not be done and this dissertation would not have been possible to be accomplished on time.

I am also greatly indebted to many tutors and mentors in the English Learning Centre and the Department of English at the Hong Kong Polytechnic University:

Winnie Cheng, Mable Chan and Richard Brooke for improving my writing skills and polishing my dissertation; Julia Chen and Stephen Evans for teaching me the way to organize the writing structure and achieve readers' expectation. Their help largely enhanced my ability to handle the writing of dissertation.

Last, but not least, I thank my family and friends: my parents and grandma for having faith on me and standing by my side with encouragement all the time; my colleagues, Kou Ying, Niu Baozhuang, Kong Xiangzheng and many others for sharing the experience of the research endeavour and discussing technical details with me.

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Chapter 1 Introduction: Impetus for the Study

Compared to the little difference in physical methods employed between ports, the systems of port administration could vary markedly, some of which are under the control of central governments and many others under regional governments or even mixed forms (Goss, 1986). Over the past three decades, there is a global trend with increasing governments to extract themselves from port economic activities and shift their concentrations to their public responsibilities in provision of a competitive and secure environment via various institutional reforms (Brooks and Cullinane, 2006). This trend could be anticipated by the rising trade volumes during 1980s and 1990s coupled with the technology innovation by global containerization, which not only exerted pressure on the drive for efficiency but also raised the stakes with increasingly massive investments required to meet the new rules by the containerization (Ocean Shipping Consultants, 1997). Concerned with this trend, a governance approach was developed to specify the substantial variety in the institutional arrangements with the lines of authority and responsibilities between public and private sectors in port activities (Olivier and Slack, 2006; Wang and Slack, 2004), which termed the trend of the power shift from higher level of public sector to lower level of public sector or private participants as the devolution (Brooks, 2004; Brooks and Cullinane, 2006). In light of the diversity of actors coming into the sharing of responsibilities, World

Bank (2000, 2007) outlined four port administration models as the alternatives for policy makers to devolve the port governance. Besides the model alternatives, World Bank (2000, 2007) also provided a step-to-step solution as “the best practice” with the experience accumulated in developed economies to facilitate the port devolution in developing economies. This “best practice”, however, was argued with its limitation to match a given local situation with particular model alternative by its standardized process (Brooks, 2004). As noted by Brooks (2004),

“The choice of model adopted in each country is influenced by the way the ports are organized, structured, and managed. These factors include the socio-economic structure of a country, the historical development of the port, the location of the port, and the types of cargo that typically handled.” (169)

In light of the significant difference in the substance within generic solutions among global ports, Ng and Pallis (2010) accentuated the relationship between the policy-making processes and the political culture, which was overlooked in the previous studies. Through the international comparison, the outcome of the generic solution targeting on the common problem turned out to be heavily impacted by the political culture, within which respective authorities operated and formed their own specific choices to implement reforms. It is interesting to be noted that the political culture in Ng and Pallis (2010) was viewed as an exogenous factor to “lock in” particular policy-making processes with little impact from the changes in the administrative configuration, which leaved room for the further debate on the phenomenon that political culture not only constrains the decision-making process but also evolves with changes by past decisions. In

other words, there is a gap to distinguish “path dependent” and “path creating” during port institutional reforms (Bruitelaar et al., 2007), which is crucial to identify whether it is appropriate to apply “the best practice” in a situation-specific.

With this regard, the first section of this chapter introduces the concept of devolution as the tool for port institutional reform and four types of devolution employed by global ports, which indicates the diversity and complexity of reform choices for port governance. After the introduction of the key concepts, the following section perceives the research gap with the argument on “the best practice” provided by World Bank (2000, 2007) as the official method for developing and transition economies. Based on the debate of “the best practice”, the third section raises and defines the research question for this study.

1.1 Devolution: A Trend of Port Governance

In order to understand the attitude of global governments towards port devolution, it is necessary to define what this study means by devolution. There is a widely accepted perspective that devolution involves the transfer of authority from a superior political authority to an inferior entity (Potter, 2001; Samoff, 1990). Some confusion in the use of the terminology of devolution and decentralization, however, has arisen because some scholars viewed devolution as a most extreme form of decentralization with the strengthening or creating of

Table 1.1 Typology of Devolution

| Types | Characteristics |
|----------------------------------|--|
| Decentralization | Lower levels of government as the entity to receive power |
| Corporatization | Involving the creation of a separated legal form, normally as a corporation |
| Privatization | Transferring service, including ownership of facilities to realize such service, to private sector in part or in whole |
| (Commercialization) ¹ | Partial privatization with ownership remained in public sector |

Source: Brooks and Cullinane (2006)

Note:

¹ Commercialization was included in the typology of devolution defined by Brook and Cullinane (2006), but this study regards it as one form of privatization.

other levels of government (Rondidelli, 1980), while on the contrary, others implied “the decentralization of government responsibility and accountability” as one form of devolution (Brooks and Cullinane, 2006: 5). So as to avoid such confusion, this study extends the concept of inferior entity in devolution beyond the organizations of public sector to private sector. In this case, decentralization is one form of devolution when the entity is specified as the lower levels of government. In other words, devolution is an all-encompassing term in this study to describe the transfer of responsibilities or functions from the superior level of government which had possessed the control power over port economic activities before the reforms to authorize a lower level of government or commercial entities to perform the control power in part or in whole. According to different degrees of power to be transferred and various entities to participate, Brooks and Cullinane (2006) categorize devolution into four forms—decentralization, commercialization, corporatization and privatization—each of which has an exclusive emphasis on the devolution process to restructure the governance

framework. Considering the coincidence of commercialization and privatization in describing the participation of private sector, this study argues commercialization as one form of privatization with partial participation of private sector, which shrinks the typology of devolution to three forms—decentralization, corporatization and privatization— as shown in Table 1.1.

1.1.1 Privatization

As aforementioned, the concept of privatization includes not only the total transformation of the functions and responsibilities of port service to private sector but also the partial transformation with public sector retaining the ownership. Regarding the different extents of private participation, Baird (1995, 1999, and 2000) constructs a function matrix to describe the various models of privatization, which is illustrated in Table 1.2. The privatization described by

Table 1.2 Baird’s Function Matrix

| Models | Port functions Landowner | Regulator | Utility |
|-----------------------|-----------------------------|----------------|----------------|
| 1 Pure public sector | public sector | public sector | public sector |
| 2 PUBLIC/private | public sector | public sector | private sector |
| 3 PRIVATE/public | private sector | public sector | private sector |
| 4 Pure private sector | private sector | private sector | private sector |

Source: Baird (1995)

Brooks and Cullinane (2006) could be the model transformation from 1 to 3 or 4 in the matrix of Table 1.2, while the commercialization could be the shift from 1 to 2.

Through a survey of top-100 container ports, Baird (2002) observed that most ports were increasingly intervened by private sector in a number of essential port activities with the objectives to increase efficiency, expand trade, reduce public investment load and obtain management know-how. Despite the similar belief on the benefit by private participation, there is “no single, common, standard approach to port privatization” (Baird, 2002: 282). The extent of ports to privatize varies due to the different paths to endorse the participation of private sector. One extreme case of U.K. privatized ports in Model 4 was argued as a failure to fulfil expectations because those ports had already commercially oriented with stable revenue (Baird, 1995) and the improvement of service was achieved by employment rather than privatization (Saundry and Turnbull, 1997), which made the extreme privatization in some U.K. ports as an unnecessary move. Except ports in U.K. excluding public intervention in port regulation, most other ports constrained the extent of privatization within the range of operation activities (Baird, 1999). The reason to impede these regulators from the extreme privatization is the public good characteristic of port, even though they realised the inefficient aspect of partial privatization in model 2 and 3, which largely arose when regulators are remote from the operation (Goss, 1990a)

1.1.2 Corporatization

Based on the previous work, Notteboom and Winkelmanns (2001) defined corporatization as “the retention of government ownership and the introduction of a professional management structure” (pp.245). It could be used synonymously

with privatization in a number of ports when private sector participated in the management of port activities through a legal entity, which was created with some form of concession arrangement for terminal operation (Brooks and Cullinane, 2006). In order to undermine the confusion of the two concepts, this study specifies the corporatization as the restructure process within governments. Rather than the deepening the participation of private sector, corporatization only rebuild the governance structure from government department to a business model without transfer of control power, which indicates corporatization to be independent from any types of privatization identified in Baird's matrix. On the contrary, these two concepts composed the options for port to restructure governance in complementary terms. The boundary between the two concepts is whether public or private sector performs as the controlling shareholder in port activities. The reason for some ports to corporatize rather than privatize is the corporatization model considering the public good aspect of port (Notteboom and Winkelmanns, 2001), which concerns the existence of market failure (Goss, 1990a). In this case, corporatization maintains the political sector in governance structure to avoid market failure but realize efficiency improvement with accounting procedures and legal requirements similar to private sector. Due to the persistent political intervention, corporatization was doubted of the capability to remove inefficiency in port operation, especially compared to privatization. One critical opinion on corporatization is the possibility of remaining public intervention to discourage innovation and initiative of private sector (Brooks et al., 2000). This possibility is difficult to be avoided because the competitive efficiency could be violated in the dilemma of corporatization when public sector played the both role

of regulator and actor of port activities (Everett and Robinson, 1998). One solution to undermine this possibility is to develop a legislative framework with the focus to serve commercial objective of port activities, which should not be constrained by political tradition to give priority to non-market interests (Everett, 2002).

1.1.3 Decentralization

With the belief that private market is most efficient to allocate resources, Brooks et al. (2000) recognized the similarity of privatization and corporation to serve the objective of efficiency enhancement. Excluded from this expectation, decentralization was regarded as a way to secure local responsiveness rather than focus on efficiency improvement (Brooks and Cullinane, 2006). In fact, decentralization could also be viewed as a way to improve efficiency through accelerating response to the need of local operation by local governments with decentralized authority, which defended the role of government instead of private sector in the efficiency improvement (Azis, 2008). As stated by Watson and Gold (1997),

“The intent of devolution is to enhance the responsiveness and efficiency of the federal system, based on the theory that state and local governments can do a better job of providing services for citizens” (pp.1)

In this regard, decentralization addresses the issue of efficiency improvement independent from the other two dimensions, which induced changes within public sector in institutional reforms. It not necessarily involves private sector, like

privatization, or alters the governance pattern of public sector, like corporatization. One example of decentralization is France, where 19 *ports d'intérêt national* had been enforced with the transfer of responsibilities to lower tiers of public administration (Debie et al., 2007). Different from the other two dimensions, decentralization may enhance the complexity and difficulty for port governance through the insertion of new tiers of government in port governance. For one thing, despite financial burden reduced with transfer of partial responsibilities to local side, central government had to face new challenges to adjudicate between competing demands by local governments in resource allocation; and for another, decentralized authority enabled local governments to provide a better service for local demands but also produce risks for the ignorance of central interest when conflicting with local benefits. To be brief, decentralization could enlarge disparities between regions and jeopardize stability of central control to adjust unexpected outcomes (Prud'Homme, 1995).

1.1.4 Summary of Devolution Dimensions

In this section, three dimensions of devolution were discussed with both benefits and uncertainties as tools to improve port efficiency, which suggest that there is no single dimensions of devolution could be universally applied. In fact, a mixed process with multiple dimensions of strategies for port reforms was adopted by regulators to compose individual model for port reform. For example, Australian ports embraced the concepts of both privatization and corporation as reform strategies to privatize some ports while corporatize others to landlords

(Everett and Robinson, 2007); and Argentina had reformed port operation since 1990 with a combination of decentralization and privatization to terminate the overregulation from overlapping governance structure and introduce competition by injecting market force respectively (Estache and Carbajo, 1996; Serebrisky and Trujillo, 2005). The empirical evidence in previous literature suggests that port devolution is complex and requires careful investigations because not only there are three types of devolution with independent and different perspectives towards improvement through restructuring governance system as aforementioned, but also more than one type of devolution could be employed to constitute a reform design for individual port. This diversity of the model for devolution raised confusion for regulators in organizing “fit” model to restructure their governance systems, which becomes an increasingly important issue in port reform discussion in the last decade. In the next section, an official guide by World Bank for constructing port reform models is introduced and a research gap of port reforms in developing economies to following the “best practice” by developed countries will be also identified for this study.

1.2 Identifying Research Gap: Is There a “Best Practice” ?

For a universalistic view, World Bank (2000, 2007) has provided an authoritative form of port governance models through publication of the Port Reform Toolkit (Toolkit, first published in 2000; revised in 2007). Despite the typology similar to Baird’s function matrix, the Toolkit has shifted its focus from

a simple distinction of public and private sector to a guidance of the reform among world ports by assessing the strengths and weaknesses of each model. It was designed as a “best international practice” (pp.3) to “provide support for policy makers...in developing countries” (pp.2). With this regard, the Toolkit created a comprehensive decision framework to educate regulators and reformers in public sector with examples of successful and unsuccessful reforms as well as the summary of specific reform tools and methods available for reform design to shorten learning curve. The comprehensive framework, however, was challenged to provide a trigger mechanism of institutional reform. In other words, the Toolkit could be used by regulators who decided to reform not those who questioned whether to reform. With this regard, Baltazar and Brooks (2001, 2006) developed a framework with a “fit” principle. Based on a survey of strategic management, the framework, also termed as Matching Framework, introduced contingency theory to analyze situations involving in port governance by viewing organization performance as a function of the match among the characteristics of the organization’s environment, strategies, and structures. With the Matching Framework, it can be decided which model in Toolkit or function matrix of Baird can provide the best fit for individual ports (Brooks and Cullinane, 2006). In order to tailor the performance measurement to specific objectives, Brooks and Pallis (2008) furthered this Matching Framework from a unidirectional to interactional relationship of the performance and the characteristics of organization. With such effort, the updated Matching Framework could provide regulators and reformers as a process guide to evaluate effectiveness, which is distinctively differentiated with the objective of the Toolkit to direct guide the reform process.

Despite the different focuses in addressing the issue of devolution, the frameworks are consistent in the provision of generic solutions with step-by-step guidance when targeting on particular aspects. This generic implication, however, was doubted in fitting the diversified contexts or challenges that world ports concerned. Through an international comparison, Ng and Pallis (2010) argued that the diversity of political culture between regions could dampen the standardization effect by applying the same reform tool. Combined with the fit principle of the Matching Framework, Ng and Pallis (2010) developed a looping framework to investigate reform process, which indicated the impact of culture factor in shaping response mechanism of policy-making agents to structurally different demands in the reform process. Inheriting the framework of Reform Road from Ng and Pallis (2010) but instead of indicating the deficiency of generic solutions in undermining culture influence, this study seeks to bridge the gap of generic solutions in matching regional reform process by understanding institutional constraints from a historical perspective. It furthers the understanding of devolution in port governance with the introduction of historical institutionalism and path dependence theory, the combination of which are served as tools to explain the stability and change of institutions within port governance in a complementary term.

1.3 Problem Definition

The premise underlying this study is that the ontology of political institutions constraining port economic activities is rooted on the condition that multiple possibilities, also termed as multiple equilibria, existed for the path to evolve. Working on this assumption, this study aims to demonstrate the diversity of political institutions for port governance as a result of historical and cultural heritage of individual ports within their own political structures, which is supposed to cover the gap between “the best practice” and its utilization. With this ongoing debate on “the best practice”, this study is concerned with three main research questions into the within-case study and cross-case comparison, which are structured as follows:

- 1) Despite the generic solution employed by the two ports, why have they resulted in the different strategies for port activities?
- 2) How applicable is the interface of historical institutionalism and path dependence theory in explaining the diversity generation during reform process?
- 3) Bared of question 1 and 2, what is the value of this study to the theoretical integration of historical institutionalism and path dependence theory into empirical discussion; besides the theoretical contribution, what is the practical suggestion for political actors in making port policies?

With regard to the research questions, this study has following objectives:

- 1) To examine the influence of the government expectation and traditional governance approaches on the reform institutionalization process.
- 2) To explore the way of path dependency theory to be employed in the analysis of institutional change in port industry by identifying key factors in various contexts.
- 3) To make recommendations for port reformers on the constraint in institutional framework as well as the way to identify the constraint.

Chapter 2 Constructing Theoretical Framework: from the Perspective of Historical Institutionalism

2.1 Introduction of Institutions in Political Studies

The study of institutions is widely accepted as the root of political science with their effects to shape various kind of individual behaviour (Steinmo, 2001a). In the late nineteenth and early twentieth centuries, old institutionalists commenced a large number of political studies by “describing and mapping the formal institutions of government and the modern state”, the approach of which was challenged by “New Institutionalism” (March and Olsen, 1984: 738) or “Neoinstitutionalism” (Tool, 1980: 37) with renewal in the concept of institutions (Bell, 2002). New institutionalists, who interest in institutions of the way they interact and the way they affect social or political activities, define institutions more broadly than old institutionalists to include not only a formal structure, enforced by governmental authorities, but also informal rules, as unwritten social order reflecting culture, habits and customs (Streeck and Thelen, 2009; Thelen and Steinmo, 1992; North 1990, 2005; Shelpsl 1986, 1989; Roy and Sideras, 2006). Despite the differences in the ways to guide and constrain behaviour, both formal and informal institutions are crucial in institutional analysis (North, 1990).

It is perhaps better for institutions to be understood as a set of processes rather than a “thing”, which could be distinguished into three main mechanisms to determine who the political actors are and how they define their interests, and which procedure to follow in developing strategies and form particular preferences (Steinmo, 2001b; Pontusson, 1995).

The main reason for institutions to be able to shape political behaviours is the provision of appropriate actions, as defined by political institutions as “Political institutions are collections of interrelated rules and routines that define appropriate action in terms of relations between roles and situations.” (March and Olsen, 1989: 160). Rules defined within political institutions could mirror the boundaries of potential political behaviour with established institutional structures and initial resources. appropriate actions are taken by political actors to reinforce or sanction alternative behaviours through predetermined individual preferences defined by such rules (March and Olsen, 2006; Bell, 2002; Peters, 1999). In collective behaviours, the standard for appropriateness is not defined by one or two individuals but a group of stakeholders in a context-specific. In other words, there is no generic appropriate action as the “best practice” or standard operating procedures for all political activities. On the contrary, a system consists of a multitude of institutions, each of which is based on different rules (March and Olsen, 2004). Considering the diversity of institutionalists in investigating the logic of appropriateness, it is common to divide new institutionalists’ writings into two groups: rational choice theory and historical institutionalism, each of which contributes to casting shadow on how institutions affect politics by shaping

political strategies (Scott, 2008). According to Thelen and Steinmo (1992), the two groups of institutionalists separate due to the different assumptions of preference formation as rational choice institutionalists take the preferences of political actors as a given condition—they “in effect ‘bracket’ the issue of preferences formation theoretically”—and treat institutions as “features of a strategic context, imposing constraints on self-interest behaviour”; while historical institutionalists weight the role of institutions in shaping politics by “define(ing) their (means political actors) self-interest as problematical” and “argue(ing) that not just the strategies but also the goals actors pursue are shaped by the institutional context” (pp.7-8). This study prefers historical institutional perspective to rational choice perspective is that what political actors trying to maximize and why certain goals emphasized over others are more important than the maximizing process itself. In other words, the view premised by rational choice institutionalists on actors could not help this study to explain the behaviour of real world actors cannot be simply assumed to have a fixed preference, contain imperfect information and maximize self-interests all the time. In order to fertilize the debate of diversity in port governance devolution, this study takes the perspective of historical institutionalism with a problematic view over preference formation to investigate the way in which institutional configurations foster the emergence of particular mutual interests between political actors at different levels of government, such as central government and municipality.

2.2 Historical Institutionalism: Using “History” as an Approach

Broadly, historical institutionalism provides a platform to shed light on how political activities “are mediated by the institutional setting in which (they) take place” (Ikenberry, 1988: 222-223). It offers the theoretical leverage for scholars to understand various interests of political actors and the complexity of political activities (Thelen and Steinmo, 1992). This leverage enables historical institutionalism “cuts across the usual sharp dichotomy between rational choice and nonrational choice work” within a historical perspective (Pierson, 1996: 131). In this regard, two propositions, termed as “calculus approach” and “cultural approach” (Hall and Taylor 1996, 1998; Hay and Wincott, 1998), were developed in historical institutionalism to explore the possible process that institutions could affect behaviour with an appropriate logic. The adoption of the calculus approach is conditioned by the assumption of strategic behaviour that political actors conducted, which cuts across rational choice theory with the belief that institutions affect individual action by “altering the expectations an actor has about the actions that others are likely to take in response to or simultaneously with his own action” (Hall and Taylor, 1996: 939). This strategic interaction was argued by the cultural approach viewing institutions as “moral or cognitive templates” for political actors to interpret and act (Hall and Taylor, 1996: 939). Even with distinct emphases, the two approaches provided the ways for historical institutionalists to examine institutions with empirical evidence.

Noting their distinguishing explanations, Hay and Wincott (1998) argued that the premises of the two approaches are mutually incompatible. I argue that the explanations based on rational choice or sociology institutionalism are not fundamentally incompatible to fight each other but represent different angles to view the boundaries of behaviour that actors encountered in different contexts. In other words, principles within institutions which constrain political actors could be various, but only some are obvious to be observed from empirical evidence while others not. The criterion for adopting either perspective of explanations is whether principles set boundaries to constrain behaviour inside the range of institutional context because only rational choices in the institutional context but excluded by the appropriate action could be observed and raise question on the formation of such invisible rules within institutions to shape boundaries for behaviour. The preference of new institutionalists to adopt either approach is not the basis to deny the rationality of another. The truth is that we only could observe part of institutions in shaping behaviour, but for others, even was not been observed, they still existed with a wider boundaries than institutional context. The difference between them is not the debate of existence but whether confusing people like an invisible hand to direct particular behaviour. With this regard, the case study part in the following chapters would not exclude any approach but address either of them to explanation through examining histories.

2.3 Rooting on Historical Institutionalism to Study Institutions

In the previous section, historical institutionalism was discussed with the approaches adopted to demonstrate the logic of appropriateness in empirical cases, which offered a theoretical basis for understanding political institutions. Following such general introduction of historical institutionalism, this section specifies several key issues in applying this theory into case studies. If the previous section target on the theory of the historical institutionalism itself, then this section puts emphasis on how to embed theory into the examine of cases when issues of institutions as intervening variables, institutional stability and change, as well as path dependence theory become important in historical institutionalism.

2.3.1 Institutions as Intervening Variables

Normally, specifying variables as exogenous versus endogenous, or in other words, independent versus dependent is one of the basic steps for theoretically informed empirical study. This study, however, encountered difficulties to identify either role of institutions in affecting political activities from a historical perspective. For one thing, institutions are widely regarded as endogenous variables because “their form and their functioning depend on the conditions under which they emerge and endure” (Przeworski, 2004: 527). In other word,

institutions Historical institutionalists hold this view—that institutions were seen as reacting to their embedded settings—in their interpretations for empirical observations to investigate the origin and history of institutions (Koelble, 1995). For another, institutions are not just endogenous created and shaped by disparate institutional settings but also turn out to be exogenous or independent variables to “constrain and refract politics” (Thelen and Steinmo, 1992: 3). This view was accepted by various groups of institutionalists in their work to investigate the relationship between institutions and political outcomes as follows,

“Institutions are not simply the outgrowth or products of the environment and they are not just dependent variables in the political system. They can be seen as independent forces, which have some effects of their own: once established they themselves come to shape and influence the environment.” (Simeon 1977: 297)

In this regard, historical institutionalists termed institutions as intervening variables (Steinmo, 2001b; Krasner, 1984) for understanding political outcomes, which laid the foundation to interpret institutions having both exogenous and endogenous forces in driving political development. One important feature of these driving forces is that they could never be sole cause of outcomes. In other word, institutions are epiphenomenal when weighted importance of other variables. Thelen and Steinmo (1992) explicated that “an institutional approach does not replace attention to other variables—the players, their interests and strategies, and the distribution of power among them;” rather, “it puts these factors in context, showing how they relate to one another by drawing attention to the way political situations are structured” (p.12-13)

2.3.2 Institutions Endure

Many political studies emphasized robustness and stickiness of institutions to shape human behaviour over time. Institutions endure because they provide a structure to guide their interaction, which is supposed to decrease uncertainties. Such uncertainties were interpreted by transaction cost in economical activities with nested rules at each successive level in the hierarchy being increasingly costly to change (North, 1990). Similarly to economic nested rules, political institutions in government could also become rigid to changing institutional environment by developing their own standards of appropriateness with a tendency to routinize their activities and create standard operating procedures, which are fundamentally differentiated from economic rules of efficiency (Goodin, 1996; Peters, 1999). As demonstrated by Shepsle (1989),

“In terms of institutional robustness, the transaction costs of change provide an institution with something of a cushion, giving it a stability it might not otherwise enjoy in a transactions-cost-free world. Thus, even when institutional arrangements are not optimally suited to a given environment, they may nevertheless endure because prospective gains from change are more than outweighed by the costs of effecting them. In a world full of uncertainty about future states, imperfect information and a modicum of risk aversion of participants may make that cushion substantial.” (Shepsle, 1989: 144)

Some of the appropriate actions were determined as take-for-granted through a routine procedure with repeated use and interaction (DiMaggio and Powell, 1991), and others as legitimated through authoritative endorsement (Meyer and Rowan,

1977). This inertia of political institutions would not be disrupted by the shift of decision makers because political actors have a strong desire to stabilize institutions in the initial phase with the purpose to undermine political uncertainties due to the lack of guarantee for continuous control, which implies that institutional arrangement designed by one actor may be subject to the authoritative direction of other actors in the future (Moe, 1990). In this case, political institutions, ranging from informal norms of routines for making decisions and distributing powers to policies and regulations themselves, partly turned to be change resistant to protect themselves from uncertainty outcomes (Goodin, 1996; Pierson, 2000a).

2.3.3 Limitation of Historical Institutionalism in Explaining Institutional Change

For nearly a century, change *per se* did not arouse interests of institutionalists in political study (Immergut, 2006). It seems that the persistent feature of institutions made institutionalists more creditable at explaining institutional consistency rather than episodes of change, especially dramatic change (Bell, 2002). This change-resistant feature of political institutions does not mean that, once constructed, they are impervious to subsequent influences (Roe, 2007). In fact, political actors embedded political institutions into their behaviours because they believe such appropriate actions able to serve their goals or interests. If this is the reason for institutions to endure, than institutional change could also possibly

originate when new actors use established institutions to pursue their interests (Koelble, 1995). Not necessarily are new actors, changes in institutional environment may provide incentives for original actors to modify their logic of appropriateness. Some modifications are incremental, which could adjust systems, processes or structures but in a positive way for institutions maintaining reliability in organizations; while others could be comprehensive, which involves institutional transformation with fundamental changes in strategies (Meyer et al., 1993; Newman, 2000). Considering the weakness of historical institutionalism in explaining institutional change, this study introduces the path dependence theory as a complementary tool to investigate the issue of institutional change, which is discussed in next section.

2.3 Supplementing with Path Dependence Theory for Diversified Institutional Change

Considering the weakness of historical institutionalism in explaining institutional change, path dependence theory was employed to indicate the dynamics of self-reinforcing in political system (Mahoney, 2000). Unlike historical institutionalism focusing on the relationship between particular decision and historical impact, path dependence theory argues the process of institutional evolution, which composed of bundles of decisions with particular institutions reproduced in chronologic sequence. In other words, historical institutionalism emphasizes on the change-resistant feature of institutions but not the process that institutions evolve, while path dependency theory could indicate the evolving path

of institutions. The self-reinforcing in political system is different from the increasing return in economic system as political actors focus on short-term payoff within election cycle rather than far-sighted economic investors (Pierson, 2000b). In other words, political actors stick to particular institutions because these institutions serve their political objectives. With this regard, the self-reinforcing mechanism in path dependence theory is compatible with historical institutionalism in understanding the inertia of institutions, but it also raises the explanation for institutional change when the self-reinforcing system of particular institutions could not continue. Rather than the focus of one decision, path dependence theory aims to denote the process composed of decisions in chronological sequence with a relationship that the decisions at an earlier point in time will affect the possible outcomes of a sequence of events occurring at a later point in time (Pettigrew, 1992; Sewell Jr, 1996). During this process, particular institutions could be enforced through time in the path when it serves political actors under particular objectives. If they can not support the objectives due to the changed institutional conditions, other substitute institutions would take their place to reinforce. In other words, it is not inexplicable by the inertia of institutions but the changing institutional environment could weaken the stickiness of political actors to existed institutions if other better choice is available or the difficulty to maintain the institutional inertia increased, which impelled the institutional change, or in other term, the move to another self-reinforcing system. With this regard, path dependence theory complemented with historical institutionalism in explaining institutional change, which occurs with the dynamics of the self-reinforcing in the evolving path.

2.4 The Conceptual Framework for Path-dependent Process of Port Reform

As discussed above, the theory base formed by historical institutionalism and path dependency theory provides an arena to theorize the development process of port governance from a historical perspective by emphasizing the invisible hand of history through forming institutions to shape political behaviour. In this section, frameworks of single case study of Tianjin port and comparative study of Tianjin port and Yantian port would be designed based on the work of Ng and Pallis (2010). Following frameworks, propositions for both single and comparative case studies are derived for this study.

2.4.1 The Looping Road of Port Reform

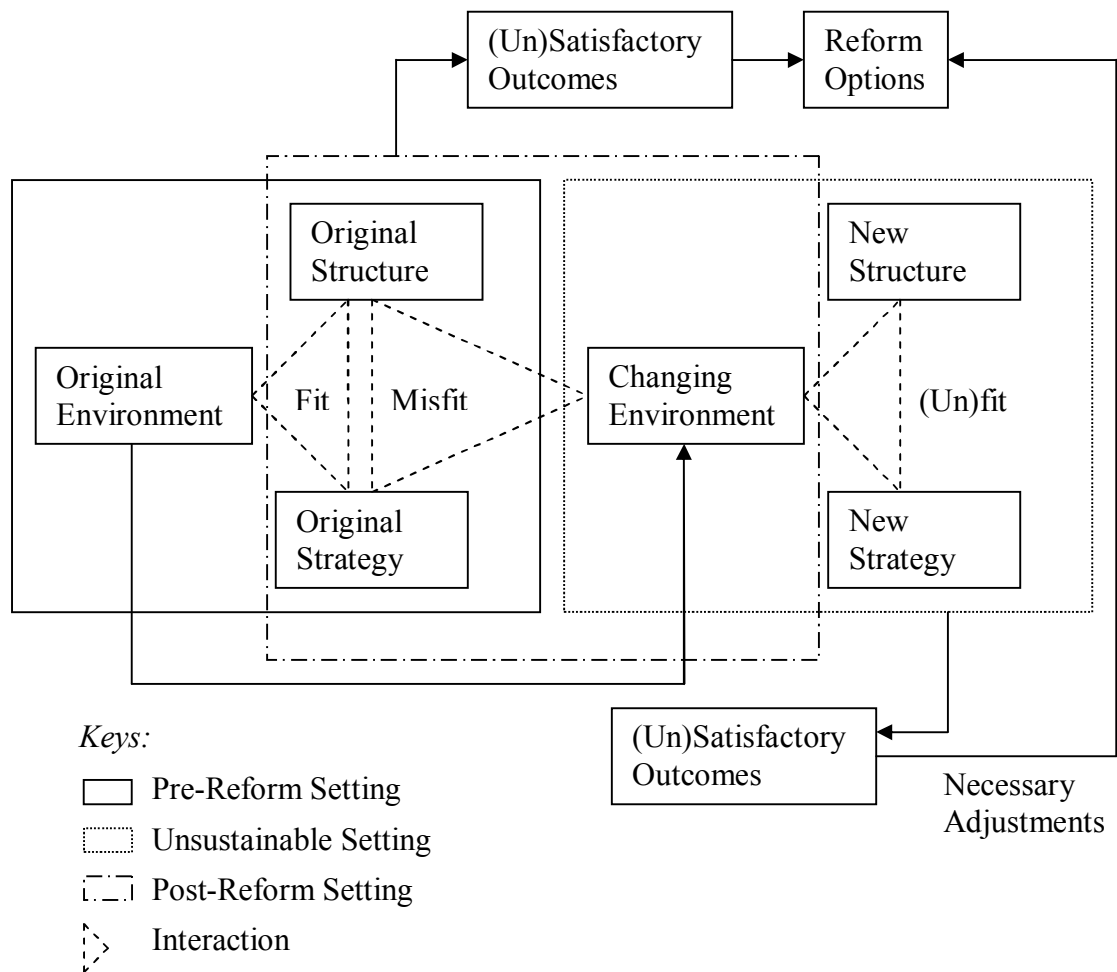
Embedded the principle of Baltazar and Brooks (2001, 2006), Ng and Pallis (2007) developed a framework with a focus on reaction process of policy-making agents for new governance and operation practices. As Figure 2.1 shows, the process is divided into three stages, pre-reform setting, unsustainable setting and post-reform setting. Because of technological progress and economic development, it is possible for original setting to find it difficult to fit the evolved environment, which causes Misfit outcomes and enables agents referring to reform options. If the new setting still unfits the evolved environment, the unsatisfied outcome will calls for new reform and agents have to turn back to

reform options. In this framework, two unsatisfied outcomes are the basis for choosing reform settings, which are described as Misfit and Unfit in the Figure 2.1.

2.4.2 Embedded Institutionalization in the Framework of Port Reform Road

The Ng and Pallis (2007)'s framework provided a road for port reform with the looping process, which can be re-implemented when the new structure does not fit the changed environment or the environment is changing. It is the narrower concept of path dependence which was adopted in their framework where the self-reinforcing mechanism was proposed to form the differences of cultural factors between governance systems of ports. In this study, the broader concept of path dependence that the informal institution of the following reform was restrained by that of the previous reform but the process does not necessarily trigger the self-reinforcing mechanism. In other words, this study do agree with the looping road but not the self-mechanism to bring the difference of the paths that two ports developed in their governance. The degree of the restrictive effect was depended on the effectiveness of the enforcement between formal policies and existed informal institutions.

Figure 2.1 the Road to Port Management Reforms and Governance



Source: Ng and Pallis (2007).

In order to derive a deep view over the institutional status through port reform, this study introduces the term of institutionalization to the framework with the emphasis on the institutional enforcement, which was supposed to be the black box to denote the process that institutions shape human behaviour and evolve mutually by their shaping effects. In other words, if institutions represent the social order to attain a certain state or property, then institutionalization is the key to denote the process to reach such attainment (Jepperson, 1991). In order to

identify the main element in institutionalization, Selznick (1992) provided a two-step process for analysis of institutionalization—institutional design of formal system and “thick” institutionalization that formal systems act through people. Embedded such idea of institutionalization, this study split the Ng and Pallis (2007)’s framework into two main phases—institutional design and thick institutionalization—to investigate the reform process.

Institutional design is a critical element in reform because it alluded to institutional transformation in the very beginning of the reform in planning stage. According to Alexander (2005), institutional design could be defined as “the devising and realization of rules, procedures, and organizational structures that will enable and constrain behaviour and action so as to accord with held values, achieve desired objectives, or execute given tasks”. Obviously, what they constrained would not be what had stabilized but, on the contrary, it is the existed equilibrium that is target as the objective for change. In the sense of incentive, institutional design expects change for the existed governance but whether it could raise change or not and what kind of change it raised depends on the implementation process. As denoted by Selznick (1992), other than the first step to set up the formal structure of the organization, the second step, called “thick” institutionalization, is more crucial as the informal structure is composed of attitudes, relationships and even practices by which individuals and groups bring into their own personalities, values and interests, it is not easy for organizations to confine the roles formally defined in the first step. In this regard, the analysis of reform process could be viewed from institutionalization perspective with the

divided two processes, which is especially true in the case of China when political actors of design and implementation are separated in central and municipal governments respectively.

2.4.3 The Framework of Institutional Consistency: For Single Case Study of Tianjin Port

Based on the theoretical foundation of institutionalization, the conceptual framework for the single case study of Tianjin port was proposed as Figure 2.2. In the framework, two reforms were involved with a comparison of the process, which composed of Research Objectives, Model Decision, Implementation and Outcomes, which is the looping process mentioned in Ng and Pallis (2007). The elements of Research Objectives and Model Decision are the process to form formal settings for reform, while the elements of Implementation and Outcomes are representing the enforcement of formal and informal institutions which is referred as the stage of thick institutionalization. In the looping road, institutions shaped in the previous reform became the conditions for the following reform, which indicated the intervening variable of institutions in affecting politics from a historical perspective. What emphasized in this framework for the following examination in case of Tianjin port is to denote the historical effect, which could be found when the governance system after the following reform shared part of informal institution in common with that after the previous reform when the

objectives for the two reforms are quite dissimilar. In other words, institutions could be difficult to change and consistent even through a reform.

2.4.4 The Framework of Branching Path: For Comparison of Tianjin Port and Yantian Port

In the comparative framework, the process is still the key to examine but in the reforms of the two ports. Different from the single case study, institutions would be viewed as exogenous variables, which shaped politics to result different governance patterns of the two ports under the similar institutional design. In this case, this framework aims to denote that the reform tool of particular reform model could not promise the same result as expected.

2.4.5 Propositions for Reform Process

Proposition A: based on historical institutionalism, it would be difficult for political institutions on port governance to be changed dramatically by reforms due to their change-resistant feature.

Proposition B: based on path dependency theory, it would be possible for the evolvement of particular institutions during reforms when their self-reinforcing system become difficult to continue and shaped into a new system.

Figure 2.2 Historical Perspective on Institutional Port Reform

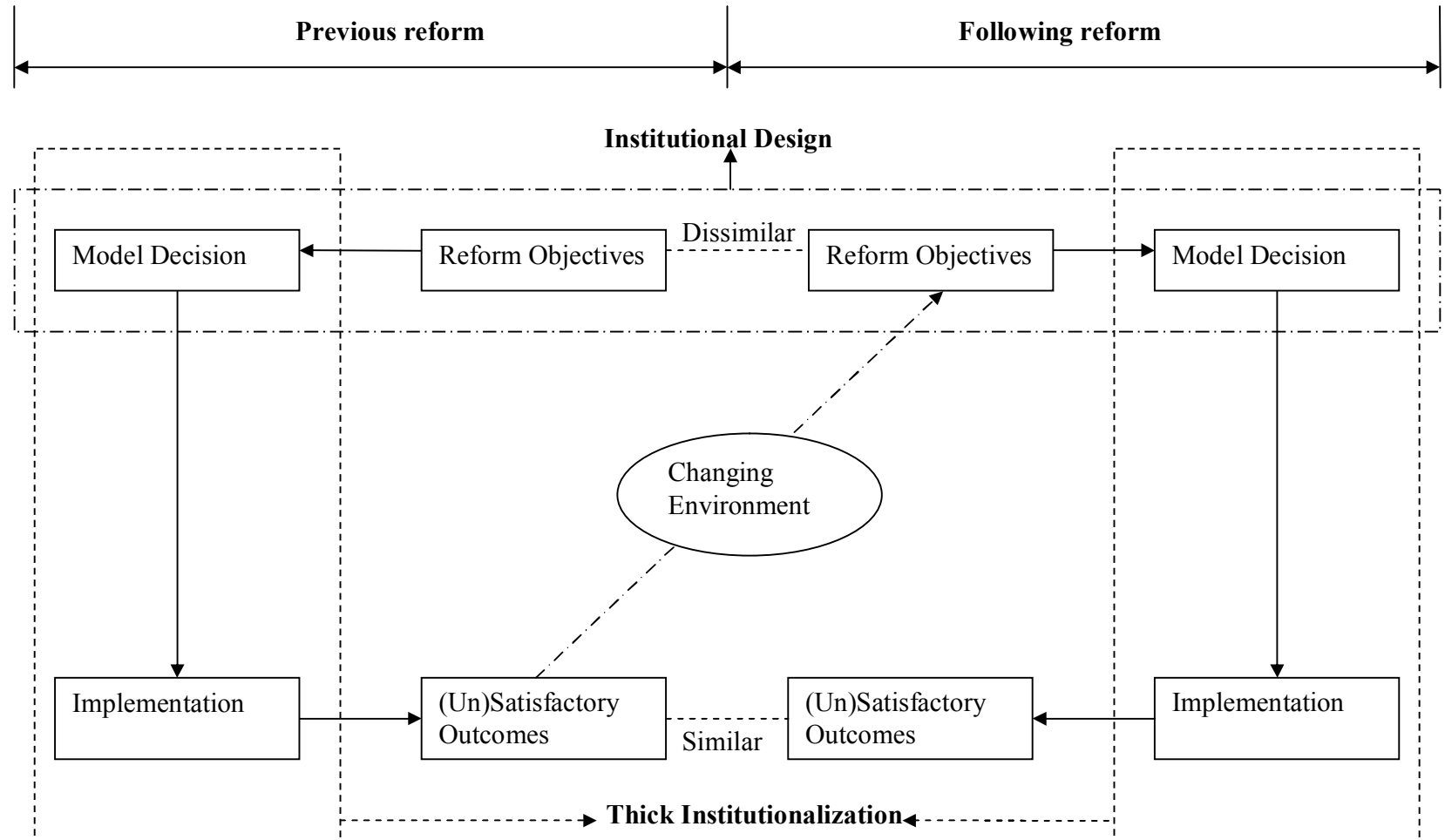
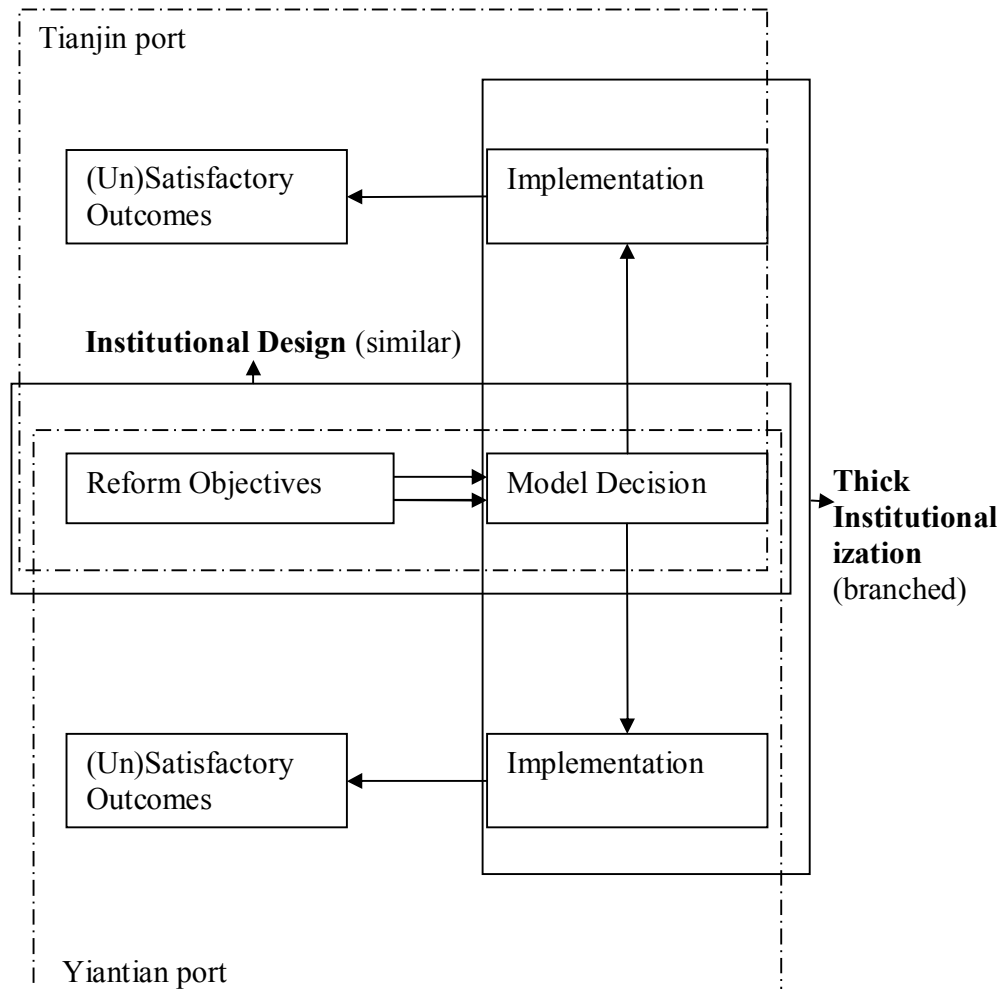


Figure 3.3 the Structure for Comparative Analysis of Institutionalization



Chapter 3 Methodology

3.1 Method of Systematic Process Analysis

In order to accommodate the empirical inquiry of this study on port governance in devolution, the method of “systematic process analysis” (Hall, 2006: 24) is introduced to examine the process of port devolution. In order to explain causal mechanism, the systematic process analysis was defined as:

“...sees the problem as one of identifying a set of variables ($x_1...x_n$), understood as events or phenomena whose ‘value’ can vary across time or space, that exert a causal impact on a set of outcomes ($y_1...y_n$) the investigator is interested in explaining, as well as an appropriate theory specifying how and why these variables should affect the outcome in question. (Hall, 2006: 24)

The rationale behind this approach is that through scarifying the reliability of the estimates of variable’s impact, the likelihood of the estimates of the causal variable’s impact can be increased. When constructing the “story” of the case (Langley, 1999), the approach could introduce theories to predict or explain the processes from variables to outcomes and the outcomes (George and Bennett 2005). Comparing to statistical method, systematic process analysis provides a better grounds to investigate interactions among strategic actors especially when the decisions or actions of key actors are crucial in shaping the outcome. Since

reform process constituted of various intricate strategic interactions, this study applies the method of systematic process analysis to secure causal explanation for this global port issue.

As a method, systematic process analysis contains four basic steps: theory formation, deriving predictions, making observations and drawing conclusions. In order to identify the principal causal variables, the first step formulates a set of rival theories to provide fighting explanations for particular causal variables and a specific type of outcome. Secondly, dichotomous predictions are derived based on rival theories. In the third step, observations are made through case studies. The small-n research designs with a few, rather than massive, cases in detail are employed to collect information as the test bases for theoretical predictions. The fourth step draws conclusions based on a comparison between theoretical predictions and case observations. Through a judgement on the comparison, it is highly possible that some observations support particular theories while others contradict. The crucial point, however, is that the sensitiveness of the theories could be tested and validated in explaining particular phenomenon. From this perspective, systematic process analysis cannot provide a precise estimate on reliable parameters like statistical methods do, but a more precise explanation on causal processes by establishing various relative influence factors.

3.2 Rationale for Conducting Case Studies

This thesis conducted case studies to investigate the diversity phenomenon within specific contexts when the boundaries between phenomenon and context are not clearly evident (Yin, 1994). With multiple sources of evidence, case study in this research could ascertain the target theory in reality to explain the determination of causal relationships between input of conditions and output of decisions and strategies, which also provided implementations of practical application to the target theory. As suggested by George and Bennett (2005), case study could be valuable to address cause complexity of social phenomenon and achieve high conceptual validity for theory development. According to the typology of Yin (2003), case study research could be categorized into six types with a 2×3 matrix based on single and multiple or exploratory, descriptive or explanatory (causal) elements. In this study, explanatory studies in both single- and multiple-case status are conducted as the sub-methods of case study to investigate the complex course of events with theory-based explanation. In other words, this study seeks to provide a causal relationship generated from the theory to explain how and why the diversity of port strategies existed under the same reform tool.

As suggested by Darke et al. (1998), the difference in employing single and multiple cases studies is,

“Single cases provide for in-depth investigation and rich description. Multiple case-designs allow literal or theoretical replication and cross-case comparison.” (pp. 281)

Within a single case, an in-depth investigation over particular phenomenon could be engaged to approach the objective of particular theoretical interest in the phenomenon. It is impossible to address all the aspects of historical events by single case study, but within a complete context for the events, the research could be thoroughly situated for the specific focus of theoretical development (George and Bennett, 2005). Different from the method of single-case study, multiple-case study employed a comparative strategy to aid comprehension of historical trajectories with parallel demonstrations of theory (Ragin 1987; Ragin and Zaret, 1983). In this study, if the single-case study was designed to demonstrate the historical origin of “how” particular path followed, then the comparative study interests in the question of the difference of “what” defined between the diversified paths.

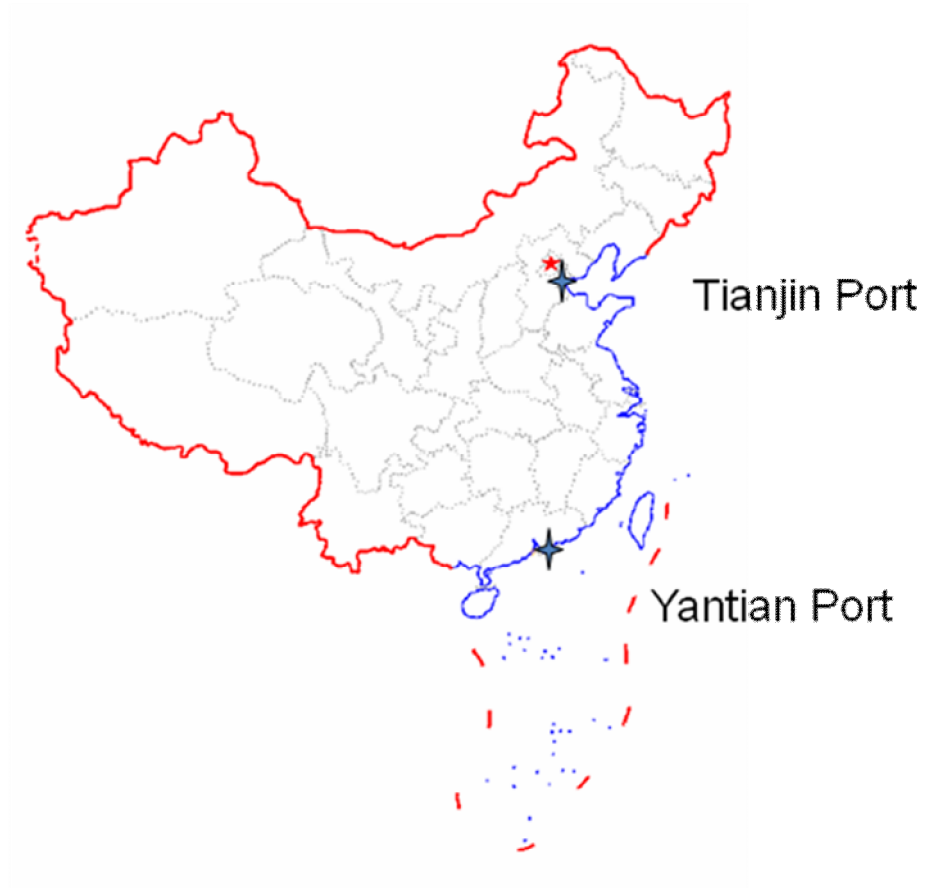
3.3 Case Selection

In the chapter of introduction, the significance of this study was mentioned that developing economies are motivated in a different way from developed economies to reform their port governance, which may sharply raise uncertainties to achieve reform goal if developing economies follow the experiences in developed countries without concerning their differences. With this regard, two ports in China are selected for case studies to address the research problem for two main reasons. Firstly, China is one of developing countries with steadily growing port industry, which was undergoing changes in its political governance system as a typical developing economy. In the last two decades, its port industry has been strongly encouraged by the boosted foreign trade of the country. Secondly, China has a vast territory and extensive coastal line. The distance between ports of China in geography and economy geographic and economic conditions indicates a high possibility for a regional disparity in institutional environment. Such regional disparity is not necessarily the difference between national cultures in the discussion of Ng and Pallis (2007) but a narrower scope of regional patterns form by historical events. As the regional disparity become distinct due to the golden age of port industry in China since eighties when the national economy was boosted after the open door policy its port industry, it is feasible to observe the historical process of the port evolvement as well as the pattern of particular strategic behaviour strengthened by political actors.

In view of the above concerns, this study investigates Tianjin port and Yantian port as cases for comparative study. Tianjin port, one of the top ports in Northern China, was weighted increasing importance in development strategy of national plan¹. Like most main ports in China, Tianjin port had been undergoing the historical reforms from centralized system with the unique owner of the Ministry of Communications (MOC) to much more decentralized governance structure with municipal governments and other various economic entities involved. With this regard, the single case of Tianjin port is investigated to provide an in-depth view over the path that port governance transited through the two reforms, which aims to reveal the process of the inner governance and relationship between political actors evolved under the exogenous impact. In order to pinpoint the impact of historical experience, Yantian port is introduced as a control case, which is one of the top ports in Southern China. Located in the first special economic zone, Yantian port has developed in a different path without much constraints from traditional governance. As the central government of China launched the second port reform to follow the reform experience of Yantian port, it is feasible to compare the different response of the two ports to the same model. After the introduction of the section 3.4 on information collection, the section 3.5 will design the flowchart of conducting this study.

¹ Tianjin was confirmed as “the third economic pole” after Shenzhen and Shanghai by the Eleventh National Five Plan for year 2006 to 2010. The increasing importance of the city economy enhanced the significance of the research for the reform issue of its port governance.

Figure 3.1 the Framework for Model Decision



3.4 Information Collection

In the introduction chapter, it has been clarified that the objective of this study is to investigate the empirical inquiry for the diversity of regional political

institutions to evolve during the reforms. This inquiry reveals that one characteristic of this study is the information handled, which is presented in words and demanded to be transformed and interpreted in a rigorous and scholarly manner. In order to enhance the rigour of the research, this study triangulates the information collection from documentary study to semi-structured and in-depth interview. From one side, the documentary study ranges from public documents of government policies and municipal statistical year-books, archival records of company magazines and unpublished inner reports, and academic researches of published studies and journal articles; for another, the manuscripts were constructed after the field trips to Tianjin and Shenzhen respectively with the sum of 17 interviewees participated. They were chosen as interviewees in this study because they have participated in the reform processes and each of them has been involved in the interview with a lower limit of one hour. The positions of interviewees are:

A director in the port research centre of TPGC

Two senior managers in the department of Business Development of TPGC

A senior manager in the department of Port Planning of TPGC

A senior officer in the Tianjin Dongjiang Bonded Port Zone Management Committee

Four officers in the investment service centre of TPGC

Two senior officers and four other officers in the East Bureau of Shenzhen
Port Authority

Two senior managers in Yantian Port Group Company

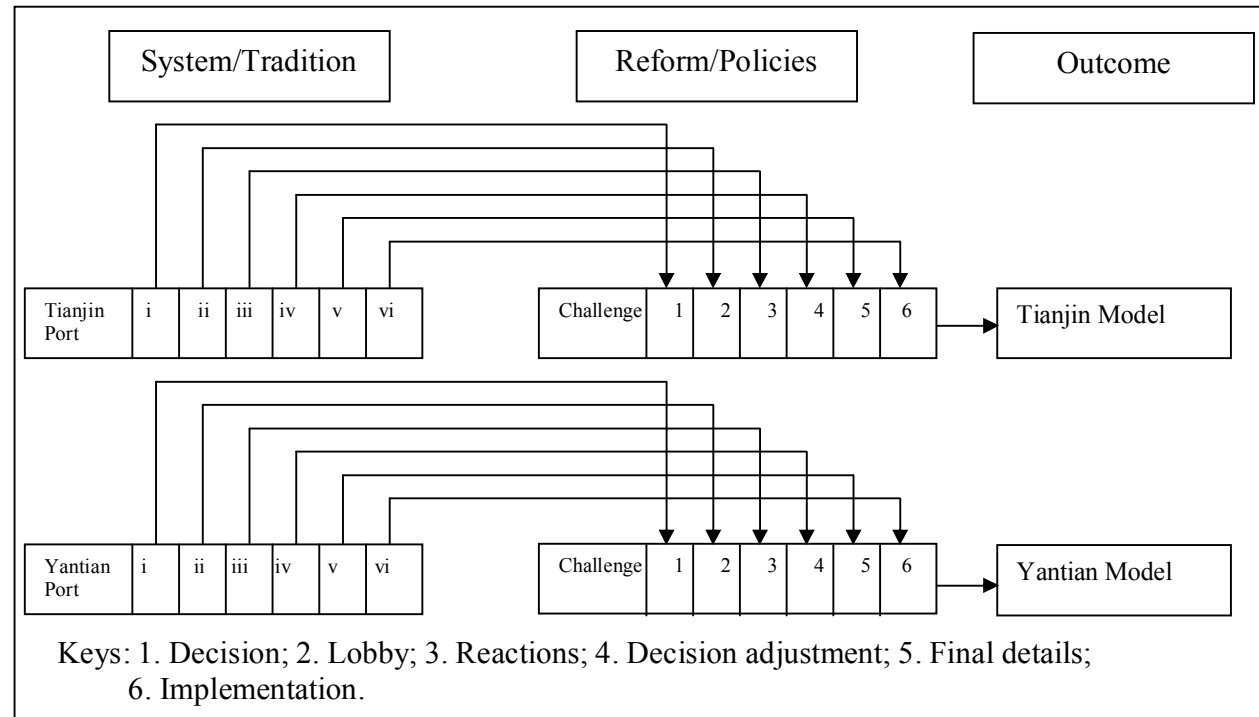
A professor in Nankai University (Tianjin)

A professor in Hong Kong University (Hong Kong)

In order to validate the information they provided, key elements in the reform process were rechecked between different interviewees. Appointments with each interviewee were made in advance in order to guarantee sufficient participation time of them to offer opinions in a detailed and critical manner. Targeting on the reform process, all the interviews were mainly consisted of semi-structured dialogues with interview questions concentrated on “why” and “how” they making decisions during the reform process. In order to make process comparable, the framework of Pallis and Ng (2009) was employed to organize semi-structured interview questions as well as following questions as shown in Figure 3.2. In Figure 3.2, a typical decision process during reform is divided into 6 steps, which refers to different statuses of institutionalization. Decision step refers to the process to make the reform decision; Lobby step refers to the activities taking by local governments in dealing with the reform; Reaction step refers to what kind of reaction that local governments have; Decision Adjustment refers to the process of local governments making their detailed plan based on the reform decision; Final details refers to the published detailed plan and the Implementation step refers to

the process of implementation. The detail to conduct interviews of this study is elaborated in the Interview Protocol of Appendix.

Figure 3.2 the Framework for Model Decision



Source: modified from Pallis and Ng (2009).

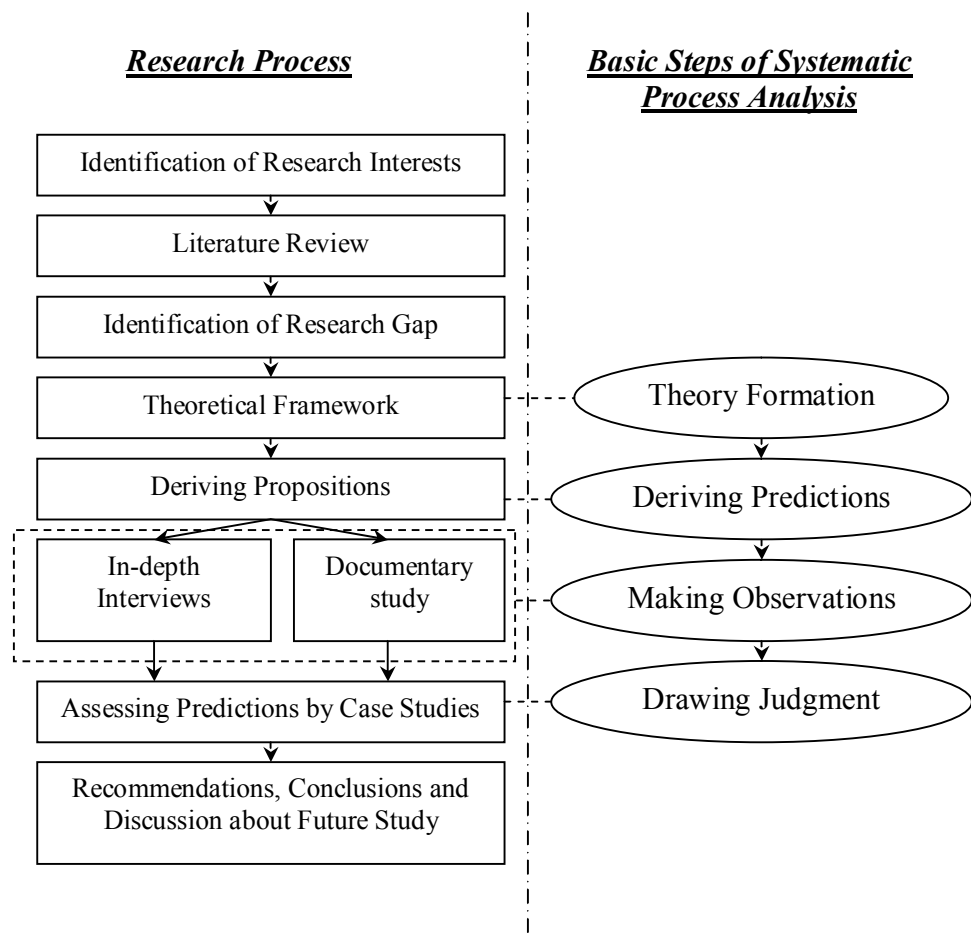
3.5 Information Processing

Through compiling the manuscripts, points drawn from the manuscripts, which collect information captured during interviews, are organized and grouped into 6 steps respectively. Same points were rechecked between different interviewees to make sure they had reflected the real situation in the reform processes. As mentioned in Interview Protocol, questions to the interviewees of the two ports are asked in a comparable manner. In this respect, points in the same step during reforms of different ports become comparable. For example, the manuscript records that one interviewee in Tianjin port stated that “Tianjin port would never let overseas investor to be the major shareholder to control the joint ventures even after the second port reform” while another interviewee from Yantian port stated that “HPH, the HK investor, plays the major role in making all the decisions in Yantian port as it is the largest shareholder of Yantian port after 1993”, which could make the information of the reform outcomes between two ports comparable. Through comparing the differences in each status of institutionalization between the two ports, the institutional disparity in port governance could be revealed. Within the domain of the theory, the differences in the processes and models of the two ports were supposed to be explained by the conceptual framework as mentioned in Chapter two.

3.6 Research Process Flowchart

Figure 3.3 summarizes the research process of this study. From the processes, it shows that the basic steps of SPA method is employed to examine the causal processes that historical institutionalism and path dependency theory invoke.

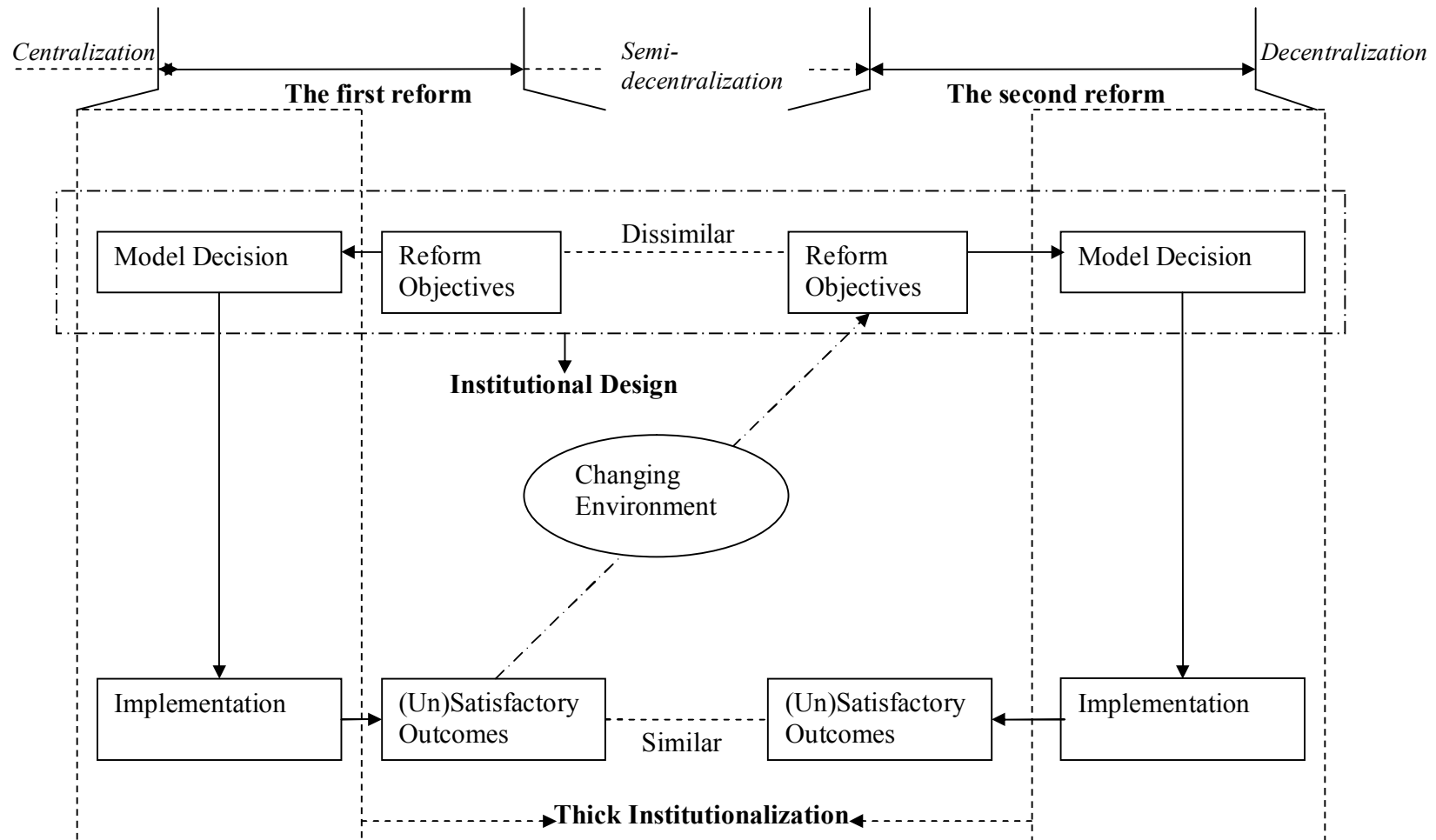
Figure 3.3 Research Process Flowchart



Chapter 4 The Institutional Consistency of Port Governance: Within-case Study of Tianjin Port

With the theoretical discussion in Chapter 2 and methodological discussion in Chapter 3, this chapter addresses the issue of institutional consistency of port governance with the case of Tianjin port. There are three sections with the structure as shown in Figure 4.1. The first section describes three stages of port governance in Tianjin port, which is also the experience of most ports in China to undergo from centralized control, semi-decentralization to decentralization with their port authorities corporatized. The three stages of port governance are divided by two port reforms, which accelerated the marked change in port governance through transition of port control in a short term. Then in the second section, the two reforms, which section the port devolution in Tianjin port, are discussed with the focus on how the structural changes designed by the central government were institutionalized or embedded into the strategic behaviour and decision-making process of regional political activists. This discussion of the reform processes is of great importance to demonstrate the possible uncertainties in the institutionalization of reform design. In light of the possible uncertainties, the third section links the empirical evidence to the theoretical grounding of historical

Figure 4.1 the Structure for Within-case Study of Tianjin Port



institutionalism and path dependence theory. This linkage between empirical evidence and theoretical discussion is also the objective of the chapter.

4.1 The Three Stages of Port Governance in Tianjin Port

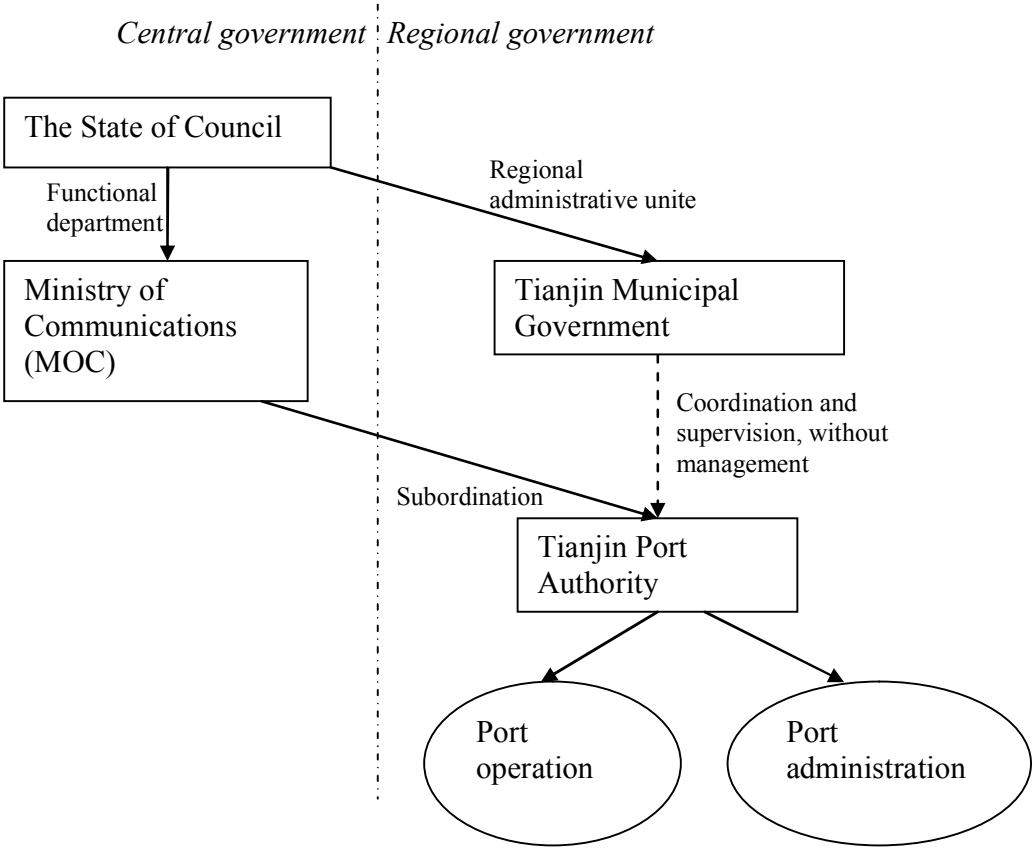
Like most ports in China, Tianjin port has experienced three stages of port governance, which are divided by the difference in the governance system structured by the central government. The first stage of centralization is introduced in section 4.1.1 as the empirical background for the second stage of semi-decentralization, while the second stage of semi-decentralization also has a close relation to the third stage of decentralization. In the fourth sub-section, the successive relationships between the previous and following stages are discussed.

4.1.1 Centralization: before the First Port Reform

The characteristic of the port governance in the early stage of China is its extremely centralized control system under planned economy (Qiu, 2008). After the genesis of the People's Republic of China in 1949, Tianjin port authority was established as a subordinate organization of the Ministry of Communications (MOC) which temporarily mandated to municipal government for early functional

foundation. This short-term institutional arrangement is different from decentralized governance structure because municipal government was not effectively in charge of port activities but merely facilitated preliminary work to organize regional port

Figure 4.2 The Governance Model of Tianjin Port in Centralization



authority, which aims to facilitate centralized control on port activities. The temporary control of Tianjin municipal government was terminated in 1953 with a system established combining functions of port administration and operation, which

were practically performed by municipal port authorities, such as Tianjin Port Authority. This system was legally delineated by the promulgation of “Interim Regulations on Port Management of the People’s Republic of China”² in 1954, which confirmed the extremely centralized control system for national port governance. As shown in Figure 4.2, Tianjin Port Authority is a subordination of MOC with authority to implement central decisions and daily port operation. It had to coordinate with Tianjin municipal government when port activities were involved to the administration of municipal government, such as determination of port area, but the control power in administration and finance remained in MOC. Despite the three-year decentralized governance under the main control of Tianjin municipal government between 1958 and 1961, the extremely centralized control system was stabilized for the next two decades with tight control over port activities in Tianjin port.

It is worthy to be noted that the stabilization of extremely centralized control system rather than decentralized system were closely related to the institutional condition of planned economy during the early period after the genesis of Republic China. Under the planned economic system, plans and administrative controls replaced market philosophy to allocate all kinds of resources with guarantees for the target projects (Lin at al., 1996). The advantage of this system is the ability of the central government through “bureaucratic and Party channels” (Perkins and Yusuf, 1984: 4) to concentrate the development of several main ports, which played

² It was issued by the Government Administration Council, the origin of the State of Council, in January 23rd of 1954.

important roles in promoting national economic development (Cullinane and Wang, 2006). With this regard, it is the target position in the national plans that ports competed for because whether it could be allocated with resource for the expansion and development heavily depended on its priority in the national development strategy rather than the serious degree of the problem. During the centralization stage, Tianjin port had experienced three main extension projects respectively in 1951, 1959 and 1973 to enlarge the port capacity as well as the storage space as shown in Table 4.1, each of which won the priority because of the congestion impeding the economic development.

Table 4.1 The Three Extension Projects of Tianjin Port in Centralization

| The Extension Project | Year | Increased Annual Designed Throughput (million tons) | Increased Storage Space (thousand square meters) |
|-----------------------|-----------|---|--|
| First | 1951-1952 | 1.3 | (327) ¹ |
| Second | 1959-1961 | 2.39 | 327 ² |
| Third | 1973-1978 | 4.05 ³ | 29 |

Source: organized with the reference of Tianjin Chorography⁴

Notes:

¹ This data is not the increased data but the sum of storage space in Tianjin port in 1952.

² This data is calculated by author according to Tianjin Chorography, which stated that the storage space and loading/unloading gear were twice and 46 times of them in 1952 respectively.

³ The third project was planned to finish in 1976, but due to the damage by 1976 Tangshan earthquake, the repair project was finished in 1978. <http://news.memail.net/060728/120,2,3189703,00.shtml>

⁴ The Website of Tianjin Chorography is <http://www.tjdfz.org.cn/tjtz/gkz/gqdbq/tgxg/index.shtml>

Except the first extension project with the objective to reopen the port, the other two extension projects were triggered as the response of central government to the issue of national insufficient port capacity in matching the demand of economic development. The congestion problem of Tianjin port before the second extension project was demonstrated by the instruction³ of the MOC published in the Bulletin of the State of Council⁴ in 1956, which also clarified as the common problem for the ports of national range. As shown in Figure 4.3, the national water transportation throughput is sharply increased from 1957—one year after the instruction of the MOC in 1956, which released the congestion pressure in port operation with distinct growth of throughput. The third extension project of Tianjin port followed the boosting foreign trade for the demand of ocean transportation since China retained its position in the United Nations in 1971, which could be indicated in the Figure 4.4 with a sharp increase of ocean transportation throughput since 1971. As one of the main coastal ports, Tianjin port started the third extension project to follow the command of the prime minister⁵.

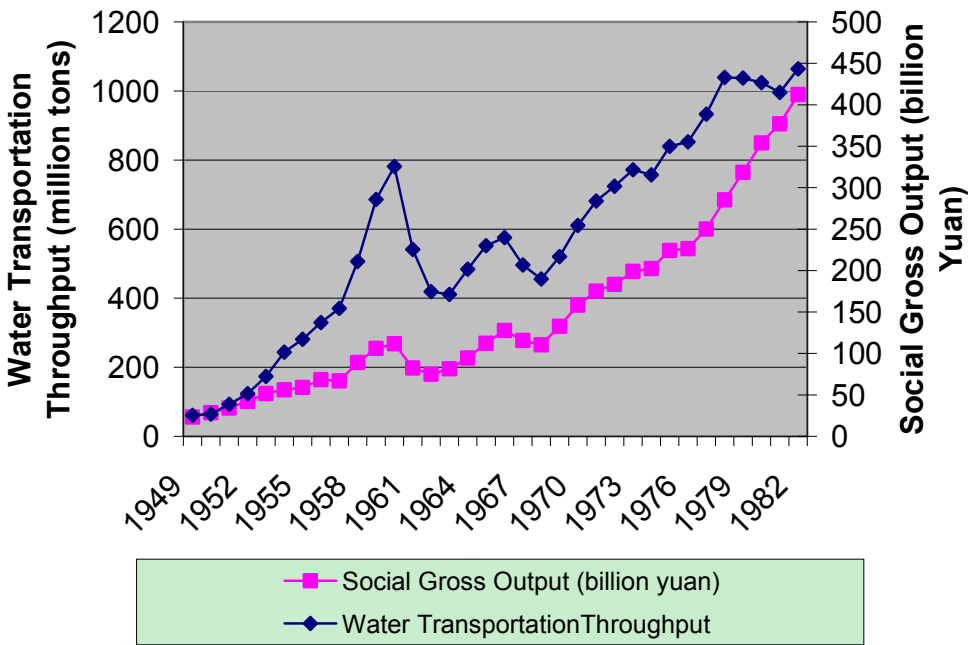
The three extension projects merely released the operation pressure temporarily. With the momentous “Open Door” policy in force from 1979, port congestion became one of the most serious problems threatening China’s development of foreign

³ It refers to “The Instruction of the MOC on the Issue to Take Measures in Solving and Avoiding the Problem of Port Congestion in the Future” in volume 33 of 1956.

⁴ The Bulletin of the State of Council is an official publication, see website <http://www1.china.com.cn/ch-gongbao/index1.htm>.

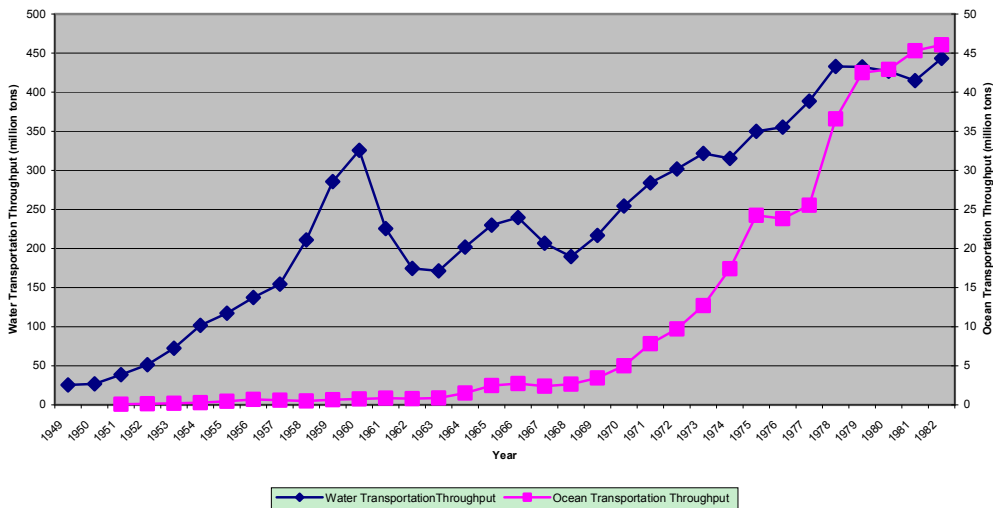
⁵ See Tianjin Chorography <http://www.tjdfz.org.cn/tjtz/gkz/gqdbq/tgxg/index.shtml>

Figure 4.3 The Parallel of Port Throughput and Economic Development



Source: Organized by author referring to China Statistics Yearbook 1983.

Figure 4.4 The National Water Transportation Throughput (1949-1982)



Source: Organized by author referring to China Statistics Yearbook (1983).

trade (Song, 1990). This issue could be indicated by the serious cargo congestion in ports in 1981, 1983 and 1985 with Shanghai port and Tianjin port to be the worst (Department of Water Transport, 1998).

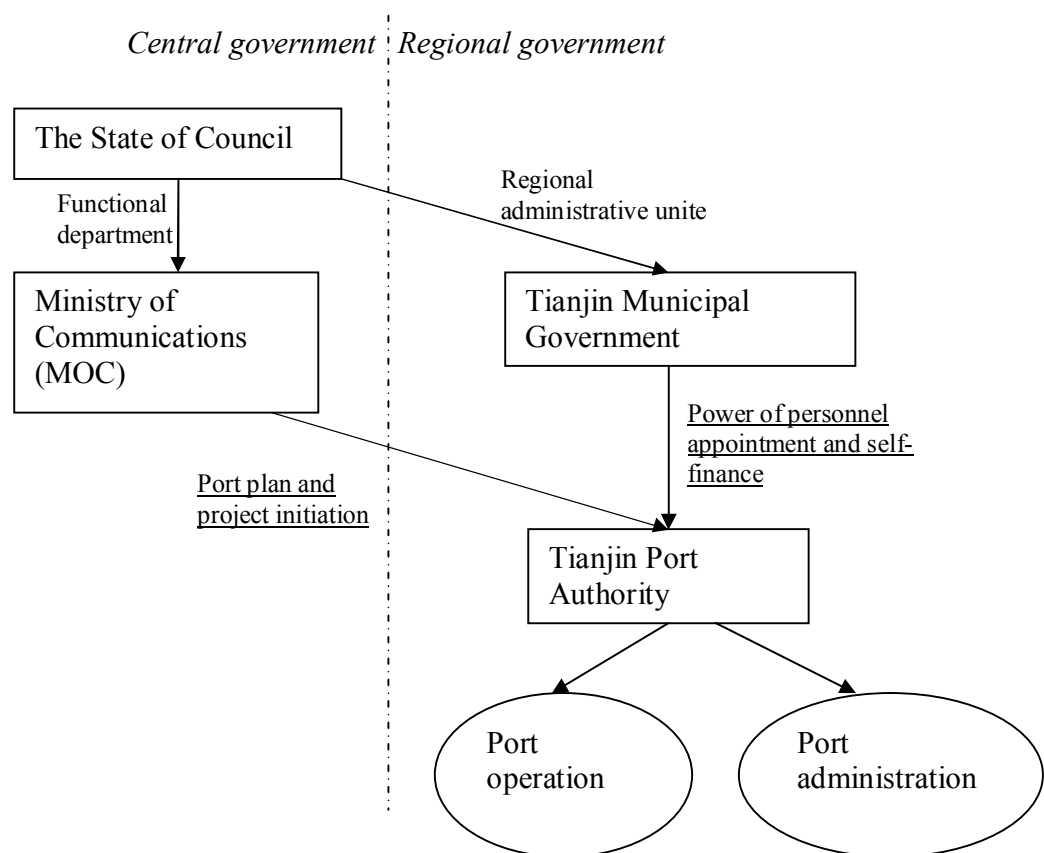
4.1.2 Semi-decentralization: between the First and the Second Port Reforms

With the concern over the port congestion problem, Tianjin port carried out the dual-administrative governance with the approval of the State of Council, the supreme authority of central government, in 1984, which triggered the first national reform of port governance system. The period between the first and the second port reforms is termed as “semi-decentralization” (Qiu, 2008: 181) or “towards decentralization” (Cullinane and Wang, 2006: 344) with joint administration by central and municipal governments as shown in Figure 4.5. According to the definition in the central approval policy⁶, the dual-administrative governance system divided the bundle of port control power into two groups that Tianjin municipal government was authorized with the power to retain the reserve fund by keeping the surplus of the revenue and raise fund from various financing channels for port expansion projects while the MOC maintained the function of port planning, the final

⁶ It refers to “Approval by the Central Committee of the Communist Party of China and the State of Council to Set Tianjin Port as the Pilot Experimentation for the Port Administrative Reform”

decisive right over port projects and appointment of senior management in local port authority.

Figure 4.5 The Dual-administrative Model of Tianjin Port in Semi-decentralization



Compared to the centralized system, the dual-administrative system transferred municipal port authority from an executor of daily operations and maintenance to an

actor with partial strategic activities, which aroused the local enthusiasm of productive improvement. The difference between dual-administrative system and decentralized system is that even with sufficient funding, regional government had to win the approval of central government before the start of the construction project (Qiu, 2008). This institutional arrangement by central government aimed to maintain the priority of national goal over the regional interest, the implementation of which was guaranteed when central government retained the appointment right of the senior management personnel. In other words, the dual-administrative system tended to incorporate the market philosophy to enhance the productivity and efficiency while maintained the bureaucratic power to rectify the local miscarriage of responsibilities and ensure the maximization of national benefits.

It is worth to be noted that the economic system began its transition from a planned economy to a market economy at the end of 1978, which is characterized as piecemeal, incremental and experimental (Lin et al., 1996; Qian, 2000). With this regard, it is no wonder that the request⁷ of Tianjin municipal government for the administrative reform on port governance could be approved by central government when the gradual economic transition allowed partial autonomy of regional governance. As noted by Wang and Bi (1994), Tianjin port reform is not the single

⁷ The request refers to “Request to Change Management System and Enlarge Local Control Power of Tianjin Port”, which was the report of local investigation organized by Li Lanqing as Tianjin deputy mayor, who became the vice premier of the State of Council in 1993 and played a important role to support the reform of port administration in Shenzhen in 1993. The request is confidential but its impact could be denoted by the government website <http://www.tjitsc.gov.cn/jsp/htmls/tongguan/06.htm>.

port to reform governance systems in the early eighties of China. Besides Tianjin port, Dalian port also reformed its port governance with a decentralized system in 1982. It seems that the decentralized system of Dalian port was not better than the dual-administrative system of Tianjin port, the latter of which was widely accepted as an official model for the national ports. Perhaps, the strength of dual-administrative system over the decentralized system in the mid-1980s of China is its compatibility with the pace of economic transition, where mutually consistent institutions of the planned economy remained incompatible with a true market economy to allow the existence of decentralized system (McMillan and Naughton, 1992).

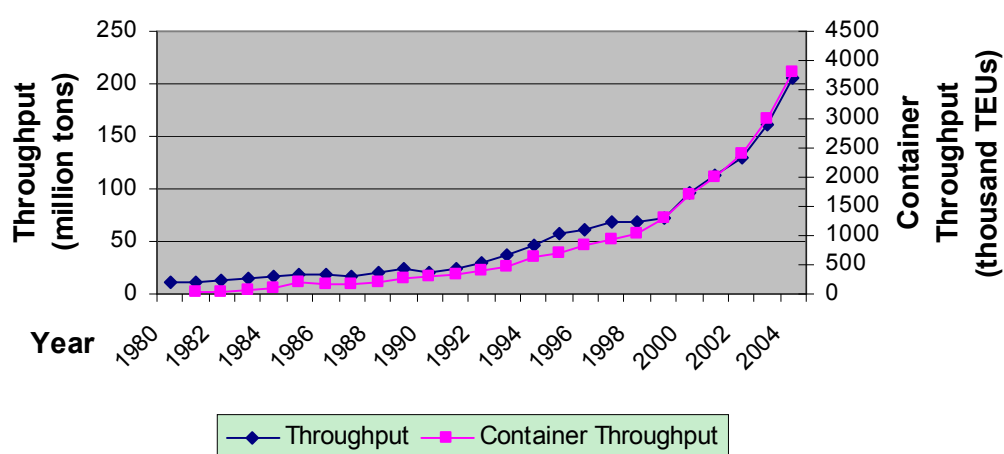
Under the dual-administrative system, Tianjin port had entered an era of fast development with an important role to lead container service into China in the early period of semi-decentralization. With the first container terminal of China in 1981, Tianjin port had consolidated its standing position among ports in China to provide container service, ranking second merely to Shanghai port (Todd, 1994). As shown in Table 4.2, the container throughput of Tianjin port was sharply increased in 1984. It approaches the second turning point with accelerated growth since 1997, as indicated in Figure 4.6, when the first terminal company dedicated for container service was put into use, which could be denoted from Table 4.3.

Table 4.2 The Mounting Container Throughput of Tianjin Port

| Year | Non-TEU boxes (No.) | TEUs (No.) | | |
|------|------------------------|------------|---------|---------|
| | | Import | Export | Total |
| 1973 | 87 | | | |
| 1974 | 600 | | | |
| 1975 | 411 | | | |
| 1976 | 1323 | | | |
| 1977 | 5625 | | | |
| 1978 | 7017 | | | |
| 1979 | | 4756 | 4350 | 9106 |
| 1980 | | 8653 | 7259 | 15,812 |
| 1981 | | 13,475 | 12,174 | 25,649 |
| 1982 | | 21,296 | 20,622 | 41,918 |
| 1983 | | 31,944 | 29,345 | 61,289 |
| 1984 | | 45,156 | 39,659 | 84,815 |
| 1985 | | 85,044 | 64,367 | 149,411 |
| 1986 | | 76,059 | 91,557 | 167,616 |
| 1987 | | 83,975 | 78,567 | 162,542 |
| 1988 | | 112,225 | 101,903 | 214,128 |
| 1989 | | 137,623 | 128,131 | 265,754 |
| 1990 | | 138,000 | 148,660 | 286,660 |

Source: Todd (1994).

Figure 4.6 The Throughput and Container Throughput of Tianjin Port (1980-2004)



Source: with reference to Department of Water Transportation (1998) and statistics in the government website <http://www.tjitsc.gov.cn/jsp/htmls/tongguan/04.htm>

Table 4.3 Shareholding structure of Tianjin Container Terminal

| Year | Container terminal | Shareholding structure |
|------|---|---|
| 1997 | Tianjin Port Container Terminal (TCT) | <i>Tianjin Port Development Holdings (TPDH) 100%</i> |
| 1999 | CSX Orient (Tianjin) Container Terminals (CSXOT) | <i>Tianjin Port Limited Company (TPLC) 51%, NWS Holdings 24.5%, DP world 24.5%</i> |
| 2005 | Tianjin Five Continents International Container Terminal (FCICT) | <i>TPLC 40%, NWS Holdings 18%, Cosco 14%, China Shipping 14%, China Merchants Group 14%</i> |
| 2007 | <i>Tianjin Port Alliance International Container Terminal (TPACT)</i> | <i>TPDH 40%, APM 20%, PSA 20%, OOCL 20%</i> |

Source: collected from each company profile released online.

One critical feature of this period is the diversified source of capital allowed to invest port construction, which was strengthened by the promulgation of “Interim Regulations of the State Council of the PR China on Preferential Treatment to Sino-Foreign Joint Ventures on Harbour and Wharf Construction” (hereafter referred as “1985 Interim Regulations”) in 1985. Under the policy guarantee of the 1985 Interim Regulations, foreign investors was encouraged to inject capital into port projects, which underpinned the fast development of port construction from a national perspective. From one side, the participation of foreign capital could not only largely mitigate the inadequate capacity of port through accelerated construction with abundant investment but also introduce the efficient management skills and technology into China; for another, the Chinese government secured the final decisive power with the 49% ceiling on the foreign shareholdings in joint venture, which is the exclusive form for foreign participation (Cullinane and Wang, 2006). With this regard, Tianjin port was gradually allowed the entrance of foreign capital in port operation,

such as joint venture container terminal of CSXOT in 1999. Despite the elimination of government monopoly in port service to handle containers, it is well indicated that the participation of non-government capital was largely constrained in Tianjin port during the period of semi-decentralization. For one thing, the first enterprise form to undertake container handling operation is the TCT as the state-owned company started in 1997, which is two-year earlier than the establishment of CSXOT. This time sequence indicates that the introduction of foreign capital is not the prerequisite condition for the development of container service in Tianjin port. For another, Tianjin port is the first port in China to design and construct the dedicated container terminal berth in 1974, which was completed and put into use since 1981⁸. This experience of self-design and construction enables Tianjin port to develop container terminals without the necessity to depend on the technology and experience of foreign investors.

4.1.3 Decentralization⁹: after the Second Port Reform

By the 2001 decree promulgated by the State Council¹⁰, most ports in China were required to separate their port administration and operation with the objective to transfer the institutions of port governance into the form of modern enterprise to adapt to the new rules after the China entrance of the WTO. This change was also

⁸ See Tianjin Chorography <http://www.tjdfz.org.cn/tjtz/gkz/gkjs/sjsg/index.shtml>

⁹ Decentralization is regarded as more appropriate than marketization in this study because it focused on the process of power transferred from top to bottom rather than increasing market force.

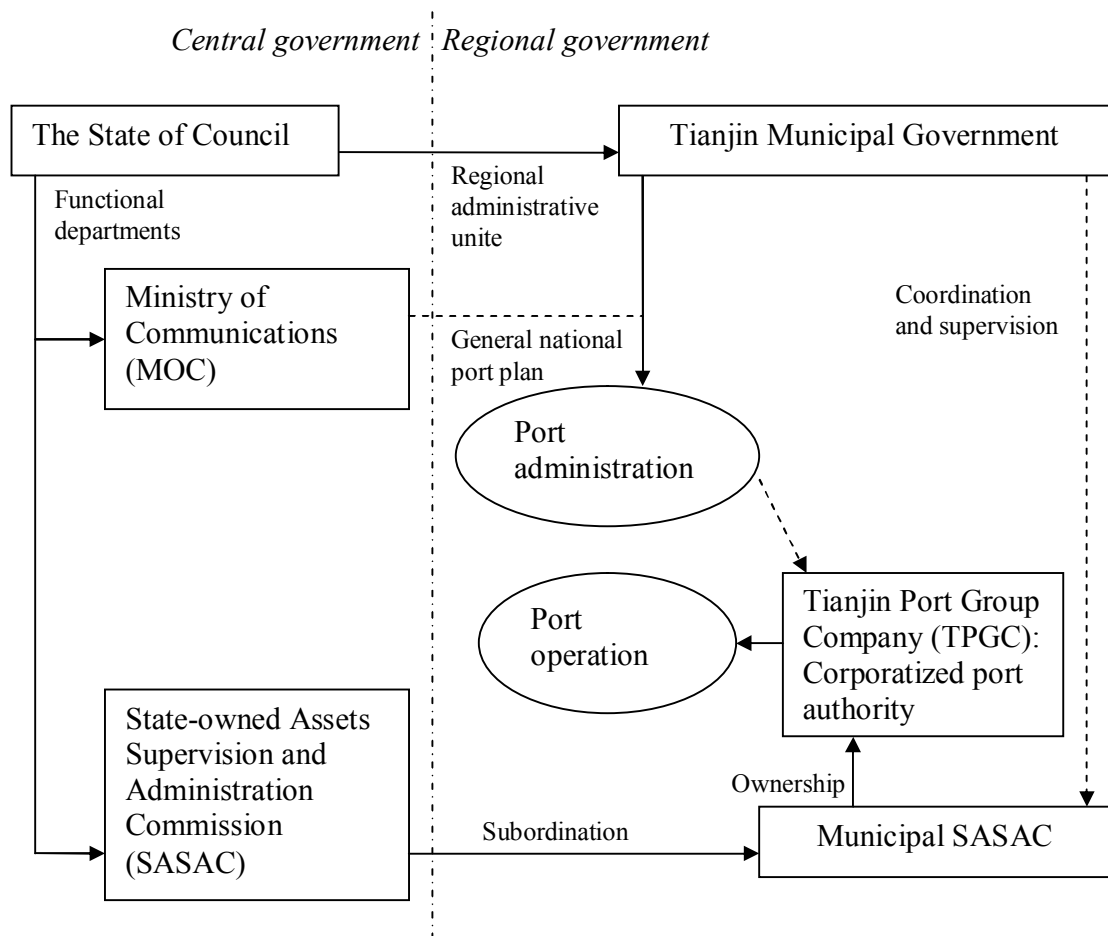
¹⁰ The 2001 decree refers to “Instructions to Deepen the Reform of Port Governance System on Ports under the Central Governance and Dual-administration” issued in 2001.

encouraged by Port Law in force on 2004, which is the main legislation in China dedicated for port industry. Under such pressure, Tianjin municipal government restructured the Tianjin Port Authority¹¹ into the form of state-owned corporation and withdrew the power of port administration from the port authority in 2003 as shown in Figure 4.7.

It is worth to be noted that the requirement of central government to decentralize port governance system is parallel with the process of economic transition, which leads to the large scale of State-owned Enterprise Reform with a thorough separation of administration and operation in government-subordinated economical entities directly under the management of its administrative department in nineties. This structural change indicated a transformation to turn the central government as the role of “the basic unite of economic organization responsible for unified management and accounting” to the enterprises as “the basic economic entity” to “carry out independent business and accounting under the unified leadership and supervision of the state” (Lin et al., 2001: 8). Following such transitional pace, port industry was not only allowed but also promoted to transfer its governance structure with the separation of administration and operation. After the promulgation of Port Law, the corporatization of port industry with the objective to establish the modern enterprise

Figure 4.7 The Decentralized System of Tianjin Port in Decentralization

¹¹ Tianjin Port Authority was a municipal department, but transformed to a corporation after the second port reform.



system was introduced, such as Tianjin Port Authority restructured as Tianjin Port Group Company, and the 49% ceiling for foreign capital in joint venture was removed, such as 40% state shareholdings in FCICT and TPACT as shown in Table 4.3. It is worth to point out that the decrease of the state capital in the shareholding structure should not be perceived as the retreat of the corporatized port authority on the control of the joint venture container terminals because the non-state shareholdings are divided into even smaller part for more foreign investors.

4.2 Historical Perspective on the Process of Model

Decision

As aforementioned in the section 4.1, the port governance in Tianjin port has evolved through three stages divided by their different institutional structures. Not only the differences in institutional structures but also the process of the two port reforms between three stages of port governance is influential in shaping the way that governance system of Tianjin port evolved, when the process could explain how the general pattern for reform set into practical institutional governance system of Tianjin port. The reason for the importance of the two reforms is that certain directions of institutional change were established during the transitions of the reforms which made the reforms as “critical juncture” in the historical path of governance evolution in Tianjin port. In order to indicate the way shaping the direction of governance evolution, the framework of Model Decision is applied to investigate the process of the two institutional reforms with comparative perspective.

4.2.1 Decision

The motivation for Tianjin municipal government to launch the first port reform was the pressure to solve congestion problem from central government. The local authority, however, realized that its predicament in solving congestion problem was

exclusion of the control power on port activities. As noted by Zhu Qingyuan, the chief of the Tianjin Port Authority in 1984,

“When port congestion became serious, the State Council would require Tianjin municipal government to find the solution by coordinating all stakeholders, while activities of foreign trade, railway transport and port governance were under the control of corresponding central department (which are not controlled by municipal government). If Tianjin municipal government could not coordinate these departments, the only way it could do is to deploy military force for stevedoring.” (Li, 2008a)

In the light of the congestion problem, Tianjin municipal government investigated the cause of governance system to induce the congestion problem and propounded two points need to be improved within port governance system, which were multiple leaders in port administration without efficient coordination and port operation lack of incentive and disincentive mechanism (Li, 2008b).

If the first institutional reform in Tianjin port was motivated by the consideration of local interests to solve the congestion problem, then the second port reform was launched with the macroscopic central objective to establish market system in transportation governance with the general model of separating administration and operation. As specified in the National Tenth Five-Year Plan, the reason for restructure the transportation governance is the central belief that the separation of administration and operation is the prerequisite condition for establishing an “open,

fair and regulated market access system”, which could promote the introduction of market mechanism to transportation system.

4.2.2 Lobby and Reactions

With the local investigation on port governance system, Tianjin municipal government proposed the reform scheme to establish dual-administrative system aiming at promoting port development from institutional basis. The reform scheme, obtaining the support of the vice premier in 1983 and approved by the State of Council in 1984 as the formal plan for Tianjin port reform, discussed the restructure of port governance in three aspects:

- (1) In order to improve the coordination and efficiency of port activities, Tianjin municipal government should be authorized as the leading role in port governance to unify the management and coordination of port affairs;
- (2) The financial system should be restructured as self-support for port development within the general planning of central government, which could largely release the local port operation from central financial control;
- (3) In order to change the phenomenon of “eating from one big pot”¹², the interior governance system of Tianjin port should be restructured through establishing operation companies with independent accounting units, which fundamentally built incentive mechanism for improving port operation.

¹² It refers to the fiscal relations between the central and provincial governments in China under the planned economic system which allocates the resources regardless of differences of individual contributions (Jin et al., 2005).

Different from its initiative role in promoting central government to decentralize partial control power in the first port reform, Tianjin port had played a passive role during the second reform. With the objective clarified in the National Tenth Five-Year Plan, the Ministry of Communications promulgated the decree of “Deepening Institutional Reform on Central Affiliated and Dual-administrative Ports” in 2001, which required national ports to restructure their governance system with a general model of separating administration and operation. According to the interview of one of the officers in Tianjin Port Group Company, Tianjin port would not reform its governance system if the 2001 decree was not issued. As noted by the officer,

“The dual-administrative model promoted the development of Tianjin port and made Tianjin port realized the throughput of 100 million tons. Due to the rapid development, other ports such as Dalian and Qingdao had been to Tianjin port to do investigation and admired the favourable institutional environment that Tianjin municipal government provided for Tianjin port. As a result, Tianjin port would not decide for itself to reform the governance system.”

4.2.3 Decision Adjustment

The central approval on the reform scheme broadened the base of control power on port activities for Tianjin municipal government, which decided to decentralize the power it received to its port authority immediately. This local decentralization predominantly increased the autonomy of Tianjin Port Authority with the local

approval of “The Proposal to Enlarge the Administrative Rights of Tianjin Port Authority”, which included the decision-making power on port construction projects below 30 million RMB, the utilization of port revenue in foreign exchange, the right to import port self-use facilities and the power to appoint management personnel below middle level.

Different from its pilot role in the first reform, Tianjin port was the last port to separate port operation and administration during the second reform. In the period between the decree promulgation and implementation in Tianjin port, Tianjin Port Authority had made the General Layout of Tianjin Port before the power handling to municipal government. Although the mayor of Tianjin municipal government had clearly indicated that “the issue of port development is on the top of other issues when there is a conflict between them” in his speech in the second meeting for port construction, the new institutional structure withdrawing power of port layout back to municipal government did hamper port authority in total control of port land when Municipal Bureau of Planning, which received the power of port layout from municipal government, make plans based on the interests of city as a whole other than mere consideration of port development. As noted by one officer in Tianjin Port Group Company,

“Before the (2001) reform, Tianjin Port Authority was able to make full use of the costal line resource because it could make, approve the layout plans and control the usage of coastal line. The procedure became complicated after the reform because the planning power was transferred to other departments of municipal government gradually.”

The officer also identified the reason for the delayed response on the second reform.

“Different from other ports with excess water depth, Tianjin port was always limited by finite water depth. After the separation of administration and operation, the governments of other ports just need to do the layout and allow the injection of foreign investments. But Tianjin port still needs the channel dredging, which could not be conducted by private sector. ”

4.2.4 Final Details and Implementation

With greater autonomy on port activities, Tianjin Port Authority had undertaken a profound reform of the interior governance structure to foster modern enterprise system for port governance, which is the continuity of the 1st reform. It had altered the relationship of port authority and its affiliated enterprises with respective responsibilities of port administration and operation. For one thing, Tianjin Port Authority maintained the administrative injunction for coordinating port activities between affiliated enterprises and formulated local port policies and planning to guide the operation of affiliated enterprises; for another, affiliated enterprises were allowed to be independent from the port authority in the operation of port activities within the guidance of port policies and planning. During the first year of undertaking reform, Tianjin Port Authority had implemented five main measures to reform its interior institutional structure (Che, 1985):

- (1) Apart from the prescriptive rate of revenue handing to the port authority, the affiliated companies was able to maintain the surplus of revenue for self-development, which encouraged productive increase in operative basis;
- (2) The rights and liabilities of leaders in affiliated companies was defined clearly, which aimed at establishing economic responsibility system within affiliated companies;

Besides the affiliated companies, Tianjin Port Authority also participated in the interior governance reform.

- (3) The wage system was transferred from the structural wage system under the planned economy to the composite wage system linked to economic returns;
- (4) The employ system with security of tenure was replaced by the engagement system, which linked performance and position of staff;
- (5) The department setting was reformed with the principal to streamline administrative structure, which reduced bureaucracy within the port authority.

Compared to the first reform, the process of the second reform was relatively restricted. After the completion of the General Layout, Tianjin Port Authority successively transited into Tianjin Port Group Company and signed the agreement with the municipal department of communications to transfer the power of port administration, which reshaped the governance structure of Tianjin port according to the general model of separating administration and operation by central decree. It is worth to be noted that this separation arrangement did not fundamentally break the institutional relationship between corporatized port authority and municipal

government when the decision makers in Tianjin Port Group Company have another identities of government officers. According to an interviewee in Tianjin Port Group Company, the port planning is still formulated by the corporatized port authority before it to be approved by municipal department of communications in the short term after the corporatized restructure in 2004. One reason for this temporary arrangement is the incremental awareness of Tianjin municipal department of communications with the work of port administration before exercising its right to independently formulate port planning. From this perspective, the transited structure of Tianjin Port Group Company undermined but not eliminated its function of port administration.

4.3 Discussions on Roles of Government and Port

Authority

Primarily driven by the objective to alleviate the problem of port congestion, Tianjin port was started its irreversible path to gradually reconfigure the traditional institutions of port governance under the planned economic system into a system compatible with the market-oriented economic transition, when the introduction of the market philosophy was initiated by the central leaders in China with the hope to increase efficiency. Despite the similarity of the objective to invoke institutional change in the range of the entire nation, it seems that the two port reforms have

differed in their processes of implementation, During which the first reform emancipated the port productivity from the constrain of the centralized system while the second reform raised little change in strategic behaviour for port activities. With this regard, this section investigate the differences of the roles of political actors who participated in the two reforms to question what changed their roles between the two reforms to make the trend of decentralization could induce considerable change in the first reform but encounter change-resistant feature in the second reform.

4.3.1 The Role of Central Government

The first port reform occurred in the early period when the central government adopted the philosophy of trial-and-error for its economic reform, which is in line with the state attitude towards the port reform. For example, Tianjin port is not the exclusive one to create a decentralization-oriented governance structure but also Shanghai port and Dalian port in the early eighties. The dual-administrative system of Tianjin port, however, was accepted as the formal reform model to be replicated in the other ports due to its success in motivating the productivity of Tianjin port by the appropriate, not the fully, decentralized autonomy (Wang and Bi, 1994). With this regard, the central government, which refers to the State council and MOC in the case, played a supportive role in the first port reform with the commitment to allow the local governments as the major actor in creating governance structures. This philosophy of the central government to promote the reform of port industry is

consistent in the second port reform when the formal reform model was organized with the experience of the Shenzhen model with port administration and operation separated in mid-1990s, which introduced the thorough separation of corporate operation and government administration into the system of port governance. From the perspective of Tianjin port, the central government had taken a decisive rather than supportive role in the second port reform with the compulsion to apply the designed reform model. This difference between the two reforms indicates that the central government in the second reform may not satisfy all the individual requirements of Tianjin when it had a generic model for national ports but with the weakness to address regional disparity. Due to the variation between ports, it is possible for Tianjin port to build the institutions for port governance differently from Yantian port, the pilot case in port decentralization.

4.3.2 The Role of Tianjin Municipality

Authorized with the independent accounting and partial autonomy on small-size port project, Tianjin municipal government transferred its role from a supervisor and coordinator exclusive from port activities to an actor with partial control to conduct strategic behaviour. Before the first reform, municipal government had little impact on port decisions because the port authority was under the subordinate department of MOC, not the municipal government, as shown in Figure 4.2. With the gradual transformation of the port authority, municipal governments have become the legal

entities to the control of regional port activities. It is worth to be noted that this devolution in China was regarded as a form of federalism to establish institutions at local level, which generated the diversity in the development of local business system (Qian and Weingast, 1997). In the case of Tianjin port, the regional arrangement by Tianjin municipal government for the control power received from central government was transferred to Tianjin Port Authority. This arrangement encouraged the port productivity by establishing an incentive mechanism for local operation, which reveals the supportive role of Tianjin municipal government in the first reform.

The supportive role of Tianjin municipal government continued in the second port reform but with difference conditioned by the central requirements. In the first port reform, Tianjin municipal government could decentralize the control received from central government just because this behaviour of internal decentralization within the Tianjin region is not contradicted with the dual-administrative system. In other words, even this behaviour is not the usual approach in other ports, it was allowed under the general system issued by central government. Compared to the internal decentralization in the first reform, the separation of administration and operation is the nonnegotiable decision by central government as the reform requirement for national ports in the second port reform. With this regard, Tianjin municipal government had to restructure Tianjin Port Authority into a state-owned company and withdrew the power of port administration from the port authority.

4.3.3 The Role of Tianjin Port Authority

Besides central and municipal governments, the department of port authority is also an actor of great significance in port governance. In the first port reform, the role of Tianjin Port Authority was transited from an executor of central command to the decision maker on both port administration and operation with the power decentralized from Tianjin municipality. The transited role impelled Tianjin Port Authority to build the institutions adaptive for the exercise of decentralized power, which includes the establishment of the shareholding structures in the affiliated companies and the negotiation with foreign investors to found joint ventures for port operations. The gradual stabilized control of Tianjin Port Authority over the regional port activities raised its unwillingness to follow the central requirement of governance restructure, which was supposed to increase the uncertainties to adapt to the new structure. With the experience of the steady development in the nineties, it is possible for Tianjin Port Authority to stick to its tradition under the existed governance structure. In other words, the reform model of the second reform did not motivate the Tianjin Port Authority to change its existed patterns for port governance. With this regard, Tianjin Port Authority preserved its patterns for the design of port plans and the reluctance of foreign control on joint ventures, the forms of which were adjusted according to the reshaped governance structure, such as the final decisive power of the port plan was transferred to municipality and the enlarged share of non-state capital was divided into smaller portions. Compared to its behaviour in the first

reform, Tianjin port merely followed the procedure required by the 2001 decree and Port Law but remained its old patterns to perform port activities.

4.4 The Consistent Path of Tianjin Port: From Semi-decentralization to Decentralization

Synchronizing with the economic transition, the governance system of China ports had experienced a step-by-step reform process, which gradually enlarged disparity of governance patterns between regions since the first port reform with the differences in their choices. The two reforms, launched by central government, were supposed to arouse institutional changes to establish modern corporation governance system in port industry through the tool of governance structure but without guarantee of the change to match the expectations of the reform designers. In this section, the consistent path of Tianjin port to insist on the control by the port authority, no matter in the form of government department or corporation, is investigated with the conceptual framework of Figure 4.1 with the objective to demonstrate that under what conditions the first reform created the crack to form the control patterns of Tianjin Port Authority but the second reform encountered the difficulty to encourage the foreign investor into the control party over the port activities. This explanation is supposed to be the bridge between the empirical evidence and the combined theoretical application of historical institutionalism and path dependence theory.

As an artificial port, Tianjin port compelled its planners for the further development with the seemingly never-ending task of deepening channels and berths to serve increasingly large ships (Todd, 1994), which prompted the decision of Tianjin municipal government to decentralize the power it received from the central government in the first port reform with an expectation on Tianjin Port Authority to stimulate the development of Tianjin port. It was unpredictable that this decision of Tianjin municipality not only enhanced the capacity of Tianjin port by the extraordinary efforts of the port authority to accelerate port constructions but also started the irreversible process of the evolution of regional governance system which could be indicated by the incomplete withdrawal of the port administrative function from the port authority in the second port reform. It is Tianjin Port Authority who gradually formed and stabilized its patterns to excise the decentralized power with the satisfaction towards the development of the port under its governance, which impede the implementation of central requirement in arousing structural change. With this regard, it could be argued that the emergent power of Tianjin Port Authority over the control of port activities is the result of the direct decentralization of Tianjin municipal government with the power it received from central government, and also the cause to lock the port governance system in the existed path with the change-resistant feature to the restructure requirement in the second port reform, which points to a localized form of the political institutions to evolve. In other words, the “push” of the central government for the decentralization and transforming of the relations is

merely one factor to drive the change in governance system, which could achieve the effect only by the match of the “pull” of the political institutions and traditions of Tianjin port.

From the comparative perspective, it seems that institutions are not sticky with the equal degree to impede the change induced by governance restructure in the empirical evidence of the two reforms in Tianjin port. This finding demonstrates that it is not the inertia of institutions but the degree of this inertia which matters to drive the evolutionary path of political system. The explanation for the increasing durability of the institutions from the first port reform to the second port reform in Tianjin port is not the existed institutions as the best choice but the rising costs of switching to other choices (Pierson, 2000b). To be specific in the case of Tianjin port, the dual-administrative system may not be the most competitive model to increase the efficiency, but the positive feedback of the steadily growing throughput in the nineties formed and reinforced the institutions under such governance structure in Tianjin port. In other word, the political institutions under the dual-administrative system were reproduced by political actors with formation of the behaviour templates, which could be viewed as a local pool build up with specialized labour, local knowledge spillovers and interrelationships between actors (Martin, 2010). This local pool could reduce the uncertainties of port activities with reproduction over time, which increases the difficulty to change if the other force for change is not that strong to over such difficulty. If the inertia of institutions is weak, the change could be

induced by external shocks, such as the upheaval of the port system in the first reform. Even though uncertainties may arise with the upheaval of the system, the path under the centralized governance could still be “de-locked” (Martin, 2010; Bassanini and Dosi, 2001) as the positive feedback could not be consistent, such as the emergence of port congestion at intervals. With this regard, the positive feedback of the existed governance system for the port development is the condition for Tianjin port in the first port reform to de-lock the centralized path but the second reform with a consistent path to maintain most patterns inherited from the institutions formed in the semi-decentralization period.

Besides the positive feedback, the choice by the actor who has the close relationship with the target power is also an important factor to form the critical juncture (Mahoney, 2000; Ebbinghaus, 2005). Enormous works discussed the contingency of the critical conjunctures as the origins to start a path, which “are characterized by the adoption of a particular institutional arrangement from among two or more alternatives” (Mahoney, 2000: 513). They specified the time of the critical juncture as “the right moment” (Pierson, 2000b: 263) and “a window of opportunity that makes it possible for change to take place” (Greener, 2002: 164), which were argued in this study with the significance of the choices by actors holding the target power. In the first port reform, it is the Tianjin municipal government that made the choice to decentralize the power it received from the central government to Tianjin Port Authority, which played an important role for the change-resistant

phenomenon in the second port reform. The commonality of Tianjin municipal government in the first reform and Tianjin Port Authority in the second reform is their holding of the target power, which largely increased the significance of their choice. For the one side, the decentralization choice of Tianjin municipal government invoked the path formed under the control of Tianjin Port Authority; for another, the positive opinion of Tianjin Port Authority towards the existed governance system impeded the change required by the central government. With this regard, the critical conjuncture to create a dependent path or the cause to de-lock an existed path has a close relation with the choices of political actors who hold the target power.

Chapter 5 The Unique Path of Port Governance: the Control Case of Yantian Port

In the chapter 4, it was discussed that the path of Tianjin port bridging between semi-decentralization and decentralization with the second port reform was relatively consistent with the inertia of political institutions. Concerning the impact of the pilot experimentation of Shenzhen port reform, which generated the reform model to separate port administration and operation as the guidance for the second national port reform, this chapter aims to introduce the unique path of Shenzhen Port Administration Reform as the control case for the comparative study in chapter 6 with four sections. The beginning of this chapter introduces the special settlement of Shenzhen Special Economic Zone (SEZ), of which the establishment and development composed the distinctive economic environment for the port reform in Shenzhen. In the second section, Yantian port, the major port in Shenzhen to handle container service, is introduced not only for the sake of providing an accurate chronicle to reveal the institutional change of Shenzhen port governance partly due to diminishing impact from traditional economic system but also to demonstrate the conflict between port operation and administration, which raised the port administration reform analyzed in the same section. The final discussion section

summarizes the reform process of Shenzhen port with argument on the roles of entities involved in port governance.

5.1 Economic Background of Shenzhen Special

Economic Zone (SEZ)

Since the onset of China's Open Door policy in 1978, Shenzhen had been witnessed with dramatic changes in infrastructure construction and economic development when it was designated as a special economic zone (SEZ) in 1979. The reason for such designation is to experimentally address the issue of transition in China from a centrally controlled system of planning and development to a market-oriented economy with utilization of foreign capital. In order to channel overseas resources and business opportunities, the SEZs were planned and established with preferential treatments on tax reduction and lower custom duties¹³. One point needed to be noted in organizing preferential treatments is the lengthy period between the SEZ designation and publication of specific laws and regulations. Although with anxiety and willingness to negotiate with potential foreign investors, the SEZ officials were hampered to encourage the overseas investment due to the uncertainties created by the lack of preferential laws and regulations (Wu, 1985). Local regulations with more details than national regulation for Shenzhen SEZ were gradually issued, which had constituted the basis for a comprehensive legal structure of Shenzhen SEZ by the

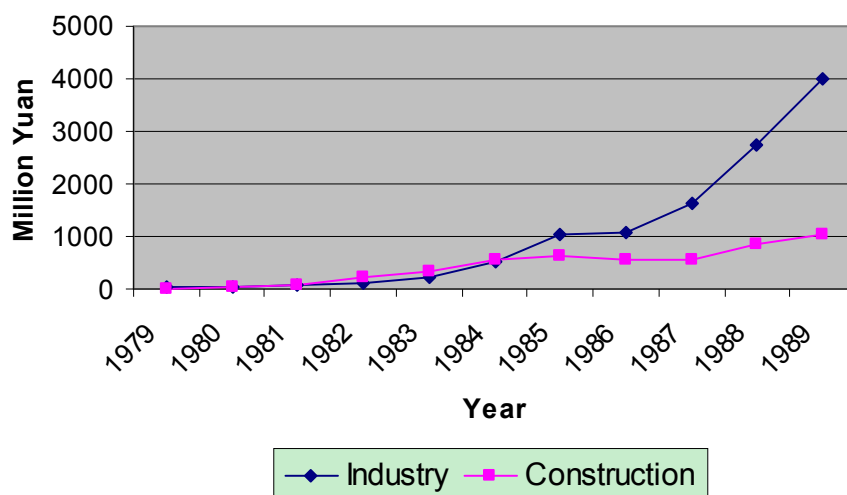
¹³ See the *Regulation on Special Economic Zones in Guangdong Province* issued by Guangdong Province in 1980

middle of eighties (Ge, 1999). The improved legal environment stimulated the foreign investment on export processing and other light industrial enterprises, which could be noted in Figure 1 that the GDP of Industry exceeded that of Construction to be the top in the local GDP. Such delayed process to promulgate special laws and regulations indicated the uncertainty feature of SEZ in planning.

One reason for light industries to be the main item for China to import is the inadequate ability of China in energy supply and transportation facilities to introduce advanced technology in the beginning of SEZ settlement (Wong, 1982: 3). Compared to the heavy investment of advanced technology, the light industry with less investment requirement was promoted by central government to increase foreign exchange earnings and provide employment and a short-cut to development in SEZ, which also attracted foreign investors with small investment, low labor cost and short production cycle for profit returns. According to the different strategic emphases, the economic development of Shenzhen SEZ had experienced three phases during the period of 1979 to 2000, which constituted the economic environment for port governance system reform in 1995. In the beginning of the SEZ settlement, foreign investment was mainly committed to “three supplies and one compensation enterprises” (sanlaiyibu qiye), which refers to the primary processing trade on a consignment basis. This investment mode was gradually replaced by “three kinds of foreign-funded enterprises” (sanzi qiye), which refers to enterprises of joint ventures, cooperative operation and solo-foreign enterprises. The gradual transformation of

foreign investment mode could be indicated from the Figure 5.2 that the Direct Foreign Investments was sharply increased in 1983 with the promotion of municipal government since 1982 and the Other Foreign Investments mainly on primary processing was rapidly decreased in 1985 when Shenzhen municipal government confirmed the development focus to establish export-oriented economy. The third phase was featured with the strategic focus transformed to promote industries with advanced technology, which significantly increased the volume of export as shown in Figure 5.3. The steady development of Shenzhen economy directly generated the demand for port construction in eighties. In order to provide the economic environment for the analysis of the port reform, two points could be made in regard of the economic development of Shenzhen SEZ as follows.

Figure 5.1 The GDP of Industry and Constructions (1979-1989)



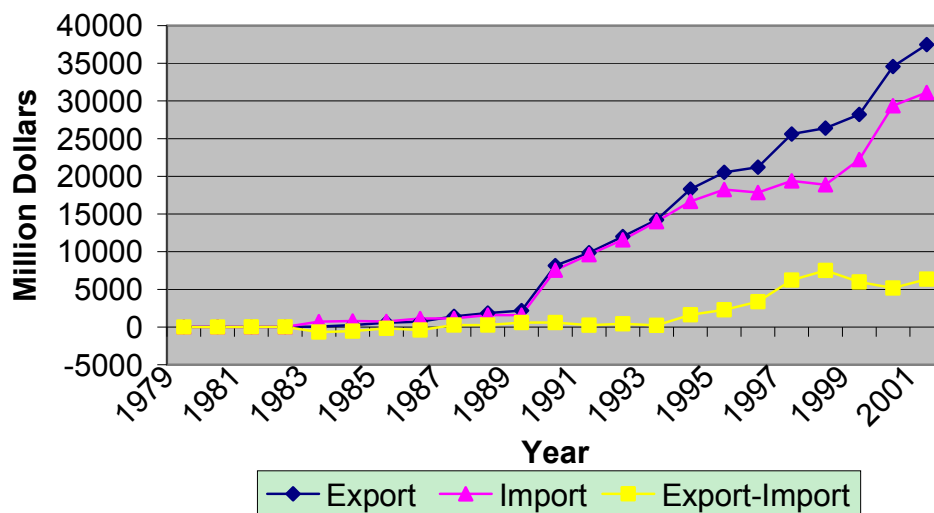
Source: The Shenzhen Statistical Yearbook (1999).

The first point is the pressure that the rapid development of Shenzhen SEZ economy put on port construction, which could be discussed with the division of two main phases before the Shenzhen port governance system reform. The initial phase between 1979 and 1985 was characterized by massive infrastructure construction to foster potential productive capacity, which can be indicated from Figure 5.1 that GDP of Construction reached its peak of 1985 with almost larger number than GDP of Industry. With less confidence in the future of SEZ, many foreign investments were concentrated on “three arrivals and one compensation enterprises” (sanlaiyibu qiye), which refers to the primary processing trade on a consignment basis. Compare to the primary processing trade, the second phase from 1986 to 1995 enhance the ability to obtain overseas resources and business opportunities, Shenzhen SEZ reformed its traditional economic system to develop export-oriented economy during the second phase from 1986 to 2001, which reversed the trade gap of Shenzhen from deficit to surplus as shown in Figure 5.2. As a result, the growth of export processing trade, the major constitute of Shenzhen economic system, fundamentally promoted the port construction in eighties with increasing demand for export transportation.

The second point to be noted is the objective of central government to settle SEZ influencing on the political environment for SEZ economic development, which constituted the distinctive institutional environment for Shenzhen port governance when compare to with other ports in China. Other than promoting export processing industries, Shenzhen SEZ was also an arena for experimentation—to explore the path

for China to accelerate its modernization process (Kung, 1985), which allowed Shenzhen to have larger authority that decentralized from central government beyond the demand to operate export processing activities. With little experience on economic transition, a “learn as you go” approach was adopted dealing with uncertainties that the introduction, modification and removal of a policy targeting particular problems was based on its alleviation of problems (Bruton, Bruton and Li, 2005). This contingent “experimental learning” conditioned the institutional reform of port governance, which could be inimitable for other ports in China.

Figure 5.2 Shenzhen Total Import and Export (1979-2001)



Source: The Shenzhen Statistical Yearbook (2002).

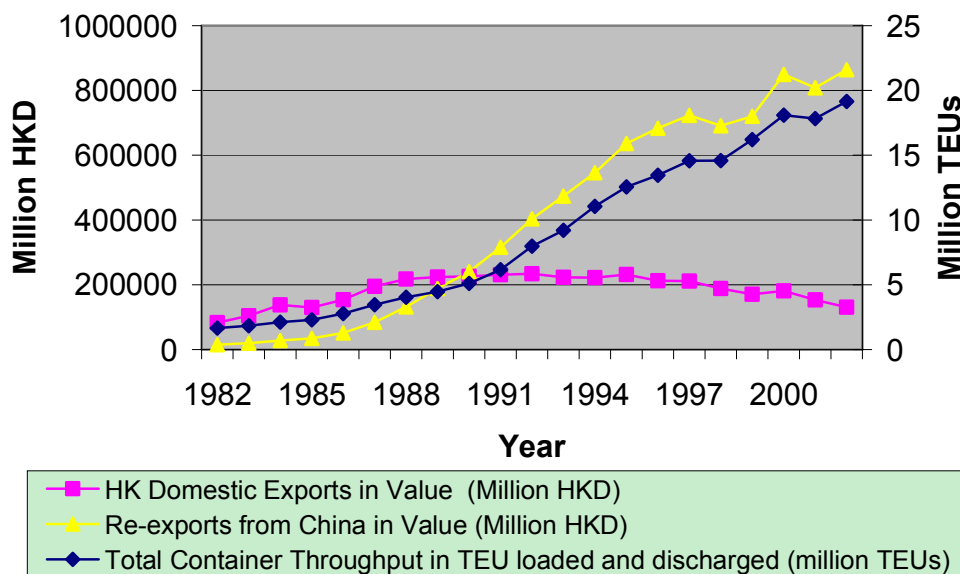
5.2 Industrial Background with the Penetration of Hong Kong Investors

5.2.1 The Northward Shifting of Hong Kong Port Industry

It could be stated that one main reason for Shenzhen to be designated as one of the SEZs is its proximity to Hong Kong, which facilitated the attraction of the new area to large amount of overseas capital injection in Shenzhen SEZ. Following the shift of export-oriented light manufacturing industry moving into Shenzhen SEZ and proliferation northwards, Hong Kong terminal operators started their penetration to major container ports in Shenzhen SEZ, which became the main force for Shenzhen to achieve a sustained growth of port industry at an astonishing rate in the last two decades of twentieth century. The trend of penetration of Hong Kong terminal operators to Shenzhen SEZ could be demonstrated with new push and pull forces from the changing commercial relationship with increasing opened mainland China. One main push force is the legitimacy environment that Hong Kong government provided for its terminal operators. With intense land resource, the decision of additional terminal was only officially supported when the five-year forecast of demand exceeded the existing capacity. This “trigger point mechanism”, which possibly caused the supply lagging behind the growing demand for capacity, promoted the overseas expansion of terminal operators with profit-seeking pressure on the large amount of private capital accumulated during the seventies. The trend of

overseas expansion was accelerated with the increasing public concern over the terminal monopoly, which impeded the largest terminal operator with government intervention in its expansion to Terminal Nine (HKCER, 1992).

Figure 5.3 Exports and Container Throughput in Hong Kong (1982-2002)



Source: Hong Kong External Trade Statistics, Hong Kong Shipping Statistics, Census and Statistics Dept., Hong Kong, various years.

Compared to the push factor raised by Hong Kong government, the changing environment of mainland China after open door policy conditioned the pull force for Hong Kong terminal operators northward. With the geographic shift of manufacturing sector northward by the preferential policies, there is an increasing dependence of Hong Kong container volume on the hinterland of mainland China (Wang, 1998). As shown in Figure 3, the Hong Kong container throughput had grown in accordance

with the increase of re-exports from China with little influence from the flattened line of domestic exports after 1988. The growing industrial base of Shenzhen SEZ generated the urgent demand for local port construction to alleviate the intension of the transport system between Hong Kong and Shenzhen. Similar to other economic activities in Shenzhen SEZ, the financial strain for port construction impelled the municipal government to constitute the political environment facilitating the introduction of overseas capital, which largely encouraged Hong Kong terminal operator to invest northward.

The combined effect of push and pull factors fostered the penetration of Hong Kong terminal operators in Shenzhen SEZ, which have great significance on political thinking and strategy on port governance. In the tradition of port governance in China, the control of private sector on individual port was largely avoid by the central government because of its nationalistic nature and the strategic importance of port to national economy (Wang et al., 2004). This traditional port governance in China with government investment and control, however, could not be adapted in Shenzhen SEZ, where the port construction was mainly sustained by the private foreign capital. The priority of “experimental learning” in SEZ allowed the presence of institutions opposed to the ideology of traditional port governance, which shaped the unique path of port governance in Shenzhen. In order to investigate the process to form such path in governance, Yantian port, the main terminal in Shenzhen, is discussed to reveal the

institutional change of port governance due to the penetration of Hong Kong terminal operator.

5.2.2 Overseas Participating in Container Terminal of China: The Case of Yantian Port

Located on the eastern part of Shenzhen SEZ, Yantian port, with a water depth over 15 meter, was constructed from scratch in 1985 and developed rapidly into one of the top national terminal in the world in the last decade, which could be demonstrated from the Table 5.1. From 1988 to 1999, Yantian port had achieved a dramatic growth in handling capacity with two phases of construction successively, which laid its foundation as one of the main deep water ports with strategic importance in national plan. The first phase project was completed in 1994 with two berths into operation. After in the first phase, the annual design capacity of Yantian port was 500 thousand TEU, which was raised to 2 million TEU in the completion of the second phase with additional three berths in 1999. The constant construction between two phases sustained the steady and rapid growth of container throughput to meet the increasing demand for foreign trade in nineties, which could be indicated from its marked growth as shown in Table 5.2.

Table 5.1 the Annual Throughput of Shenzhen Port

| Year | 1994 | 1995 | 1996 | 1997 | 1998 |
|--|-------------|-------------|-------------|-------------|-------------|
| Container throughput/ million TEU | 0.179 | 0.284 | 0.589 | 1.148 | 1.952 |
| Throughput(Yantian)/ throughput (Shenzhen) | 7.26% | 37.32% | 60.02% | 55.57% | 53.18% |
| National ranking | 8 | 7 | 4 | 2 | 2 |
| Global ranking | N/A | N/A | N/A | 35 | 17 |
| Year | 1999 | 2000 | 2001 | 2002 | 2003 |
| Container throughput/ million TEU | 2.978 | 3.993 | 5.076 | 7.614 | 10.652 |
| Throughput(Yantian)/ throughput (Shenzhen) | 53.73% | 53.77% | 53.19% | 54.93% | 49.36% |
| National ranking | 2 | 2 | 2 | 2 | 2 |
| Global ranking | 11 | 8 | 6 | 4 | 4 |

Source: the website of the Yantian International Container Terminal (YICT).

<http://www.yict.com.cn/2006cn/NewsCentre/throughput.asp>

Table 5.2 The Annual Throughput of Yantian Port

| Year | 1993 | 1994 | 1995 | 1996 | 1997 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Container Throughput/ 10,000 TEU | 0.18 | 1.33 | 10.6 | 35.4 | 63.8 |
| The Growth Rate of Throughput | | 638.89% | 696.99% | 233.96% | 80.23% |
| Year | 1998 | 1999 | 2000 | 2001 | 2002 |
| Container Throughput/ 10,000 TEU | 103.8 | 158.8 | 214.7 | 275.2 | 418 |
| The Growth Rate of Throughput | 62.70% | 52.99% | 35.20% | 28.18% | 51.89% |

Source: Feng (2005).

One main reason for the constant expansion of Yantian port to sustain its rapid development is the penetration of Hong Kong terminal operator. Before the participation of Hong Kong investor, the first phase project of Yantian port was initiated by the municipal government, which was financed with limited resources

mainly from low-interest long-term loan of 12.3 billion RMB raised from Japanese government¹⁴. Because of the massive capital requirement but slow generation of income in port operation, the financial strain remained as the main bottleneck for the further expansion of Yantian port, which encouraged public sector to utilize various modalities of finance resources. One approach for overseas capital injection in Yantian port was to establish joint venture with Hong Kong terminal operator, Hutchison Port Holdings (HPH), in 1993¹⁵. The financial strain for port construction had been largely mitigated since the penetration of HPH, which injected overseas capital of 5.3 billion HKD for the first and second phase projects (Editorial Department of the Journal of Port and Water Engineering, 1997). It is worth to be noted that the decision for the second phase project in 1994 was made before the first phase project making profit, which acknowledged the importance of overseas investment in diminishing the financial restriction on capacity expansion¹⁶. As shown in Table 2, the container throughput of Yantian port in the first three years remained below its design capacity of 0.5 million TEU, which indicated that the reclamation project in 1994 as the preparation for the second phase port construction was prior to the container throughput of the berths built in the first phase project achieving its

¹⁴ Japanese low-interest loan refers to the loans provided by the Overseas Economic Cooperation Fund (OECF), which is an agency for loan aid furnished by the Japanese government with financing aim of supporting the self-help efforts of developing countries. The use of this Japanese loan needs the approval of the State Council of China. One reason for China to be interested is its waiver of war reparations in 1972.

¹⁵ HPH was established in 1994 to take over the business of Hutchison Wampoa Limited Company on the overseas investment, which included the shares of YICT (Airriess, 2001).

¹⁶ Yantian port was not profitable until 1999 according to its allotment specification in 2004. <http://www.cninfo.com.cn/finalpage/2004-01-08/16614830.PDF>

design capacity. This constant expansion reflected the sharply mitigated financial concern by the overseas capital injection after the penetration of HPH.

Besides the capital injection, the penetration of HPH also enhanced Yantian port with its professional skills and resources in port operation and relationship with liners. HPH, an Hong Kong based transnational terminal operator, is one of the top terminal operators with experiences in terminal operation accumulated years and an extensive shipping network spanning the globe, which provided a shortcut for the development of Yantian port to be the first terminal in China with the ability to serve the biggest container vessel in 1999 and handled containers on behalf of 22 international shipping lines in 2000. As shown in Table 2, the growth rate of throughput in Yantian port was maintained in a high level, which was attributed to the participation of HPH in port governance. As noted by the chief manager in Dongpeng Company,

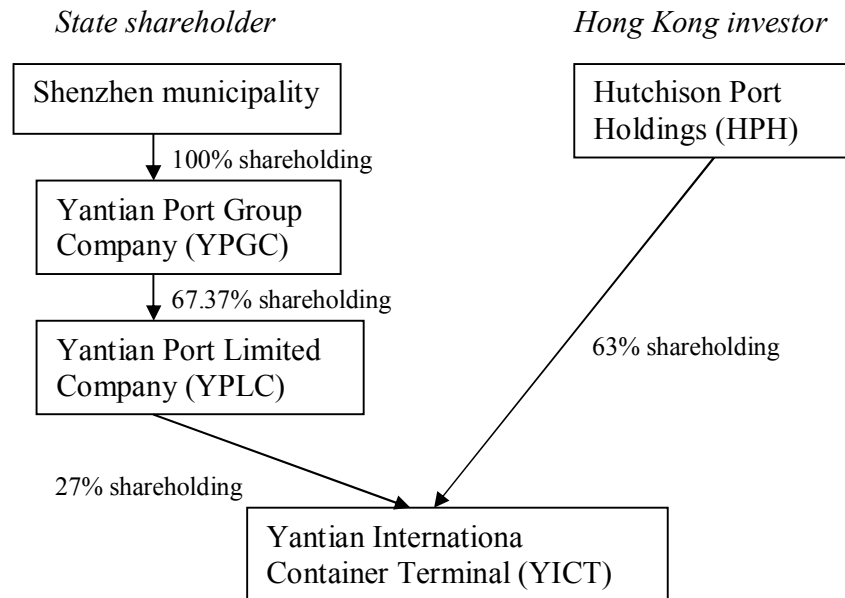
“If without the participation of HPH, Yantian port still had a chance to develop. But it will lose the best opportunity without the decision of HPH to launch the second and third phase project.”
(Yantian International Container Terminal, 2008)

It is worth to point that the deep penetration of HPH in terminal operation not only stimulated the development of Yantian port with a shortcut of financial and professional support but more important exerted a profound effect on the institutional structure of port governance in China. As mentioned in the case of Tianjin port in the chapter 4, the official structure of port governance between 1985 and 2001 is the dual-administrative system, which was required to be applied in the national ports

with the decree issued the State Council¹⁷. For one thing, port operation and administration was integrated to be the tradition for port governance under the planned economy, which regarded government as both the unified organizer and the regulator of economic activities. For another, this tradition proceeded to semi-decentralization period after the first port reform, which merely transferred the control power within the governments at different levels but not between the government and other entities, such as foreign investor. This tradition of port governance within the control of government, however, was breached by the establishment of Yantian International Container Terminal (YICT), which is the joint venture invested by HPH and state-owned company with the HPH, the overseas investor, as the major shareholder in Yantian port. As shown in Figure 5.4, HPH became the control shareholder of the newly settled joint venture in 1993, which markedly diminished the decision-making power of public sector in port operation. As the port administration remaining in public sector, the institutional arrangement for penetration of HPH distinctly separated the port operation and administration with different actors responsible respective responsibilities, which is inconsistent to the traditional ideology of integrating port operation and administration. In order to understand the unique path of Shenzhen port in separating port operation and administration, the following section discusses the process of reform in the case of Yantian port.

¹⁷ The decree refers to “Notifying the Memo of the Meeting about the Port Governance System Reform” as the 2nd document of the State Council in 1987.

Figure 5.4 the Shareholding Structure of Yantian Container Terminal in 1993



5.3 Historical Perspective on the Process of Model

Decision

As mentioned in the previous two sections, the prosperity of the port industry after the open door policy has a close relationship with the penetration of Hong Kong terminal operators, which accelerated the process of separating port operation and administration. In the previous studies, Institutional factors had been investigated as

determinants in leading port reform in previous studies, such as legislative factor (Everett, 2003), organizational culture (Thomas, 1994), and organizational structure in introduction of competition (Estache et al., 2002). Other than indicating the institutional factors conditioning the reform, this section investigates the process of Yantian port in separating port operation and administration with the application of the Framework of Model Decision in Figure 3.1, which focuses on the reaction of political actors to the institutional environment with the constraints of existed political institutions for port governance.

5.3.1 Decision

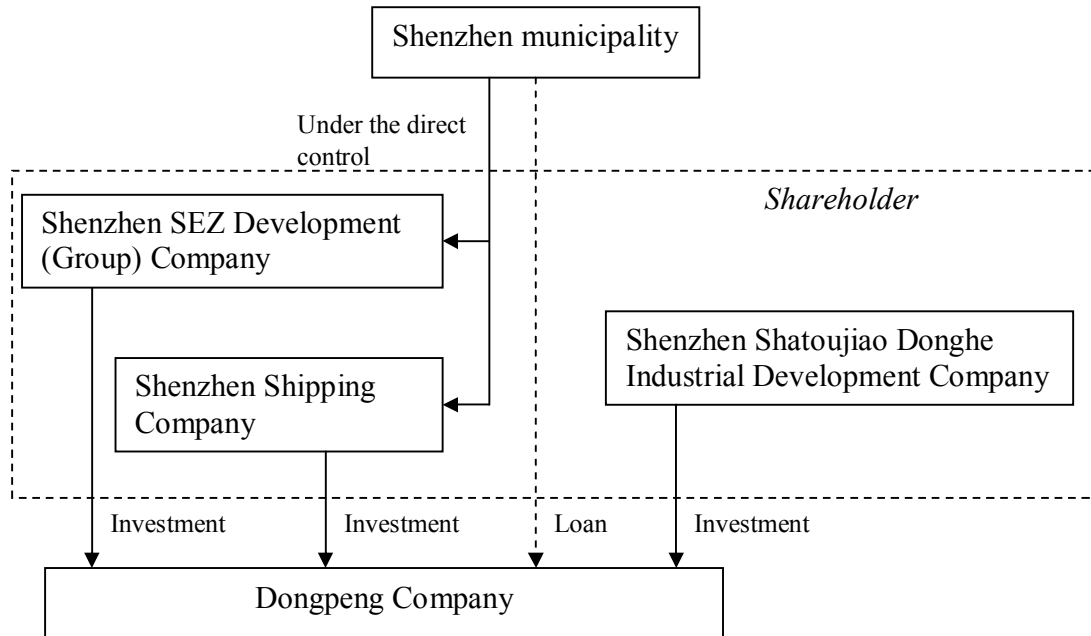
The first step for the preparation of Yantian port construction is the establishment of Dongpeng Company (renamed as Yantian Port Group Company (YPGC) in 1994), which is also the start of the governance system reform because it is the company not a department of government to perform the port construction. Dongpeng Company with dual-identity of Yantian Port Construction Headquarter in Shenzhen municipality was dissimilar from generally acknowledged independent enterprises, the management team of which played the dual-role of both the port company to carry on the activity of port construction and the port authority to execute public responsibility as a department of municipal government¹⁸. This institutional arrangement of “one

¹⁸ According to “Regulations about the Construction of Yantian Port” (the 389th document of Shenzhen municipality in 1988), “Meeting Summary” (the 19th document of Shenzhen Standing Committee in 1992) and “Notice about Authorizing Yantian Port Construction Headquarter with the Function of Port

organization, two identities” was unique in China as a common settlement for separating government from enterprises during the period of economic transition with the objective to foster effective corporate governance structure when non-governmental organizations were quite weak under the planned economy. With the multiple identities, the management team was facilitated with the option of the most effective way to approach the resource. In the case of Yantian port, the corporative identity paved its way to raise fund for initial construction from three companies with state-owned shares as shown in Figure 5.5, while the government identity smoothed its negotiation with other public sectors on the issue of port planning. This governance system allowing the dual-identity of the decision makers in Yantian port indicates the remaining integration of port operation and administration in the early phase after the establishment of Dongpeng Company even though it had established the structure of corporation.

Administration” (the 78th document of Shenzhen municipality in 1993), Dongpeng Company and Yantin Port Construction Headquarter are “one organization, two entities”, which has the land use right over the Yantian port as well as its hinterland.

Figure 5.5 The Shareholding Structure of Dongpeng Company in 1984



Source: by author with reference to Zhou (2004) and Zhou (2006).

With this regard, the special arrangement of the corporative governance system for the early port construction created the unique path for the development of Yantian port with the deficiency of the tradition to organize port activities directly by the government (hereafter refers as “the tradition”)¹⁹. As noted by an officer from Shenzhen East Communication Bureau, who is directly responsible for the public administration of Yantian port, during the interview,

“From the beginning of port construction, the (Shenzhen) city is new and there is no port authority or state-owned port group company (to manage port)...all the government arrangements were followed behind the port construction. It is perceptible that port

¹⁹ Most ports in China have experienced from centralization, semi-decentralization to decentralization, such as Tianjin port discussed in chapter 4, which forms the tradition of port governance in China under the planned economic system.

constructions in Shenzhen were relied on local collection of financial resources when the state did not provide much financial support.”

It is also the special economic environment of Shenzhen SEZ that provided the possibility to establish a company rather than a department of municipal government to perform the port construction, where the market-oriented economy was encouraged and the government was gradually retreated from the economic activities. As noted by the officer during the interview,

“From the beginning, there are two reasons for Yantian to be constructed with a form of corporation...the proactive advantage is the liberal policies given to port in its initial phase of development with the principle of less government intervention and more market mechanism to operate.”

5.3.2 Lobby and Reaction

After the establishment of Dongpeng Company as the main actor to perform the port construction, the financial limitation became the greatest problem to start the construction in Yantian port. Through the complicated and lengthy procedure, the application for the Japanese loan was approved by the State Science Commission in 1985 but the capital was not granted until 1990. The port construction, however, was commenced before the loan was granted when the Yantian project received the central approval and be included in the national planning in 1988. The initial fund

was constituted by the domestic investment in Dongpeng Company and collections from the Shenzhen municipal government and the Ministry of Communications (MOC) of China. Due to the limited amount of the initial fund, three main meetings was organized by Shenzhen municipality to discuss the planning for Yantian port with provincial and central government attended, which established the guideline of “comprehensive planning from small to big with phased construction for a gradual development” (Shenzhen Special Economic Zone Yearbook Editorial Committee, 1991; China Academy of Transportation Science Transport Information Center, 2008). Based on this guideline, the Planning Bureau of Shenzhen promulgated “Several Regulations on Administration of the Construction of Yantian Port”²⁰, which reconfirmed the role of Dongpeng Company in planning and constructing Yantian port and generated profound influence on the future of Yantian port. With this regard, Dongpeng Company remained its dual-role to perform the functions of both administration and operation in Yantian port.

5.3.3 Decision Adjustment

Due to the shortage of both capital and professional skills for port development, the overseas investor, Hutchison Port Holdings (HPH), was introduced to jointly establish YICT with Dongpeng Company, which adjusted the shareholding structure with the shares transferred from the three investment companies to the department if

²⁰ It was the 389th document of Shenzhen municipal government in 1988.

State-owned Assets Supervision and Administration Commission of the State Council (SASAC) as shown in Figure 5.4. It is worth to be noted that the reason for the overseas investor other than state-owned company to be the dominant shareholder is the insistence of HPH in the negotiation stage. As stated by one interviewee during the interview,

“Due to the experience of the joint-venture project in Shanghai port²¹, HPH recognized that the position to hold the controlling stake could avoid lengthy negotiation with government when making decision on port activities according to market philosophy.

The controlling position of HPH in YICT was agreed by the central government with the expectation that the operation of Hong Kong investor could explore a way to reduce the inefficiencies in other ports of China. In order to retain its competitive edge, HPH fastened its control power over port activities of Yantian port with the exclusive precedence on future projects of the construction and operation in Yantian port, which facilitated the strategic shift from the operation of bulk cargos to the dedicated service of containers.

Besides the endeavour of the overseas investor, Shenzhen municipal government also played an important role in the provision of a relatively liberal environment with undermined government intervention to foster the non-state force and accelerate regional economic development. As stated by one officer during the interview,

²¹ The project refers to the Shanghai Container Terminal (SCT) founded in August 1993 with 50% shares held by HPH and other 50% by Shanghai Port (Group) Company. Shanghai port was already in operation when the SCT was founded, which is 2 months earlier than the establishment of YICT.

“Different from other port cities, Shenzhen was designated as SEZ. Other port cities, such as Tianjin and Shanghai, were following the rule of strong executive-lead of government on the management of joint ventures, but Shenzhen equally treated enterprises no matter they were state-owned or financed by foreign capital. On port governance, the Port Authority positioned itself to provide convenience to enterprises for their development.”

With this regard, the possibility for the HPH to be the shareholding controller was raised by the support of Shenzhen municipal government, which aimed to promote the regional economic development rather than increase the government revenues in introduction of overseas investment (Wang & Liu, 2000). It indicates that the economic transition in Shenzhen conditioned the penetration of HPH in Yantian port.

5.3.4 Final details and Implementation

As mentioned in the section 5.2, Yantian port had experienced a rapid growth with the significantly enlarged capacity to handle containers. This growth was achieved not only by the capital injection to upgrade technology but also with the professional experiences of HPH. For one thing, the rapid expansion of Hutchison Wampoa Limited Company on port industry fostered its ability to attract liner companies to utilize the port service. As noted by Zheng jingsheng²²,

“After the cooperation with Hutchison Wampoa, the international shipping liners were introduced to Yantian port with the open of international shipping routes, such as Maersk Sealand, American President Lines and the Orient Overseas Container Line, which had

²² Mr. Zheng was the chairman of the YPGC.

conditioned the hub position of Shenzhen port in container transportation system of South China.”²³

Based on such advantage, the group of international shipping companies opening international routes in Yantian port was increased from 7 in 1998, 22 in 2000 to 32 in 2001 (South Daily, 2009). For another, HPH also changed the philosophy for port governance in the new established joint venture. As stated by Liu Nengfang²⁴,

“In the past, our principle for purchasing facilities was based on the utilization rate and the lower utilization would be considered to be a waste of money, but the new principle of YICT is based on the satisfaction of customers...this conceptual transition has greatly shocked the port management personnel in Mailand [China].” (Yantian International Container Terminal, 2008)

Such change provided the evidence with the institutional change after the penetration of Hong Kong investor in operating Yantian port, which distinctively separated the operational function from the responsibilities of government. This institutional change indicated the formation of the governance system with the separation of port operation and administration in Yantian port, which is also the model promoted by World Bank as mentioned in the introduction of chapter 1. When the private sector, HPH, was allowed to manage and operate Yantian port, the authority of port administration remained in the public sector with traditional institution in customs inspection, of which the low efficiency was considered as the obstacle for port to

²³ See the China Shipping Website with the interview manuscript.
<http://info.shippingchina.com/hotper/index/detail/id/41.html>

²⁴ Mr. Liu was the general manager of Dongpeng Company and later to be the deputy general manager of YICT

serve trade with several problems identified in the report of “An Investigation Report on the Constraints for Port Development”. In order to understand the port administration isolated from operation, it is necessary to investigate the Reform of Shenzhen Port Administration, which is discussed as following section.

5.4 The Reform of Shenzhen Port Administration

In the section 5.3, the reform process to separate the port operation from the administration was discussed as the self-generating behaviour with the control power transferred to HPH, which automatically divided the responsibilities of port activities in Yantian port to the two sectors respectively. It is worth to be noted that the experience of HPH on terminal operation was accumulated in the environment of non-government intervention (Airress, 2001), which implicated the potential contradiction between the overseas operator and the transforming economy. With this regard, this section introduces the reform of Shenzhen port administration between 1993 and 1998, which confirmed the separative system of operation and administration in the municipal level with the legal base.

The report, “An Investigation Report on the Constraints for Port Development”, was organized by Shenzhen municipal government and handed to the State Council in 1993, which attached the importance of the conflict between the long-term traditional

port administration established during the planning economic system and the pressure brought by privatized port governance for improving operation efficiency. With regard to the problems raised in the report, the State Council approved Shenzhen as the experimental unit for the reform of the traditional port administration and promulgated the “Experimental Scheme on Shenzhen Port Administration Reform” (hereafter as “Experimental Scheme”) after the investigation by the State Economic and Trade Commission in 1995. Based on the Experimental Scheme, departments of Shenzhen municipal government organized related detailed policies for implementation of the general solution raised in the Experimental Scheme later in 1996, of which two main points are related to port governance:

The first point is the definitude of the port governance with separation of operation and administration in the Experimental Scheme. The Shenzhen Port Authority is mainly responsible for port administration including planning, construction, rebuilding and maintenance within port zone while leaves the operation responsibility to port corporations. In 1996, the policy of “Establishing Modern Enterprises System on Shenzhen Port Corporations” was promulgated by Shenzhen municipal government, which had laid the legislative foundation of corporate operation in Shenzhen port. It also enlarged the decision-making authority of port corporations with alternative sources to finance. With the support of municipal government, Yantian Port Holdings was established in 1997 as the first listed company among top four deep-water ports in China.

The second is to simplify the procedure of the customs inspection with streamlined administrative structure according to “The Notice of Simplifying the Procedure for Inspection on Ships and Reforming the Charge System”, which was expected to improve the efficiency of customs clearance to deal with the demand of increasing foreign trade. Accompanied with the streamlined administrative structure, the expenditure was also reduced, such as the elimination of port charge on shift of ships between ports in western zones of Shenzhen. These measures facilitated the port operation and assisted Shenzhen port to attract cargoes when compete with ports in Hong Kong.

In conclusion, the main achievement of the pilot reform of Shenzhen Port Administration is the changing institutional structure through an introduction of a business-like environment for port operation. In order to facilitate the enforcement of the Experimental Scheme, a wide range of departments in central and local governments were involved into discussions and implementations of detailed regulations and policies, which is prerequisite for the reform because the traditional institution is not easy to alter. With regard to the new structure for port administration, the “Regulations on Shenzhen Port Governance” was promulgated in 1998, which is nearly the same as its revised version in 2004 after the 2001 national port reform.

5.5 Discussions on the Roles of Government and Port Authority

As mentioned in the section 5.1, SEZs was settled not only as a medium for gaining access to markets and absorbing desired resources from the global economy, but more important as a window for modernizing Chinese socialism with external capitalist tools. The necessity for central government to demonstrate the tools appropriate for integration into the socialist economy allowed this “SEZ window” to have a relatively liberate political environment with loosened state’s attitude on foreign investment when central financial provision was largely restricted (Wang and Bradbury, 1986). This loosened state’s attitude constituted the specialized political environment for port governance of Shenzhen, which was difficult for other port cities to emulate. In other words, central government allocated a relatively high tolerance on local choice of governance system for economic activities within a controlled form, which largely promoted central government to give permission on the Hong Kong investor to hold major share of Yantian port.

If the central government had loosened its attitude towards local choices of SEZ for port governance beyond traditional institution of China, then Shenzhen municipal government was the one playing a key role in promoting privatization of Yantian port with advantage of loosened central attitude. The port operation by private sector was not the initial plan of municipal government as Dongpeng Company, responsible for

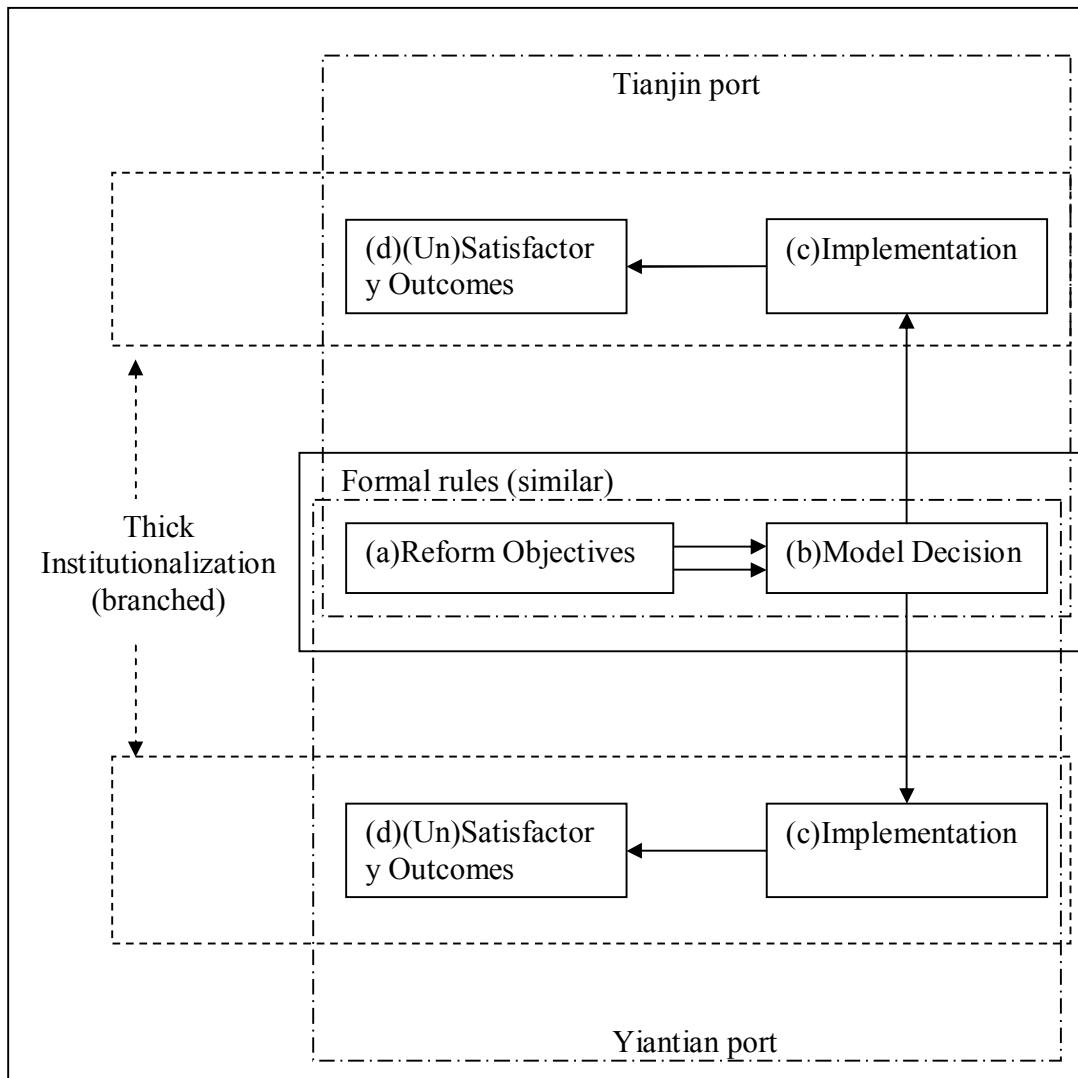
Yantian port construction, was established by three state-owned enterprises with capital raised from local collection and international loan. The main reason for municipal government to adopt the motion of HPH penetration is the advanced technology, management skills and relationship with liner companies that the Hong Kong investor could provide for Yantian port other than pure capital injection.

It is worth to be noted that Shenzhen port authority played a role of less importance than other ports in the process of injecting overseas capital in Yantian port and reforming port administration system with two main reasons. One reason is that Shenzhen was not a traditional port city with historical path for port governance like Tianjin and Shanghai, which indicated its port authority to have relatively less influence in institutional change of port governance in Shenzhen. Another reason for less influence of Shenzhen port authority is that the power demanded for breaking traditional institution of port governance was maintained in central government. Although central government had largely decentralized control power to Shenzhen municipal government for local promotion of economic development, port operation was not one of the economic activities involved in the original central plan for decentralization, which restricted the ability of local port authority on contribution to promote the reform of port governance system.

Chapter 6 Path-branching of Tianjin Port and Yantian Port in Governance

On the evidence presented in the previous two sections, it would appear that Tianjin port and Yantian port had varied the patterns of port governance even with the general solution of reform model by separating port operation and administration, which could be indicated from the institutional consistency of Tianjin port governance but the institutional innovation in Yantian port governance. In this chapter, the section 6.1 compares the reform processes of the two ports with the theoretical framework provided in Chapter 2, which aims to investigate the mechanism generating such difference in port governance. Based on the comparison, the section 6.2 theorizes the mechanism to branch the path of governance even providing the similar strategic model with a historical perspective.

Figure 6.1 the Structure for Comparative Analysis of Institutionalization



6.1 Historical Comparison of the Process to separate administration and Operation in Tianjin and Yantian Port

The framework of Model decision, introduced in section 3.3 as the approach to organize data collection, was applied to the investigation of both reform in Tianjin port in section 4.2 and Yantian port in section 5.3. In view of the similarity in the structural change of the reforms in the two ports, this section compares their reform processes under the analytical structure of the framework of Model decision as shown in Figure 6.1. In this respect, this section is divided into four subsections according to the reform road in the conceptual framework introduced in Chapter 2—objective, model decision, implementation and outcomes.

6.1.1 Objective: Bottom-to-top vs. Top-to-bottom

The governance reform in Yantian port to separate port administration and operation was not officially and originally launched by the central government. Actually, it is Shenzhen municipality which authorized with larger autonomy towards economic activities encouraged the reform of port governance system. As stated in section 5.3.1 and section 5.3.2 of Chapter 5, Dongpeng Company, the state-owned

company established to be responsible for the development of Yantian port, played a dual-role as both the administrator for port planning and the operator for port construction and handling service before the participation of the Hong Kong investor. The evidence of the dual-role of Dongpeng Company could refer back to page 89 to page 93. The separation of port administration and operation actually occurred when HPH, the Hong Kong investor, became the dominant shareholder in newly established joint venture which replaced Dongpeng Company in the operational function in Yantian port. The process of HPH participating in the operation of Yantian port could refer back to the section 5.3.3 of Chapter 5 with page 93 to 94. As Shenzhen municipality maintained the public responsibility to perform the administrative function of Yantian port, the port governance system was essentially separated to independent sectors. In this respect, the objective of Yantian port for governance reform is characterised as *bottom-to-top* as the separation of administration and operation in port governance system was not recognized officially by the central government until the separation actually occurred by the participation of Hong Kong investor under the encouragement of the municipal government.

Dissimilar to Yantian port with the bottom-to-top characteristic for the objective step in the reform, Tianjin port was required to separate its administrative and operative functions of port governance by the State Council. As stated in page 58 in section 4.2.1 of Chapter 4, the central government was motivated to enforce the separation of administration and operation on national ports due to the belief that the

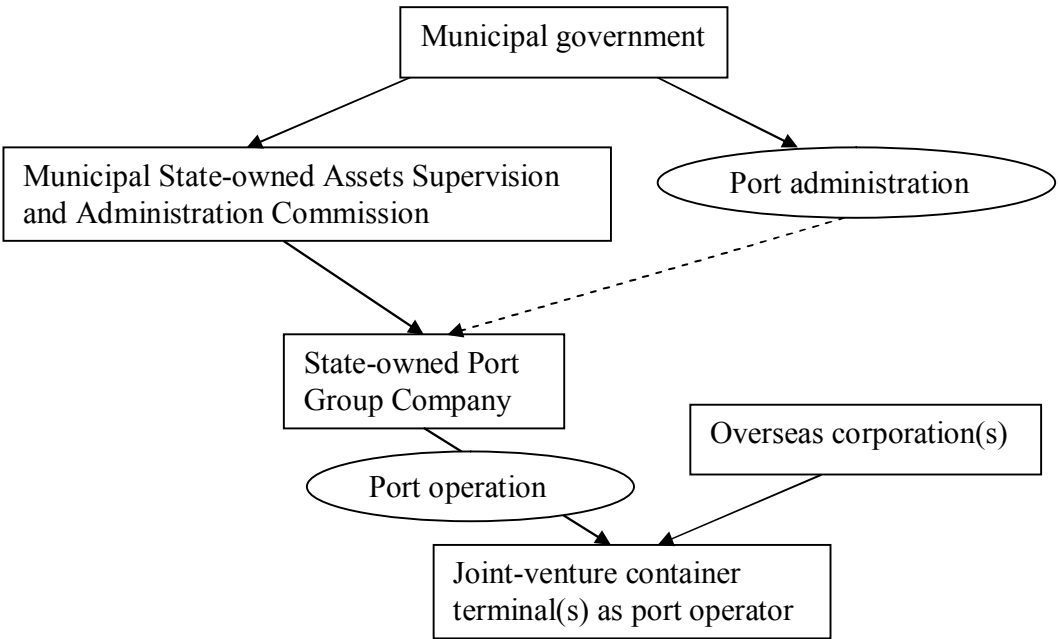
separated system is the prerequisite condition to facilitate the market-oriented economic transition. This is especially true as public sectors, such as Tianjin Port Authority, were not allowed to be responsible as “both the regular and a market player” after China entrance of WTO (Cullinane and Wang, 2006). As a result, the 2001 national decree was issued to require the structural adjustment with the separation of port administration and operation as described in page 60 of section 4.2.2. Therefore, the objective of Tianjin port in the second port reform is characterized as the *top-to-bottom* because it is the central government which launched the reform for the port governance structure in order to expedite market philosophy into port industry and cope with the requirement for the country to enter the WTO.

6.1.2 Model Decision: Compromised vs. Forced

It is the same model which was adopted by Tianjin port in the second reform and Yantian port to separate their administration and operation. Both of the ports restructured similarly to organize a wholly state-owned port corporation on behalf of public sector to share the ownership of joint ventures with overseas investors as shown in Figure 6.2. Despite the adoption of the similar model, the processes to adopt the model are different, which created the disparity towards the localized interpretation of the new system with separated administration and operation. In the case of Yantian port, the reform model was adopted as the compromise of Shenzhen

municipality to the participation of overseas investment in view of financial shortage for port construction. As noted in section 5.3.3 of Chapter 5 from page 93 to page 94, the dominant position of HPH in YICT possessed itself of the controlling power over port economic activities in Yantian port, which evidently separated port administration and operation as the municipality maintained the function of port administration. In this respect, the process to adopt the reform model in Yantian port could be characterized as *compromised* to the penetration of overseas investor.

Figure 6.2 the General Model of Port Governance Reform in China



Source: by author with reference to Qiu (2008)

Dissimilar to the compromised feature of Yantian port in the process to adopt the reform model, the reform model for Tianjin port was predetermined by central

government which made a compulsive request for national ports to separate administration and operation in the 2001 decree. As noted in page 60 of section 4.2.2, Tianjin port would not restructure its governance system without the promulgation of the 2001 decree. In this respect, the model adopted in Tianjin port is not the compromise to the participation of overseas investment but *enforcement* by the central government. Under this condition, it is possible for Tianjin port to maintain its tradition in port governance regardless of the structural change as its corporatized port authority holds the dominant position in shareholding structures of joint ventures when it is allowed to draft port plans before the approval of Tianjin municipality.

6.1.3 Implementation: Experimental vs. Obedient

As mentioned in last section on the stage of model decision, the decision makers were motivated distinctively to adopt the reform model with the separative structure of port administration and operation, which grounded the difference in the intentions for two ports to implement the reform model. As the model of port governance was created to facilitate the participation of the Hong Kong investor, the legislative environment was not prepared and matched with the changes in port operation of Yantian port after the control power shifting to HPH. Owing to the contradiction between the operational requirement of the overseas investor and the administrative tradition stabilized in the planned economy, the port administration reform was officially launched in 1995 after the establishment of the joint venture with the

overseas investor holding the major shares as described in sector 5.4 of Chapter 5 from page 96 to 99. This arrangement with the successive sequence to establish the joint venture for improving the port operation and reform the public sector for enhancing the port administration indicates the *experimental* feature of the implementation stage in Yantian port as the decision makers in Shenzhen municipality having little knowledge and no experience in planning and implementing the governance system for economic reform, which adopted a contingent “experimental learning” approach to revise the existed policies when changes required according to unexpected problems (Bruton et al., 2005).

Different from the experimental feature of Yantian port in implementation stage, Tianjin port did not follow the 2001 decree until the Port Law and its complement regulation, the “Rules on Port Operation and Management”, had been issued and in effect since 2004. As noted from page 63 to page 64, although Tianjin port officially restructured the governance system to corporatize its port authority from a municipal department to a state-owned company, it maintained the function to produce port plans before the approval of municipal government after the official return of the administration power to municipal government. The state of an interviewee in page 62 demonstrates that the request of the central government is the unique reason for Tianjin port to restructure its governance system. The arrangement in implementation stage indicates that Tianjin port formally *obeyed* the request of the central government to restructure its governance system according to the rule of the

separation of administration and operation, but institutionally remains to execute the administrative function with the draft of port plans. It could be stated that if the central request is the This consistent action to perform the administrative function implies the change-resistant nature of the management tradition, which was formed and stabilized in Tianjin port since the first reform in 1984.

6.1.4 Outcome: Privatized vs. Corporatized

After restructuring the governance systems, Yantian port and Tianjin port have adapted to the structural change differently as shown in Table 6.1. Despite similarity in separating administration and operation, the privatization in Yantian port and the corporatization in Tianjin port make differences in institutional arrangements to embed the structural change through reforms. In Table 6.1, Shenzhen municipality preserved the department of the port authority within the municipal government to take the public responsibility of administration on port activities, which institutionally separated port administration and operation as the administrative function has been performed by public sector in Yantian port after the participation of HPH. Tianjin municipality, however, allowed the corporatized port authority to maintain administrative functions of drafting port plans even after withdrawing the administrative power in formal governance system. It turned out to be that port administration and operation in Tianjin port remains combined institutionally even though they are formally separated in structure. Apart from the role of port authorities,

the two port are inconsistent in strategic behaviour over establishing joint ventures as the HPH in Yantian port could have the dominant share in the joint venture while Tianjin port insisted the dominant position of the corporatized port authority in each joint ventures to maintain the control power of YPGC both before and after the second reform. HPH, the overseas partner in operating Yantian port, secured its monopoly position in expansive projects of Yantian port; while none of non-state investors in Tianjin port have the exclusive deal with Tianjin port authority.

Table 6.1 Structural Change through Port Reforms

| | Yantian port | | Tianjin port | |
|---|---|---|--|---|
| | Pre-reform | Post-reform | Pre-reform | Post-reform |
| Port Authority | Shenzhen Port Authority (established in 1989) | Shenzhen Port Authority | Tianjin Port Authority | Tianjin Port (Group) Company |
| Enterprises for terminal construction and operation | Dongpeng Company (<u>State-owned</u>) | YICT (<u>YPGC</u> 27%, HPH 73%) | TCT (<u>TPDH</u> 100%); CSXOT (<u>TPGC</u> 51%, NWS 24.5%, DP world 24.5%) | FCICT (<u>TPGC</u> 40%, NWS 24.5%, China Shipping 14%, CMG 14%); TACT (<u>TPDH</u> 40%, APM 20%, PSA 20%, OOCL 20%) |
| Additional Clause | N/A | Priority for HPH in expansion of Yantian port | N/A | N/A |

Note: Enterprises underlined are the state-owned companies.

With the differences above, it could be noted that the process to decentralize governance power is not uniform among national ports in China as at least Tianjin port and Yantian port have experienced different change in institutional shifting by the forms of privatization and corporation respectively. Both of the forms are intended to put the operations of the port assets onto a more commercial basis with the desire to maximise profit and reduce public financial loads through creating a legal entity to take responsibility of port operation (Brooks and Cullinane, 2006). But the difference of them is whether the major shareholder of the legal entity is private or public sector, which impacts on the informal power structure with the determination of the decision-maker. As shown in Table 6.2, the overseas investor HPH is the decision maker in Yantian port, which is separated from the municipal government, while Tianjin municipality could interfere into the operation of joint-venture terminals through the appointment power on TPGC, which is the decision maker of the terminals. This difference between ownership structures to decide the controlling shareholder sources the different paths that the governance systems of the two ports were driven in shaping choices which depend on the different persistence of the controllers (Bebchuk and Roe, 1999). The path-dependence effect should not be underestimated as it may persist to shape the future choices.

Table 6.2 Institutional Comparison with the Power Structure of the Case Ports

| | Yantian port | Tianjin port |
|---|-----------------------------|------------------------------|
| Port Authority | Shenzhen Port Authority | TPGC |
| Decision-maker of the CEO appointment in PA | Shenzhen municipality | Tianjin municipality |
| Strategic decision-maker for port operation | HPH—the overseas investor | TPGC—state-owned enterprise |
| Decision-maker of the CEO appointment in JV terminals | HPH—the largest shareholder | TPGC—the largest shareholder |

6.1.5 Branching Path: Port Authority First vs. Port

Company First

From the process comparison above, it could be summarized that the paths to reshape the informal rules in port governance at the local level are branched between Tianjin port and Yantian port during reforms despite similar formal settings of the governance structure. The proposition of the empirical evidence on the branched path is not to allege the necessity that the reform would branch the path, but to provide a possibility that the similar solutions could be institutionally different in governance restructure if the condition of the uncertainties is satisfied. In other words, the different outcomes of the port governance in Tianjin port and Yantian port after the reforms were based on the inconsistent intentions of their decision-makers, which drove their decisions in detailed planning and implementation in different ways. The reason for different intentions formed to response to the formal rules set for the reforms could be dated back to their different historical governance, which could be

simply stated as “port authority first or port company first” in the discussion of this section.

Tianjin port is the one having historical tradition in port governance with experience of the first port reform, which shaped the pre-reform governance structure of the second reform to separate administration and operation. The historical governance of Tianjin port conditioned the persistence of tradition or “institutions change-resistant”. As stated by Pierson (2000a),

“Confronting the twin problems of time inconsistency and political uncertainty, designers may reasonably decide to make political institutions change-resistant... When actors at a later time attempt to make institutional reforms, they will often face considerable obstacles.” (Pierson, 2000a: 491)

The theoretical explanation by Pierson (2000a) raised the possibility of institutions change-resistant, which should not be viewed as the conclusion that institutions could not be changed but on the contrary to shift the focus to the condition of the possibility realization. The condition to bring this possibility into reality in the case study is how the decision makers in Tianjin port dealing with the uncertainties that the reform probably generated when comparing with the existed governance by stable institution formed in the past. If their judgement was negative on the prediction of the changes, the past institutions became change-resistant, which then generated the negative response to the reform requirement. In the case of Tianjin port, the decision makers

think the past dual-administrative system brought the port prosperity in the last decade and they reform the governance structure only due to the central command.

It is worth to be noted that what constrained the choice options for the existed leaders in the second reform of Tianjin port could be the former governance by other leaders. In other words, the consistency of the governance pattern in Tianjin port through the second reform was rationally approached by existed political actors regardless of this pattern inherited from formal political actors or innovated by themselves, which is defined as the policy legacies (Mucciaroni, 1990; Weir, 1992) or policy inheritances (Hecklo, 1974). This notion of policy legacies emphasizes the effects of earlier decisions in constraining subsequent policy choices, which proposed conditions for the innovation to be probably fostered. Compared to the explanation of change-resistant feature of institution, the notion of policy legacies fertilized the explanative basis with the mechanism to constrain the innovation in governance system. The innovation is permissible if compatible with the inherited institution, which could explain the innovation of the first reform in Tianjin considerably changing its pattern in governing port.

Dissimilar to Tianjin port, Shenzhen had little port operation before the export-oriented trade started to be built in 1980s, which provided the unique institutional context for the governance of Yantian port as the establishment of Shenzhen Port Authority posterior to the foundation of the port company. The lacuna of public

experience in local port governance shaped the initial institutions for port governance in Yantian port, which avoided the effect of tradition to constrain the substance of decision making. The lack of historical governance does not necessarily generate innovation on the governance system of Yantian port but largely undermined the resistance force to preserve the traditional governance. The crucial factor for institutional change is the disagreement of political actors with the prevailing policies or governance traditions (Peters et al., 2005). In the case of Yantian port, the intention to break tradition was encouraged in governance system of Shenzhen with the experimental purpose to be designated as SEZ, which implied the dissatisfaction of existing governance institutions and the desire to explore innovative governance system.

With the comparison above, having policy legacies in Tianjin port but lack of them in Yantian port, which is indicated from the process to establish port authority first or port company first, theoretically fostered the possibility to branch the path for governing the two case ports despite the similar structural model applied during the reforms. for Tianjin port, the interpretation of past experience has eliminated other feasible alternatives of local decision makers from the repertoire in original design (Clemens and Cook, 1999); while for Yantian port, the political actors was motivated to innovate the governance system when the change was regarded as necessary, which is not the denial to the influence from the tradition but emphasis of “no reason to expect these hangovers (from the past) to be internally consistent or to fit perfectly

with the goals of reformers” (Riker, 1995: 121). The presence of multiple institutional orders in applying similar general model for the governance reforms of the two case ports could be described as the multiple equilibria (North, 1995), which occurs during the process to cope with uncertainties. The rationality for the existence of the multiple equilibria is the risk aversion of the decision makers to deter the institutional change (Shepsle, 2001; Lieberman, 2002). In order to detect the mechanism that risk aversion forming the multiple equilibria, the next section investigates the roles of central and municipal government in the two case ports with dissimilar motivations towards the similar general model for port governance.

6.2 Institutional Analysis with Comparative Perspective on Port governance in China

As aforementioned, the path to shape governance institution of the two case ports with application of similar general model was branched due to the risk aversion of the decision makers in dealing with uncertainties. This comparison grounded the theoretical explanation for the impact of political actors on the degree of institutional persistence and change, which could be manifested with multiple equilibria with one institutional arrangement. With such theoretical foundation, the devolution is focused in this section as a specific form to initiate changes in institutional structure, which is one of the leading issues in global port governance. Based on the concept that

different levels of government perform different functions (Stein, 1999), this section divided the discussion on the political actors for port governance at central and local levels respectively. The segregation of capabilities for policy formation in think tanks and for policy implementation in local governments undercuts the ability of the national plan to generate policy innovations adapted to local specialities.

6.2.1 The Role of the Central Government: Setting Formal Rules

The State Council of the People's Republic of China, synonymous with the central government in this thesis, is the chief administrative authority of China mainly to formulate economic plan and administrative measures as well as oversee the implementation in the local level, which approved or launched the reforms in the two ports with the governance model of separating administration and operation. It indicates that the central government has the incontestable decision-making power over reform issue in China. For example, Tianjin port had to follow the central decree on the national port reform to corporatize its port authority and return the port administration to municipality, and Yantian port could not be operated by a joint venture with overseas investor holding major shares without the permission and succedent legislative support of central government. These examples show that the central government performed the determinant role on both port reforms.

Being the China's highest decision maker, the central government defines and designs the formal system for any forms of economic transition in China. In the two ports, it is the central government that completed the formal rules setting of reforming the traditional governance system through approving the establishment of YICT in Yantian port and promulgating the 2001 decree for national ports, including Tianjin port, to reform. This process to set formal rules is described as the first step in institutionalization by Selznick (1992). This step could affect the institution-building through providing motives that drives the informal structure. This process may arise uncertainties as planners could be biased with misconstruing of the problems in the model designing stage by the assumption of both means and ends are known (Bolan, 1967; Cartwright, 1973). This belief on formal setting as the solution to problem could lead to the harmful results because of uncertainties. These uncertainties could be indicated by the institutional design in section 6.1.1 and section 6.1.2 from page 106 to page 110 when the same choice over the reform model to separate administration and operation raised different interpretation by local public sectors. This arrangement was regarded to accelerate the development of Yantian port by the pilot-experimentation for private sector in charge of the operation and the reform of port administration to meet the requirement of private sector for operation. The same arrangement, however, was viewed differently in Tianjin port where the standard model was regarded as inappropriate for the specific-situation of Tianjin port. Such difference was created by the misconstruing of the central government over the

problems in port governance, which undermined the effect of uncertainties during the planning stage.

6.2.2 The Role of the Municipal Governments: Thick-institutionalize Formal Settings

Different from the central government, local government, synonymous with municipality in this thesis, is the chief administrative authority of the city it located. It is below the central and provincial government in China's administrative structure. With regard to the institutional reform, local municipality played an important role in the implementation stage to restructure the governance institution following the reform model with the request to separate port administration and operation. This implementation stage, involving interaction between traditional informal institutions and formal rules structured by the reform model, is termed as "thick institutionalization" (Selznick, 1992: 235). As the second step of institutionalization, it is the key to realize the improvement which was alleged by the reform model designed in the first step, but whether the informal structure could uphold with the changes in formal structure remains uncertain. These uncertainties could be recognized as

- the inability to exactly predict the outcome of the implementation in the planning stage, which could (Davis and North, 1970; Pierson, 2000a), and
- the inconsistent interpretations to the formal rules governing institutional settlement, which probably generated conflicting regional operations in the implementation stage (Lindner and Rittberger, 2003).

For example, the penetration of HPH was first achieved the agreement with Shenzhen municipality, who concerned its financial restriction on port construction, before the final approval of the central government; while Tianjin Port Authority, the municipal department with local authority on port issues since the first port reform, postponed the return of the port administrative power in order to complete the local port plan and maintained the function to formulate the port plan before the permission of municipality. The empirical evidence indicates the essential role of local government in formulating detailed scheme and implementing within the range determined by the central government.

Apart from the similar reform model, local governments performed their responsibilities under disparate restrictions from the central government, which generated the departure of path in forming governance approaches by respective municipalities. This departure could be revealed with the different attitude towards the overseas investor in charge of port operation. On the one side, Shenzhen municipality was authorized preferential treatment in pilot experimentation on port

governance reform, including the permission of the overseas investor having the major shareholding in Yantian port, which diminished the effect of government on determining the development of Yantian port. On the another side in the case of Tianjin, the corporatized port authority, a wholly state-owned group company, remained the decision centre for the development of Tianjin port, which maintained the governance approach on affiliated companies with avoidance of the control out of the group company, the similar to that before the functional separation required by 2001 decree.

6.2.3 Governance Devolution: path dependence in reshaping local governance

Devolution of governance system could be designed and conducted into various forms despite similar intention to enhance efficiency (Brooks and Cullinane, 2006; Azis, 2008). The forms of devolution were categorized in the previous studies, such as Baird (1995, 1999, 2000) and World Bank (2000, 2007), but the process leading to such diversity in forms was rarely discussed in their work. With the discussion above on the roles of political actors at central and municipal levels, the reform process of Tianjin port and Yantian port shared similarities in the dominant role of central government and the executive function of municipal government, but allowed differences in the patterns and the scopes of authority to devolve in the decentralization process. According to the discussion on central government in port

reforms, it reveals that central government approved and support the reforms in the two ports with little difference in the patterns, which argued the view of Rondinelli (1980) that the central government in developing nations cannot or will not provide supporting conditions and policies required by decentralization. It could be concluded that the central government is not, at least not the major, source to branch the local decentralization processes with the unified reform objective and general model.

One difference in the roles of central government need to be noted is the different central attitudes towards the two reforms. For Yantian port, central government encouraged the participation of non-state capital, which launched an unplanned reform to challenge traditional public port governance system. For Tianjin port, central government required an absolute execution of the designed model, which is organized with the experience of the pilot experimentation in Yantian port, to avoid uncertainties that may fail to achieve the objective with a more efficient governance system. The uncertainties concerned by central government to hinder the local actors to do 'the right thing' identified in the designed model were local persistence in existed governance system. This concern is reasonable in the case of Tianjin port due to its different interpretation of "the right thing". The disagreement of Tianjin municipality to the solution provided by central government was based on the port development under existed dual-administrative governance, which formed the local interpretation of the "efficient model" for Tianjin port. This interpretation "locked in"

(Arthur, 1989: 116) the institution, which constrains the decision making of municipal political actors in Tianjin port.

Different from Tianjin port with traditional system fixed in port governance, Yantian port could prevent such institutional reluctance during the reform, which conducted to traditional breaking in port governance to share a large part of decision power with overseas investor. This difference viewed as traditional breaking is because it seems to the reluctance of political actors in power-sharing with others (Geddes, 2005). In fact, this reluctance did exist as the participation of overseas investor was not the first choice but the municipal collection and foreign loans. The tradition for public responsibility on port operation was not persisted by Shenzhen municipality due to the concerns on its ability to develop Yantian port, one of which based on its lack of experience to facilitate the port development. The lack of historical experience could be revealed by the delayed foundation of municipal port authority, which was later than the establishment of the company in charge of port construction. From a theoretical view, the reason for Yantian port apart from the effect of “lock in” is that the traditional institution in local port governance is not fixed in decision making process of local political actors.

From a historical-institutional perspective, the branched path of the two governance institutions could be described as the departure and the persistence of traditional institution, which depend on the interpretations of municipal government

on the model solution provided by central government. The interpretation of Tianjin port on the general model suggested by central government was based on its experience in the past to operate ports with combined functions of administration and operation, which encouraged Tianjin port maintaining the existed governance in the second port reform. Such process indicates the institution of traditional patterns in port governance was stabilized and self-reinforced since the first port reform in 1984. The tradition self-reinforced in Tianjin port, however, was not necessarily persisted by all the ports, such as the case of Yantian port, which lacks of historical governance to persist. In this regard, path dependence could be viewed as one of the main sources leading to diverse governance structure and strategic preferences in port governance during the devolution process as uncertainties emerged with the decision making restricted, purposely or unintentionally, by the existed institution formed in the past. In a simple term, even though provided with strategies, historical path could restrict the choice of local authority to apply these strategies (Goss, 1990b).

Chapter 7 Conclusion and Future

Directions

With the case studies outlined in the previous chapters, this chapter offers a conclusion and provides the directions for future studies. It is divided into four sections, which are theoretical model, research studies, practical implications and future directions.

7.1 Theoretical Model: Combining Historical Institutionalism and Path Dependence Theory

Focusing on the impact of institutions, this study makes a contribution to exploring the complexity of the devolution issue in port governance reforms by combining historical institutionalism and path dependence theory as a theoretical grounding. Through tailoring these two theories, a conceptual framework was developed for understanding the dilemma between the ongoing disparity across regions and convergent trends driving to a greater homogeneity in institutional form. This convergent trend could be external shocks with structural changes in economic, social, political and/or technological activities (Hall, 2003). In this respect, this study has examined the uneven evolution paths with structural changes in port governance generated by the devolution trend across regions within China.

Based on the theoretical-combined framework, this section has sought to demonstrate two main points. Firstly, knowing about the strengths and limitations of the theories applied in this study is important because by being aware of what they assume and what they believe I can better appreciate how their explanatory power to be enlarged through tailoring with function-specific. To be brief, this study views that on the one hand, the inertia of institutions in historical institutionalism indicates that institutions, formed and stabilized in the past, could shape behaviour, while on the other hand, it is path dependence theory that denotes the dynamic evolution path of institutions as the result of regional disparity. The evolution path of institutions is dynamic because it is unsure to maintain or de-lock the existing path towards the common structural change across regions. For example, Tianjin port de-locked the path in the first reform but maintained in the second reform as the strategic tradition of Tianjin port formed in the first port reform at the early period of economic transition was self-reinforced by the experience of fast development during the period between the two reforms, which locked political activists to the traditional path even though challenged by the structural change requested in the second reform. The regional disparity could be explained because every path-dependent system evolves as a consequence of the system's own history (Martin and Sunley, 2006). For example, the different responses of Tianjin port and Yantian port towards the structural change in governance system could be explained by their histories, which formed their unique templates to interpret the influence by the change. With this

regard, historical institutionalism and path dependence theory could be tailored from the institutional perspective with explanative power towards regional disparities.

Secondly, by examining how institutions shape the behaviour of political actors in critical points where the regional disparity on maintaining or de-locking existing paths emerges or be enlarged towards the same external shocks, it can be argued that whether the critical points become “critical junctures” (Collier and Collier, 1991: 27) or not is all about the decision of political actors who in the vital position possessed the target power in shifting status. For example, the central government who decided to decentralize the operational power to Tianjin municipal government, Tianjin municipal government who decided to decentralize that operational power to Tianjin port authority, and Tianjin port authority who received the power and started to build institutions through its operation jointly created the new path for port governance in Tianjin port since the first port reform. But in the second reform, the decision of Tianjin port authority to stick to existing strategic patterns is more critical than the request of the central government in implementation because Tianjin port authority is the one holding the power.

With the two points summarized on theoretical discussion, it could be aware that the combination of theories by contrasting the differences in explanation they produce may move forward our empirical usage of theories. Through tailoring for specific functions rather than simply putting two theories together, this study examined the

explanative power of historical institutionalism and path dependence theory on empirical explanation. As institutions becoming increasingly noticed as a factor influencing progress (Hall, 2003; Buitelaar, Lagendijk and Jacobs, 2007; Martin, 2010), this study followed this trend and pioneered a road to tailor theories with function-specific.

7.2 Research Studies

This study was started by posing the question about why it is hard to increase the efficiency of ports merely with the employment of the same reform model. In other words, whether the generic solutions, such as Toolkit (World Bank, 2000; 2007), could provide “the best practice” to address various kinds of devolution issues in global ports regardless of their differences in political and economic environment. For that purpose, this study examines the reform processes of two ports in China with employment of the similar reform tool but finds that the two ports did not follow the expectations of central government to produce the proximate governance pattern towards the private participation. Through the single-case analysis, it seems that the major control by port authority in Tianjin port reinforced since the first reform leads to a steady development, which consolidated the difficulty to remove such control in the second reform when required to reproduce the model of Yantian port in devolution reform with the objective to transfer to a commercial-oriented governance

structure. As such, this study demonstrates that institutions, such as stabilized different roles of political actors in port governance, is one of important factors conditioning the port activities to achieve particular goals. It is difficult for policy makers to achieve their expectations merely through the alteration of governance structure, such as promoting particular reform model as “the best practice”, while not be aware of the possible obstruction created from the increasing local concerns over the reform model if the alteration did not fit the logic of appropriateness in the interpretation of local government. For example, Tianjin port authority lost the absolute power over the land layout of port zone after the first reform, which could undermine its advantageous position in the port zone for port development in the future when the government considered to develop other industries in that zone. One way indicated by this study to denote the regional differences in such interpretation is to examine their past experiences, which established and rooted the logic of appropriateness through the reproducing process to shape the behaviour of political actors.

7.3 Practical Implications

The theoretical framework developed by tailoring historical institutionalism and path dependence theory not only serves as a theoretically-innovative basis for the utilization of the two theories but also has a host of practical applications. From the perspective of policy makers, it is always a tough choice to decide which governance

model as the “best practice” to be applied. If port devolution programs in developed economies were the result of the prevalence of new public management concepts (Baltazar and Brooks, 2006), is it appropriate for developing economies to initiate the same reform with employment of a more market-oriented governance structure with less government intervention? With the findings in case-studies of China, one of the greatest developing economies in the world, this study suggests that rather than making a generic use of “the best practice”, it is important for policy makers to recognize the local logic of appropriateness and adjust institutional arrangement to change such logic, or in other term, de-lock the existed self-reinforcing path if it was regarded as useless to increase efficiency. Perhaps, the pre-examination of the institutions formed in the past and involved in the reform could provide a better understanding on the problem impeding the efficiency improvement of port governance than direct application of the model promoted by World Bank with the experience of developed countries. Because the experience for ports in developed countries regarded government intervention as the government failure for efficiency improvement, which may not be the challenge for ports in developing countries.

7.4 Future Directions

It should be recognized that no one set of studies or theories could explain all of the capabilities contributing to a complex phenomenon such as diversified

asymmetries in different regions. In future studies, more cases could be examined and compared in future studies, such as the “trigger point mechanism” in Hong Kong. Despite of case choices, more factors rather than single factor could be discussed in the future as the institution was focused as one of many impact factors, not the exclusive factor, to the process of port devolution. According to the structure of port provision developed by Jacobs and Hall (2007), there are other factors, such as physical attributes, could constrain the actors to make strategic decisions in port development. With this regard, what argued in this study is the way of institution as one of many forces driving the direction of port development, which is impacting on the evolving path as well as constrained by such path. Due to the complexity and changeability of the decision-making process, this study merely utilized the factor of institutions to explain the phenomenon in cases while the future study could address the issue of devolution by predicting the change with the model involving multiple factors.

Appendix – Interview protocol

1. Objective

The interviews seek to conduct comparison between two case ports on (i) what are the reform processes that ports had undertaken, such as how particular decisions were made and who are the key decision-makers, (ii) what the outcomes of the reform undertaken, such as how to establish joint-venture terminal and who make decisions for joint ventures.

2. Information collection procedures

Target interviewees are chosen as they had participated in reform decision-making process. Before the interviews, the following preparations should be conducted: (i) Using all kinds of relationship to approach target interviewees and get the commitment of them for a interview no less than one hour; (ii) Study on the background of the port reform by documentary resources, such as press, company's website, government regulations and policies, and public reports; (iii) Organize interview questions and email to interviewees to let them understand the main purpose of the interview.

During the interview, the interviewer should do the followings: (i) make sure interviewee has enough time available to participate (no less than one hour); (ii) ask questions relevant to the objective that come out in the middle of their answers later if

any; (iii) ask for a copy of all the relevant documents when interviewee mentioned or interviewer consider necessary, such as annual report and corporation internal files; (iv) check the same questions between different interviewees to evaluate their answers.

After interview, the interviewer should do the followings: (i) manuscript organization should be finished within 24 hours in order to record all the information collected during interviews; (ii) send the manuscript to interviewees for a check.

3. Interview questions

Since the interview semi-structured, it will be started with following questions. Other questions will be structured based on the interviewee's question.

Section A – comparing reform process

Tianjin port:

- 1) As we all know, the reform was initiated to achieve several objectives to improve the whole industry. The Notice issued by central government has identified some objectives such as introducing corporation management skill and reducing bureaucracy. So following the direction of central government while considering the local situation, what is the specific motivation for Tianjin port to reform and how to reflect it into planning and implementation?
- 2) To some degree, Tianjin port has to choose the corporatization which is the generic solution offered by central government for reform to separate

administration and operation and form port corporations to take operations. So in the new governance structure, who takes the responsibility of the new construction project on port, the municipal government or Tianjin Port Group Corporation?

- 3) Before the reform, some of the port assets were already listed on the stock market, and part of them even listed on the Hong Kong stock market. What's more, there is another SOE in port operation, which is controlled by municipal department of commercial. So having involved so many stakeholders, how did Tianjin port balance their interest and win their confidence for the improvement after reform?

Shenzhen port:

- 1) From the documentary review, it is the Shenzhen municipal government not the central government that initiated the port reform in 1993 with a census report. In the census report, there are many problems need to be resolved. Which one is most critical and difficult in the planning stage and made the reform urgent at that time?
- 2) As aforementioned, it is the Shenzhen municipal government not the central government that initiated the port reform, but still, central government is important in the reform process. So besides the initiation, what is the respective role of central and municipal government in the reform process?

- 3) Among many choices at that time, why Shenzhen port created a governance structure to inject foreign investment into its port corporation when there is no precedent in China? And why not Shenzhen port took the same way as other ports at that time?

Section B – comparing joint-ventures of container terminals

Tianjin port:

- 1) Tianjin Port (Group) Company (TPGC) has the major shareholdings of two container terminals which were set up in 1999 and 2005 respectively. As they located closely and have the similar services, it may be a hidden trouble for future management to balance their interest. So why TPGC would rather set up new container terminal company other than expanded the existed one?
- 2) According to China's permission to enter WTO, the 49% ceiling for foreign capital in port construction was removed, which reflected in Tianjin port is the FCICT, a joint venture container terminal constructed in 2005, when TPGC holds less than 50% shareholdings but still the largest shareholdings among all the shareholders.
 - a) Why TPGC downsized its shareholding structure? What is considered to benefit TPGC and from what aspect?
 - b) Why not let foreign investors holding majority of shareholdings? What conditions made Tianjin port to believe that the current structure is more suitable?

- 3) With its shareholdings less than 50%, the power of TPGC over the FCICT is relatively control not absolutely control. So it is possible for other shareholders united to argue with TPGC over some conflict issues on public and private interest when TPGC represents public interest. So if there is such a conflict, how TPGC deal with this conflict? And who will be in charge of the final decision?

Shenzhen port:

- 1) During the early period of Yantian port construction, the Yantian International Container Terminal was established by Shenzhen Dongpeng Industrial Limited Company (renamed as Yantian Port Group Company in 1994) and Hutchison Port Yantian Limited Company. Afterwards, there is no any other new container terminal. As the container throughput has grown fast recently in Shenzhen, if there is a gap between demands and supply in container service, who will be responsible for covering this gap, municipal government, the SOE with minor shareholding or the Yantian International Container Terminal?
- 2) The shareholding of Yantian International Container Terminal is structured as Yantian Port (Group) Company with 27% and Hutchison Port Yantian Limited Company with 73%. So why Shenzhen port allowed the foreign investor to have the majority of the container terminal? What has been considered to ensure that this structure is more suitable than others?

- 3) Although Hutchison owns the majority of the shareholdings, it does not mean it has the power to determine everything as the port industry is in charge of government according to traditional practice. So when there is a disagreement between Yantian Port Group Company and Hutchison, who will be the final decision maker?

Section C – Opinions of Third Party

For Scholars and Journalists:

- 1) In your opinion, did the reform really change the decision-making process of the port? If so, what aspects showed the change? If not, why?
- 2) Do you agree the roles of municipal governments are not the same in two ports during the reform? If not, why?
- 3) If given the similar conditions of Shenzhen port to Tianjin port, do you think Tianjin port can have the same result? And why?
- 4) Do you agree some early events are critical than later events as they formed the different reform objectives for two ports to reform?

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