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The Strategic Significance of Chinese Ports in Europe amidst EU De-Risking Policy

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Abstract: The article conducts analysis of the significance of the European Union (EU) EU ports in the face of foreign investments and the EU response. The Chinese Belt and Road Initiative have guided Chinese investments to build infrastructure projects in participating countries, connecting Asia, Africa, and Europe. These include acquisitions of several ports within EU, which has contributed towards concerns over the economic independence and control over sensitive infrastructure. The EU has begun the implementation of various measures to safeguard strategic assets. The research utilizes primary sources in form of official reports, and national statistics. The paper argues that Chinese investments are predominantly commercial in nature and the Chinese investments might find themselves disproportionately disadvantaged against other investors predominantly. This is predominantly due to political, just as structural as significant portion of the Chinese foreign investment is spearheaded by state- or mixed-owned enterprises and investors, such as COSCO.

Keywords: China-EU investment, port infrastructure, strategic infrastructure, investment screening, foreign ownership regulation

1. Introduction

China has become an increasingly important supplier of goods within global supply chains. The policies, such as the "Made in China 2025", seeks among others reduction in reliance on foreign technologies, increase in manufacturing capacity with particular focus on strategic high-end technological sectors, and promote the development of national champions on the global markets, with the policy is intended to be complementary to the Belt and Road (BRI). [1] The BRI could thus be seen as an effort to expand into key regions, which could absorb China's excess production capacity. The incitive would connect China with much of the world. Currently, the China-Europe freight train reaches approximately two-hundred cities in twenty-five countries within Europe alone.

China has also heavily invested in port infrastructure, with Port of Piraeus become fourth largest in the European Union (EU), and Italian Vado Container Terminal has become one of the first semi-autonomous terminals following the investments. [2] These outreaches and the overall scope of the BRI have not gone unnoticed within the EU. It has identified a number of key issues, most notably the challenges of the Chinese investors to meet EU standards, subsidies, challenges to EU cohesion. [3]

The research aims to examine the importance of the EU port infrastructure in light of the influx of Chinese investments. It further seeks to provide analysis of a select investments made into EU ports by Chinese investors. These contribute towards providing a better understanding of the EU policy towards China and Chinese investments into EU infrastructure following an enactment of de-risking policy from predominantly legal perspective grounded within supply chains. The impact of de-risking from supply chain perspective has been well touched upon by Giovannetti [4].

2. Literature Review

The BRI launched in 2013, being divided into two branches. The Belt refers to the Silk Road Economic Belt, connecting China with the Europe and other countries along the way within Asia, Africa, and Europe. The Road predominantly refers to the 21st Century Maritime Silk Road trade, focusing on maritime routes between China and Europe, alongside other countries along the road within Asia, Africa, and Europe. [5] The BRI seeks to bolster policy dialogue between countries by fostering consensus and trust, infrastructure connectivity via standardization of technical standards and connectivity of regions. It further seeks reduction in trade and investment barriers and thus contributing towards cross-industrial value chains, provide financial support for the BRI projects via banks and indicatives, and foster people-to-people exchanges. [6] The prominent feature of the BRI is the focus on construction and investment into infrastructure within the participating countries, which can be accompanied by loans. These foster China's integration into the global economy via win-win long-term partnership with host countries, with investors planning to maintain their investments for ten or more years. [7] The domestic Chinese investors themselves are separate from the government and are acting independently. Their motivations are commercial in nature with government and BRI affiliated agencies and enterprises providing incentives rather than directives for investments into the BRI projects. The government leaves the investors to compete for profitable investments, while garnering political cloud via achieving strategic objectives. [8] The EU is the potential major beneficiary of the BRI investment and trade projects albeit the benefits can differ between individual countries based predominantly on their geographic location. The landlocked countries within the EU are expected to benefit the most out of the Chinese investment and possible free trade agreements. [9] The overall perspective of the EU on the increased participation of China in investment is positive. This is especially true among the Central, Eastern, and Mediterranean European countries, which tend to lag behind in terms of economic development compared to the rest of the bloc. China itself has however displayed a particular interested in investment into ports along the Mediterranean sea due to its' strategic location. [10] The countries along the Mediterranean can be particularly well positioned to receive Chinese investments. The port of Trieste in Italy is for instance one of the largest deep-water free ports within Europe but lacks developed infrastructure, which Chinese might be able to address. Similarly, investments into ports in Venice are expected to expand its' capacity to accommodate large container ships of 18.000-22.000 foot-equivalent unit. [11] The encroachment of China upon the region has sparked the perception that China challenges the economic and military dominance from the United States and the EU. The selection of ports for investments within these regions is thus subjected to political, security, and financial risks. The EU sees internally the investments as a threat to the bloc's cohesion, amplified by the lack of uniform approach to investments into ports. [12]

3. Data and Methodology

The paper examines the exposure of ports within EU to foreign investments and potential associated risks to the bloc. The data is sourced from publicly available databases and information channels, such as Eurostat or the European Commission (EC).

The economic development has been historically closely tied to the logistics and development of infrastructure. This is particularly true in case of ports, which account for ~50 per cent of the global trade in value, with low-income countries being especially reliant upon maritime trade via the ports. [13] The European Union is relatively less reliant upon seaports for handling trade in goods in terms of quantitative volume . The primary mode within the EU is taken by the road transportation network. The railway is taking a relatively miniscule role, with air-based transport of goods being next to non-existent in comparison with other modes. (Fig. 1) The story is slightly different in terms of value as seaborn trade with EU in goods rises to 43.9% of the exports and 51.0% of its imports, which should indicate dominance over other modes of transport by the year 2023. [14]

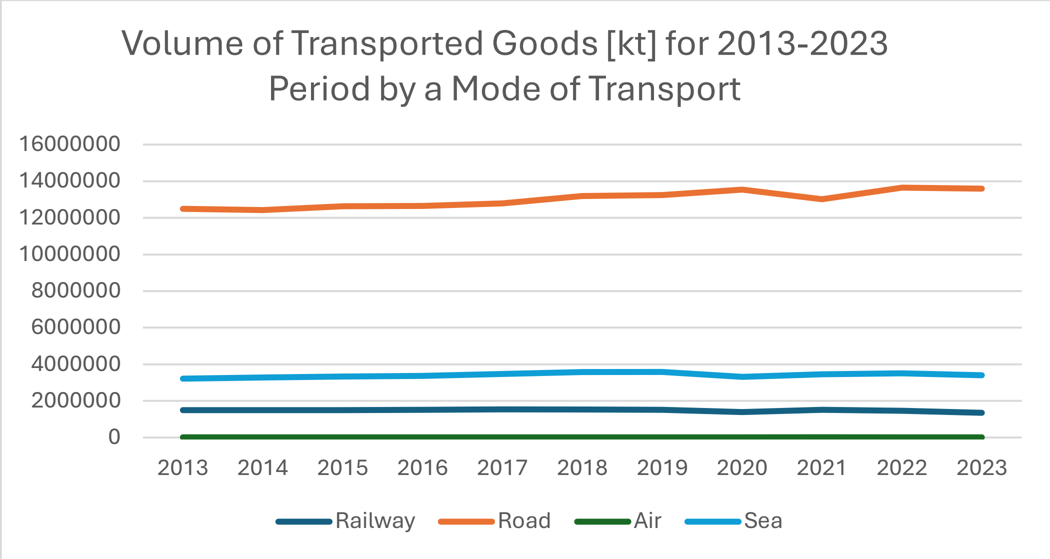

Fig. 1 Volume of Transported Goods per Year by a Mode of Transport. Source: Eurostat [15-18]

The importance of the ports in terms of value thus coincide with the views expressed within the literature review in terms of their significance for the economy of the bloc. The Chinese investments into the EU, including port infrastructure, have nonetheless become relatively stale. Data from CrossBorder Monitor by Rhodium group indicates that by the year 2023, the Chinese have made no major acquisitions, and greenfield investments remain stagnant. The portion of state-owned enterprises investing have dropped to 3 per cent by the fourth quarter of 2023 from the original 5 per cent. [19] The investments that do remain can be significant as displayed in the (table 1).

Table 1 Select Concluded China-EU Port Infrastructure Investment Negotiations. Source: [20-25]

Country	Date [Mo/y]	Company/Port	Investor	Aggregate Consideration	Ownership percentage
Spain	06/2017	Spain's Noatum Port Company - NCTV, NCTB container terminals; Conterail Madrid and NRTZ Zaragoza facilitative rail terminals	COSCO SHIPPING Ports	203.49 million	51%
Italy	10/2016	Port of Vado Ligure	Qingdao Port International / Maersk Terminals	1.7 million	9.9%
Italy	10/2016	APM Terminals Vado Holding B.V.	COSCO SHIPPING Ports	53 million	40%
Belgium	11/2017	APM Terminals Zeebrugge NV	COSCO SHIPPING Ports	35 million	76%
Netherlands	05/2016	Euromax Terminal Rotterdam B.V.	COSCO SHIPPING Ports	125.430 million	35%

4. Discussions

The influx of the Chinese investments into the EU has sparked a series of discussions. The EU has begun seeing China as both a systemic rival, promoting alternative form of governance, competitor via its' strong push towards leadership in key technological and economic areas, and a partner in a pursuit of various goals, such as green energy transition. [26] The continuous investments into the EU from China has left EU scrambling for answers. The seaports for instance handle a second largest portion of the EU's volume in goods and the largest portion in terms of value (Fig. 1). This risks leaving a portion of the bloc's supply chain infrastructure and handling capacity effectively in hands of a foreign power that EU does not view favorably. The EU's reaction to the increased global assertiveness of China and presence within its' supply chains have manifested in two distinct areas of (1) De-risking, and (2) Foreign investment screening.

(1) The EU under its' de-risking strategy seeks to diversify and reduce reliance of its' supply chains on specific suppliers. The fundamental objective of the EU policy is the increased security and resilience of the European economy, combat economic coercion, improve resilience of the supply chains and critical infrastructure, and foster technological innovation. [27]

(2) The newly established foreign investment screening mechanism permits the EU to actively partake in investment screening alongside the member states. It works on a principle of mutual cooperation with the member states, allowing EC to issue opinions on investments threatening EU member states or EU projects. It also permits sharing of information and experiences in terms of investment screening. The provided scope is not exhaustive but is applicable to the issue at hand. [28]

The de-risking strategy does not attempt to single out China as the primary concern of the policy. It is however reasonable to assume that it would fall under its' scope due to overlapping interests and increasing prominence of China. [29] The investments made into port infrastructure would most definitely fall under the scope of both the Foreign investment screening and derisking policy. The investments made by China have been most prominently spearheaded by state-owned enterprises, such as COSCO Shipping and China Merchants Port Holdings. [30] The investments made by COSCO in particular have granted it significant stakes. Depending on the fragmentation of the company voting shares, it might be in a position of effective control, granting it significant leverage over the decision-making. (Table 1) The EU notes that investments made by China into port infrastructure is unlikely to be utilized for political purposes, they are still very likely to be subjected to increased scrutiny. [30] The EU screening mechanism directly underlines that it considers critical infrastructure, including transport, to fall under its' sway. The mechanism also considers the ownership structure of the investor, id est owned or controlled by a natural person or an undertaking of a third country, and including funding. [31] Last but not least, the screening mechanism also considers whenever the investor is pursuing foreign-led programs abroad. [31]

The mechanism thus inevitably affects Chinese investments. BRI is by its' nature a government led program, part of which is the facilitation of trade between countries via the building of ports and other infrastructure. The major investors are also enterprises with significant governmental stakes. The challenges faced by Chinese investors can also be considered political with screening mechanisms being utilized as a tool of achieving policy objectives. COSCO has for instance been prevented from an acquisition of stake within Port of Hamburg that would confer it 25 per cent or more of the voting rights. [32] The reduction from the original 35 per cent however is still in both cases making COSCO minority stakeholder. The reasoning for the intervention might be predominantly symbolic. As pointed out by Maria Kienzle, Germany seeks to balance benefits of Chinese investments with its' strategic autonomy. It is also affected by the perception of Chinese FDI as being adversarial in nature. [33] This leaves Chinese investors comparatively more vulnerable than their counterparts from other countries to geopolitical situation and are more likely to be subjected to a more rigorous investment screening.

5. Conclusion

The international economic landscape has undergone significant changes over the past few decades. The rise of China as a second largest economy has seen significant influx of Chinese goods and investments abroad. The policies, such as the BRI, have seen these investments being directed to specific countries to further the ambitious projects. The seaports within EU have become a particularly tantalizing target as they could serve to connect China with one of the largest trading blocs in the world. The influx however sparks fear over leaving critical infrastructure in foreign hands, which has been designated as partner, an economic competitor and a systemic rival. The paper shows that consequently the Chinese investors are subjected to a more rigorous scrutiny due to both their affiliation with China, their ownership status as state-owned, and pursuing the BRI. Furthermore, they are more susceptible to political climate, regardless of the original intent of the investment being commercial in nature.

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