Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

Frans-Paul van der Putten

Clingendael Report
Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

Frans-Paul van der Putten
Senior Research Fellow
fputten@clingendael.nl
## Contents

Summary 7

Abbreviations used in this Report 9

Introduction 10

1. **Cosco and Piraeus as an Emerging Regional Hub** 11
   - Corporate Profile and Operations 11
   - The Potential for Expansion 15
   - The Pioneering Role of Hewlett-Packard’s Distribution Activities at Piraeus 18

2. **China's Interests in the Region** 21

3. **EU–China Relations** 24
   - Economic Significance for the EU 25

4. **Cosco as a State-Owned Enterprise** 28
   - Possible Political Relevance 29

5. **The Relevance for Dutch Economic Interests** 32

Conclusions 34

Interviews 35
Summary

This report aims to provide a preliminary insight into how Cosco’s activities in Piraeus are relevant for: a) EU–China relations; and b) Dutch economic interests. Regarding EU–China relations, the report focuses on implications for trade flows and the relevance of the fact that Cosco is a state-owned company. With regard to the economic interests of the Netherlands, the focus is on the potential of Cosco’s operations to affect the international competitiveness of Dutch ports, in particular the Port of Rotterdam. To provide a basis for this analysis, the report gives an overview of Cosco’s operations and their impact on the hub function of Piraeus. In addition, the report also positions these operations in the context of China’s broader political and economic policy towards the Eastern Mediterranean/South-East European region.

The case study presented in this report leads to the following conclusions:

– Primarily because of Cosco’s involvement, Piraeus is currently the world’s fastest growing container port. Cosco is clearly serious in its endeavour to turn Piraeus into a significant hub for transhipment in the Mediterranean and a major distribution centre for Central, East and South-East Europe, including the Black Sea region. Regarding the distribution of imported goods beyond Greece, a key factor is Cosco’s ability to attract the regional distribution centres of major multinational companies, such as Hewlett-Packard, Huawei, ZTE and Samsung. While there is indeed strong interest from several companies in making this move, and the implications for Piraeus’s gateway function could potentially be far-reaching, this process is still at an early stage.

– Cosco’s activities in Piraeus have the potential to strengthen considerably the influence of the Chinese state over the maritime trade corridor between China and the EU. This becomes particularly clear against the background of Chinese investments in rail infrastructure in South-East Europe, the presence of the Chinese Navy along the sea route from the East China Sea to the Eastern Mediterranean, and Chinese state-ownership of China’s shipping lines, ports and infrastructure construction companies. This process may have long-term implications for the strategic position of the EU vis-à-vis China.

– Other implications for the EU of Cosco’s role in Piraeus include a strengthening of the Greek economy and the potential for increased trade with China, but also the potential for an increased inflow of counterfeit or other undeclared goods, and increased leverage of the Chinese government over Greek government policies on specific issues that are of high strategic significance to China.

– The fact that Cosco Pacific is listed on the Hong Kong stock exchange but also ultimately controlled by the Chinese Communist Party indicates that the company is relatively transparent and well governed, while it can also benefit – via its parent Cosco Group – from preferential financial (and potentially also diplomatic) support by the Chinese government. These features make Cosco an attractive partner for the Greek government and for Cosco’s business partners at Piraeus. In this sense, the fact that Cosco Group is a state-owned enterprise contributes to its market position.
The main relevance for the Netherlands of Cosco’s operations in Piraeus relates to the possibility of (parts of) future trade flows between Central Europe (including parts of Germany) and China being conducted via Piraeus rather than Rotterdam or other Dutch ports. The current pioneering role of Hewlett-Packard and other major companies to establish new distribution links between Central Europe and Piraeus is a highly significant development. It is as yet too early to draw conclusions regarding the longer-term impact of this development for trade flows.
Abbreviations used in this Report

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>APM</td>
<td>APM Terminals (subsidiary of Maersk)</td>
</tr>
<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
</tr>
<tr>
<td>CGPCS</td>
<td>Contact Group on Piracy off the Coast of Somalia</td>
</tr>
<tr>
<td>CHEC</td>
<td>China Harbour Engineering Company</td>
</tr>
<tr>
<td>CIMC</td>
<td>China International Marine Containers (Group) Ltd</td>
</tr>
<tr>
<td>CMA–CGM</td>
<td>Compagnie Maritime d'Affrètement – Compagnie Générale Maritime SA</td>
</tr>
<tr>
<td>Cosco Group</td>
<td>China Ocean Shipping (Group) Company</td>
</tr>
<tr>
<td>Cosco Holdings</td>
<td>China Cosco Holdings Company Ltd (subsidiary of Cosco Group)</td>
</tr>
<tr>
<td>Cosco Pacific</td>
<td>Cosco Pacific Ltd (subsidiary of Cosco Holdings)</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
</tr>
<tr>
<td>ECFR</td>
<td>European Council on Foreign Relations</td>
</tr>
<tr>
<td>ECT</td>
<td>Europe Container Terminals BV (subsidiary of HPH)</td>
</tr>
<tr>
<td>EMEA</td>
<td>Europe, Middle East and Africa</td>
</tr>
<tr>
<td>ERTG</td>
<td>Electrified rubber-tyred gantry (cranes)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>HP</td>
<td>Hewlett-Packard</td>
</tr>
<tr>
<td>HPH</td>
<td>Hutchison Port Holdings (subsidiary of HWL)</td>
</tr>
<tr>
<td>HWL</td>
<td>Hutchison Whampoa Ltd</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>Maersk</td>
<td>AP Møller-Maersk Group</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MSC</td>
<td>Mediterranean Shipping Company SA</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
</tr>
<tr>
<td>NBG</td>
<td>National Bank of Greece</td>
</tr>
<tr>
<td>OLP</td>
<td>Piraeus Port Authority SA</td>
</tr>
<tr>
<td>PCDC</td>
<td>Piraeus Consolidation and Distribution Centre SA (joint venture of Cosco Pacific)</td>
</tr>
<tr>
<td>PCT</td>
<td>Piraeus Container Terminal SA (subsidiary of Cosco Pacific)</td>
</tr>
<tr>
<td>PLA</td>
<td>People’s Liberation Army</td>
</tr>
<tr>
<td>PLAN</td>
<td>PLA Navy</td>
</tr>
<tr>
<td>PoR</td>
<td>Port of Rotterdam (Havenbedrijf Rotterdam)</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
</tr>
<tr>
<td>SHADE</td>
<td>Shared Awareness and Deconfliction</td>
</tr>
<tr>
<td>SPP</td>
<td>Super Post-Panamax</td>
</tr>
<tr>
<td>TEU</td>
<td>Twenty-foot equivalent unit (a unit to indicate the capacity of container ships and terminals, based on twenty-foot-long shipping containers)</td>
</tr>
<tr>
<td>TIL</td>
<td>Terminal Investment Limited SA (subsidiary of MSC)</td>
</tr>
</tbody>
</table>
Introduction

The number of Chinese companies in the European Union (EU) is rising, and Chinese direct investment in Europe seems set to play a significant role in future EU–China relations. Infrastructure and logistics are among the economic sectors in Europe in which Chinese investors are particularly interested. The involvement of China Ocean Shipping (Cosco) and specifically Cosco Pacific in operating a container terminal in Piraeus, Greece, is an often mentioned example of a major Chinese infrastructure project in the EU. Cosco Pacific is part of Cosco Group, a state-owned company that is China’s largest shipping enterprise. However, the broader international context of Cosco’s operations in Piraeus and its relevance for EU–China relations – not to mention for the Netherlands – are still little explored.1

This report aims to provide a preliminary insight into how Cosco’s activities in Piraeus are relevant for: a) EU–China relations; and b) Dutch economic interests. Regarding EU–China relations, the report focuses on implications for trade flows and the relevance of the fact that Cosco is a state-owned company. With regard to the economic interests of the Netherlands, the focus is on the potential of Cosco’s operations to affect the international competitiveness of Dutch ports, in particular the Port of Rotterdam. To provide a basis for this analysis, the report gives an overview of Cosco’s operations and their impact on the hub function of Piraeus. In addition, the report also positions these operations in the context of China’s broader political and economic policy towards the Eastern Mediterranean/South-East European region.

The report is based on data from open sources, primarily academic and media publications.2 A small number of interviews were conducted to complement the literature.3 The research for this report was limited in means and scale. For this reason, and because Cosco’s involvement in Piraeus is still at an early stage and is developing very rapidly, follow-up research is required to test and further explore the study’s preliminary findings.

Clingendael is an independent foreign policy think-tank that is based in The Hague, the Netherlands. This study is part of a broader research programme subsidized by the Netherlands Ministry of Foreign Affairs. The aim of this report was defined jointly by Clingendael and the Ministry, but the study itself was carried out independently by Clingendael. The views expressed in this report do not necessarily express those of the Dutch government.

2 This report has benefited from an unpublished study (commissioned by the Netherlands Embassy in Athens) on Cosco in Piraeus by Jorrit Pilaar: ‘De rol van COSCO Pacific in Piraeus’, 2011. I am grateful also to Siwarde J. Sap, Elsaë Willeboorde, Ronald Kleijwegt, Heracles Haralambides, Maaike Okano-Heijmans, Ronald Voogt, Bart Wiegman, Jochem Rietveld, Jikkie Verlare, Rebecca Solheim, Peter Schrerardus, Ko Colijn, Luc van de Goor and the Netherlands Embassy in Athens for helping me.
3 Piraeus Container Terminal (PCT, Cosco’s subsidiary in Greece) declined to be interviewed for this study: author’s email correspondence with PCT, April 2013.
1. **Cosco and Piraeus as an Emerging Regional Hub**

At PCT [...] we operate [our] container terminal [...] with a mission to be the ‘Gateway and transhipment hub in Greece, [the] Mediterranean and Europe’ (website of Cosco’s Greek subsidiary) 4

**Corporate Profile and Operations**

In 2009 Cosco Pacific obtained a concession from the Greek government to operate a part of the container terminal of Piraeus for a period of 35 years. 5 Cosco Pacific is the world’s fifth largest container terminal operator, with a global market share of 9 per cent in terms of throughput. 6 Cosco Pacific is also a major container leasing company, and it has a 22 per cent equity interest in China International Marine Containers Group (CIMC), the world’s largest container manufacturer. 7 The company is based in Hong Kong and listed on the Hong Kong stock exchange. Approximately 57 per cent of the shares in Cosco Pacific are held by independent investors. The remaining 43 per cent are owned by China Cosco Holdings, which also owns Cosco Container Lines, the world’s fifth largest container liner company, 8 and China Cosco Bulk Shipping Group, which has the world’s largest dry bulk shipping cargo fleet. 9 Cosco Holdings, too, is based in Hong Kong and listed on the Hong Kong and Shanghai stock exchanges. 10 It is 53 per cent-owned by Cosco Group, a Chinese state-owned enterprise that is the People’s Republic of China’s (PRC, hereafter China) largest shipping firm. The head office of Cosco Group is in Beijing.

Cosco Pacific’s 2009 concession relates to piers II and III of the container terminal. Under the agreement, pier I was to stay under the management of the Piraeus Port Authority (or OLP), the Greek state-owned entity that previously operated the entire container terminal. Under this agreement, Cosco was to pay an initial sum of € 50 million to the Greek state, plus each year a percentage of consolidated revenues, as well as a lease related to the surface size and

---

4 Mission of Cosco’s container terminal in Piraeus, as stated at http://www.pct.com.gr/index.php?option=com_content&view=article&id=8&Itemid=13&lang=en (accessed 24 September 2013). Based on equity-based throughput, Cosco Pacific is sixth, with the top five being: PSA (Singapore); HPH (Hong Kong); DPW (United Arab Emirates); AMP (Denmark); and SIPG (China): http://people.hofstra.edu/geotrans/eng/ch4en/cons4en/largestportoperators.html (accessed 26 October 2013).


8 With a global market share of 4.5 per cent, behind Maersk (Denmark), MSC (Switzerland), CMA–CGM (France) and Evergreen (Taiwan): http://www.alphaliner.com/top100/ (accessed 26 October 2013).


length of the berthing docks.\textsuperscript{11} This would amount to a nominal total sum of € 4.3 billion over the 35-year concession period. However, a 9 per cent discount rate applies to this, as a result of which the net present value of the total sum to be paid is probably considerably lower.\textsuperscript{12} The agreement obliged Cosco to make substantial investments in pier II in order to increase the throughput of containers. The company was also obliged to complete a new section of the terminal (pier III), which it would then operate beginning in 2014.\textsuperscript{13} In order to manage the concession, Cosco Pacific established Piraeus Container Terminal SA (PCT) as its local subsidiary firm, which became operational on 1 October 2009.\textsuperscript{14}

\textbf{Map of the Port of Piraeus, including ship repair base, container terminal, commercial port and passenger port.}

\hspace{10em}

Source: http://access.com.gr


\textsuperscript{12} Psaraftis and Pallis, ‘Concession of the Piraeus Container Terminal’, p.15.


\textsuperscript{14} Captain Fu Cheng Qiu, ‘Message from CEO’, http://www.pct.com.gr/ (accessed 30 November 2013). For information on PCT, see also the research blog ‘Cosco in Piraeus’: http://oncosco.wordpress.com/about/.
Cosco’s investments have indeed resulted in improved capacity at pier II, and in the rapid growth in container throughput. According to Containerization International magazine, in 2012 Piraeus was the world’s fastest growing container port, shooting up from position 77 to number 46 in the rankings of the top 100 global container ports. Its container throughput grew from 1.7 million twenty-foot equivalent units (TEU) in 2011 to 2.7 million TEU in 2012.\(^\text{15}\) By way of comparison, throughput at Shanghai (the global no. 1) in 2012 was 32.5 million TEU; at Rotterdam (Europe’s no. 1) the figure was 11.9 million TEU; and at Valencia (the Mediterranean no.1) it was 4.5 million TEU.\(^\text{16}\) In other words, the size of Piraeus is still modest compared to other major ports, but its pace of growth is remarkable. In September 2013, Cosco and the Greek government reached an agreement, according to which Cosco would invest an extra €230 million in order to increase the PCT’s capacity to 6.2 million TEU.


Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

annually over the next seven years. The new arrangement also included a plan for a new oil terminal pier. In return, Cosco would no longer have to pay the fees to the Piraeus Port Authority that had originally been agreed upon in 2009 until Greece’s GDP returns to the level it was before the start of the financial crisis. It is relevant to note in this regard that the European Commission in 2012 started an investigation concerning possible unlawful state aid. At the time, the Commission stated that it believes that certain fiscal advantages granted by the Greek government to Cosco constitute state aid. According to one source, the Commission recently gave permission for the sale of the majority of the container terminal’s shares to Cosco, but it also objected to the new September 2013 agreement between Cosco and the Greek government.

The container terminal of Piraeus has a domestic and an international function. Domestically, Piraeus is the main import/export gateway from and to the Greek market. This traffic is largely stable and amounts to approximately 1 million TEU annually. Of this, 70 per cent goes via Piraeus and 30 per cent via Thessaloniki. Of the 700,000 TEU that went via Piraeus, 500,000 TEU was handled by Cosco and 200,000 TEU by the Piraeus Port Authority. While domestic traffic flows are largely stable, the international flows are larger and are growing rapidly. Internationally, Piraeus facilitates both transit and transhipment traffic. Transit traffic relates to cargo to and from other countries in the region that departs from, or arrives at, the container terminal by road or rail. Cargo may also be transited to/from the air via the Greek national airport, which is located some 40 kilometres from Piraeus. Transhipment traffic relates to containers delivered by ship and picked up by other ships. In order to be cost efficient, shipping lines operate very large container ships on the Asia–Europe route. The size of these ships continues to increase, and the largest ships in operation currently have a capacity of 18,000 TEU. For the sake of efficiency, such large ships make calls only at a very limited number of ports, where containers are transhipped to/from smaller ships that serve other ports in the region. There is an increasing concentration of cargo handling in the largest European ports. In 2012, the National Bank of Greece (NBG) estimated that international container traffic in Greece amounted to 2 million TEU, which was conducted entirely through Piraeus. Of this, Cosco handled 1.6 million TEU through pier II and the Piraeus Port Authority

18 According to the port workers’ union, Cosco demanded a renegotiation of the original arrangement because its bargaining position had improved; interview with G. Georgakopoulos, President, Federation of Employees Ports of Greece FEPG/OMYLE, Athens, 9 April 2013.
21 Data provided by an anonymous expert.
handled 400,000 TEU through pier I. Virtually the entire international traffic flow consisted of transhipment rather than transit traffic.

**The Potential for Expansion**

What is most notable is the rapid increase in transhipment traffic, which more than tripled from 2010 to 2012. The NBG produced a report in April 2013 forecasting that international traffic at Piraeus may increase further, from 2 million TEU in 2012 to some 3.4 TEU in 2015. According to the NBG, this potential growth would entail an additional 0.5 million TEU per year in transhipment and 0.9 million TEU per year in transit traffic. The NBG’s assessment is based on a number of observations. First, according to NBG, global container traffic will continue to increase in the coming years. Moreover, this growth is largely related to shipping routes from and to Asia. The global market share of Asian ports has been rising sharply, while the share of European ports is declining. However, the NBG report notes that this decline is entirely attributable to the market share of the Northern European ports. The market share of container ports in the Mediterranean has remained stable, and growth has consequently been greater there than in Northern Europe. The NBG estimates that while in 1990 the Mediterranean ports were responsible for handling 27 per cent of combined North European/Mediterranean container traffic, the ratio in 2011 had shifted to 48 per cent for the Mediterranean and 52 per cent for Northern Europe.

The second reason why the NBG believes that international cargo flows at Piraeus will continue to increase is that Cosco is continuing to expand its capacity in order to realize its ambition of turning Piraeus into the main container hub in the Mediterranean. Cosco’s investments in piers II and III are already exceeding contractual requirement. By 2015, piers II and III are expected to have a combined capacity of 4.7 million TEU (with an additional capacity of 1 million TEU at pier I). At that time, the two Cosco-operated piers should have a combined total of six berths with a depth of 14–16 metres, with 21 quay cranes, including thirteen Super Post-Panamax (SPP) cranes that can handle the largest container ships currently in use (23 containers wide).

Cosco is also investing in improved transit capacity, primarily by way of the railway link that was completed in 2013 between its terminal and the national railway system. Furthermore, in 2013 Cosco ordered twelve electrified rubber-tyred gantry cranes (ERTG), which are used for stacking inter-modal containers in transit between land and sea transport. Already in

---

30 National Bank of Greece, 'Container Ports', p. 6. However, according to some experts, the share of the Mediterranean in this assessment is exaggerated; interview with B. Wiegmans, Senior Researcher, TU Delft, Delft, 10 September 2013. According to a study by Theo Notteboom, in 2008 the share of the main Mediterranean European ports, compared to other European ports, was around 32 per cent against 68 per cent; see Notteboom, ‘Economic Analysis of the European Seaport System’, p. 7.
32 Fu, ‘Message from CEO’. 
early 2011, Cosco had entered into an arrangement with the international airport of Athens on sea–air cargo transhipment. The Chinese enterprise has also invested in the building of a railway connection between its container terminal and the national rail system of Greece. In conjunction with this railway link, which was officially inaugurated in March 2013, a distribution centre (Piraeus Consolidation and Distribution Centre, PCDC) was established at Thriasio. Cosco Pacific owns 50 per cent of PCDC, while the other half is owned by Elgeka, a major Greek enterprise. PCDC’s storage facility is 7,000 square metres and offers both conventional and bonded storage. It also offers refrigerated storage and multi-modal transportation. Although improvements of the road and rail infrastructure are currently being undertaken throughout Greece by the Greek government, the NBG emphasizes the need for further improvements in order to generate substantial transit traffic.

The potential for Piraeus to develop into a major container hub in the Mediterranean depends on its competitive position with regard to other regional ports. The increasing size of container ships stimulates the growth in size of a shrinking number of transhipment hubs. The other main transhipment ports in the Mediterranean are in Egypt (Port Said and Damietta), Spain (Algeciras and Valencia), Italy (Gioia Tauro), Morocco (Tangier), Malta and Turkey (Ambarli). In 2011, transhipment traffic at most of these ports was larger than at Piraeus, but in 2012 Piraeus was the fourth largest (and fastest growing) container port in the Mediterranean. In 2013 it continued its rise and climbed to the third position in the Mediterranean. While its rate of growth is impressive, it should be noted that new competitors are also emerging. Various terminal operators, such as APM Terminals and DP World, are involved in developing new container terminals in Turkey. Of particular relevance here is that Terminal Investment Limited (TIL) is developing a container terminal at Asyaport in Turkey, close to Istanbul. TIL is a subsidiary of Mediterranean Shipping Company (MSC), a major shipping line that is currently responsible for 35 per cent of PCT’s throughput at

35 Cosco Pacific holds its 50 per cent share in PCDC through its subsidiary Cosco Ports (Greece) Sarl. The other 50 per cent of PCDC is owned by Elgeka through its 50.01 per cent subsidiary Diakinisis Port (CY) Ltd; see http://www.elgeka.gr/page/default.asp?id=2&lid=1887 and http://english.capital.gr/news.asp?id=1238219 (accessed 20 August 2013).
40 Ambarli and Damietta were smaller.
44 When completed, Asyaport will be the largest container terminal in Turkey: http://www.tilgroup.com/terminal/port-asyaport (accessed 3 December 2013).
Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

Piraeus. According to Drewry Container Insight, MSC may shift much of its transhipment business from Piraeus to Asyaport when it becomes operational in 2014. However, Drewry believes that PCT is well positioned to attract sufficient new business to compensate for this potential loss in turnover.45

While many factors influence the competitiveness of Mediterranean ports with regard to each other and the further growth of Piraeus cannot be taken for granted,46 Cosco’s involvement appears to be benefiting Piraeus in at least three important ways. First, Cosco has introduced the most modern equipment available. Second, Cosco itself is a major shipping firm on the China–Europe route and thus a major customer for the Piraeus terminal.47 Cosco is part of the Green Alliance, which also includes K-Line, Hanjin and Yang Ming. Since these companies pool their vessels on the Asia–Europe line, this means that these Cosco partners’ ships also call at Piraeus. Moreover, several other major shipping companies – including MSC, CMA–CGM, China Shipping Container Lines and Evergreen Line – also make use of Piraeus.48 In 2012, then Cosco Group Chairman Wei Jiafu stated that 29 shipping companies had long-term affiliations with Cosco’s terminal at Piraeus.49 Third, finally, although no exact figures are available, there are indications that the handling costs per TEU at the Cosco piers are lower than at other Mediterranean ports, while the piers’ productivity is high. One of the relevant aspects may be that Cosco introduced a labour model that resembles more closely that of China than that of other European ports. A major characteristic of this model is that trade unions or forms of collective bargaining are absent.50 According to one source, PCT avoids unionization by keeping the number of regular employees below the relevant legal threshold.51 Cosco’s pier II, which has a considerably higher container throughput than the Piraeus Port Authority’s pier I, employs only about one-third of the number of regular workers

46 Interview with B. Wiegmans, Senior Researcher, TU Delft, Delft, 10 September 2013.
50 Interview with G. Georgakopoulos, President, Federation of Employees Ports of Greece FEPG/OMYLE, Athens, 9 April 2013, who believes that Cosco has introduced a new standard for port labour contracts that will also affect ports in other EU countries. Until 2009, there was strong resistance from labour unions, parts of the public and the socialist democratic party PASOK against the Piraeus agreement with Cosco. However, although the unions are still opposed to Cosco’s involvement, there is no longer widespread political or public resistance against the Chinese firm. The prevailing view seems to be that Cosco’s investment is a welcome and successful contribution to the Greek economy. Interviews with G. Georgakopoulos, President, Federation of Employees Ports of Greece FEPG/OMYLE; and F. Voumvaki, Economist and Research Analyst, National Bank of Greece (interviews conducted respectively on 9 and 10 April 2013 in Athens).
Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

(approximately 270)\textsuperscript{52} compared with pier I (which has approximately 1,300).\textsuperscript{53} The managing director of PCT, Fu Chengqiu, has stated that productivity at pier II rose from 10-12 containers per hour to 44 containers per hour since Cosco became involved.\textsuperscript{54}

The Pioneering Role of Hewlett-Packard’s Distribution Activities at Piraeus

One indication of Piraeus’s potential to grow further is the decision by Hewlett-Packard (HP) to relocate a major part of its distribution activities from Rotterdam to Piraeus. In 2012, HP was the leader in worldwide personal computer (PC) shipments.\textsuperscript{55} Its PC final assembly locations are, to a large extent, concentrated in China. According to an agreement signed in March 2013 between HP,\textsuperscript{56} Cosco and Trainose (Greece’s national railway company), HP will use Piraeus as the main ocean-freight gateway for South, Central and Eastern Europe, as well as Central Asia, North Africa and some parts of the Middle East.\textsuperscript{57} HP’s products for these markets – mainly desktop and laptop PCs, printers and related equipment, which are shipped from China to Greece in large container ships – will be reshipped from Piraeus on smaller ships to numerous ports in the Mediterranean. The Russian, Ukrainian and Bulgarian markets will be serviced via ports in the Black Sea. HP expects Piraeus to be the maritime hub for some 16,000 to 20,000 TEU worth of its goods.\textsuperscript{58} Moreover, HP will use rail transport from Piraeus for distribution to the Balkans, Hungary and the Czech Republic. Hungary and the Czech Republic have well-developed rail networks.\textsuperscript{59} These rail transports by so-called ‘block trains’ are expected to amount to up to 76 containers per week.\textsuperscript{60} HP cites cost savings as the main motive for this initiative.\textsuperscript{61} A shorter route between China and certain parts of the EU decreases the amount of goods in transit and thus lowers inventory costs. This is particularly important for high-value goods that are shipped in large volumes. In addition to Piraeus’s potential as a gateway to parts of Europe, rapid economic growth in Africa further enhances the port’s value as a distributing base for HP.


\textsuperscript{53} Rimbert, ‘The Future of Greece and Europe’.


\textsuperscript{59} Notteboom, ‘Economic Analysis of the European Seaport System’, p. 58.


\textsuperscript{61} Interview with R. Kleijwegt, Director of Logistics EMEA, Hewlett-Packard, by telephone, 11 September 2013.
The first container with HP products arrived at PCDC, the sea–rail distribution centre of PCT, in November 2013.62 Later that month, PCT announced that it expects Huawei, the Chinese telecom equipment producer, soon to follow HP’s example.63 Indeed, in December 2013, Huawei launched its distribution centre at Piraeus.64 ZTE, another major Chinese telecom firm, and Samsung Electronics from South Korea have expressed their interest in establishing distribution centres at Piraeus.65 According to various sources, a number of other major multinational companies – including Dell, Lenovo, IKEA and LG – are also interested in choosing Piraeus as their regional distribution centre.66 Furthermore, media reports say that there are plans to establish a duty-free zone linked to PCT to assemble and finish imported products.67 The Greek government offers exemption from paying value-added tax on imported goods to large firms that use Piraeus as a distribution hub for other countries in the region.68

A possible obstacle to Piraeus’s further growth is that Cosco Pacific’s parent company, Cosco Group, has encountered serious setbacks in recent years. Cosco’s shipping activities have run into severe financial difficulty,69 and several high-ranking (former) managers have been arrested on corruption charges.70 The picture that emerges from Chinese media reports indicates that Cosco Group has been relying on its political backing rather than striving for greater efficiency. Examples, apart from instances of corruption, include maintaining high freight rates and following a risky strategy that assumed that rates would continue to rise in the years prior to the global financial crisis.71 After 2008, shipping rates collapsed, leaving Cosco’s shipping business with substantial over-capacity. It is unclear whether, or to what extent, the parent company’s misfortunes will affect the operations of Cosco Pacific. This depends in part on to what degree the Chinese political leadership will continue its support for Cosco Group, and how fast Cosco can recover from its financial problems.72 It is likely that the Chinese international shipping sector will continue to be dominated by a small number of very large state-owned shipping firms, regardless of whether Cosco is one of them. Moreover, should Cosco Group’s situation deteriorate further, it is possible that the company shifts...
away from shipping to focus more on port management. Cosco Pacific’s container terminal operation is a profitable and strategically important activity that benefits both the Chinese government and private investors. It therefore seems likely that Cosco Pacific will continue its involvement in the port of Piraeus via PCT, despite the financial troubles of its parent company.
2. China’s Interests in the Region

The Eastern Mediterranean combines two regions where China has major interests. On the one hand there is Europe, where China seeks market access and advanced technology.\(^{73}\) Both aims are of vital importance for China’s ability to maintain a high level of economic growth. Together with North America, the EU is China’s main export destination. Europe is also the most promising potential source of advanced technology for China, given the political tensions that exist between China and the United States, and between China and Japan. The Chinese government is attempting to divert the Chinese economy away from an export-and investment-driven growth model to a model that is based on domestic consumption. While increased market access to the EU buys China extra time to complete this transition, in the longer run the key international ingredient for this strategy is access to technology, along with domestic policy reforms. The Chinese government appears to favour Greece as a significant entry point for Chinese exports into the EU.\(^{74}\) As one author put it, Greece ‘constitutes the most eastern part of the West, and can thus be seen as a starting point for the continuation and expansion of Beijing’s presence in the old continent’.\(^{75}\) China is paying considerable attention to its relations with Eastern European countries. In November 2013, Chinese Premier Li Keqiang had a meeting in Bucharest with the leaders of sixteen Central and Eastern European countries.\(^{76}\) One of the results of this summit was an agreement according to which China would assist Hungary and Serbia in upgrading the railway between Budapest and Belgrade.\(^{77}\) Moreover, China agreed with Romania that it would assist in building a high-speed railway between the Black Sea port of Constanta and (eventually) Vienna.\(^{78}\)

The other strategically important region is the Middle East and North Africa (MENA). China has major oil interests in countries such as Saudi Arabia, Iran and Iraq. It also has strong diplomatic and commercial ties with the other countries in the region. Beijing thus has a stake, and is increasingly involved in, Middle Eastern stability. China is a member of the P5+1 talks with Iran on nuclear security,\(^{79}\) and it has also made attempts to mediate in the Israeli-Palestinian conflict. As a permanent member of the United Nations Security Council, China has had an important role in various regional crises, including the 2011 Libya crisis and the ongoing civil war in Syria. In March 2011, the Chinese government evacuated approximately 35,000 Chinese citizens from Libya. For the first time ever, the Chinese Navy and Air Force


\(^{74}\) Lennane, ‘Hewlett Packard–Cosco Deal Spurs Optimism in Greek Logistics’; and Mihalakas, ‘Chinese “Trojan Horse”’.  


\(^{79}\) The five permanent members of the UN Security Council plus Germany, also known as EU3+3.
participated in an evacuation overseas. Most of the evacuees were brought from Libya to Greece in chartered passenger ships, and were flown back to China from there. Moreover, in March 1997, China evacuated its nationals from Albania, when a violent crisis erupted there, via Greece.80 These events have highlighted the usefulness of Greece for the Chinese government as a logistical base during a regional contingency.

In recent years China has built up a presence along the China–Europe maritime corridor, the major section of which is situated in the Indian Ocean between the Malacca Straits and the Suez Canal. This appears to be part of a long-term strategy aimed at increased Chinese influence over the main trade routes to the Middle East and Europe, both over land and over sea.81 Chinese leaders and media frequently use the term ‘new silk road’ to refer to China’s policy towards Central Asia.82 In October 2013, President Xi launched the term ‘maritime silk road’ in relation to China’s ties with Southeast Asia.

Beyond Southeast Asia, close diplomatic and economic ties with many countries around the Indian Ocean form the foundation of China’s presence along the China–Europe maritime corridor. This presence includes commercial port activities and a naval presence in the Gulf of Aden. Chinese firms had, or have, port construction activities in Myanmar, Bangladesh, Sri Lanka and Pakistan. In some cases, such as in Pakistan (Gwadar), a Chinese company is also involved in port management. Port construction is in some instances linked to on-land infrastructure projects, such as the construction of oil pipelines (e.g. in Myanmar).83 Since early 2009, the Chinese Navy has had a continuous presence on a rotating basis in the Gulf of Aden, which consists of two warships plus a military supply ship. These ships are tasked with securing safe passage for Chinese and other commercial vessels that face the threat of piracy attacks. The Chinese Navy operates autonomously from other countries, but in a broader setting that involves the navies of many other (mostly European, Asian, or North American) countries. China is a member of the Contact Group on Piracy off the Coast of Somalia (CGPCS) and attends the regular Shared Awareness and Deconfliction (SHADE) meetings in Bahrain. The CGPCS is a platform for interaction among involved parties at the general level, while SHADE is intended for communication on operational issues among the various navies. Whereas some of these – including the US, French and Japanese navies – have bases in the region, it is notable that the Chinese military does not operate its own facilities abroad. The Chinese naval operation in the Gulf of Aden makes use of commercial ports around the Gulf, and along the route from and to China. Cosco is the Chinese Navy’s main partner with regard to providing logistical support for Chinese Navy ships in commercial ports in the Indian Ocean region.84

The Chinese Navy vessels involved in the counter-piracy mission have on various occasions made calls on port along the Mediterranean and the Black Sea, including in Egypt, Israel, Greece, Italy, Ukraine, Bulgaria and Romania. Most recently, in January 2014, the Chinese guided-missile destroyer *Yancheng* – along with a Russian warship – began escorting Danish and Norwegian ships that were transporting chemical weapons out of Syria to be neutralized in accordance with United Nations Security Council Resolution 2118. Prior to entering the Mediterranean, the *Yancheng* took part in the counter-piracy mission in the Gulf of Aden. Its presence in the Gulf of Aden has provided the Chinese Navy with several opportunities to conduct operations in the Mediterranean, such as the 2011 evacuation mission from Libya and the 2014 escort of chemical weapons.

Cosco’s investment in Piraeus can be seen as part of an accelerating process of Chinese investment in ports worldwide. On the one hand, Chinese state-owned construction companies such as China Harbour Engineering Company (CHEC, a state-owned company) are very active in building new ports, mainly in the developing world. Chinese firms are building ports in Asia, Africa and Latin America. As an example, one notable project is the planned investment by CHEC of US$ 1.2–1.5 billion in a new container terminal in Jamaica, which aims to create a new transhipment hub for the Caribbean region. CHEC currently has port construction activities in China, Sri Lanka, Pakistan, Qatar, the United Arab Emirates, Cameroon, Angola, Cuba, Singapore, Vietnam, Saudi Arabia, Kuwait, Sudan and Nigeria. The various Chinese port investment projects around the world should also be seen in relation to related infrastructure development in railways, roads and canals. Notable recent developments in this regard include Nicaragua’s decision to allow a newly established company in Hong Kong to construct an inter-ocean canal across Nicaragua. The company is led by a mainland Chinese businessman, Wang Jing, who is also the CEO of a Beijing-based telecom company.

---

3. EU–China Relations

EU–China relations are dominated by economic rather than security issues. The EU is China’s largest export market, and China is a fast growing market for EU exports. While Europe is an important source of foreign direct investment (FDI) in China, Chinese FDI in the EU is still a relatively new and small-scale phenomenon. Still, the EU is likely to become a major recipient of Chinese FDI. This is partly related to Europe’s importance as an export market for China, but also to China’s need for advanced technology. The Chinese economy is currently in transition from being export-driven to becoming driven by domestic consumption. The ability of Chinese companies to produce high-end goods and services is highly relevant for their success in developing, and benefiting from, domestic consumption. Because of political sensitivities, the United States and Japan are less accessible sources of technology for China than the EU. Moreover, for the Chinese government to engage (via state-owned entities) in FDI in the EU contributes to its efforts to diversify its foreign exchange reserve, because a large proportion of this reserve is currently invested in US government bonds.

Cosco’s investment in Piraeus, however, is mainly related to the longer-standing Chinese interest in the EU as an export market, rather than the more recent drive towards gaining access to European technology. Cosco’s interest in investing in the port of Piraeus predates the start of the global financial crisis in 2008. Given the great strategic importance that the EU market continues to have for the Chinese economy, Chinese logistics companies and the Chinese government have an interest in strengthening their involvement in European infrastructure that is related to the China–EU trade. From the perspective of the Chinese government, Greece is very suitable as a gateway and logistics hub. Unlike Turkey, which is an emerging major actor in the region, Greece is an EU member state and there are no major political sensitivities in Sino–Greek relations. Manufacturing companies – of any nationality – that are based in China while producing for the European market also benefit from improved logistics’ linkages between China and the EU.

China has a clear interest in investing in European ports, where ample opportunities to do so exist. In the United States, by contrast, the opportunities to do so are limited because of political obstacles. The Hong Kong-based conglomerate Hutchison Whampoa Ltd (HWL) is the pioneer of Chinese direct investment in port management in Europe and elsewhere in the world. Its subsidiary Hutchison Port Holdings (HPH) is the world’s largest port operator in terms of the number of ports managed, with operations in 52 ports in 26 countries. HPH’s global assets range from Rotterdam’s largest container terminal, Europe Container Terminals BV (ECT, which is fully owned by HPH), to the container ports at either end of the Panama Canal. HPH is also active in cruise ship terminals, ship repairs, distribution centres, and

---

92 Sino–Turkish relations have in recent years been harmed by clashing views over Chinese rule over the Uyghur minority in Xinjiang.
railways, airports and hotels. Apart from Rotterdam, HPH has port operations in numerous other European locations: Amsterdam (the Netherlands); Harwich, London and Felixstowe (in the United Kingdom); Stockholm (Sweden); Gdynia (Poland); Barcelona (Spain); and Taranto (Italy). Other Hong Kong companies are also active in European container port operations, such as China Merchants Holdings (International) Company, which in 2013 took a 49 per cent stake in the French port operator Terminal Link. In general, leading companies and business people in Hong Kong have close relations with authorities in mainland China and the Chinese Communist Party (CCP) that often predate the handover of administrative control of Hong Kong from the United Kingdom to China in 1997. For example, the chairman and leading figure of Hutchison Whampoa, Li Ka-shing, has close ties to the political leadership in Beijing. A new trend that seems to be emerging is that mainland Chinese (state-owned) firms such as Cosco – rather than Hong Kong-based private firms such as Hutchison Whampoa that have been active in Europe for a longer time – are now increasingly interested in investing in European ports. In 2004, Cosco Pacific announced that it would acquire a 25 per cent share in the Antwerp Gateway container terminal; in 2010, Shanghai International Port Group, another state-owned company, bought a 25 per cent stake in a container terminal at Zeebrugge (Belgium); and in May 2013, China Shipping Container Lines, part of the state-owned company China Shipping Group, purchased a 24 per cent stake in the same terminal at Zeebrugge.

**Economic Significance for the EU**

For the EU, the economic significance of Cosco’s investment at Piraeus is mainly twofold. First, it benefits the Greek economy and thus it contributes indirectly to a more stable relationship between Greece and the rest of the EU. The activities of PCT contribute to a recovery of the Greek economy, since they greatly strengthen the hub function of the port of Piraeus. Moreover, PCT also provides the Greek state with additional revenue. Furthermore, PCT is a showcase project for Greece, which shows that – despite its financial difficulties – Greece is still able to attract foreign investors that are willing to commit to large-scale, long-term involvement. The Greek government has plans to privatize Greece’s major ports – that is, Piraeus and Thessaloniki. Cosco is regarded as the main potential candidate to buy

---

these ports, and if it does, this would transform Cosco from a concession holder for piers II and III into the owner of the entire container terminal at Piraeus, as well as the terminal at Thessaloniki. This would further increase Cosco’s FDI in Greece and would generate additional revenue for the Greek state, as well as potentially helping Greece to attract other investors. A return to economic growth in Greece after years of a contracting economy would bring greater stability to the country and would help to mitigate tensions between Athens and the European Union.

Second, PCT contributes to a shift in the centre of gravity with regard to EU–China relations away from North-West Europe. The beneficiaries of economic relations with China were previously located mostly in North-West Europe, since those countries were the main investors in China and the main consumers of Chinese exports. Increasingly, however, the South and Central European countries have also gained a direct stake in economic interaction with China. While the nature of their interests may be diverse, the geographical spread of EU member states with a strong economic focus on China is becoming more even than before. This process is reflected in the fact that the trade routes between China and the EU are also shifting. Trade between these two actors has been, and still is, dominated by Chinese exports to the EU rather than the reverse. These exports were previously mainly carried by ship via the Indian Ocean–Mediterranean route and were destined for North-West Europe, but logistics companies are currently increasingly also looking at other parts of Europe as gateways or distributing centres. The already mentioned case of Hewlett-Packard is a major example. This has implications as well for the flow of EU exports to China. Expanded or new infrastructure related to Piraeus and other Mediterranean ports is attractive, not just for importers but also for exporters. This is not to say that the North-West European ports are becoming irrelevant, but that their long-standing status as the primary gateways into and out of Europe can no longer be taken for granted. In this regard it should be noted that the Indian Ocean–Mediterranean route itself is less dominant than before. On the one hand, exports from China to the EU increasingly take place over land, with especially high-value goods, such as computers, carried by train from production centres in inland China to Central and Western Europe. On the other hand, sea-borne trade via the Arctic route is expected to grow in the coming years because of melting Arctic ice.

Cosco’s involvement at Piraeus speeds up the emergence of new trade patterns. It is unclear to what extent this affects the size of China–EU trade, but there is a potential for a growth in trade volume if Piraeus succeeds in becoming a significant regional gateway for Asia’s trade with parts of Europe. Since Piraeus is located closer to East Asia than other EU ports, shipping costs would be lower and thus the trade volume could expand. Much depends on whether the hinterland connections of Piraeus can be sufficiently developed – possibly with Chinese support. The investments made so far by Cosco have already created the foundation for such a process. Furthermore, there is a growing trend of Chinese-made products being assembled in Greece, after which they are labelled as ‘Made in Greece’. It is likely that Cosco’s efforts to turn Piraeus into a significant distribution location strengthen this trend.

103 Cosco is also interested in the port of Thessaloniki; interview with F. Voumvaki.
It is not apparent whether the nature of the goods traded between the EU and China might be affected. One particular point of attention in this regard is the trade in fake goods, of which China is the world’s main producer. In 2012, 64 per cent of all fake goods seized at European borders came from China. Piraeus is a main entry point for fake goods that are sold in the Balkans region. Whether Cosco Pacific, having assumed operational control over part of the Piraeus terminal, increases the number of fake goods entering the EU is unclear and requires further research. Still, one expert on trade flows of fake goods who was consulted for this study stated that he believes that Cosco’s involvement indirectly contributes to a larger inflow of China-made fake goods into Greece, and that this inflow has indeed grown substantially since Cosco assumed control of pier II. According to this source, potentially relevant factors in this regard may be the high level of corruption in both China and Greece, the limited capacity of Greek customs to inspect imported containers, Cosco’s influential role in the port of Piraeus, and the fact that Cosco Pacific may be disinclined to promote measures that could diminish the flow of goods from China to Greece. This issue, if confirmed, raises the question of whether the inflow of other smuggled or undeclared goods might also increase.

As was mentioned in the previous section, the Chinese state is strengthening its influence on the maritime trade corridor between China and the EU. Cosco’s investment in the port of Piraeus and its attempts to turn Piraeus into a major hub and gateway constitute a major new element in this approach. Moreover, China also seems interested in investing in rail infrastructure in South-East Europe. To the extent that this process stimulates trade between the EU and China, this may benefit Europe. However, in the long run it is unclear whether and how Chinese state control over the European end of this trade corridor relates to the EU’s strategic interest.

107 According to his estimate, the inflow of fake goods into Greece has expanded some 300–400 per cent since 2009; interview with anonymous expert on the trade in fake goods.
108 Salles, ‘Can a Chinese Shipping Conglomerate Save Greece’s Biggest Port?’.
109 Interview with anonymous expert on the trade in fake goods.
4. Cosco as a State-Owned Enterprise

In China, major state-owned enterprises are owned and supervised by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, which is China’s chief administrative authority. Cosco Group, the parent firm of Cosco Pacific, falls into this category. However, the chief executives of Cosco Group are not appointed by SASAC, but by the Organization Department of the CCP Central Committee. The CCP also controls and oversees the government, including the State Council and SASAC, as well as the military. This means that while Cosco Group is state-owned, it is Communist Party-controlled. This applies not only to Cosco Group, but also to Cosco Pacific and its fully-owned subsidiary PCT. Even though individual shareholders own over half of the shares in Cosco Pacific, it is clear that managerial control is in the hands of Cosco Group and thus indirectly the CCP. Four out of six executive directors of Cosco Pacific, including the managing director, also hold leading positions in China Cosco Holdings or other Cosco entities. Furthermore, four out of seven non-executive directors, including the chairman of the board, likewise hold senior positions in China Cosco Holdings or Cosco Group. The strong link between Cosco Group and Cosco Pacific is further illustrated by the fact that over recent years, during major ceremonies aimed at celebrating the relationship between Greece and Cosco Pacific, Cosco Pacific has been represented not by its own chairman or managing director, but by Wei Jiafu, who until July 2013 was the chairman and party secretary of Cosco Group.

The implications of the company’s governance structure may be understood as the following. Cosco Pacific ultimately serves the interests of the CCP, but it is also influenced by the interests of the Chinese government and individual shareholders. Moreover, given the huge size of Cosco Group, the vested interests of the company’s leading managers and main business units also play a significant role. As a consequence, what drives the company is a mixture of objectives. Profitability and business expansion are likely to be in the interests of all of the main stakeholders, and these commercial aims probably underlie the day-to-day operations of Cosco Pacific (and – at the local level in Greece – PCT). The overall strategy is likely to be shaped not only by these considerations, but also by the need of Cosco Group to serve the needs of Cosco Container Lines and the Chinese government’s objective of improving China’s economic performance. To what degree Chinese geostrategic and other political considerations play a role cannot be determined on the basis of publicly available information. However, given the dominant influence of both the CCP and the Chinese state, it

114 The method used to assess the relationship between governance structure and company interests was developed in a previous study; see Frans Paul van der Putten, Corporate Behaviour and Political Risk: Dutch Companies in China, 1903–1941, Leiden: CNWS Publications, 2001.
cannot be ruled out that political motivations play some role in the company’s current strategy and future activities.

It remains unlikely, however, that the Chinese state or the CCP will interfere directly with Cosco’s operations in Greece. PCT serves China’s interests in Greece and the Eastern Mediterranean best by performing its commercial role: to expand the gateway and hub functions of Piraeus and thereby open up additional trade routes between the EU and China. While it is thus conceivable that political considerations played a role in the company’s decision to become engaged with Piraeus, day-to-day operations are probably conducted on a purely commercial basis. The fact that Cosco is state-owned is likely to be relevant for its competitiveness. Cosco Group, like other Chinese state-owned enterprises, benefits from preferential access to credit from Chinese financial institutions, as well as from other instances of political backing as China’s main champion in the shipping sector.\(^{115}\) This may increase Cosco Pacific’s ability to expand its operations at Piraeus, or possibly to engage in infrastructure management elsewhere in Greece or the EU. However, as Cosco Group’s financial difficulties illustrate, political backing can also have negative consequences with regard to corporate governance.\(^{116}\)

### Possible Political Relevance

Another question is whether PCT provides China with a particular degree of leverage over the Greek government. This might be relevant when it comes to Greece’s standpoint on China-related international affairs, particularly on matters that are discussed in a multilateral setting, such as the EU or North Atlantic Treaty Organization (NATO). For instance, the external trade policies of the European Commission are of great importance to China. Leverage could also be relevant for any future Sino–Greek negotiations on bilateral trade or investment-related issues. Other areas where China could potentially be interested in gaining leverage may involve human rights controversies (for example, when Beijing perceives Greek human rights policies as contravening its national security interests), or public perceptions of China (the Chinese government is highly interested in international media and other mechanisms that affect international public opinion).

While China has interests in all of these areas, the financial significance of Cosco’s investment for the Greek government should not be overstated. As has been mentioned, the expected financial return of the Cosco concession for the Greek state in net present value over 35 years is much lower than the nominal € 4.3 billion. This represents only a fraction of Greece’s current debt, which is € 321 billion.\(^{117}\) Moreover, like any other country, the Greek government aims at diversifying sources of inward FDI in order not to become overly dependent on a single source.\(^{118}\) Indeed, Cosco’s investment in Piraeus accounts for only a modest percentage

---

118 Thanos Dokos, ‘The Geopolitical Implications of Sino–Greek Relations’, Clingendael Asia Forum, 10 July 2013, http://www.clingendael.nl/publication/geopolitical-implications-sino-greek-relations-0. In fact, according to some observers, there is a general feeling in Greece that more investment from China and other non-Western countries would be a welcome counter-balance to the already very strong influence of the EU and Western investor countries; interview with A. Tsakanikas, Research Director, IOBE, Athens, 10 April 2013.
Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

of overall FDI entering Greece. According to a Eurobank report, by September 2013, Cosco had invested a total of €340 million in the Piraeus terminal.\(^ {119}\) This figure presumably relates mainly to the costs of various construction activities and of purchasing, transporting and installing equipment to handle containers. Out of a total of some €6.9 billion, this figure represents only 5 per cent or less of inward FDI into Greece over the 2009–2012 period.\(^ {120}\) Most FDI in Greece originates from within the EU.\(^ {121}\) Major instances of investment in 2012 include a €2.3 billion investment by Crédit Agricole in Commercial Bank of Greece, and a €286 million investment in General Bank by Société Générale.\(^ {122}\) Also in 2012, companies such as Johnson & Johnson and Pfizer increased their direct investments in Greece.\(^ {123}\) Moreover, direct investment cannot easily be withdrawn, and once withdrawn it is difficult to restore the previous relationship. In other words, threatening to withdraw FDI is not the most obvious tool for China should it want to exert political influence.\(^ {124}\) Finally, it may also be noted that, with regard to the geopolitical sphere, the 2009 deal between Greece and Cosco did not trigger a major response from either the EU or the United States.\(^ {125}\)

On the other hand, in Greece's present unfavourable economic condition of declining GDP, high foreign debt and high unemployment, PCT as a large and successful project and good relations with China in general are of great importance.\(^ {126}\) As a result of the global financial crisis that started in 2008, the Greek economy has been contracting for the past few years, while the Greek government has been forced to accept emergency funding by the European Central Bank (ECB) and the International Monetary Fund (IMF) to avoid bankruptcy. In order for Greece to be able to pay its debts, the Greek government has been cutting its spending and looking for additional sources of revenue. The possibilities of further growth of PCT, Cosco bidding when the ports of Piraeus and other infrastructure assets are privatized,\(^ {127}\) investments by other Chinese entities and further growth of Chinese tourism to Greece are promising developments and of great relevance for Greece's economic recovery.\(^ {128}\)


\(^ {120}\) 'Foreign Direct Investment in Greece'.

\(^ {121}\) Moreover, Chinese FDI in Greece is limited, apart from Piraeus. As well as logistics, also the tourism sector attracts interest from Chinese investors; interview with A. Tsakanikas, Research Director, IODE, Athens, 10 April 2013.

\(^ {122}\) 'Foreign Direct Investment in Greece', p. 6.

\(^ {123}\) 'Foreign Direct Investment in Greece', p. 6.

\(^ {124}\) Hanemann and Rosen, 'China Invests in Europe', p. 60.

\(^ {125}\) Interview with T. Dokos, Director General, ELIAMEP, Athens, 10 April 2013.

\(^ {126}\) Interview with S. Issaias, CEO, Invest in Greece, Athens, 11 April 2013; see also Mark Lowen, 'Can China Lead Greece out of Darkness?', BBC News, 9 September 2013, http://www.bbc.co.uk/news/world-europe-23887509 (accessed 6 December 2013). Greece also has an interest in China’s role as a permanent member of the UN Security Council with regard to Cyprus, the Former Yugoslav Republic of Macedonia, and the Balkans; see Fox and Godement, A Power Audit of EU–China Relations, p. 83.

\(^ {127}\) Greece has so far not been very successful in its privatization programme; see Harry Papachristou, 'Piraeus Investment Deal Eases Privatization Prospects', http://uk.reuters.com/article/2013/09/02/us-greece-china-piraeus-idUKBRE8109Q20130902 (accessed 4 November 2013).

\(^ {128}\) Another important economic link between Greece and China – apart from PCT and the tourism sector – is the Greek ship owners, who are major providers of chartered ships to Chinese shipping lines and big customers of the Chinese ship-building industry.
Most countries in the world prefer to maintain good relations with China because of its large economic size. As such, Chinese sensitivities and special interests are often taken into account. Greece is not exceptional in this regard. However, given the above-mentioned factors, it is likely that Greece is more sensitive to Chinese political pressure than most other EU member states. Already prior to Cosco’s investment in Piraeus, Greece was regarded by the European Council on Foreign Relations (ECFR) as one of a group of EU member states politically supportive towards China. According to ECFR, these countries tend to refrain from criticizing China on human rights issues in order to develop a close economic relationship with it. In this context, the fact that Cosco is state-owned is not irrelevant, since this is likely to make the Greek government even more conscious of the need to manage its diplomatic relations with Beijing carefully.

It is relevant to note in this regard that there has been much public debate about whether the European Union should monitor or screen Chinese direct investments on the basis of national security criteria. The United States has a screening procedure for FDI that is aimed at safeguarding national security, and some EU member states also have national processes for the same purpose. There have been various calls for a vetting system at the European level, including by European Commissioners Antonio Tajani (industry) and Michel Barnier (internal market). However, according to specialist on EU–China investment relations Jonas Parello-Plesner, it is unlikely that such an approach will be taken in the near future because of opposition both within the European Commission and in various EU member states.

129 Fox and Godement, A Power Audit of EU–China Relations, p. 6.
130 In extreme cases they may even tend towards acting as a proxy for China in the EU; see Fox and Godement, A Power Audit of EU–China Relations, p. 6.
134 Parello-Plesner, ‘EU–China Investment Relations’, p. 24. The Netherlands is among the countries that object to an EU-level screening mechanism.
5. The Relevance for Dutch Economic Interests

Dutch economic activities related to Greece are focused mainly on agriculture, processed food and beverages, machinery, services, seedlings and flowers, transportation, and chemicals.135 There are few Dutch business activities in the Greek port sector and Dutch–Greek trade is conducted primarily by road transport. In this regard, there appears to be no immediate impact of Cosco’s investment in Piraeus on Dutch commercial interests in Greece.

As pointed out, Cosco benefits from substantial financial and diplomatic backing by the Chinese government. This strengthens Cosco’s competitive position with regard to other foreign entities with an interest in entering the Greek container terminal business. To the degree that Dutch port operators are considering doing so, this context is relevant for them. Moreover, this also applies to Dutch companies, such as the Port of Rotterdam, that are involved or planning to become involved in port management in Mediterranean countries other than Greece, and in the Black Sea region. Other sectors of the Chinese economy with large state-owned enterprises that operate abroad, all of which have access to a high degree of government support, include construction, petroleum, banking, insurance, utilities, railways, automobiles and telecommunications. However, the involvement of such companies in Greece is currently limited.

On another level, the growth of container throughput in Piraeus is relevant for the Netherlands’ position as a logistics hub, of which the Port of Rotterdam forms the core. Rotterdam has long benefited from its very favourable location with regard to transatlantic trade, in particular between the United States and Germany. As described by Marc Levinson, the Port of Rotterdam was among the winners when the introduction of the shipping container caused a major shift in international trade flows. Other European ports, such as London and Liverpool, quickly lost their function as hubs. In the mid-1960s, Rotterdam was quick to adapt to the emergence of the shipping container, a process that was boosted by the US military’s use of containers to supply American troops based in Germany.136 However, the volume of transatlantic trade is largely stable today,137 and the number of US troops in Germany is declining, while shipping from Asia to Europe is growing.

The possible emergence of Piraeus – because of Chinese involvement – as a significant regional hub and a more prominent European gateway has consequences for Rotterdam. The relocation of activities from Rotterdam to Piraeus – should this indeed become a trend – would lead to a decrease in logistics activity in the Netherlands. Rotterdam may be affected, particularly when this involves distribution activities relating to Central Europe.138 The growth

138 Interview with B. Wiegmans, Senior Researcher, TU Delft, Delft, 10 September 2013.
of new distribution activities by HP and other companies that move containers from China, via Piraeus, and by rail to Hungary and the Czech Republic is a clear illustration. It seems quite possible that several multinationals – in particular producers of PCs and mobile phones – will in the near future service Central European markets from Piraeus. This increase in rail-carried container traffic to and from Greece opens up new possibilities for exporters in eastern and southern Germany to ship goods to Asia via Piraeus. The distribution operations of HP and Huawei at Piraeus are still under development, and it is too soon to see their full potential or to assess their performance. However, the possibility that at least a small part of container traffic will be redirected from Rotterdam (and Antwerp and Hamburg) to Piraeus cannot be ruled out. More generally, Cosco’s investment in Piraeus may be seen as a symptom of a rapidly changing international context. China appears to be on its way to become the world’s largest economy, while the German economy has become more dominant than ever within the EU and economic growth in Central Europe is ‘robust’. Port and logistics activity in the Mediterranean is on the rise, while new trade routes via Central Asia (by train) and the Arctic (by ship) are being developed. These changes are not necessarily all negative for the Port of Rotterdam, since they may also involve new opportunities, but they do raise questions about the speed and fundamental nature of current developments. Chinese initiatives to develop new trade routes take up a central place in many of these developments.


140 Some important new developments are not related to China or Asia: in October 2013, Maersk, MSC and CMA–CGM announced that from April 2014 their new joint sailing schedule will reduce the number of calls at Rotterdam from eight to four per week. See Alexander Weissink, ‘Haven speelbal van scheepvaart’, Het Financieele Dagblad, 22 October 2013, p. 5.
Conclusions

The case study presented in this report leads to the following conclusions:

- Primarily because of Cosco’s involvement, Piraeus is currently the world’s fastest growing container port. Cosco is clearly serious in its endeavour to turn Piraeus into a significant hub for transhipment in the Mediterranean and a major distribution centre for Central, East and South-East Europe, including the Black Sea region. Regarding the distribution of imported goods beyond Greece, a key factor is Cosco’s ability to attract the regional distribution centres of major multinational companies, such as Hewlett-Packard, Huawei, ZTE and Samsung. While there is indeed strong interest from several companies in making this move, and the implications for Piraeus’s gateway function could potentially be far-reaching, this process is still at an early stage.

- Cosco’s activities in Piraeus have the potential to strengthen considerably the influence of the Chinese state over the maritime trade corridor between China and the EU. This becomes particularly clear against the background of Chinese investments in rail infrastructure in South-East Europe, the presence of the Chinese Navy along the sea route from the East China Sea to the Eastern Mediterranean, and Chinese state-ownership of China’s shipping lines, ports and infrastructure construction companies. This process may have long-term implications for the strategic position of the EU vis-à-vis China.

- Other implications for the EU of Cosco’s role in Piraeus include a strengthening of the Greek economy and the potential for increased trade with China, but also the potential for an increased inflow of counterfeit or other undeclared goods, and increased leverage of the Chinese government over Greek government policies on specific issues that are of high strategic significance to China.

- The fact that Cosco Pacific is listed on the Hong Kong stock exchange but also ultimately controlled by the Chinese Communist Party indicates that the company is relatively transparent and well governed, while it can also benefit – via its parent Cosco Group – from preferential financial (and potentially also diplomatic) support by the Chinese government. These features make Cosco an attractive partner for the Greek government and for Cosco’s business partners at Piraeus. In this sense, the fact that Cosco Group is a state-owned enterprise contributes to its market position.

- The main relevance for the Netherlands of Cosco’s operations in Piraeus relates to the possibility of (parts of) future trade flows between Central Europe (including parts of Germany) and China being conducted via Piraeus rather than Rotterdam or other Dutch ports. The current pioneering role of Hewlett-Packard and other major companies to establish new distribution links between Central Europe and Piraeus is a highly significant development. It is as yet too early to draw conclusions regarding the longer-term impact of this development for trade flows.
Interviews

Anonymous expert on trade in fake goods, Athens, 11 April 2013.

Thanos Dokos (Director General, ELIAMEP), Athens, 10 April 2013.

Georgios Georgakopoulos (President, Federation of Employees Ports of Greece FEPG/OMYLE), Athens, 9 April 2013.

Stephanos Issaias (CEO, Invest in Greece), Athens, 11 April 2013.

Ronald Kleijwegt (Director of Logistics EMEA, Hewlett-Packard), by telephone, 11 September 2013.

Willem W. Ledeboer (General Secretary, Netherlands Institute in Athens), Athens, 9 April 2013.

Siwarde J. Sap (Senior Economic and Trade Adviser, Netherlands Embassy Athens), Athens, 9 April 2013.

Robert-Jan Sieben (Deputy Head of Mission, Netherlands Embassy Athens), Athens, 9 April 2013.

Aristomenis M. Syngros (Chairman, Invest in Greece), Athens, 11 April 2013.

Plamen Tonchev (independent adviser), Athens, 9 April 2013.

Aggelos Tsakanikas (Research Director, IOBE), Athens, 10 April 2013.

Fragiska Voumvaki (Economist and Research Analyst, National Bank of Greece), Athens, 10 April 2013.

Bart Wiegmans (Senior Researcher, TU Delft), Delft, 10 September 2013.
Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands

This report aims to provide a preliminary insight into how Cosco’s activities in Piraeus are relevant for EU–China relations and Dutch economic interests. Primarily because of Cosco’s involvement, Piraeus is currently the world’s fastest growing container port. Cosco’s activities in Piraeus have the potential to strengthen considerably the Chinese state’s influence over the maritime trade corridor between China and the EU. This process may have long-term implications for the strategic position of the EU vis-à-vis China. The main relevance for the Netherlands of Cosco’s operations in Piraeus relates to the possibility of future trade flows between Central Europe and China being conducted partly via Piraeus, rather than Rotterdam or other Dutch ports. The current pioneering role of Hewlett-Packard and other major companies to establish new distribution links between Central Europe and Piraeus is a highly significant development. It is as yet too early to draw conclusions regarding the longer-term impact of this development for trade flows.

About the author
Frans-Paul van der Putten, Senior Research Fellow.

The Netherlands Institute of International Relations ‘Clingendael’ is an independent institute for research, training and public information on international affairs. It publishes the results of its own research projects and the monthly Internationale Spectator. The institute offers a broad range of courses and conferences covering a wide variety of international issues.