Introduction: China’s foreign trade has more than doubled in the last five years from US$109 billion in 1991 to US$274 billion in 1996 with associated changes in commodity mix from low value to high value cargo. However, this growth has been regionally unbalanced. Coastal regions have grown rapidly, while those in the interior have fallen progressively behind in export and import activities. Interior provinces account for 63 percent of population, but they account for only 17 percent of foreign trade. This inequality in foreign trade between interior and coastal regions has aggravated existing regional income disparities. Unless transport links connecting inland regions to coastal regions are improved, regional disparities are likely to grow further in the future.

Containers offer a fast, safe and cost effective means of transportation in exporting and importing commodities; they are easily transferred from one mode of transport to another; they enable operators to offer door-to-door, land-sea through services, with predictable delivery times; and they reduce pilferage en route. For these reasons, world-wide, 80 percent of general cargo, measured in terms of value, and 50 percent in terms of weight, now move by containers. Thus, they effectively shrink economic distances between coastal ports and inland production centers, and can stimulate import and export industries in the hinterland. Many companies in developed countries are now unwilling to place orders with factories located in areas where there are no container services.

Over the last decade, China’s international container shipping has grown
rapidly with port throughput rising from 2.2 million TEUs in 1991 to 8.1 million in 1996 (See Annex 22 for overall container traffic in China). Still, most of the growth has been confined to the coastal provinces; only 24 percent of seaborne containers (which are mostly owned and handled by Cosco and Sinotrans) travel beyond port cities. Indeed, most are stripped in ports and their cargoes are carried in break-bulk to inland destinations. As a result, the benefits of container transport, as a means for door-to-door or dock-to-dock transport, have yet to be realized in these localities.

Recognizing the critical importance of developing an inland distribution system for seaborne containers, the Chinese Government and the Bank jointly undertook a sector study of transport logistics in 1994. This joint effort resulted in the production of the sector study, "Container Transport Services and Trade" (Gray Cover Report No. 15303-CHA, October 1996). This project responds to the study’s principal recommendation to initiate a pilot project to develop intermodal container links along selected corridors between gateway ports and inland destinations.

Main sector issues: A sector study carried out jointly by the State Economic and Trade Commission (SETC) and the Bank identified six major impediments to the efficient inland distribution of seaborne containers.

(a) Uncoordinated Government responsibilities. Government agencies are structured along modal lines. Many deal with intermodal issues solely from their own perspective, passing laws and regulations without coordinating with the others. The result is an array of overlapping jurisdictions and fragmented legal structures. Compounding this problem is the government agencies' involvement in intermodal operations either in their own right or through their affiliate enterprises. Although efforts have been made to separate the regulatory and operational functions, quasi-collusive relationships between the state and enterprises still persist.

(b) Lack of effective competition in intermodal markets. Intermodal service in China has been dominated by two state owned enterprises (SOEs), Sinotrans and Cosco groups. Although this dominance has been declining in the coastal areas, these two giant operators still enjoy more than three fourths of the market share in inland market, largely due to their nation-wide service network. For instance, Sinotrans has 56 subsidiaries, covering capital cities of all provinces and major port/air port cities, and 45 domestic joint ventures based in major load centers in China. In addition, these two operators have door-to-door service capability by offering combined services of freight forwarding, shipping agency and trucking services, allowing them to continually dominate the inland distribution markets. This dominance has, however, resulted in costly and less user-oriented service provision.

(c) Lack of container handling facilities and equipment at inland locations. The lack of inland container handling facilities has made container transport to and from inland points costly. This does not allow containers to be kept at inland locations. In addition, the limited availability of customs clearance function does not permit container cargoes to be carried in bond, thus necessitating containers to be inspected again at seaports. Compounding this problem is the limited availability of empty containers and container trucks. Thus, shippers in these cities have to wait for empty containers and container trucks to be relocated from the coast to the interior, which adds to the time and cost.
(d) Inadequate transport links leading to inland cities to ports. The shortage of transport capacity is a long-standing problem in China's transport sector. The lack of rail capacity has limited shippers’ access to cost-effective long-distance service, the most critical element for moving cargo to inland destinations. Trucking service is also poor due to underdeveloped truck manufacturing technologies and the limited highway network system.

(e) Lack of user orientation of port container terminals: Container terminals in Chinese ports have been traditionally operated by port authorities or their affiliate state-owned enterprises (SOEs), but recently an increasing number of ports have decided to get the private sector participate in terminal development and operation. These cases are found in Shanghai, Yantian, Xiamen and Shekou, but a common problem is that this has created another monopoly by the private sector operator, bringing little benefit to shippers (e.g. a sharp hike in container handling charges). The container operations at Tianjin Port are currently carried out by two SOE terminal operators. However, no genuine competition exists among them since both are 100% owned by Tianjin Port Authority (TPA), which has resulted in lack of user orientation. In addition, a recent Bank team’s review of TPA’s container operations has revealed relative low productivity of its container handling companies. This is due to several factors including the aged container handling equipment and the lack of practices of setting a cut-off time in accepting containers at port container yard.

(f) Onerous cross-border inspections. Although cross-border inspections have improved since the mid-1980s, they still delay containers at points of entry. Repeated inspections by different agencies often cause frustration to exporters and importers. The inconsistent application of regulations have confused foreign shippers and delays the process. Cumbersome customs procedures for bonded transit to inland destinations discourage importers to clear their cargo at inland locations, perpetuating the practice of opening containers for customs clearance both at port areas and again at inland destinations for discharging containers.

Sector issues to be addressed by the project: The project addresses the above sector issues in such a manner as described below.

(a) Closer coordination among relevant agencies and the establishment of arm’s length relationships between the Government and intermodal operators: Responding to the recommendation of the sector study, the Chinese Government has established a vice-ministerial level group in January 1996 to improve coordination among different agencies with regard to policy issues associated with container transport and trade facilitation. In addition, the project would establish a users’ group in which shipping lines, freight forwarders and government officials would meet to regularly discuss issues associated with intermodal operations. This would help resolve problems encountered. The project also requires the conversion of state- or collectively-owned enterprises into limited liability or stock companies so as to establish an arm’s length relationship between regulatory agencies and inland container depot (ICD) operators.

(b) Introduction of effective competition: The project will address this issue by enabling project ICDs to offer alternative service options to inland exporters or importers in inland distribution markets that has been dominated by
Sinotrans and its affiliate enterprises. The project is also designed to bring in intra-port competition between SOE and joint venture (JV) terminal operators in Tianjin Port so as to let them provide more cost-effective services to users (see Annex 13 for the policy framework diagram for the port component).

(c) Development of common-user ICDs at inland locations. The project would assist qualified enterprises to develop ICDs with custom clearance functions and to accept containers of all shipping lines. This would enable inland shippers to get their cargo transported to and from seaports in a safer and more cost effective manner.

(d) Capacity expansion of transport infrastructure. Since this capacity issue has been and is being addressed by the other Bank projects in the transport sector, this project would not directly deal with this issue. It would, however, address the institutional issue by eliminating policy restrictions which impede smooth movement of cargoes along the existing infrastructure (such as elimination of miscellaneous charges often levied en route).

(e) Enhancement of berth productivity: In order to increase berth productivity, the project would provide THCC with funds for upgrading the container handling facilities. The project would also address this issue by initiating a port efficiency enhancement study with the aim of reforming the current operational practices which lower productivity.

(f) Streamlining of cross-border inspections: The project will help streamline cross-border inspections by initiating pilot programs to: (i) reduce the percentage of sample checking for customs clearance; and (ii) simplify customs procedures for bonded transit of seaborne containers to and from inland destinations.

Project Objectives:

The project is aimed at facilitating inland penetration of seaborne containers from gateway ports to inland cities, thus contributing to reducing economic disparities between coastal and inland areas.

Its developmental impact would be measured by five performance monitoring indicators: (i) the value of imports and exports to and from project cities; (ii) the number of containers handled at project inland container depots (ICDs) located at the ends of the pilot corridors; (iii) the number of containers handled at Tianjin Harbor Container Company (THCC); (iv) the number of boxes per vessel hour at THCC; and (v) average container cycle time between gateway ports and selected ICDs.

Project Description

A pilot project. The Chinese Government and the Bank have agreed to launch a pilot project to experiment with the principal reform elements along two pilot corridors which were selected based on several selection criteria. The major consideration in selecting pilot corridors were: (i) the pilot corridors should not be chosen from those which could arouse a strong interest among the private sectors investors (such as the Yangzhe River corridor and the Hong
Kong-Wuhan-Zhengzhou-Beijing corridor), but at the same time: (ii) the pilot corridors should be financially and economically viable so as to demonstrate the commercial viability of intermodal operations in inland markets, and thus trigger the future investments by the private sector. There were not many corridors which met these two conflicting requirements, but two corridors, one extending from Tianjin Port through Hebei Provinces to Inner Mongolia Province, and the other, from Shanghai Port through Zhejiang Province to Jiangxi Province (Jiangxi Province later decided to withdraw its application for borrowing from the Bank, but still remain as a beneficiary of the technical assistance program), meet these criteria.

Policy framework: Critical to the success of the project is the creation of a policy framework conducive to the development of an efficient and user oriented inland container distribution system. To this end, specific policy actions were discussed and agreed with SETC and other line agencies.

Table available in the InfoShop.

Financing

The Bank would extend the loan to Ministry of Finance (MOF) which would, in turn, onlend to four provincial governments (Hebei Province, Zhejiang Province, Inner Mongolia Autonomous Region and Tianjin Municipality), more specifically their provincial finance bureaus (PFBs). PFBs would further onlend it to municipal finance bureaus (MFBs). MFBs would then onlend the money to selected project enterprises. The on-lending terms and conditions from MOF to PFBs, from PFBs to MFBs, and from MFBs to project enterprises, would be the same as the Bank’s standard terms and conditions. Foreign exchange risks would be assumed by project enterprises.

Project Implementation

SETC is the coordinating agency, and four provincial governments (Hebei, Zhejiang, Inner Mongolia and Tianjin) are sub-borrowers. Executing agencies of the project are project enterprises (Tianjin Port Authority and 9 ICD operators).

Project Sustainability

Project sustainability would be secured by the implementation of a policy framework designed to remove major impediments to efficient intermodal transport system along two pilot corridors. Viability of ICDs are enhanced by developing their facilities in two stages, starting with a smaller scale and expanding later when demands guarantee the expansion. It was made conditional to obtain assurance from relevant agencies for permitting customs officers to be stationed in the ICDs and for according freight forwarding license to them. It was also agreed to provide training and technical assistance to enhance managerial, operational and marketing capability of these ICDs before their operations start.

Lessons learned from past operations in the country/sector

- In the past the Bank has undertaken several initiatives in the areas of intermodalism and logistics management, though few of these have been fully implemented to date. A major problem in preparing an intermodal
transportation project is finding appropriate implementing agencies that can effectively deal with multi-sectoral projects. Where capable implementing agencies are identified, they often number more than two. Multiple implementing agencies often result in serious coordination problems, and require an effective coordinating agency. Learning from this experience, the Bank decided to select SETC as the coordinating agency because it has a coordinating mandate over activities of line agencies and provincial governments.

- Experience in China operations shows that the reform elements are often delayed in implementation due to the time taken in developing a consensus within the beneficiary agency and/or among relevant government agencies. The OED report on railway projects (September 1993) recommended that "loan covenants should be used only if there is a realistic expectation that the borrowers will comply with them". In view of this experience, the team has encouraged the Chinese government to implement reforms in an early stage of the project preparation, thus enabling the Bank to rely less on the legal covenants.

- An OED report on the port sector (November 1996) urged some caution regarding port privatization. It stated that "there is no necessary relation between ownership and competition. Privatization of port assets may lead to monopolies that are difficult to control and likely to cause political dispute." This, in fact, has happened in the joint venture operations in Shanghai’s container terminals. A sudden and sharp increase of port charges by the joint venture operator has triggered controversies on the need for private sector involvement in the transport sector, and since then, the Chinese Government has become more cautious about joint venture operations. Learning from this experience, this project emphasizes the introduction of intra-port competition. In extending financial assistance to Tianjin Port Authority as part of the physical component, the Bank has insisted on not only the introduction of the private sector in port operations, but also that of intra-port competition for container terminal operations.

Environmental aspects

This project is classified as Category B. The reason is that site specific environmental impacts are minor. Environmental impacts are mostly related to noise, dust, and hazardous/dangerous cargo handling.

Program objective categories

Environmentally sustainable development

Contact Point: The InfoShop
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
Telephone No. (202)458 5454
Fax No. (202) 522 1500

Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.
Annex

Because this is a Category B project, it may be required that the borrower prepare a separate EA report. If a separate EA report is required, once it is prepared and submitted to the Bank, in accordance with OP 4.01, Environmental Assessment, it will be filed as an annex to the Public Information Document (PID).

If no separate EA report is required, the PID will not contain an EA annex; the findings and recommendations of the EA will be reflected in the body of the PID.

/    Jiangxi Province would participate in TA activities without borrowing the money from the Bank.