

The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey

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Clingendael Report



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December 2016

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Summary

This Clingendael Report analyses the relevance of China's 'One Belt, One Road' (OBOR) initiative for China's relations with Greece, Turkey, Cyprus and the Balkan countries. The Greek port of Piraeus, in particular, is at the heart of China's strategic involvement in the wider region of Southeast Europe and Turkey. Piraeus is a major connector between the Maritime Silk Road (the maritime dimension of OBOR, which connects East Asia to Africa and Europe) and Europe. COSCO's acquisition of the Piraeus Port Authority in August 2016 accelerates the port's growth into a leading container, car and cruise harbour in the Mediterranean. In the Balkans, China is promoting the concept of a 'Land Sea Express Route', a north-south transport corridor that links Piraeus with Central Europe and Germany. Turkey and Cyprus, respectively, are part of the Silk Road's overland and maritime approaches to Greece. COSCO's long-term presence in Piraeus provides the Chinese government with a firm basis for its relations with Greece and facilitates further OBOR-related activities throughout the region. The Balkans, Turkey, and Cyprus all welcome investment from and trade with China, and China's economic relations with all the Balkan countries are increasing. While economic relations are mainly approached on a bilateral basis, the CEEC 16+1 platform provides an extra avenue for China-Balkans cooperation.

In the short term, the geopolitical impact of expanding Chinese interests in Southeast Europe and Turkey – for which OBOR has become the main engine – will probably remain limited to making regional countries somewhat less dependent on their relations with the European Union, the United States and Russia. In the longer run, however, China may develop into a more significant geopolitical actor in the region. As the New Silk Road develops, regional countries will become more dependent on China for their trade and investment relations. At the same time, the strategic importance of these countries for China will also increase. The greatest geopolitical significance, however, of Chinese activities in the region results from Beijing's relations with the other great powers at the interregional or global level. If China's security relations with the United States, Russia and the European Union, or some of these, become more strained and competitive in the coming decades, this may well have a negative impact on regional stability in the Southeast Europe-Turkey region.

Introduction

The New Silk Road and the Southeast Europe-Turkey Region

Frans-Paul van der Putten

The term ‘One Belt, One Road’ (OBOR) refers to the People’s Republic of China’s (PRC) initiative to create a ‘New Silk Road’ that consists of a set of trade routes and agreements for economic cooperation.¹ Its purpose is greater economic integration of Asia, Europe and Africa. While OBOR relates to a vast area, some regions receive more attention from China than others. When it comes to Europe and Europe’s immediate neighbourhood, China is clearly interested in Greece and the surrounding countries. The Greek port of Piraeus is at the centre of China’s strategic involvement in the wider Southeast Europe–Turkey region.² Piraeus is a major connector between the Maritime Silk Road (which is the maritime dimension of OBOR, connecting East Asia to Africa and Europe) and Europe. In the Balkans, China is promoting the concept of a ‘Land Sea Express Route’, a north–south transport corridor that links Piraeus with Central Europe and Germany. Turkey and Cyprus, respectively, are part of the Silk Road’s overland and maritime approaches to Greece.³

This study builds on two previous Clingendael Reports: on Chinese investment in Piraeus (2014); and the Maritime Silk Road (2015).⁴ It aims to analyse the relevance of OBOR for China’s relations with Greece, Turkey, Cyprus and the Balkan countries. Three questions are particularly important in this context. First, which OBOR-related activities are currently under development in the region? Second, what role do these activities play in the overall relations between China and countries in the region? And third, assuming that OBOR provides more interests and greater influence for China, what is the significance of OBOR for China’s geopolitical role in the region?

1 OBOR is also known as the ‘Belt and Road Initiative’.

2 Frans-Paul van der Putten, ‘Infrastructure and Geopolitics: China’s Emerging Presence in the Eastern Mediterranean’, *Journal of Balkan and Near Eastern Studies*, 18:4 (2016), pp. 337–351.

3 It should be noted that a small part of Turkey is in Europe, and that Cyprus is a member state of the European Union.

4 Frans-Paul van der Putten, ‘Chinese Investment in the Port of Piraeus, Greece: The Relevance for the EU and the Netherlands’, *Clingendael Report* (February 2014); and Frans-Paul van der Putten and Minke Meijnders, ‘China, Europe and the Maritime Silk Road’, *Clingendael Report* (March 2015).

The Region

In total, fourteen countries are located in the Southeast Europe–Turkey region. These include the seven countries that previously constituted Yugoslavia – Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Kosovo and the former Yugoslav Republic of Macedonia (FYROM) – as well as Romania, Moldova, Bulgaria, Albania, Greece, Turkey and Cyprus. Kosovo declared itself independent from Serbia in 2008. While it is recognized as such by the European Union (EU) and the United States, its formal independence is contested by Serbia, Russia and China.⁵

There is no multilateral organization whose membership matches exactly the fourteen countries of the region. Twelve of them are members of the Southeast European Cooperative Initiative (SECI); Cyprus and Kosovo are not members, but Hungary is. Some of the region's countries – Albania, Bulgaria, Greece, Romania, Moldova, Turkey and Serbia – are also members of the Organization of the Black Sea Economic Cooperation (BSEC). Several countries in the region are both member states of the European Union and, as members of the North Atlantic Treaty Organization (NATO), military allies of the United States: Greece, Bulgaria, Romania, Slovenia and Croatia. One country, Cyprus, is a member of the EU but not of NATO; on the other hand, Turkey and Albania are members of NATO but not of the EU. Finally, Moldova, Serbia, Montenegro, Bosnia and Herzegovina, Kosovo and FYROM are neither part of the EU nor of NATO. Together with Albania (the other non-EU country of the Western Balkans), but without Moldova, these countries constitute the Western Balkans Six (WB6) grouping. They are involved in the Berlin Process, a series of annual summits that was started in 2014, aimed at strengthening commitment for the future enlargement of the European Union.

China maintains diplomatic relations with all the region's countries except for Kosovo. The main multilateral platform used by Beijing to maintain relations with many of these Central and Eastern European countries (CEEC) is CEEC 16+1: the forum for cooperation between China and sixteen Central and Eastern European countries. Apart from Kosovo, Greece, Turkey and Cyprus, the remaining ten regional countries are members of CEEC 16+1. This organization is a vehicle for China to engage with the Balkan countries,

5 Moreover, a fourteenth political entity in the region is Northern Cyprus, which is recognized as an independent state only by Turkey.

although its membership is broader. At the November 2016 CEEC 16+1 summit in Riga, China launched a €10 billion fund to finance projects in Central and Eastern Europe.⁶

OBOR Activities

It is not always easy to see which aspects of China's foreign economic relations are part of OBOR, and which are not. For the purpose of this Clingendael Report, OBOR-related activities are defined as any activities in which one or more Chinese actors play a role and that enable increased economic interaction between Asia, Europe and Africa. Given the regional focus of the report, initiatives aimed at improving trade and infrastructure, as well as manufacturing activities linked to improved transport corridors, in the Southeast Europe and Turkey region are of particular interest. Infrastructure in this case relates to transportation (roads, railroads, airports and ports), telecommunications and energy infrastructure.

Geopolitics

To assess the geopolitical significance of OBOR, this Clingendael Report focuses on the relevance of OBOR-related activities for the roles of major powers in Southeast Europe and Turkey. Three great powers have considerable interests and influence in this region: the European Union; United States; and Russia. The European Union is itself part of the region, since various countries are EU member states. The United States has several military allies in the region via NATO. Russia has significant religious, cultural and historical ties with the region, and Turkey and Greece are located along the strategically important approach from the Eastern Mediterranean to Russia's Black Sea ports. Although China itself is not yet a major geopolitical actor in the Southeast Europe–Turkey region, it is emerging as a global power. The potential for increased Chinese influence in this region because of OBOR raises the question of how this relates to the positions of the three traditional great powers.

6 Another regional body is the Organization of the Black Sea Economic Cooperation (BSEC). Its secretariat actively promotes the New Silk Road as a means for greater economic integration across the Black Sea region and within broader Eurasia. See Organization of the Black Sea Economic Cooperation's Permanent International Secretariat, "Press Release on the Participation of the BSEC Permisi Secretary-General in the "Silk Road Countries Forum: Energy, Resources and Sustainable Development"", accessed 8 September 2016 at [http://www.bsec-organization.org/bsecnews/PressReleases/PressReleases/20160531%20SG%20visit%20to%20Astana%20\(25-26%20May%202016\).pdf](http://www.bsec-organization.org/bsecnews/PressReleases/PressReleases/20160531%20SG%20visit%20to%20Astana%20(25-26%20May%202016).pdf). However, BSEC has so far not emerged as a significant platform for Chinese diplomatic engagement.

Structure of this Clingendael Report

The three main chapters in this Clingendael Report deal with Greece, the Balkans, and Turkey plus Cyprus. These three chapters are preceded by a separate chapter that outlines the region's current geopolitical context by discussing the roles of the United States, the European Union and Russia in the Eastern Mediterranean and the adjacent countries in Southeast Europe and the Middle East. The authors gratefully acknowledge the useful comments provided by Hercules Haralambides and Rudolf Fürst on an earlier draft of this report.⁷

7 The authors are very grateful also to the following people who have provided help and/or input for this study: George Giannopoulos, Huang Dalei, Sheila Jacobs, Vassilis Evmolpidis, George Tsogopoulos, Thanos Dokos, Xiong Wei, Chen Xin, Jin Ling, Cher Lai, Tong Wei, Wu Yongping, Chu Shulong, Zhang Yanbing, Hans Hoozeboom, Dirk Jan Wierenga, Jacobien Scherpbier-van Holthe, Siwarde Sap, Elsabé Willeboordse, Plamen Tonchev, Charalambos Tsardanidis, Jan Melissen, Thomas Rijken, Svilen Georgiev, Charles Parton, and Nicolas Vernicos. Research for this Clingendael Report was conducted with financial support from the Dutch ministries of Foreign Affairs and Defence.

Context

Geopolitics and the Eastern Mediterranean

Peter van Ham

Over the past decade, the Mediterranean has changed from a sea of tranquility to a major and central security concern of most (if not all) great powers. The Mediterranean became a region of crisis and revolution with the 'Arab Spring', which began in December 2010, and wars in Libya (2011) and Syria (since 2012) have spurred an uncontrolled flow of refugees and mass migration, destabilizing the EU's already fragile southern member states (particularly Greece). Yet there is more: Russia has used its support to Syria's Assad leadership to strengthen its military presence in the Mediterranean; and China and Russia concluded their first-ever joint naval exercise in the Mediterranean in May 2015. Meanwhile, the United States has substantially reduced its military presence in the region, and the European Union is still struggling to recalibrate its flawed and failed European Neighborhood Policy (ENP). These are the ingredients of what Noah Feldman has labelled the 'new cool war' in the Mediterranean, characterized by 'the coexistence of strategic competition and economic cooperation'.⁸

The United States

The United States has always been a major (economic, diplomatic and military) player in the Mediterranean. Its Sixth Fleet (based in Naples) has been engaged in a variety of crises, from the 1973 Yom Kippur War, through the 1990s Balkan Wars, to the recent Libyan War. To many strategic observers, the Mediterranean has long been an 'American Sea' (or even a 'NATO lake'), dominated by US military power.⁹ However, US military presence in the region has waned significantly since the end of the Cold War, because of the United States' strategic 'pivot to Asia-Pacific' and the overall general reduction in US ship strength. In a few years (that is, in 2020), the balance of US naval

8 Noah Feldman, 'What is China's Navy Doing in the Mediterranean?', *Bloomberg.com* (1 May 2015), accessed 8 September 2016 at <https://www.bloomberg.com/view/articles/2015-05-01/what-is-china-s-navy-doing-in-mediterranean>.

9 Frederick W. Kagan and John W. Miller, 'The New Cold War in the Mediterranean', *American Enterprise Institute* (17 February 2016).

assets between the Atlantic and Pacific will be tilted to 40/60 (from a 50/50 split in 2013). After the July 2016 NATO summit in Warsaw, US military presence increased a little, mainly to balance Russian military efforts in the region and to boost the fight against self-proclaimed Islamic State (ISIS) militants. The United States is particularly worried that ISIS and al-Qaeda may become a threat to shipping and naval forces in the eastern Mediterranean. Washington is also concerned that ongoing mass migration and economic crisis may weaken Europe's southern flank further (notably Greece and Spain), which may result in regional instability and undercut the region's support to US strategic objectives in the eastern Mediterranean.

From an American perspective, the Mediterranean remains a major strategic region and the centre of crisis and military flashpoints.¹⁰ US strategic engagement remains divided among safeguarding transit via the Suez Canal (which is vital for moving forces and material between the Atlantic and the Gulf and Indian Ocean); keeping a lid on the unresolved Cyprus dispute and Israeli-Palestinian question; and reassuring its European allies after Russia's annexation of the Crimea. US strategic engagement in the Balkans has significantly waned since NATO's successful pacification in the 1990s. To some extent, the United States has strategically detached itself from the Balkans (including Greece), leaving it to the European Union to stabilize the region. For the United States, the main challenge is to balance traditional 'hard' security questions (such as Russia's military presence in the region) with more hybrid and human security challenges (for example, mass migration and terrorism). Since these hybrid threats are more diffuse, both the United States and NATO have no obvious focal point for their traditional strategies based on military deterrence.¹¹ This implies that Washington should rethink its strategic engagement with Europe and the Mediterranean (including traditional security tools such as NATO and the US Naval Forces Europe), and possibly aim at closer cooperation with the EU.

Russia

The return of Russia's naval presence in the eastern Mediterranean has major security consequences for the region. Russia has been an active player in the Mediterranean since 1769, but was largely absent after it lost the Cold War. Moscow's main goal is to recover some of its historical influence in the region, using a policy of economic and geostrategic penetration to gain influence in Greece, the Western Balkans and Cyprus,

10 Ian O. Lesser, 'The United States and the Future of Mediterranean Security: Reflections from GMF's Mediterranean Strategy Group', *GMF Policy Brief* (April 2015).

11 Sinan Ülgen and Can Kasapoglu, 'A Threat-Based Strategy for NATO's Southern Flank', *Carnegie Europe* (June 2016).

as well as in Syria, Iran, Egypt and Israel.¹² Russia's capacity for power projection beyond the Black Sea remains modest and limited to joint exercises (for example with China, as noted above). Russia's annexation of the Crimea is clearly linked to its growing ambitions in the eastern Mediterranean, and is even more worrying since it testifies to the Kremlin's unpredictability and willingness to take significant risks. Russia is keen to strengthen its military presence beyond its naval station in Tartus, Syria. It has established a new air base in western Syria, and remains engaged with the Cypriot government to expand Russia's ports of call and even establish an air base on the island. The main strategic objective of expanding agreements for bases in the region is to keep more Russian naval assets in the theatre, without increasing fleet size. Since Moscow's bilateral relations with Ankara have cooled down markedly since the near-crisis over the downed Russian jet by Turkey in November 2015, Moscow must make contingency plans for a scenario where Turkey frustrates Russia's access to the eastern Mediterranean by blockading the Bosphorus Straits and the Dardanelles. Russia currently has no port in the Mediterranean, and thus remains largely dependent on others to give its Black Sea Fleet access to the region.¹³

Russia's assessment is that the eastern Mediterranean and southern Europe constitute the EU's and NATO's 'weak' flank (or 'vulnerable underbelly'). Russia is probably right to assume that it may extend its zone of influence in these areas, since support for key Western institutions (notably the EU) is dwindling and fragile, and because the economic and human security crisis is severe. Russia's influence in the Western Balkans is already significant, mainly because most countries in the region remain utterly dependent upon Russian natural gas deliveries. Moscow has hopes that Serbia could be drawn into Russia's strategic orbit, possibly by including it in its newly established Eurasian Economic Union (EEU). Whether this happens will largely depend upon Serbian economic realities, as well as the prospect of EU membership.¹⁴ Moscow's rapprochement with Cyprus (about acquiring a permanent military base) is equally centred on offers of generous financial assistance and discounted Russian loans.¹⁵ In 2011, Russia granted a €2.5 billion loan to Cyprus, followed by a €5 billion loan in 2012, partly to safeguard the vast sums of money that Russian oligarchs have deposited in Cypriot banks. Moscow's support for Cyprus is also aimed at strengthening Russia's position *vis-à-vis* Turkey, with which it is engaged in a tug of war over influence and

12 F. William Engdahl, 'Putin's New Mediterranean Strategy', *New Eastern Outlook* (29 March 2015), accessed 8 September 2016 at <http://journal-neo.org/2015/03/29/putin-s-new-mediterranean-strategy/>.

13 Jonathan Altman, 'Russian A2/AD in the Eastern Mediterranean', *Naval War College Review*, 69:1 (winter 2016).

14 Jovan Teokarevic, 'Serbia', in *Absorb and Conquer: An EU Approach to Russian and Chinese Integration in Eurasia*, European Council on Foreign Relations (May 2016).

15 'Cyprus Signs Deal to Allow Russian Navy to Use Ports', *BBC News* (27 February 2015), accessed 8 September 2016 at <http://www.bbc.com/news/world-europe-31632259>.

power in the eastern Mediterranean. In other parts of the Mediterranean, Russian influence is particularly pronounced through its increasing arms sales (most notably to Algeria, Libya and Egypt).

The European Union

Only a few years ago, it could be argued that the European Union 'continues to analyse the events in the Eastern Mediterranean almost exclusively from an economic and financial viewpoint'.¹⁶ However, uncontrolled mass migration from the Middle East and North Africa (MENA) has quickly altered this perception, forcing Brussels to consider the Mediterranean through a security lens. Former European Commission President José Manuel Barroso even suggested that this mass migration is 'the most serious crisis in many years the EU is facing, probably even the most serious since the beginning of the process of European integration'.¹⁷ Since the Mediterranean now tops the list of global security concerns, it is fair to say that the EU's long-standing efforts to stabilize the region by institutionalizing Euro-Med multilateralism (for example, through the so-called Barcelona Process and the Union for the Mediterranean) have duly failed. The EU's toolbox is based on the ENP, which is widely considered to be in need of structural overhaul. Policy-makers in Brussels now recognize that they are no longer the only game in town, but that other, often new and global, actors are entering the Mediterranean stage. Even more worrying, this comes at a time when the EU's reputation is undermined by an ongoing continental economic crisis, which particularly affects the weaker and politically vulnerable southern EU member states. As a result, the EU's influence in the Balkans is dwindling, offering opportunities for other strategic actors (including Russia and China, as well as the Gulf states) to strengthen their foothold in the region; this even applies to EU member states such as Greece and Cyprus. For the first time since the end of the Cold War, a multifaceted and severe geostrategic competition in the eastern Mediterranean has emerged, with the traditional 'West' (that is, the EU, NATO and the United States) competing for influence with old and new (global) players, including Turkey, Russia, the Gulf states and Iran, as well as China (and, to a lesser extent, even India).

For the EU, this comes as a shock. Mediterranean realities should encourage the EU to 'think strategically', as reflected in the EU's new Global Strategy, which was launched in June 2016. The Global Strategy even argues that the 'Mediterranean, Middle East and parts of sub-Saharan Africa are in turmoil', offering its usual mix of

16 Patrick Nopens, 'Geopolitical Shifts in the Eastern Mediterranean', *Egmont Security Policy Brief*, 43 (February 2013), p. 7.

17 'Europe Faces "Existential" Threat from Migrant Crisis, Politicians Warn', *EUBusiness.com* (4 March 2016), accessed 8 September 2016 at <http://www.eubusiness.com/news-eu/europe-migrants.16se>.

regional and multilateral cooperation as well as financial aid as Band-Aids to what seem fundamentally intractable problems and conflicts.¹⁸ The EU's Global Strategy will be followed by new thematic and geographic strategies (probably in 2017), which will include a reformed ENP and a new European approach to the Mediterranean. Hopefully, the new Global Strategy will manage to overcome the EU's arcane institutional debates and questions, making it possible to formulate a more effective and forceful approach to the volatile geopolitical circumstances in the eastern Mediterranean.¹⁹ The new 'global' Mediterranean forces the EU to accept that the region is a contested space, and that a new arc of crisis has emerged extending from the Levant to the Sahel and Northern Africa. This will (almost) inevitably force the EU to adopt a security-oriented agenda, which would make a more transatlantic approach towards the eastern Mediterranean possible.²⁰ Whether the 'new cool war' in the Mediterranean will escalate into an all-out great power contest is one of the big questions determining the future of the region.

18 EEAS, *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy* (June 2016), p. 34.

19 Richard Youngs, 'Twenty Years of the Euro-Mediterranean Partnership', *Carnegie Europe* (18 May 2015).

20 Emiliano Alessandri, 'Forced Convergence? Transatlantic Strategy in the Global Mediterranean', *GMF Policy Brief* (April 2015).

1 Greece: Piraeus and the Maritime Silk Road

Frans-Paul van der Putten

China and Piraeus

On 10 August 2016, the bid of China COSCO Shipping Corporation (known as COSCO) for a majority stake in the Piraeus Port Authority became effective.²¹ The Greek Port of Piraeus thus became the only major seaport in the European Union that is entirely managed by a Chinese company. The port's container terminal and ship repair facilities face the waters where, in 480 BC, the Greeks defeated the Persian fleet in the famous Battle of Salamis. This was a key event in the early history of European–Asian relations. Today, Piraeus is the main maritime foothold in the Mediterranean for China, modern Asia's great power. Largely as a result of Chinese investment that predates the 2016 takeover of the port, Piraeus has become a significant hub for the transshipment of containers in the Mediterranean and Black Sea region. It also serves as a point of entry into the European Union for Chinese goods destined for Central Europe and Germany.²²

Sino–Greek port cooperation should be seen against the background of the close relationship that exists between Greek ship owners and China's shipping companies, banks and shipbuilders. Greece is the world's largest ship-owning nation by volume,²³ and in recent years Greek ship owners have ordered large numbers of ships from Chinese shipbuilders, with loans provided largely by Chinese banks.²⁴ At the same time, Chinese shipping companies are major clients of the Greek ship owners, as significant portions of their fleets consist of chartered ships. The Greek ship owner Vassilis

21 'COSCO Completes Piraeus Port Takeover', *ekathimerini.com* (10 August 2016), accessed 2 October 2016 at <http://www.ekathimerini.com/211165/article/ekathimerini/business/cosco-completes-piraeus-port-takeover>.

22 For a thorough analysis of the relationship between OBOR and Greece, see Plamen Tonchev, 'One Belt, One Road Projects in Greece: A Key Driver of Sino–Greek relations', in: *The OBOR Initiative and Europe–China Relations*, ETNC Report, European Think-tank Network on China (forthcoming December 2016).

23 'Top 10 Ship-Owning Nations, 2016', *World Maritime News*, accessed 8 September 2016 at <http://worldmaritimeneews.com/wp-content/uploads/2016/02/top-10-sh.jpg>.

24 Costa Paria, 'China Attracts Greek Ship Owners', *The Wall Street Journal* (30 September 2013), accessed 8 September 2016 at <http://www.wsj.com/articles/SB10001424052702303918804579106732244443344>.

Constantacopoulos, founder of the Costamare Group, reportedly played an important role as mediator between the Greek government and COSCO.²⁵ COSCO has been, and still is, a charter client of Costamare.²⁶ In November 2008, Sino-Greek talks resulted in a contract between COSCO and the Piraeus Port Authority (PPA) that gave the Chinese company a 35-year lease as operator of Piers II and III at Piraeus.²⁷

Since 2009, COSCO has invested heavily to modernize and complete the two piers under its management, which led to a rapid increase in the turnover of containers. Meanwhile, PPA continued to operate Pier I, but failed to achieve similar growth. In 2016, as part of its privatization programme, the Greek government sold 51 per cent of its shares in PPA to COSCO in return for €280.5 million. The Chinese company thereby became the owner and operator not only of all three piers of the container terminal, but also of the ferry port, cruise-ship port, car terminal, ship-repair facilities and the real estate that is adjacent to the harbour. Under the condition that it makes some €300 million worth of additional investments in the port, COSCO is entitled to purchase another 16 per cent of the shares in PPA (for €88 million) by 2021.²⁸

COSCO has stated that it wants to increase the port's container turnover to 5 million TEU by 2018, which could turn Piraeus into Europe's fifth-largest port.²⁹ The number of containers handled in 2014 was 3.5 million TEU, while in 2008 this was only 0.4 million TEU.³⁰ COSCO's container business at Piraeus is also a success for the company in financial terms. In the first half of 2016, COSCO recorded a profit of US\$17.9 million from its operation at Piraeus, an increase of 18.3 per cent compared with the same period in 2015.³¹ The Chinese company is also expanding its activities in other parts of

25 'Greek Ship Owners Miss China Hand', *Financial Times blog* (25 January 2011), accessed 8 September 2016 at <http://blogs.ft.com/beyond-brics/2011/01/25/greek-ship-owners-will-miss-old-china-hand/>.

26 A. Huliaras and S. Petropoulos, 'Ship Owners, Ports and Diplomats: The Political Economy of Greece's Relations with China', *Asia-Europe Journal*, 12:3 (2014), pp. 215-230 at p. 224; and Costamare Inc., *Fleet List (As of October 24, 2016)*, accessed 13 October 2016 at <http://ir.costamare.com/fleet>.

27 Van der Putten, 'Chinese Investment in the Port of Piraeus'.

28 Ilias Bellos, 'COSCO to Clinch Majority Stake in Piraeus Port Ahead of Further Investment', *ekathimerini.com* (9 August 2016), accessed 2 October 2016 at <http://www.ekathimerini.com/211138/article/ekathimerini/business/cosco-to-clinch-majority-stake-in-piraeus-port-ahead-of-further-investment>.

29 TEU stands for twenty-foot equivalent unit, or the inexact unit of cargo capacity of container ships or terminals. See 'COSCO Sees Greece's Piraeus among World's Top 30 Ports by 2018', *Mail Online* (22 September 2016), accessed 25 September 2016 at <http://www.dailymail.co.uk/wires/reuters/article-3802617/COSCO-sees-Greeces-Piraeus-worlds-30-ports-2018.html>.

30 See Eurostat, *Top 20 Container Ports in 2014 – on the Basis of Volume of Containers Handled in (1,000 TEUs(1))*, accessed 3 October 2016 at [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Top_20_container_ports_in_2014_-_on_the_basis_of_volume_of_containers_handled_in_\(1000_TEUs\(1\)\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Top_20_container_ports_in_2014_-_on_the_basis_of_volume_of_containers_handled_in_(1000_TEUs(1)).png).

31 COSCO Shipping Ports Limited, 'Interim Report 2016' (2016), p. 45.

the port. In 2015, some 980,000 cruise-ship passengers visited Piraeus, and traffic at the car terminal amounted to 341,000 vehicles.³² These numbers may well increase as a result of COSCO's takeover of the port. Starting in July 2016, COSCO built a new pier at the cruise-ship terminal in just 75 days. At the opening ceremony for the new pier at the cruise-ship terminal, COSCO Chairman Xu Lirong declared that the company aims to raise the number of cruise passengers to 1.5 million per year in the short term, and eventually to 3 million.³³ Reportedly COSCO is brokering direct charter flights between Beijing and Athens by two Chinese airlines in order to attract more cruise passengers.³⁴ The company also wants to turn Piraeus into the largest car terminal in the Mediterranean, and to boost the port's ship-repair capacity by providing it with a new 300,000 deadweight tonnage (DWT) dock.³⁵ Moreover, COSCO is expected to make a bid on a large plot of land at the Thrasio railway freight centre near Piraeus.

COSCO's activities at Piraeus constitute the most significant manifestation to date of China's 'One Belt, One Road' approach in the region, and indeed in Europe. While the company's involvement in the Greek port pre-dates the official launch of the OBOR strategy in 2013,³⁶ COSCO's role at Piraeus is a clear expression of how China transforms international trade routes by establishing control over a major foreign seaport. As such, Piraeus is a potential model for Chinese involvement in ports elsewhere. Port activities are at the core of the Maritime Silk Road, which is the maritime component of OBOR.³⁷

In February 2016, COSCO expanded greatly in size when it merged with its smaller rival China Shipping Group. The post-merger COSCO is the fourth-largest container-shipping company in the world (behind three European companies: Maersk; MSC; and CMA CGM), with 7.5 per cent of global container-shipping capacity.³⁸ Moreover, together with CMA CGM, Evergreen and OOCL, COSCO formed the Ocean Alliance, which will control around 23.5 per cent of the global container fleet when it becomes effective in

32 George K. Vaggelas and Athanasios A. Pallis, 'GREPORT 2016: Report on Greek Ports', *P&S Advisory* (2016).

33 'UPDATE 1: China's COSCO Aims to Double Piraeus Cruise Passengers Numbers', *Reuters* (3 October 2016), accessed 4 October 2016 at <http://www.reuters.com/article/cosco-piraeus-cruises-idUSL5N1C91TE>.

34 'Chinese Piraeus Operator Cosco Brokering Athens-Beijing Direct Flight Link', *The National Herald* (21 November 2016), accessed 21 November 2016 at <http://www.thenationalherald.com/142282/chinese-piraeus-operator-cosco-brokering-athens-beijing-direct-flight-link/>

35 'Greek Prime Minister Alexis Tsipras Visited COSCO SHIPPING Headquarters', *Cosco* (7 July 2016), accessed 9 October 2016 at http://en.coscocs.com/art/2016/7/7/art_6923_49212.html.

36 Van der Putten, 'Chinese Investment in the Port of Piraeus'.

37 Van der Putten and Meijnders, 'China, Europe and the Maritime Silk Road'.

38 Alphaliner, 'TOP 100, Operated Fleets as per 7 November 2016', accessed 13 October 2016 at <http://www.alphaliner.com/top100/>.

April 2017.³⁹ The Ocean Alliance is based on a vessel-sharing arrangement that provides the companies' customers with a large network of shipping services. COSCO is not just a shipping company, but a conglomerate of companies involved in maritime and other logistics. Its container-shipping activities are managed by a subsidiary called COSCO Container Lines. The company's subsidiary for port operations, COSCO Shipping Ports, is among the world's largest container-terminal operators.

It is easy to see how COSCO, because of its size and large fleet, has been able to provide its Piraeus terminal with capital for new investments and increased turnover through more frequent port visits. However, the role of third-country actors (that is, non-Chinese and non-Greek) has also been crucial for the rapid growth of Piraeus as a container port. In 2013, the US technology giant Hewlett-Packard (which in 2015 changed its name to HP Inc.) signed an agreement with COSCO to use Piraeus as a base for distributing its China-made products across the Mediterranean and parts of Europe. It also arranged with the Greek train operator TRAINOSE to ship HP products from Piraeus by rail to the Czech Republic.⁴⁰ As a result, regular block trains have been transporting HP components from Piraeus to factories in Pardubice and Kutna Hora in the Czech Republic that are owned by the Taiwanese firm Foxconn, the world's largest contract electronics manufacturer.⁴¹ The finished HP computer products are then distributed to various parts of Europe and the Mediterranean region. The China-Czech Republic supply line via Piraeus has been established and is managed for HP by yet another subsidiary of COSCO: COSCO Logistics.⁴²

HP's transport route between Piraeus and Central Europe forms the blueprint for the 'Land Sea Express Route' (LSER), a transportation corridor from Greece through the Western Balkans to Hungary and the Czech Republic. The LSER is a concept that China has been promoting in its relations with Balkan and Central European countries.⁴³ This corridor reaches the Baltic region via Poland and connects to the rapidly developing China-Europe train corridor that runs east-west via Russia, Belarus, Poland, Germany and the Netherlands. HP's decision to use Piraeus as a distribution hub set an example that has since been followed by other technology firms, including Sony,

39 'Container Shipping's New Ocean Alliance is Born', *joc.com* (20 April 2016), accessed 3 October 2016 at http://www.joc.com/maritime-news/container-lines/ocean-alliance/container-shipping%E2%80%99s-new-ocean-alliance-born_20160420.html.

40 'HP Inks Piraeus Agreement with COSCO', *ekathimerini.com* (1 March 2013), accessed 3 October 2016 at <http://www.ekathimerini.com/148929/article/ekathimerini/business/hp-inks-piraeus-agreement-with-cosco>.

41 Foxconn is the trading name of Hon Hai Precision Industry Co. Ltd.

42 Interview with Huang Dalei (COSCO Network e-Logistics), Beijing (June 2016).

43 'China, CEE Countries Eye Land-Sea Express Passage to Speed Up Delivery', *Xinhuanet* (18 December 2014), accessed 3 October 2016 at http://news.xinhuanet.com/english/china/2014-12/18/c_127313857.htm.

Samsung, ZTE and Huawei.⁴⁴ DHL, the German logistics company, also uses Piraeus as a distribution hub for incoming goods from China that are destined for European markets, including northern Italy and southern Germany.⁴⁵ Recent research suggests that countries situated along the Maritime Silk Road have an increased potential to become new global manufacturing hubs, with port investments contributing to the relocation of industrial plants.⁴⁶ It is not clear whether, or to what extent, this could also apply to Greece. The Greek logistics sector will internationalize further with the expected takeover of TRAINOSE by Ferrovie dello Stato Italiane (also referred to as Trenitalia), the Italian national rail company.⁴⁷

Beyond Piraeus, Chinese investors are also interested in other Greek infrastructure and energy activities. They have invested in upgrading Athens airport and are interested in building a new airport on Crete.⁴⁸ Chinese energy firms, including State Grid Corporation of China (SGCC), have made bids for stakes in the Greek power grid. They are also said to be interested in investing in the Greek Public Power Corporation (PPC, the national power utility), the construction of new electricity units in the Balkans jointly with PPC, and in financing power cables between Crete, the Cycladic Islands and the Greek mainland.⁴⁹ According to a memorandum of understanding signed in September 2016, China Machinery Engineering Corporation (CMEC) will build a coal-fired power plant for PPC.⁵⁰

44 Andreea Brînză, 'How a Greek Port Became a Chinese "Dragon Head"', *The Diplomat* (25 April 2016), accessed 3 October 2016 at <http://thediplomat.com/2016/04/how-a-greek-port-became-a-chinese-dragon-head/>.

45 DHL, *DHL'S New Multimodal Solution via Port Piraeus*, accessed 13 October 2016 at

http://www.dhl.com/content/dam/downloads/g0/press/publication/dhl_maritime_silk_road.pdf.

46 Yang Zhongzhen, 'Investment in Container Ports along the Maritime Silk Road in the Context of International Industry Transfer: The Case of the Port of Colombo', *Journal of Maritime Economics and Logistics* (in press).

47 'Trainose Staff Sign Collective Deal', *ekathimerini.com* (5 August 2016), accessed 4 October 2016 at <http://www.ekathimerini.com/211059/article/ekathimerini/business/trainose-staff-sign-collective-deal>.

48 Gian Luca Atzori, 'Can China's New Silk Road Save the Greek Economy?', *The Diplomat* (21 January 2016), accessed 11 October 2016 at <http://thediplomat.com/2016/01/can-chinas-new-silk-road-save-the-greek-economy/>.

49 Chryssa Liaggou, 'China Stakes a Strong Claim in the Greek Electricity Landscape', *ekathimerini.com* (31 July 2016), accessed 4 October 2016 at <http://www.ekathimerini.com/210889/article/ekathimerini/business/china-stakes-a-strong-claim-in-the-greek-electricity-landscape>.

50 Stelios Bouras, 'Public Power: Greece's Public Power Corp Signs Power Plant Agreement With China's CMEC', *4-traders* (15 September 2016), accessed 4 October 2016 at <http://www.4-traders.com/PUBLIC-POWER-CORPORATION-1408789/news/Public-Power-Greece-s-Public-Power-Corp-Signs-Power-Plant-Agreement-With-China-s-CMEC-23059841/>.

Chinese Influence

China COSCO Shipping is represented in the Port of Piraeus via two subsidiary firms. The first is Piraeus Container Terminal (PCT), which has been operating Piers II and III of the Piraeus container port under an agreement with the PPA since 2009. PCT is a subsidiary of COSCO Shipping Ports,⁵¹ which is based in Hong Kong and listed on the Hong Kong stock exchange. The largest shareholder of COSCO Shipping Ports is another company that is listed on the Hong Kong stock exchange: China COSCO Holdings Company, which holds circa 44 per cent of the shares of COSCO Shipping Ports (the remainder is owned by external investors), as well as 100 per cent of COSCO's container-shipping subsidiary.⁵² COSCO, in turn, owns around 53 per cent of the shares of China COSCO Holdings Company.⁵³ The second entity that, since August 2016, represents COSCO's interests in Piraeus is the Piraeus Port Authority itself. The company that holds 51 per cent of the shares (and voting rights) in PPA is called COSCO Hong Kong (Group), a company that is fully owned by COSCO.⁵⁴ In other words, COSCO decided not to use COSCO Shipping Ports, which is a non-wholly owned subsidiary, as its vehicle to invest in PPA. This has no impact on the way in which the company controls its Greek interests: the same person, Fu Chengqiu, is the CEO of both the PCT and PPA.⁵⁵ The chairman of the PPA board is Wan Min, who is the president of COSCO and chairman of the board of China COSCO Holdings Company, which indirectly controls PCT.

Although investors on the Hong Kong stock exchange collectively own the majority of the shares in the PCT's parent company, and the Greek state is represented on the PPA board via several non-executive members, it is clear that managerial control in both the PCT and PPA is firmly in the hands of COSCO. COSCO is fully owned by the [Chinese] State-owned Assets Supervision and Administration Commission of the State Council (SASAC). SASAC is a part of China's central government, which is itself under the control of the Chinese Communist Party (CCP). Finally, the CCP controls COSCO not only via the State Council but also directly, as it appoints the company's top executives. Whereas COSCO's primary function is commercial, it thus does not operate independently from the Chinese political system.

51 Until July 2016, its name was COSCO Pacific.

52 *China COSCO Corporate Profile*, accessed 9 October 2016 at <http://en.chinacosco.com/col/col1055/index.html>.

53 China COSCO Holdings Co., *Annual Report 2015*, p. 47.

54 Piraeus Port Authority, *Notification of Significant Change of Voting Rights* (12 August 2016), accessed 9 October 2016 at <http://www.olp.gr/en/investor-information/company-news/item/3312-notificationchange>.

55 'COSCO Completes Piraeus Port Takeover', *ekathimerini.com* (10 August 2016), accessed 10 October 2016 at <http://www.ekathimerini.com/211165/article/ekathimerini/business/cosco-completes-piraeus-port-takeover>.

At the international level, giant state-owned enterprises such as COSCO are anything but precision tools for the implementation of Chinese foreign policy. They are, however, expected by the Party and the state to strengthen China's overall foreign interests, as defined by the CCP. 'One Belt, One Road' is the strategic policy framework for COSCO's port activity in Greece. The long-term purpose of OBOR is to contribute to the growth of Chinese influence by adding to economic development in and throughout Asia, Africa and Europe. The Chinese government has been using its diplomatic influence to support COSCO's role in Greece, by signalling that the success of COSCO's investments and operations play an important role in the bilateral relationship. Besides China's direct investments in Piraeus and elsewhere, its economic importance for Greece relates also to Chinese tourists and Greek exports of agricultural products to China. As a result of the global financial crisis, the Greek economy has been struggling, and the increase in Chinese investments in, and economic ties with, Greece are a much-needed symbol of Greece's ability to overcome its present difficulties.

COSCO has shown that it is serious in its aim of turning Piraeus into a major maritime hub in the Mediterranean and an important gateway for trade between China and the EU. The company is likely to keep investing in the port, and it is probable that the port's size in terms of container throughput and cruise passenger visits will keep increasing. As a result, the strategic importance of Greece is growing for China. Both the Chinese government and COSCO have shown that they value a long-term relationship with Greece despite the various difficulties that have emerged in recent years. These include the postponement of privatization of the PPA for one year after Greece's left-wing Syriza party came to power in January 2015, attempts to derail the port deal from within the Greek government even after it became clear that COSCO was the only remaining candidate for purchasing the PPA, demonstrations by dock workers against the COSCO takeover, and blockades of the railway from Piraeus to the Czech Republic by large numbers of refugees at the Greek border town of Idomeni.⁵⁶ Despite all this, China and COSCO have persisted in retaining and strengthening China's role at Piraeus.

The Eastern Mediterranean dimension of the Maritime Silk Road being fully dependent on Piraeus is unattractive from a Chinese point of view. While COSCO and other companies keep improving Piraeus and the Land Sea Express Route to Central Europe, Chinese firms and investors are thus looking for opportunities to become involved in other South European ports. In September 2015, a Chinese consortium that includes COSCO took a 65 per cent interest in the container terminal at Kumport – Turkey's

56 Trade destined for Central Europe was diverted via Slovenia (through the port of Koper) and Bulgaria. For more details on these hurdles, see the forthcoming article by Plamen Tonchev, 'One Belt, One Road Projects in Greece' (ETNC, December 2016).

third-largest port – close to Istanbul in the European part of Turkey.⁵⁷ Compared to both Piraeus and Kumpport, ports in the northern Adriatic Sea are even closer to Central Europe. A large offshore container terminal is currently being planned near Venice. This terminal will service five container ports in the northern Adriatic Sea (Marghera, Ravenna and Trieste in Italy, Koper in Slovenia and Rijeka in Croatia).⁵⁸ A Chinese-Italian consortium led by the Chinese contracting giant CCCC Group will make the design for the dam and the container bay of this Venice Offshore-Onshore Port System (VOOPS).⁵⁹ Chinese and Hong Kong port operators are also interested in European ports in the western Mediterranean. In October 2016, a COSCO-led consortium agreed with APM Terminals to take a 49.9 per cent interest in an existing reefer terminal and in a new container terminal at Vado near Genoa in northwest Italy.⁶⁰ Ports in both northeast and northwest Italy gained increased access to Switzerland, Germany and other parts of West Europe via the recently opened Gotthard Tunnel. In Spain, COSCO and China Merchants have expressed an interest in investing in the port of Valencia.⁶¹ Hong Kong-based Hutchison Port Holdings already owns a container terminal in the port of Barcelona. Chinese port activities in South Europe should be seen in relation to Chinese investments in ports elsewhere around the Mediterranean – Israel (Ashdod); Egypt (Port Said and Damietta); and Algeria (Cherchell) – and in the Black Sea (Anaklia in Georgia).

Geopolitical Relevance

Given tensions between Greece and the EU that resulted from the financial crisis, it is important for Athens to maintain good relations with major non-EU actors such as the United States, Russia and China. The United States is an ally that has access to military installations in Greece and that is home to a large Greek expatriate community. Meanwhile, Russia is a geopolitical opponent of both the EU and the United States and that has religious links with Greece. For Athens, relations with China are a welcome addition. China is a major economic and diplomatic power, while ties with Beijing can be developed without straining relations with the more established three great powers.

57 Svilen Petrov, 'Chinese Joint Venture Acquired 65.8% from Turkish Container Terminal Kumpport', *Maritime News* (2015), accessed 12 October 2016 at <http://www.newsmaritime.com/2015/chinese-joint-venture-acquired-65-8-from-turkish-container-terminal-kumpport/>. The consortium includes COSCO Shipping Ports (40% of the acquired shares), China Merchants Holdings International (40%) and CIC Capital (20%).

58 Nicola Casarini, 'OBOR and Italy: Strengthening the Southern Route of the Maritime Silk Road', in: *The OBOR Initiative and Europe-China Relations*, ETNC Report (forthcoming December 2016).

59 This 4C3 consortium also includes 3Ti Progetti Italia and E-Ambiente.

60 COSCO Shipping Ports will take 40% and a subsidiary of Qingdao Port International Co. will take 9.9%. Both terminals will be operated by APM.

61 Mario Esteban and Miguel Otero-Iglesias, 'Spain: Looking for Opportunities in OBOR', in: *The OBOR Initiative and Europe-China Relations*, ETNC Report (forthcoming December 2016).

Whereas there is mutual reliance between Greece and China regarding maritime cooperation, China is ultimately by far the more powerful of the two. The Piraeus investment has provided China with significant interests, as well as influence, in Greece. In matters that are important to the Chinese government, Greece is likely to take a China-friendly approach. This applies not just to bilateral matters – such as trade and investment – but also to issues that come up in multilateral organizations such as the EU and NATO. In July 2016, Greece (together with Croatia and Hungary) blocked an initial version of an EU statement that was responding to the ruling of an arbitral tribunal based in The Hague regarding disputes in the South China Sea between the Philippines and China. The case, which had been started by the Philippines and was rejected by China, resulted in a ruling that is widely regarded as negative for China's interests. The final version of the EU's declaration did not explicitly call on China to abide by the ruling.⁶² Reportedly, Greece, Croatia and Hungary were concerned that it would damage their relations with China,⁶³ but it is unclear whether this was the only or the main motive.

Despite these developments, China's interaction with Greece has so far not fundamentally changed Greece's strategic relations with the European Union or the United States. The same applies to Greek–Russian relations: Chinese investment in, and diplomatic cooperation, with Greece does not directly challenge Moscow's interests. The short-term geopolitical effect of China's growing presence in Greece relates mainly to Greece's stance within the EU with regard to the Union's policy towards Market Economy Status, the South China Sea, human rights, and the EU arms embargo.

In the long run, the geopolitical outlook is somewhat different. In the military sphere, naval cooperation between China and Greece could eventually increase. The Chinese Navy occasionally visits the eastern Mediterranean for friendship visits to ports throughout the region, usually after concluding counter-piracy patrols in the Gulf of Aden and before returning to China. There have also been some notable activities in which Chinese Navy ships have participated: the 2011 evacuation of more than 35,000 Chinese workers from Libya; the convoys that shipped chemical weapons out of Syria from 2013; and the 2015 joint naval exercise with Russia. It is likely that the Chinese Navy will also participate in similar activities in the future. Chinese warships have

62 European Council, *Declaration by the High Representative on Behalf of the EU on the Award Rendered in the Arbitration between the Republic of the Philippines and the People's Republic of China*, accessed 12 October 2016 at <http://www.consilium.europa.eu/en/press/press-releases/2016/07/15-south-china-sea-arbitration/>.

63 Laurence Norman, 'EU Issues South China Sea Statement Ending Discord Within Bloc', *The Wall Street Journal* (17 July 2016), accessed 12 October 2016 at <http://www.wsj.com/articles/eu-issues-south-china-sea-statement-after-failing-to-agree-common-stance-1468583961>.

visited Piraeus in 2002, 2010 and 2015.⁶⁴ For the evacuation of Chinese nationals from Libya (2011 and 2014) and other evacuation missions relating to Albania (1997) and Lebanon (2006), China used Greece as its main logistical base in the region. In 2014, the (then) Greek Prime Minister Antonis Samaras invited the Chinese Navy to make use of maintenance and refuelling facilities on Crete, and to conduct joint patrols with the Greek Navy.⁶⁵ China did not publicly respond to this offer, but in February 2016 the Chinese Ministry of Defence announced that it was building a naval support facility in Djibouti.⁶⁶ When it is completed, this will be China's first military base abroad. It will be used to support the activities of the Chinese Navy in the Gulf of Aden, where it has been conducting a counter-piracy mission since January 2009. The new base will also make it easier for China to conduct naval activities in the Mediterranean.

Nevertheless, the economic dimension is likely to remain more relevant than the military aspect. As a result of the New Silk Road, the Chinese government may gain more diplomatic influence in parts of Europe where China has a large economic footprint. There will probably also be a growing range of China-related issues at the EU level that could be harmful to either the EU's or China's interests, and on which Athens will need to take a stance. Sino-US geopolitical rivalry may not remain confined to East and Southeast Asia, and may eventually become more pronounced also in Europe and the Mediterranean region. Should this happen, it will become more difficult for Greece to find a balance, between its relations with Washington and those with Beijing. Finally, Russian concerns over growing Chinese influence in its neighbourhood – Central Asia, the Black Sea region and Eastern Europe – as well as strategically relevant regions such as the Middle East and the Balkans, are likely to grow as China's economic influence in these regions increases.⁶⁷ This, too, would make China's influence in Greece more geopolitically salient.

64 'Chinese Naval Escort Fleet Commences Visit to Greece', *Xinhua* (17 February 2015), accessed 11 October 2016 at http://english.chinamil.com.cn/news-channels/china-military-news/2015-02/17/content_6360498.htm.

65 Van der Putten and Meijnders, 'China, Europe and the Maritime Silk Road', p. 10.

66 Ankit Panda, 'Confirmed: Construction Begins on China's First Overseas Military Base in Djibouti', *The Diplomat* (29 February 2016), accessed 11 October 2016 at <http://thediplomat.com/2016/02/confirmed-construction-begins-on-chinas-first-overseas-military-base-in-djibouti/>.

67 Susann Handke and Frans-Paul van der Putten, 'Eastern Economic Integration Projects and the EU Periphery', *Georgetown Journal* (17 February 2016), accessed 8 September 2016 at <http://journal.georgetown.edu/eastern-economic-integration-projects-and-the-eu-periphery/>.

2 One Belt, One Road and the Balkan Dimension of CEEC 16+1

Johan van de Ven

The Balkans has not traditionally occupied a major part of China's attitude towards Europe, much less overall PRC foreign policy. In recent history, Beijing's links with the region were dotted with brief moments of intensity, such as a short-lived alliance between the PRC and Albania during the respective tenures of Mao Zedong and Enver Hoxha, as well as serious political scandal after a Serbian military communications post within the Chinese Embassy was struck during NATO bombing of Belgrade during the 1999 Kosovo conflict.⁶⁸ The 2012 establishment of the 16+1 forum between China and the countries of Central and Eastern Europe (CEE) thus marks a watershed. An important institutional dimension of the 'One Belt, One Road' initiative, the reconfiguration of Chinese policy towards the CEE region has led not only to regular high-level contact between CEE countries and the PRC, but also attention-grabbing investment and trade deals, as well as some indications of a normative alliance.

China's Strategic Considerations

There are clear motivations for China's re-evaluation of the position of Central and Eastern Europe within its foreign policy hierarchy. These include accelerating the flow of trade between China and Europe, as well as allowing Chinese development banks to expand loan portfolios and helping large state-owned enterprises to win lucrative contracts overseas. Each of these motivations are linked to domestic policy considerations: a faster flow of trade might help compensate for rising labour costs in China, while an expanded loan portfolio might bolster the credit ratings of China's nascent development banks. An array of contracts for state-owned enterprises (SOEs),

68 See 'Enver Hoxha Dies; Albanian Leader', *New York Times* (12 April 1985), accessed 8 August 2016 at <http://www.nytimes.com/1985/04/12/world/enver-hoxha-dies-albanian-leader.html>; and Steven Lee Myers, 'Chinese Embassy Bombing: A Wide Net of Blame', *New York Times* (17 April 2000), accessed 8 August 2016 at <http://www.nytimes.com/2000/04/17/world/chinese-embassy-bombing-a-wide-net-of-blame.html?pagewanted=all>.

particularly for infrastructure development projects and the energy sector, would go some way towards alleviating the overproduction of steel and concrete in China and would, in any case, ease the passage of SOE reform at home.

In addition, the overhaul of China's policy towards Central and Eastern Europe also serves geostrategic purposes. A large loan portfolio builds upon Chinese holdings of European bonds to enhance China's bargaining position ahead of a potential negotiation towards an EU–China trade and investment treaty, also helped by China's development of close ties with EU member states in the CEE region, such as Hungary, the Czech Republic and Poland. In the shorter term, manufacturing joint ventures in these countries may also allow backdoor access to the Single Market. Establishing diverse and intermodal trade networks may help to de-escalate tensions around certain chokepoints, particularly the Straits of Malacca and the South China Sea. Close relations with a wide range of European countries may also counterbalance growing US influence in Southeast Asia. Additionally, successful loan-and-build contracts in Central and Eastern Europe would bolster the reputation of Chinese development banks for responsible lending, and may also allow state-owned enterprises to prove their merit and win lucrative contracts in developed economies, where, particularly in transport infrastructure, they have only had limited success so far.

A mixture of alleviating domestic economic concerns and enhancing China's position as an international trade and development power has intensified Chinese interaction with Central and Eastern Europe, and coincides with a demand for short-term finance across the region. Nonetheless, the longer-term future of Chinese investment in the CEE is predicated on a continued and expanded single market. Fears of 'divide and conquer', which have been raised in some quarters, are therefore overstated.⁶⁹

Pillars of Chinese Engagement in the Balkans

Institution-building

Since the 16+1 grouping was unveiled in 2012, China's relations with the countries of Central and Eastern Europe have expanded in value as well as profile. The seventeen heads of state meet on an annual basis, while regular exchanges take place on a wide range of other levels, from ministerial conferences to an 'art cooperation forum', which was staged most recently in Beijing.⁷⁰ These meetings provide an opportunity for the

69 Lucy Hornby and Henry Foy, 'Xi Visit Raises Eastern Europe Investment Hopes', *Financial Times* (16 June 2016), accessed 8 August 2016 at <https://next.ft.com/content/db718250-32e8-11e6-bda0-04585c31b153>.

70 'China–CEEC Arts Cooperation Forum Launches in Beijing', *Chinaculture.org* (9 May 2016), accessed 8 August 2016 at http://en.chinaculture.org/2016-05/09/content_780015.htm.

development of intergovernmental relations, but also provide a venue for trade and investment agreements to develop. To foster these relationships, China has established a US\$10 billion credit line for the region, as well as a US\$3 billion investment fund. At the 2014 Heads of Government Meeting in Belgrade, China's Premier Li Keqiang announced a further US\$1 billion China-CEE investment cooperation fund. With financing capacity in place, China and its partners in the region will be hoping for further acceleration in the growth of trade between China and the CEE countries, which rose from US\$8.7 billion to US\$55.1 billion between 2003 and 2013.⁷¹

There is a large degree of variation in the interaction of CEE countries with China. Countries such as Poland, the Czech Republic, Hungary and Serbia are vying to become China's most-favoured nation within the grouping. They therefore prioritize bilateral relations with Beijing, outside the auspices of 16+1. For Beijing's part, it has focused on developing ties with the countries that will bring the greatest benefit to China's strategic goals, as outlined above. In the Balkans, China has paid particular attention to transport infrastructure development along the spine of the peninsula, starting from Greece and proceeding through FYROM and Serbia before reaching Hungary.⁷² In other Balkan countries, China's presence has tended towards loan-and-build contracts for power plants and highways, while in Central European states, Chinese involvement has been inclined towards foreign direct investment (FDI), with €3.5 billion due to be invested in the Czech Republic in 2016 alone.⁷³

Development Finance and Foreign Direct Investment

The most striking sign of China's engagement in the Balkans is the array of infrastructure development agreements that have been made between Chinese SOEs and the region. Large-scale infrastructure development projects in the region predate 16+1: a particularly notable example is the Kozjak power station in FYROM, which was built by China International Water and Electric Corporation in 2004 with partial financing

71 Dragan Pavlicevic, 'China and Eastern Europe: On the Fast Track', University of Nottingham China Policy Institute (19 December 2014).

72 Christina Lin, 'China Drops Anchor in Mediterranean Ports', Mercator Institute for China Studies (25 May 2016), accessed 8 August 2016 at <http://blog.merics.org/en/blog-post/2016/05/25/china-drops-anchor-in-mediterranean-ports.html>.

73 Angela Stanzel, 'Xi's Visit to the Czech Republic', European Council on Foreign Relations (7 April 2016), accessed 4 August 2016 at http://www.ecfr.eu/article/commentary_xis_visit_to_the_czech_republic6083.

from the Bank of China.⁷⁴ 16+1 has led to two main changes: first, in line with China's 'One Belt, One Road' project, transport infrastructure development has been afforded top priority; second, Chinese development banks have taken on a greater share of the financing burden. While several countries in the Balkans face mounting public debt and downgraded credit ratings, Chinese investors typically sweeten the deal by offering preferential loans, with a lengthy repayment period following an already substantial grace period. Interest rates are also low.⁷⁵

Foreign direct investment in 16+1 countries has so far focused on the more developed economies of Poland and the Czech Republic, but pressure from domestic publics and international financial institutions to balance the budget, particularly in Serbia, is leading to a change in investment modality. The recently-concluded purchase of the Smeredevo steel mill by Hebei Iron and Steel may indicate a preference for brownfield FDI alongside the existing trend of loan-and-build contracts.⁷⁶ At the same time, political ties take precedence over returns on investment: the mill had previously been acquired by US Steel, but failed to turn a profit. Restarting production was therefore an important political priority for a Serbian government keen to generate jobs and growth.

Perceptions in the Region

In Serbia, parts of the local business community have an unfavourable view of Chinese investment because of lack of transparency within the bidding process, the 'importing' of Chinese workers despite large numbers of unemployed but skilled Serbian workers, and concerns that the infrastructure falls short of quality and technological standards.⁷⁷ Serbia's general public is also concerned about mounting public debt, an

74 AidData, *China's CIWEC Constructs the Kozjak Hydropower Plant in Macedonia*, accessed 8 August 2016 at <http://china.aiddata.org/projects/42251>. All information in this report derived from the AidData website is linked to the following publication: Austin M. Strange, Axel Dreher, Andreas Fuchs, Bradley Parks, and Michael J. Tierney, 'Tracking Underreported Financial Flows: China's Development Finance and the Aid-Conflict Nexus Revisited', *Journal of Conflict Resolution* (forthcoming).

75 Dragan Pavlicevic, 'China's New Silk Road Takes Shape in Central and Eastern Europe', The Jamestown Foundation (9 January 2015), accessed 8 August 2016 at http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=43374&cHash=ba20ca961c198b20e4c5abf8ce3ab70#.V6hSmusrKUK.

76 Maja Garaca, 'China's Hesteel Officially Takes Full Ownership of Serbia's Smeredevo Steel Mill', *SEE News* (4 July 2016), accessed 8 August 2016 at <https://seenews.com/news/chinas-hesteel-officially-takes-over-full-ownership-of-serbias-smederevo-steel-mill-531315>.

77 Jovan Toekarevic, 'Serbia: Perspectives on Eurasian Integration', European Council on Foreign Relations (8 June 2016), accessed 8 August 2016 at http://www.ecfr.eu/article/essay_eurasian_integration_serbia.

issue that applies in many countries across the Balkans.⁷⁸ Additionally, a number of Eastern European environmental non-governmental organizations have called upon Li Keqiang to direct Chinese energy investment in the region into renewable energy, rather than pollution-heavy coal power, while Serbian environmental pressure groups have expressed concerns about the impact of some Chinese-backed projects, with one group launching a court case claiming that the environmental impact assessment for the redevelopment of the Kostolac thermal power plant had been inadequate.⁷⁹ These concerns may have difficulty in impacting policy when the Serbian government is clearly in favour of Chinese investment and the general public, despite its reservations, believes that the deals will create jobs and foster economic growth.

Geopolitical Relevance

While China has been finding much acceptance of its loans because of the preferential terms that it offers, there is a risk of being drawn into a clash with the World Bank, which has withdrawn budgetary support funding from Montenegro because of fears that Montenegro will not be able to pay off the loans that it owes to the China Development Bank for a highway construction project.⁸⁰ Antagonizing the International Monetary Fund (IMF) or World Bank may endanger the reputation of Chinese development banks, which are central to the future progress of 'One Belt, One Road'. The domestic politics of recipient countries also pose a challenge to the current financing model: aiming to tackle high levels of public debt, governments in the Balkans face a political imperative to work towards a balanced budget.⁸¹ China has shown some preparedness to work within this context. In order to begin construction on the much-vaunted Belgrade–Budapest high-speed railway, China made a donation of US\$5.5 million to Serbia's budget, and has also agreed to scale down some aspects of the project,

78 Zsoka Koczan, 'Fiscal Deficit and Public Debt in the Western Balkans: 15 Years of Economic Transition', *IMF Working Papers* (July 2015).

79 See Milivoje Panovic, 'Business Deals with China Alarm Serbia's Environmentalists', *Balkan Insight* (4 July 2016), accessed 7 August 2016 at <http://www.balkaninsight.com/en/article/analysis-07-01-2016>; Zvezdan Kalmar, 'First Court Case Against Coal Power Plant Construction in Serbia', *CEE Bankwatch Network* (2 June 2014), accessed 8 August 2016 at <http://bankwatch.org/news-media/for-journalists/press-releases/first-court-case-against-coal-power-plant-construction-ser#notes>; and Mark Fodor, 'Regional Letter to the Chinese Prime Minister', *CEE Bankwatch Network* (25 November 2013), accessed 8 August 2016 at <http://bankwatch.org/sites/default/files/Regional-letter-ChinaPM-25Nov2013.pdf>.

80 Petar Komnencic and Daria Sito-Sucic, 'World Bank Drops \$50 Million Loan to Montenegro over Excessive Debt', *Reuters* (7 March 2014), accessed 8 August 2016 at <http://www.reuters.com/article/montenegro-worldbank-idUSL6N0M41YL20140307>.

81 'Serbian Gov't Adopts 2015 Budget Bill', *In Serbia* (15 December 2014), accessed 8 August 2016 at <http://ins Serbia.info/today/2014/12/serbian-govt-adopts-2015-budget-bill/>.

leading to a decrease in the estimated cost from €850 million to €450 million.⁸² Despite these concessions, it does not seem that Chinese President Xi Jinping's recent visit to Serbia has led to a conclusion of the deal. China's receptiveness of Serbia's proposal to deploy a Russian loan to cover part of the costs will reveal more about the politics of China's financing model going forward.⁸³ Rather than adjusting the margins of financing contracts, a more sustainable approach would be to diversify investment mechanisms to include joint venture and public-private partnerships as well, a point that was raised at the 2014 CEEC 16+1 summit in Belgrade.

Development aid and normative alliance-building in the Balkans are the traditional domains of the European Union. Brussels has provided grant funding for infrastructure projects and engaged the region in carrot-and-stick diplomacy in an assertive effort to bring stability after the conflicts of the 1990s. The transformation of Serbian President Tomislav Nikolic from a supporter of Slobodan Milosevic into a champion of the Belgrade Pride march is emblematic of the EU's impact in the region.⁸⁴ Nonetheless, continued economic uncertainty throughout the EU has dampened the effectiveness of Brussels' policy towards the Balkans. A prescient example is the financing of the rail ring around Budapest, which will reduce transit times through Hungary by four days. A request for EU funding was rejected, but this created a strategic opportunity for China to demonstrate its financial power, which it duly accepted: the China Development Bank is financing the €1.2 billion project, which has been contracted to CRCC Corporation.⁸⁵

Unsurprisingly, official statements from both Brussels and Beijing frame 16+1 as an area for cooperation. Chinese Premier Li Keqiang's address at the 16+1 Heads of Government Meeting in Belgrade in December 2014 referenced working towards the China-EU 2020 Strategic Agenda for Cooperation and spoke of the importance of infrastructure projects meeting EU standards.⁸⁶ He added:

82 Interview with Dragan Pavlicevic.

83 Dragan Pavlicevic, 'Chinese Infrastructure Investments in Serbia: Between Politics and Profit', Council for European Studies (14 December 2015), accessed 8 August 2016 at <http://councilforeuropeanstudies.org/critcom/chinese-infrastructure-investments-in-serbia-between-politics-and-profit/>.

84 'Serbian President: Prepare for Gay Pride 2014 Now', *Balkan Insight* (30 September 2013), accessed 8 August 2016 at <http://www.balkaninsight.com/en/article/nikolic-calls-for-preparations-for-2014-gay-pride>.

85 Dragan Pavlicevic, 'China's Railway Diplomacy in the Balkans', The Jamestown Foundation (23 October 2014), accessed 8 August 2016 at http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=42992&cHash=1180c27d971be18898233bad9c780edc#.V600xzXRvIc.

86 Li Keqiang, 'Work in the Same Direction to Create Cohesion and Dynamism', Foreign Ministry of the People's Republic of China (16 December 2016), accessed 5 August 2016 at http://english.gov.cn/premier/speeches/2014/12/17/content_281475025605009.htm.

Europe, home to the largest number of developed countries, has a major role to play in the global political and economic architecture. China and the EU are now working to build a partnership of peace, growth, reform and civilization. We are natural partners for cooperation as we have no conflict of fundamental interests. [...] 16+1] cooperation will play an importance role in facilitating balanced growth within Europe.⁸⁷

The sentiment was echoed in the 18 July 2016 Foreign Affairs Council's Conclusions on the EU Strategy on China. The Conclusions call for the EU and China to work together in the EU's Eastern and Southern neighbourhoods to encourage rules-based governance, sustainable development and regional security, as well as supporting 16+1 and OBOR, both of which 'complements EU policies and projects'.⁸⁸

While official statements indicate EU–China cooperation in the Balkans, 16+1 has given rise to a clear normative alliance between China and its partners in Central and Eastern Europe. The Czech Republic had traditionally emphasized a strong position on human rights, but President Milos Zeman announced during a 2014 visit to China that he would refrain from 'teach(ing) market economy or human rights', while Hungary has supported China's quest for EU Market Economy Status.⁸⁹ Europe's response to the recent Permanent Court for Arbitration's ruling on territorial rights in the South China Sea offers a further example of the normative symbiosis generated by 16+1. As mentioned in the previous chapter, an initial joint statement by EU member states that would have expressed support for the United Nations Convention on the Law of the Sea (UNCLOS) and condemned Chinese territorial expansion was reportedly blocked by Croatia, Greece and Hungary.⁹⁰ While Croatia's veto is thought to be because of Zagreb's ongoing border dispute with Slovenia in the Gulf of Piran, Greece and Hungary mark the start and end points of the Chinese-funded trans-Balkan infrastructure network and therefore prioritize close relations with Beijing. The eventual EU joint statement mentioned neither UNCLOS nor China, serving as an embarrassment for the Brussels institutions,

87 Li Keqiang, 'Work in the Same Direction to Create Cohesion and Dynamism'.

88 European Commission, *Foreign Affairs Council 18/07/2016*, accessed 5 August 2016 at <http://www.consilium.europa.eu/en/meetings/fac/2016/07/18/>.

89 Angela Stanzel, 'Xi's Visit to the Czech Republic', European Council on Foreign Relations (7 April 2016), accessed 4 August 2016 at http://www.ecfr.eu/article/commentary_xis_visit_to_the_czech_republic6083; and Peter Szijjarto, 'It is in Hungary's Interests for China to be Afforded Market Economy Status', Ministry of Foreign Affairs and Trade (9 June 2016), accessed 8 August 2016 at <http://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/it-is-in-hungary-s-interests-for-china-to-be-afforded-market-economy-status>.

90 Georgi Gotev, 'EU Unable to Adopt Statement Upholding South China Sea Ruling', *EurActiv.com* (14 July 2016), accessed 8 August 2016 at <http://www.euractiv.com/section/global-europe/news/eu-unable-to-adopt-statement-upholding-south-china-sea-ruling/>.

but perhaps also a vindication of China's Central and Eastern European engagement strategy.

Although elements of 16+1 may have hindered the European Union's ability to coordinate responses to foreign policy developments, the complexities of coordinating among the 28 EU member states means that the role of 16+1 in proliferating disunity should not be overstated. Moreover, there are areas of complementarity in Chinese and EU policies towards Central and Eastern Europe. Most prominently, the mooted routing of 'One Belt, One Road' overlaps substantially with other international transport initiatives, such as the United Nations' Economic Commission for Europe's Pan-European Transport Corridor scheme and the European Union's Trans-European Transport Networks.⁹¹ Complementarity also extends to the financing of infrastructure development in the region. The European Bank of Reconstruction and Development provided a €10 million loan to Montenegro in 2015 for the refurbishment of the Kolasin–Kos railway, while construction was contracted to the China Civil Engineering Construction Corporation.⁹² A further indication of financial cooperation is China's September 2015 commitment to contribute to the European Commission's €315 billion Investment Plan for Europe at the High-Level Economic and Trade Dialogue in Beijing.⁹³ The Dialogue also witnessed the signing of a memorandum of understanding on cooperation between the EU–China Connectivity Platform and 'One Belt, One Road'.⁹⁴

Dragan Pavlicevic warns that 'China's infrastructure projects in CEE countries are diminishing Brussels' traditional ability to dominate regional proceedings and reconfiguring regional power relations that have existed since the end of the Cold War', an argument that is given some credence by the previously mentioned alleged blocking of a joint EU statement on the South China Sea arbitration by Greece, Hungary and Croatia.⁹⁵ Yet as Pavlicevic also recognizes, there is mutual interest in cooperation: 'while China hopes that cooperation will facilitate the transfer of advanced technology eastward, the EU can also expect that European countries will benefit from OBOR

91 Republic of Greece, Ministry of Transport and Communications, International Affairs Division, and Aristotle University of Thessaloniki, *Implementation of the Pan-European Corridors Concept: The Case of Corridor X*, accessed 5 August 2016 at http://www.unece.org/fileadmin/DAM/trans/seminars/docs/Thessaloniki_Item3CT.pdf; and European Commission, *Infrastructure – TEN-T – Connecting Europe* (16 February 2016).

92 Rob Sweet, 'China Gets Foothold in Europe with Montenegro Rail Job', *Global Construction Review* (16 October 2015), accessed 3 August 2016 at <http://www.globalconstructionreview.com/news/china-gets-foothold-e8uro8pe-monten8egro-rail/>.

93 European Commission, *Investment Plan for Europe Goes Global: China Announces its Contribution to #investEU* (28 September 2015).

94 European Commission, *Investment Plan for Europe Goes Global*.

95 Dragan Pavlicevic, 'China's Railway Diplomacy in the Balkans', *China Brief*, The Jamestown Foundation (23 October 2014), accessed 5 August 2016 at http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=42992&cHash=1180c27d971be18898233bad9c780edc#.V6RyeOsrKUK.

as recipients of investment and expertise, which can contribute to development and stability, especially on Europe's less developed periphery'.⁹⁶ It is in neither Brussels nor Beijing's interests to allow 16+1 to become a thorn in the side of their wider relationship.

Although it is not in the interests of China or the EU to allow the Balkans to become a source of tension in the bilateral relationship, the involvement of Chinese and Western actors in the region can lead to competition as well as cooperation. As mentioned above, Montenegro provides a pertinent example of this. On one hand, the European Bank for Reconstruction and Development has worked with Chinese contractors on infrastructure development projects in the region, but on the other hand, there are indications that new Chinese development financing institutions will have difficulty existing side by side with the likes of the World Bank and IMF, with the World Bank withdrawing budget support from Montenegro following the acceptance of China Development Bank funds by Montenegro's government. The accession of Montenegro to NATO has also been a source of tension, with Chinese Foreign Ministry spokeswoman Hua Chunying urging the international community to abandon the Cold War mentality. Hua continued, 'Neither China nor the alliance can guarantee its absolute security by itself'.⁹⁷

However, while competition exists alongside cooperation, Chinese anxiety regarding the enlargement of NATO does not portend a military clash in the CEE area. First, China has shown only limited interest in establishing an overseas military presence. A base in Djibouti is under construction, but this is motivated partially by the openness of the Djiboutian government to foreign military bases (the small East African state is already home to French, US and Japanese facilities), as well as by an interest in protecting the flow of Chinese goods through the nearby Suez Canal.⁹⁸ Similarly, a 700-strong infantry battalion deployed to South Sudan aims to protect Chinese and other international economic interests as part of its primary mandate to provide greater stability. These limited examples of overseas military activities indicate a commitment to upholding trade and investment within the greater context of maintaining stability. Under this logic, there is no need for a Chinese military presence in the Balkans, given the region's comparatively stable security environment.⁹⁹

96 Dragan Pavlicevic, 'China, the EU and One Belt, One Road Strategy', *China Brief*, The Jamestown Foundation (31 July 2015), accessed 5 August 2016 at http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=44235&cHash=9dbc08472c19ecd691307c4c1905eb0c#.V6Ry30srKUk.

97 Xinhua, 'China Responds to Montenegro's NATO Accession Talks', *Global Times* (3 December 2015), accessed 8 September 2016 at <http://www.globaltimes.cn/content/956357.shtml>.

98 Tomi Olapido, 'Why Are There So Many Military Bases in Djibouti?', *BBC Monitoring* (16 June 2015), accessed 9 September 2016 at <http://www.bbc.com/news/world-africa-33115502>.

99 Olapido, 'Why Are There So Many Military Bases in Djibouti?'.

Additionally, the delicate shift in the Balkans from Russian to European spheres of influence dissuades China from an overly assertive stance. Beijing recognizes European disquiet regarding Russian incursions into Ukraine, Georgia and other countries in the European neighbourhood, but also cooperates closely with the Kremlin in regional initiatives such as the Shanghai Cooperation Organization (SCO). Chinese engagement with Russia may even provide reason to calm European nerves. A security alliance at heart, the SCO has given rise to the Eurasian Economic Union (EEU), a grouping that aims to increase trade within and throughout Central Asia. The paradigm shift from security enhancement to trade facilitation in Central Asia aligns with China's European economic strategy, and dictates that China's geostrategic goal is to limit escalation between NATO and Russia.

While peace and stability in the Balkans serve Chinese interests, the positioning of China as an interlocutor between Russia and Europe may not be welcomed with open arms in either Brussels or Moscow. Traditional Russian allies such as Serbia have shown a preference for European integration over the past decade. The further displacement of Russian influence by the expanded Chinese presence in the Balkans may be looked down upon by conservative members of the Russian establishment. However, Russian opposition to China's Balkan strategy should not be overstated. Those concerned by the ingress of the European normative agenda in the Balkans may recognize that the Chinese presence might serve as a sufficient counterweight to European norms, and that a Russian effort to rebuff Europeanization in the region is not necessary. Furthermore, the ongoing slump in world oil prices is constraining Russia's ability to reinvestigate its Balkan policy. Given the circumstances, a Chinese challenge to European influence in the Balkans is the best alternative.

Nonetheless, an apparent normative alliance between China and Russia should not be overly concerning for European policy-makers. First, relations between Moscow and Beijing sit on unsteady foundations. The relationship deteriorated so sharply during the Sino-Soviet border conflict in autumn 1969 that the Chinese leadership dispersed into hiding, fearing a nuclear attack.¹⁰⁰ A 2008 agreement on all outstanding border disputes marked an improvement in relations, but possible conflict between Chinese and Russian geo-economic strategy in Central Asia means that unease lingers between the Kremlin and China's Zhongnanhai.¹⁰¹ Moreover, the tenure of Chinese engagement in the developing world does not indicate an interest in spreading normative influence.

100 Mark O'Neill, 'Nixon Intervention Saved China from Soviet Nuclear Attack', *South China Morning Post* (12 May 2010), accessed 9 September 2016 at <http://www.scmp.com/article/714064/nixon-intervention-saved-china-soviet-nuclear-attack>.

101 Richard Weitz, 'Russia, China End Decades-Long Border Dispute', *World Politics Review* (1 August 2008), accessed 9 September 2016 at <http://www.worldpoliticsreview.com/articles/2517/russia-china-end-decades-long-border-dispute>.

Critics of Chinese activities in Africa complain that Beijing is more interested in building football stadiums than hospitals, but this does not represent a meaningful normative agenda. In this sense, the long-standing Chinese doctrine of 'mutual non-interference' should be taken at face value. China's Balkan strategy is predicated on maintaining and enhancing market access and building efficient trade networks. Contesting Brussels' normative influence in the Balkans falls low among China's priorities, Russian desires notwithstanding.

A geostrategy that is based on efficient trade networks requires Europe to continue as a lucrative destination for Chinese goods and investment. Two critical factors will therefore determine the fate of China's new CEE policy. First, China needs a positive reception from countries in the region. The indications of this are good: for governments across the region, the 16+1 grouping is not only a useful forum to pursue infrastructure and business development opportunities, but also serves as a counterweight to influence that is exerted on the Balkans by the European Union, Russia and the United States. One example of this is Serbia, which has declared a 'four pillar' foreign policy that places China alongside the EU, Russia and the United States in its diplomatic strategy. As Samuel Ramani argues, 'China's geographic detachment could increase its appeal as a third option partner and result in Serbia becoming a durable foothold of Chinese influence in Eastern Europe'.¹⁰² This, in addition to the need to fill infrastructure gaps and secure short-term financing, explains the support for the 16+1 arrangement among regional governments. Second, the appeal of Central and Eastern Europe for the Chinese government is rooted in the hope that it will enhance Chinese trade with Europe, both by expediting transit times and by providing better access to European markets. The greatest threat to the health of China's new policy is a severe retreat of common market rules across Europe. The demise of the single market would have unsettling geopolitical implications for all parties involved in the region.

Conclusion

While the success of Chinese investment in the Balkans and the wider fate of the 'One Belt, One Road' initiative are subject to a great deal of uncertainty, they do provide an opportunity for Beijing to reframe the 'rising China' narrative in a more positive light by filling infrastructure gaps. The completion of high-profile projects such as the Belgrade–Budapest high-speed railway will add weight to the rhetoric surrounding China's involvement in the Balkans' region, particularly if a link to the expansion of the Chinese-owned port in Piraeus can be provided. The centrality of 'One Belt, One Road' as a transport initiative means that, as indicated above, China has focused its

102 Samuel Ramani, 'China's Growing Ties with Serbia', *The Diplomat* (29 February 2016), accessed 9 August 2016 at <http://thediplomat.com/2016/02/chinas-growing-ties-with-serbia/>.

engagement on countries along the spine that runs from Greece to Hungary, although Beijing is also increasingly strengthening its relations with other countries in the region, such as Albania.¹⁰³

Chinese engagement in the Balkans is coming at a time when the European Union is facing continued economic and political instability, when NATO–Russia relations are hampered by increasing militarization in the Baltics, and increasingly in the Black Sea region as well.¹⁰⁴ While Russia may finance part of the Belgrade–Budapest railway, in general China has arrived in the Balkans at a time of strategic opportunity. The European Union, United States and Russia do not currently have the capacity to provide a viable alternative to Chinese infrastructure investment and political engagement in the region.

Problems range from uncertainty over definitions and objectives to disagreement regarding the modality of financing, but the potential benefits are extensive: aside from softening China's international image, the CEEC 16+1 dimension of 'One Belt, One Road' may also absorb a portion of China's domestic industrial overcapacity, expedite shipping times between Chinese manufacturing bases and European consumers, lower barriers for Chinese goods entering European markets, establish exchanges of knowledge on technology and standards, and, last but not least, nurture a cooperative relationship between the European Union and China in a region that is known for geopolitical contention. If even a small portion of these potential gains are realized, the investment of time and money will have been worthwhile.

103 Oleg Levitin, Jakov Milatovic and Peter Sanfey, 'China and Southeastern Europe: Infrastructure, Trade and Investment Links', *European Bank for Reconstruction and Development* (1 July 2016), accessed 8 August 2016 at www.ebrd.com/documents/comms-and-bis/see-china-investments.pdf.

104 Janusz Bugajski and Peter Doran, 'Black Sea Defended', *Centre for European Policy Analysis* (27 July 2016), accessed 8 August 2016 at <http://cepa.org/reports/black-sea-defended>.

Table 1 Major Chinese Investments in the Balkans

Development Finance						
Start year	Countries	Financer	Implementer	Cost	Sector	Details
2014	China, Hungary, Serbia	N/A	N/A	N/A	Transport	High-speed railway between Belgrade and Budapest. Financing yet to be agreed ¹⁰⁵
2012	China, Serbia	N/A	Serbian Ministry of Transport, China Communications Construction Company	N/A	Transport	Upgrading of Belgrade-Bar railway as far as Montenegrin border. Financing yet to be agreed ¹⁰⁶
2013	China, Serbia	N/A	Huawei, Zeleznice Srbije	N/A	Transport	Framework agreement on modernization of rail telecommunications along a 275-mile section of the north-south axis ¹⁰⁷
2013	China, Romania, Moldova	N/A	N/A	N/A	Transport	Intergovernmental talks towards Bucharest-Iasi-Chisinau high speed railway ¹⁰⁸

105 AidData, *China to Fund and Construct Belgrade-Budapest Railway Line*, accessed 3 August 2016 at <http://china.aiddata.org/projects/42563>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

106 'Chinese Companies to Take Part in Building Serbian Railways', *Xinhuanet* (18 December 2012), accessed 3 August 2016 at http://news.xinhuanet.com/english/business/2012-12/18/c_124108837.htm.

107 "'Serbian Railways' and Chinese Company 'Huawei' Signed Framework Agreement for Modernization of Integrated Telecommunication System", *Serbian Railways* (17 July 2013), accessed 3 August 2016 at http://serbianrailways.com/system/en/home/newsplus/viewsingle/_params/newsplus_news_id/43819.html.

108 Zhao Yanan, Li Xiaokun and Li Jiabao, 'China, Romania Seal Deals', *China Daily* (26 November 2013), accessed 3 August 2016 at http://www.chinadaily.com.cn/china/2013livisiteuasiasia/2013-11/26/content_17130655.htm.

2015	China, FYROM	European Bank of Reconstruction and Development (€25 million loan)	CRRC Corporation, MZ Transport, ZOS Trnava	€28.2 million	Transport	Rolling stock upgrade ¹⁰⁹
2014	China, Montenegro	Export-Import Bank of China, Government of Montenegro	China Communications Construction Co., and China Road and Bridge Corporation	€688 million loan (85% of expected cost)	Transport	Highway from Bar to Serbian border at Boljare ¹¹⁰
2013	China, FYROM	Export-Import Bank of China, Government of FYR Macedonia	Sinohydro, and local partners	€580 million, €5.8 million loan from EXIM Bank	Transport	Two highway sections: Kicevo to Ohrid; and Miladinovci to Strip. Some allegations that Sinohydro was afforded illegal privileges during the tender process ¹¹¹
25 Jan. 2016	China, Bosnia and Herzegovina	Uncertain	JP Autoputevi RS, China Shandong International Economic & Technical Cooperation Group	€320 million	Transport	Memorandum of cooperation between <i>Republika Srpska</i> and Shandong International Economic and Technical Cooperation Group on rehabilitation and construction of Banja Luka-Prijedor motorway ¹¹²

109 'CRRC Rolls out its First Passenger Train for Europe', *Railway Gazette* (9 July 2015), accessed 3 August 2016 at <http://www.railwaygazette.com/news/traction-rolling-stock/single-view/view/crrc-rolls-out-its-first-passenger-train-for-europe.html>.

110 AidData, *China EXIM Commits 688 million Euro Loan for Construction of Bar-Boljare Motorway in Montenegro*, accessed 3 August 2016 at <http://china.aiddata.org/projects/42330>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

111 Valentina Dimitrievska, 'Macedonia Says Signs Two Motorway Construction Deals with China's Sinohydro', *SeeNews* (12 November 2013), accessed 3 August 2016 at <https://seenews.com/news/macedonia-says-signs-two-motorway-construction-deals-with-chinas-sinohydro-389117>.

112 Valentina Dimitrievska, 'Bosnia's JP Autoputevi RS, China Shandong Intl Sign MoC on Banja Luka-Prijedor Motorway Project', *SeeNews* (22 April 2015), accessed 3 August 2016 at <https://seenews.com/news/bosnias-jp-autoputevi-rs-china-shandong-intl-sign-moc-on-banja-luka-prijedor-motorway-project-473554>.

2009	China, Montenegro	China Export-Import Bank	China Road and Bridge Corporation	€170 million	Transport	Economic and technical cooperation signed in October 2009, including preliminary agreement for construction of a bridge between the Belgrade districts of Zemun and Borca. Construction began in 2011 and was completed in December 2014. Known as the Pupin Bridge, it was formally opened by Chinese Premier Li Keqiang on 18 December 2014 ¹¹³
2015	China, Montenegro	European Bank for Reconstruction and Development	China Civil Engineering Construction Corporation	€10 million	Transport	Emergency rehabilitation of line between Kolasin and Kos ¹¹⁴
2002	China, FYROM	Bank of China	China International Water and Electric Corporation	€172.5 million	Energy	Kozjak Power Plant built by China International Water and Electric Corporation ¹¹⁵
May 2013	China, Bosnia and Herzegovina	China Development Bank	Energy Financing Team Group, Dongfang Electric Corporation	€350 million	Energy	Construction of Stanari lignite power plant ¹¹⁶

113 AidData, *China Loans 216 Million USD for the Zemun-Borca Bridge*, accessed 6 September 2016 at <http://china.aiddata.org/projects/42522?iframe=y>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

114 Rob Sweet, 'China Gets Foothold in Europe with Montenegro Rail Job', *Global Construction Review* (16 October 2015), accessed 3 August 2016 at <http://www.globalconstructionreview.com/news/china-gets-foothold-e8uro8pe-monten8egro-rail/>.

115 AidData, *China's CIWEC Constructs the Kozjak Hydropower Plant in Macedonia*, accessed 6 September 2016 at <http://china.aiddata.org/projects/42251>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

116 AidData, *China Loans Eur350M to Bosnia-Herzegovina for 300MW Power Plant Construction*, accessed 6 September 2016 at <http://china.aiddata.org/projects/42189>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

2013	China, Serbia	China Export-Import Bank	China Machinery Engineering Company, Elektroprivreda Srbije, Termoelektrane I kopovi Kostolac	€635 million	Energy	Redevelopment of Kostolac thermal power plant ¹¹⁷
May 2016	China, Bosnia and Herzegovina	China Export-Import Bank	China Gezhouba Group, Elektroprivreda BiH	€668 million	Energy	Memorandum of understanding towards construction of Tuzla Thermal Power Plant Block 7 ¹¹⁸
July 2016	China, Moldova	N/A	N/A	N/A	N/A	Talks between China's National Nuclear Power Company and Moldovan government to develop renewable energy sector ¹¹⁹
July 2016	China, UK, Serbia	China Development Bank	China National Electric, Scarborough Group International	€230 million	Energy	Convert obsolete coal-fired plant into pure organic plant ¹²⁰
Sept. 2015	China, Bosnia and Herzegovina	N/A	Dongfang Electric Corporation, Republika Srpska government	N/A	Energy	Memorandum of understanding in relation to construction of new power plant at Gacko ¹²¹

117 AidData, *China Loans \$715m to Build a Coal-fired Power Plant*, accessed 6 September 2016 at <http://china.aiddata.org/projects/42554>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

118 AidData, *China EXIM Bank to Loan Bosnia-Herzegovina EUR668m for 450 MW Coal-fired Plant*, accessed 6 September 2016 at <http://china.aiddata.org/projects/42227#>. See also Strange et al. 'Tracking Underreported Financial Flows' (forthcoming).

119 'Will China Bring Nuclear Power to Moldova?', *Eurasia.net* (30 June 2016), accessed 6 September 2016 at <http://www.eurasianet.org/node/79476>.

120 Karanovic Nikolic, *British-Chinese Joint Investment in Loznica Thermal Power Plant* (7 July 2016), accessed 4 November 2016 at <https://www.karanovic-nikolic.com/knnews/Pages/2016/07/20/British-Chinese-Joint-Investment-in-Loznica-Thermal-Power-Plant.aspx>.

121 Bosnia Today, *Chinese Company to Build Thermal Power Plant in Gacko* (9 September 2016), accessed 4 November 2016 at <http://www.bosniatoday.ba/chinese-company-to-build-thermal-power-plant-in-gacko/>.

Foreign Direct Investment					
May 2016	Albania	China Everbright Group, Friedman Pacific	N/A	Transport	Concessionary rights to Tirana International Airport until 2025 ¹²²
April 2016	Serbia	Hebei Iron and Steel	€46 million	Energy	Purchase of Smeredevo steel plant ¹²³
November 2015	Romania	China General Nuclear (CGN) Power Group	N/A	Energy	Agreement with Nuclearelectrica for development, construction, operation and decommissioning of Cernavoda power plant. A joint venture will be established, with CGN owning 51 per cent of the share capital. ¹²⁴
February 2012	Bulgaria	Great Wall Motors		Transport	Joint venture between Great Wall Motors and Litex Motors ¹²⁵

122 Brenda Goh, 'China Everbright, HK's Friedman Buy Albania's Airport Operator', *Reuters* (27 April 2016), accessed 3 August 2016 at <http://www.reuters.com/article/china-everbright-albania-airport-idUSL3N17U2PR>.

123 Xinhua, 'Serbian Govt, Chinese Company Sign Deal on Sale of Smeredevo Steel Mill', *China Daily* (19 April 2016), accessed 3 August 2016 at http://www.chinadaily.com.cn/business/2016-04/19/content_24663026.htm.

124 'Romania and China Seal Cernavoda Agreement', *World Nuclear News* (10 November 2015), accessed 3 August 2016 at <http://www.world-nuclear-news.org/NN-Romania-and-China-seal-Cernavoda-agreement-10111501.html>.

125 'Bulgaria Opens Great Wall Car Plant, Hopes for Great Chinese Investments', *Novinite.com* (21 February 2012), accessed 3 August 2016 at <http://www.novinite.com/articles/136867/Bulgaria+Opens+Great+Wall+Car+Plant,+Hopes+for+Great+Chinese+Investments>.

3 The Role of Turkey and Cyprus in OBOR

Francesco Saverio Montesano

Since the official launch of the ‘One Belt, One Road’ initiative by China’s President Xi Jinping in 2013, countries across the rather vaguely defined geographical scope of Beijing’s economic diplomacy ‘master plan’ have been scrambling to claim the coveted role of ‘gateway’ in the implementation of OBOR. In June 2015, Hungary became the first European country to sign a memorandum of understanding (MoU) with China on promoting OBOR. In September 2015, the United Kingdom’s Foreign and Commonwealth Office (FCO), in cooperation with the China–Britain Business Council, published the first comprehensive strategic document on how London could benefit from the OBOR initiative.¹²⁶

This chapter focuses on two of the ‘claimants’ whose gateway potential in OBOR is evidently bolstered by their substantial geopolitical relevance as true Eurasian bridges: Turkey; and – albeit to a lesser degree given its diminutive size – Cyprus. In both cases, attention will be paid to the main features of the countries’ current relations with China, before delving into the key OBOR-related undertakings that are currently under way. Finally, the chapter will analyse the OBOR factor from a more geopolitical perspective, assessing OBOR’s relevance for both Turkey and Cyprus and, more broadly, for regional dynamics.

Turkey–China Relations

Recent relations between Turkey and China have not been entirely smooth sailing. China’s burgeoning westward clout can act as a powerful trigger of Ankara’s post-Ottoman ‘Sèvres syndrome’: a historically rooted distrust of great powers acting in Turkey’s vicinity. China does not have the same strong imprint on Turkey’s post-war consciousness as the United States or Russia, but its obscurity to the Turkish public, as well as the fact that it hosts a sizable – and hotly controversial – Turkic minority in

¹²⁶ For a broader European economic diplomacy perspective, see for example Francesco S. Montesano and Maaïke Okano-Heijmans, ‘Economic Diplomacy in EU–China Relations: Why Europe Needs its Own OBOR’, *Clingendael Policy Brief* (July 2016).

Xinjiang (the Uyghurs), has catalysed Ankara's wariness.¹²⁷ Indeed, the Uyghur issue has long been the key sticking point in the bilateral relationship between the two players. In 2009, following China's crackdown on Uyghur riots, Ankara vehemently voiced its anger, with Turkey's President Erdogan going so far as to compare the events to 'near genocide', and demanding that the Chinese government not remain a 'spectator'.¹²⁸ More recently, the intensity of the July 2015 demonstrations outside the Chinese diplomatic representations in Ankara and Istanbul to protest Beijing's 'persecution' of Uyghurs during Ramadan placed further strain on the bilateral ties.¹²⁹ On the Chinese side, mistrust stemming from Turkey's 'ethnic paternalism' likely contributed to Beijing's lukewarm engagement with Ankara upon the launch of OBOR in 2013.

However, despite these outstanding hurdles, significant efforts have been made over the past six years to bolster the relationship, at both the political and the economic level. In October 2010, China and Turkey officially launched a 'Strategic Relationship of Cooperation', marking the start of a 'honeymoon' between Beijing and Ankara.¹³⁰

Both sides' awareness has been rising of the substantial strategic benefits brought about by enhanced cooperation in an era of fast geopolitical change, as attested by the considerable increase in the number of top-level diplomatic exchanges. While still prominent, Turkey's support for the Uyghur cause has been toned down, thus facilitating the signing of a joint pledge to crack down on separatism and terrorism. Given the similar concerns regarding the Kurdish minorities, the Turkish government seems to have pragmatically understood the need to minimize principled stances that might be ill-received in China. This is especially true for issues such as ethnic separatism, where double standards would be very hard to conceal.

Such pragmatism fits well with the overarching trend that has been characterizing Ankara's foreign policy over recent years, which could be defined in terms of 'multidimensionalization'. Following the (mostly Western) financial crisis, and in the wake of the ongoing heightening security challenges in the Middle East, Turkey has been seeking to shift its geostrategic position from being on the West's periphery to one of Eurasian centrality. This strategy, which compounds President Erdogan's alleged

127 Selim Koru and Timur Kaymaz, 'Turkey: Perspectives on Eurasian Integration', ECFR (8 June 2016), accessed 5 August 2016 at http://www.ecfr.eu/article/essay_turkey_perspectives_on_eurasian_integration.

128 Riza Kadilar and Andrew K.P. Leung, 'Possible Turkish-Chinese Partnership on a New Silk Road Renaissance by 2023', *Turkish Policy Quarterly*, XII:2 (2013).

129 'China Says Tourists Attacked in Turkey During Anti-China Protests', *Reuters* (5 July 2015), accessed 5 August 2016 at <http://www.reuters.com/article/us-china-turkey-idUSKCN0PF08L20150705>.

130 Republic of Turkey, Ministry of Foreign Affairs, *Relations Between Turkey and China*, accessed 5 August 2016 at <http://www.mfa.gov.tr/relations-between-turkey-and-china.en.mfa>.

'neo-Ottomanism' aimed at restoring Turkey's role as the 'centre of world politics',¹³¹ is somewhat akin to the 'multi-vectored' path undertaken by several post-Soviet countries, particularly in Central Asia. Accordingly, 'multidimensionalization' should not be interpreted as Turkey's quest for an alternative to the West, with potentially revolutionary implications such as the rejection of its NATO membership. Rather, Ankara's evolving foreign policy lenses are aimed at diversification via greater engagement with more partners, especially on the economic front. In this light, China's appeal can hardly be downplayed.

In 2010, Turkey and China signed eight cooperation agreements, and pledged to increase bilateral trade to US\$50 billion by 2015, and to US\$100 billion by 2020. While the current trade volume remains well below such ambitious targets (US\$27.3 billion in 2015¹³²), it has nevertheless increased by approximately 12 per cent since 2011. Also, bilateral defence cooperation has been on the rise, culminating in Ankara's announcement in 2013 that it would buy a new long-range anti-missile system from the Chinese, which triggered severe concerns within NATO over Turkey's potentially wavering support. While the deal was not ultimately finalized, the process nevertheless confirmed Turkey's commitment to becoming more multidimensional in the pursuit of national interest, with China offering excellent opportunities in that regard.¹³³

Further formalization of the growing strength of the Turkey–China axis took place at the 2015 G20 summit in Antalya. During a sideline meeting, Chinese President Xi Jinping called for stronger bilateral strategic communication to dock each other's development strategy, as well as to bolster the G20's role in global governance.¹³⁴ Moreover, the two countries signed an MoU on the 'harmonization of the Silk Road Economic Belt and the 21st Century Maritime Silk Road with the Middle Corridor Initiative', as well as a 'railroad cooperation agreement'.¹³⁵ Further analysis will shed light on the role and interests of Turkey in China's grand OBOR vision.

131 Nicola Nasser, 'Syria, Egypt Reveal Erdogan's Hidden "Neo-Ottoman Agenda"', *Global Research* (20 November 2013), accessed 5 August 2016 at <http://www.globalresearch.ca/syria-egypt-reveal-erdogans-hidden-neo-ottoman-agenda/5358781>.

132 Republic of Turkey, Ministry of Foreign Affairs, *Turkey–People's Republic of China Economic and Trade Relations*, accessed 5 August 2016 at http://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-china.en.mfa.

133 Mustafa Kibaroglu and Selim C. Sazak, 'Why Turkey Chose, and Then Rejected, a Chinese Air-Defense Missile', *Defense One* (3 February 2016), accessed 5 August 2016 at <http://cdn.defenseone.com/defenseone/interstitial.html?v=2.1.1&rf=http%3A%2Fwww.defenseone.com%2Fideas%2F2016%2F02%2FTurkey-china-air-defense-missile%2F125648%2F>.

134 'China Seeks Trade, Investment Facilitation with Turkey', *Xinhuanet* (15 November 2015), accessed 5 August 2016 at http://news.xinhuanet.com/english/2015-11/15/c_134816847.htm.

135 Altay Atli, 'Turkey to Get Railroads from China, Not Missiles', *Asia Times* (19 November 2015), accessed 5 August 2016 at <http://www.atimes.com/article/turkey-to-get-railroads-from-china-not-missiles/>.

Turkey and OBOR: Ongoing Initiatives

Despite the rather underwhelming start mentioned above, both Chinese and Turkish officials seem to have (at least rhetorically) overcome their mutual scepticism regarding Turkey's role in OBOR. In July 2015, Turkey's President Erdogan visited Beijing and stated that 'Turkey expects to become a manufacturing and logistics base for Chinese enterprises'.¹³⁶ Along the same lines, Chinese Premier Li Keqiang explicitly guaranteed that Turkey will reap considerable benefits from the OBOR initiative.

When looking at the concrete OBOR-related initiatives that are currently underway, some of the most prominent revolve around Ankara's ambitious infrastructure development programme, with a special emphasis on railroads. Turkey's keenness on developing the so-called 'iron silk road' should therefore not come as a surprise.¹³⁷ In 2014, the first concrete step was made with the inauguration of the Istanbul–Ankara high-speed railway, funded and built by a Sino–Turkish consortium.¹³⁸ The completion of this section was crucial for Turkey to relaunch the sluggish 'Middle Corridor Initiative', centred on the Baku–Tbilisi–Kars (BTK) railroad. Construction on this line started back in 2007, but a variety of financial issues and conflicts between the involved governments and contracted firms have been slowing down implementation of the project, with the latest postponement foreseeing completion by 2017.¹³⁹ According to the State Railways of the Turkish Republic (TCDD), the China National Machinery Import–Export Corporation is working in cooperation with Ankara and Tbilisi to finalize the BTK as soon as possible. Moreover, Sino–Turkish railroad cooperation has been further enhanced by the agreement signed during the 2015 G20, which in effect is a renewal and extension of a framework agreement that was already reached five years before. The new agreement hinges on the construction – with Chinese funding and Chinese technology – of a high-speed railway link between the eastern city of Kars and Edirne, close to the border with Greece and Bulgaria.

136 Building on examples such as China Sunergy's (CSUN) production of solar panels in Istanbul, which has been operational since 2013.

137 Selçuk Çolakoğlu and Emre Tunç Sakaoğlu, 'Iron Silk Road': Dream or Reality?', *Turkish Weekly* (26 May 2015), accessed 5 August 2016 at <http://www.turkishweekly.net/news/186306/-39-iron-silk-road-39-dream-or-reality.html>.

138 Rod Sweet, 'Turkey's New High-speed Rail: Victory for Erdogan – and China', *Global Construction Review* (29 July 2014), accessed 9 August 2016 at <http://www.globalconstructionreview.com/news/turkeys-new-high-speed-rail-victory-erdogan0938346/>.

139 Vasili Rukhadze, 'Completion of Baku–Tbilisi–Kars Railway Project Postponed Again', *Eurasia Daily Monitor*, XIII:42 (2016), accessed 9 August 2016 at <https://jamestown.org/program/completion-of-baku-tbilisi-kars-railway-project-postponed-again/>.

In addition to the development of rail infrastructure, OBOR-related economic engagement in Turkey is increasing in a variety of other domains. In September 2015, a Chinese consortium (consisting of COSCO, China Merchants Holdings and CIC) acquired 65 per cent of the Kumport container terminal, Turkey's third largest port and a strategic step towards realizing the so-called 'blue Silk Road'¹⁴⁰ via the Caspian Sea.¹⁴¹ In December 2015, DHL Global Forwarding, a leading provider of air, sea and road freight services in Europe and Asia, inaugurated its China-Turkey intermodal corridor as part of OBOR.¹⁴² On the financial side, Bank of China in May 2016 became the second Chinese lender to be granted access to the Turkish market, with initial capital of US\$300 million.¹⁴³

Turkey and OBOR: Between Economics and Geopolitics

The overview given above should dispel the claims of incompatibility between OBOR and Turkey's strategy aimed at regaining regional hegemony.¹⁴⁴ In fact, the fundamentals of this strategy can also be seen as catalysts for Turkey's role in OBOR, particularly given the non-political nature of China's initiative. OBOR provides Ankara with the opportunity to step up its role as a regional hub, enhancing ties with its neighbours and thereby bolstering the so far mixed results of Erdogan's 'zero problems with the neighbours' policy, which was launched back in 2003.

The benefits of partaking in what is undoubtedly the most advanced Eurasian initiative are not limited to its geopolitically crucial higher interconnectedness and regional clout. Feeding into Ankara's growing multidimensional approach, OBOR-triggered integration can yield sizeable economic dividends, which could prove crucial to stabilize a currently

140 This term refers to what Turkish officials also call the 'Central Corridor' in Turkey's truck-based trade links with Central Asia and China. The trans-Caspian route is currently overshadowed by the 'Southern Corridor' via Iran, which is used by up to 80 per cent of trucks, while the northern route via Russia gets slightly more than 10 per cent. See Koru and Kaymaz, 'Turkey'.

141 Summer Zhen, 'Chinese Consortium to Invest in Turkey's No 3 Container Terminal', *South China Morning Post* (17 September 2015), accessed 9 August 2016 at <http://www.scmp.com/business/companies/article/1858962/chinese-consortium-invest-turkeys-no-3-container-terminal>.

142 Christina Lin, 'Erdogan's Neo-Ottoman Vision Meets Xi's Silk Road Dream', *Asia Times* (29 December 2015), accessed 9 August 2016 at <http://www.atimes.com/article/erdogans-neo-ottoman-vision-meets-xis-silk-road-dream/>.

143 'Bank of China Setting Up Shop in Turkey', *China Invests Overseas* (11 May 2016), accessed 9 August 2016 at <http://www.china-invests.net/20160511/40246.aspx>.

144 See, for example, Stephanos Constantinides, 'Turkey: The Emergence of a New Foreign Policy – the Neo-Ottoman Imperial Model', *Journal of Political and Military Sociology*, 24 (1996), pp. 323–334; and Mustafa Türkes, 'Decomposing Neo-Ottoman Hegemony', *Journal of Balkan and Near Eastern Studies*, 18:3 (2016), pp. 191–216.

highly turbulent domestic situation. Subscribing to OBOR allows a country to tap into the ever-growing development banks and funds that are linked to Beijing's initiative, and would therefore enable Turkey to upgrade significant chunks of its infrastructure and – to a lesser degree – production facilities.

Due to its emphasis on upgrading infrastructure, particularly railways, OBOR is especially important in Turkey for two main reasons. First, it would help Turkey to modernize its domestic rail network by introducing new high-speed lines. Second, it would greatly facilitate Turkey's ability to reach export markets in Central Asia and even further East. This is of paramount importance for Ankara's trade economy, since its export routes to the Middle East are largely crippled because of war and instability in Syria and Iraq, disagreements over road transportation with Iran, and political problems with Egypt.

Indeed, trade would probably be the correct answer to the question 'what could be OBOR's most important benefit for Turkey?' The Turkish economy is in dire need of reform, and its trade component will be crucial if Turkey is to achieve the very ambitious goals (which include entering the list of top ten world economies) that its establishment has set for 2023.¹⁴⁵ Specifically, urgent action is needed in terms of exports' diversification. In this respect, the European Union's share fell from 57.6 per cent to 43.4 per cent between 2000 and 2014; conversely, exports to the MENA region rose from 9.8 per cent to 24.6 per cent, but the aforementioned political uncertainty makes Turkey's immediate neighbourhood a risky destination.¹⁴⁶ Also, Turkey suffers from a large and increasing trade deficit with China (US\$2.9 billion of exports against a massive US\$24.9 billion of imports in 2014), and should therefore seek to even out this imbalance by incentivizing Chinese investment in Turkey.¹⁴⁷ Overall, Turkey should therefore reorient its trade towards the East, stepping up its so far insufficient engagement with the many emerging Asian markets. Obviously, this will only be possible if Ankara manages to improve its infrastructure and logistics capabilities. China's OBOR, at least at this stage, offers seemingly exceptional opportunities to do just that.

If we broaden our analytical scope and deploy more 'purely' geopolitical lenses, a few more observations should be made regarding the growing OBOR-related Sino-Turkish ties described above. First and foremost, OBOR should be seen as undeniable evidence of China's increasing weight on the regional chessboard, and therefore in Turkey's

145 Republic of Turkey, Prime Ministry, *2023 Vision of The Republic of Turkey* (2013). A summary is available at <http://businessturkeytoday.com/2023-vision-of-the-republic-of-turkey.html>.

146 Koru and Kaymaz, 'Turkey'.

147 Zan Tao, 'An Alternative Partner to the West? Turkey's Growing Relations with China' (2013), accessed 9 August 2016 at <http://www.mei.edu/content/alternative-partner-west-turkey%E2%80%99s-growing-relations-china>.

foreign policy. Whereas the European Union, Russia and the United States have so far constituted an undisputed 'great-power triad' in Ankara's foreign policy, Beijing's growing engagement is gradually turning China into a still comparatively smaller but credible 'fourth option'.

Historically, Sino-Turkish relations have often blossomed when Ankara was experiencing significant hurdles in its dealings with the above-mentioned 'triad'. For example, in the 1990s, when the United States and the European Union were limiting arms sales to Turkey because of the Kurdish issue, China became a reliable provider, helping Ankara to make significant progress in artillery and ballistic missile technology.¹⁴⁸ The recent missile controversy mentioned earlier in this report offers further evidence of China's role as a geopolitical alternative, particularly in light of the increasing depth of Ankara's rift with the West. While Beijing's material clout in Turkey's neighbourhood is still too small to provide a credible substantial security alternative, China nevertheless can offer a valid diplomatic lever, which Turkey can use to raise its voice in several negotiation domains, most notably trade.

In this respect, the gradual unfolding of OBOR's many initiatives, and the consequently growing material weight of China in the region, presents a wide range of geopolitically relevant questions for both Turkey and the other international actors that are operating in Ankara's neighbourhood. First, to what extent will the Turkish government make use of the 'Chinese lever', considering the still limited amount of political trust between Ankara and Beijing? Second, how is OBOR going to impact upon Turkey's relations with Central Asia, the Caucasus and Iran? Could further engagement with OBOR help Moscow to speed up the (already remarkably fast) mending of its ties with Ankara? Third, will OBOR eventually trigger a stronger Chinese engagement in the Middle Eastern hotchpotch, particularly as far as the Syrian war is concerned?

Of course, most of these geopolitical scenarios are yet to materialize, but policy-makers and observers alike should bear such potential developments in mind when dealing with Turkey's growing enthusiasm with China's OBOR.

Cyprus and OBOR

In November 2015, President Nicos Anastasiades of Cyprus made highly optimistic remarks regarding China's OBOR initiative, stating that the 'Belt and Road Initiative' of China establishes a new framework for cooperation and development and sets

148 Wang Jin, 'After the Failed Coup: A New Dawn for China-Turkey Relations?', *The Diplomat* (10 August 2016), accessed 9 August 2016 at <http://thediplomat.com/2016/08/after-the-failed-coup-a-new-dawn-for-china-turkey-relations/>.

the ground for stability, peace and prosperity.¹⁴⁹ Also, on several other occasions, he stressed the valuable 'gateway' role that Cyprus can play in order to help Beijing develop broader and deeper access to European, Middle Eastern and African markets. On the surface, China and Cyprus have very little in common, and their relationship appears one that is bound to be highly imbalanced and dependent on the Asian giant's whims. Yet the small island in the eastern Mediterranean presents China with a number of very appealing opportunities, which few other countries can match, and which make Anastasiades' remarks sound more than empty diplomatic talk.¹⁵⁰

Since the establishment of diplomatic relations in 1971, Beijing and Nicosia have enjoyed excellent political relations, with Cyprus among the first to support China's bid for a United Nations (UN) seat, and with China among the first to recognize Cyprus after its independence from Britain and to support its efforts to find a just and viable solution to the 'Cyprus problem'. Over time, China and Cyprus have bolstered this prolonged honeymoon by signing a host of bilateral agreements in numerous areas.¹⁵¹ In recent years, bilateral ties have been further enhanced, which is not surprising considering how China's westward projection can benefit from Cyprus's many 'perks'.

First, Cyprus enjoys an enviable geographical location, at the crossroads of Asia, Africa and Europe, giving it the advantage of being a natural hub, which is highly prized by investors and businesses. Second, Cyprus is a member of the European Union, whose huge internal market is obviously vital if China's OBOR is to unfold fully. Also, Cyprus offers a highly attractive investor migration programme, whereby citizenship – and therefore unrestricted access to the European Union – can be granted to 'high net-worth individuals' who are willing to invest in the local economy.¹⁵² Third, foreign investors are drawn by its advantageous taxation regime (for example, low corporation tax, no tax on wealth, no capital gains tax, etc.), which is buttressed by stable and performing legal and political systems.¹⁵³

This said, however, Chinese initiatives in Cyprus in the post-2013 'OBOR era' have not been as numerous or 'flashy' as elsewhere (from Greece to Central Asia). Unlike in Piraeus, COSCO's bid to take over two terminals at the port of Limassol did not result in success, as the tender was eventually won by a consortium led by Eurogate and

149 'Cyprus Pledges to Cooperate with China on Implementing "Belt and Road Initiative"', *Xinhua* (10 November 2015), accessed 9 August 2016 at http://news.xinhuanet.com/english/2015-11/10/c_134799181.htm.

150 'China-Cyprus: A Flourishing Relationship', *Cyprus Profile* (29 December 2011), accessed 9 August 2016 at <http://www.cyprusprofile.com/en/articles/view/china-cyprus-relations>.

151 'China-Cyprus'.

152 Stella Kammiti, 'China Desk: Why Choose Cyprus for Doing Business', *Chryssafinis & Polyviou*, accessed 9 August 2016 at <http://www.cplaw.com.cy/index.php/china-desk>.

153 Interview with officials from the Cyprus Ministry of Foreign Affairs (MFA) (4 August 2016).

Dubai Ports.¹⁵⁴ Also, China National Offshore Oil Corporation (CNOOC) is negotiating to buy a 30 to 40 per cent interest in Block 12 of Cyprus's Aphrodite gas field, which while promising for the Cypriot natural gas industry, is hardly earth-shaking news on a broader scale.¹⁵⁵ Arguably, the most significant novelty in China's economic engagement with Cyprus is the soaring number of Chinese citizens buying property on the island, many of them businesspeople who are seeking to obtain citizenship by investing €2.5 million or over in the sector.¹⁵⁶

In sum, the launch of OBOR has not marked a watershed in China–Cyprus relations. Unlike other countries that are targeted by Beijing's wide-reaching initiative – such as the Central and Eastern European countries included in the 16+1 framework – bilateral ties between Beijing and Nicosia are long-standing and well structured. Cyprus therefore does not have to try hard to win China's trust and thereby join the privileged club of 'first-tier OBOR countries' – the 'gateways'. History, geo-economics and political ties have already granted it that status. Moreover, the current turbulent geopolitical situation around it is likely to make Cyprus even more appealing in the eyes of China, as a stable and reliable bridgehead and ally in the development and implementation of its connecting plans at the regional (and global) level.

Nevertheless, when looking at Cyprus from a broader geopolitical standpoint, question marks remain with regard to Nicosia's ability to use its privileged status *vis-à-vis* Beijing to increase Cyprus's leverage both within the European Union and in its relations with Russia and the United States/NATO. Also, although understandably downplayed by Cypriot officials,¹⁵⁷ it is worth keeping an eye on how China's growing engagement in the Eastern Mediterranean and Middle East could affect Cyprus's own foreign policy, particularly as far as relations with Turkey – wherein the long-standing Northern Cyprus issue plays a key role – are concerned.

154 'Cabinet Approves EuroGate, Dubai Ports Bids for Limassol Port', *Cyprus Mail* (25 February 2016), accessed 9 August 2016 at <http://cyprus-mail.com/2016/02/25/cabinet-approves-eurogate-dubai-ports-bids-for-limassol-port/>.

155 'CNOOC in Aphrodite: Boosting Cypriot Hopes', *Natural Gas Europe* (1 July 2014), accessed 9 August 2016 at <http://logi-lebanon.org/KeyIssue/Boosting-Cypriot-Hopes>.

156 'Cypriot Property Tops Popularity Charts for Chinese Investors', *Property Showrooms* (20 October 2015), accessed 9 August 2016 at https://www.propertyshowrooms.com/cyprus/property/news/cypriot-property-tops-popularity-charts-for-chinese-investors_313501.html.

157 Interview with officials from Cyprus MFA (4 August 2016).

Conclusions

Frans-Paul van der Putten

The three key elements of the New Silk Road in Southeast Europe and Turkey are: the Greek port of Piraeus; the north–south transport corridor across the Balkans (referred to by China as the Land Sea Express Route) that connects Piraeus with Central Europe; and the east–west railway across Turkey that links the Balkans with the southern Caucasus and Iran. Together, these infrastructural and logistical projects constitute a major intersection between the Maritime Silk Road and the Eurasian overland routes that bypass Russia. The freight train service operated by DHL runs between Istanbul and Lianyungang, via Georgia, Azerbaijan and Kazakhstan, and has set an example for the developing China–Turkey corridor. The port of Lianyungang in eastern China provides sea links to South Korea and Japan. Moreover, a direct freight train service between Yiwu in eastern China and Tehran in Iran – via Kazakhstan and Turkmenistan – became operational in February 2016. Whereas Piraeus is a major port of call for maritime shipping between China and Europe, the Land Sea Express Route potentially links Piraeus and the Balkans with railway hubs in Poland that are part of the rail links between China and Western Europe via Russia and Belarus.

COSCO's activities in Piraeus have been and remain at the centre of the emergence of the Southeastern Europe and Turkey region as a Silk Road hub. COSCO's 2016 acquisition of the Piraeus Port Authority accelerates the port's growth into a leading container, car and cruise port in the Mediterranean. While the maritime side of the New Silk Road is making rapid progress in the region, the land aspect is facing important challenges. The construction and upgrading of railways and highways between China and Turkey, and across Turkey and Southeast Europe into Central Europe, require time. Yet since much of the basic infrastructure already exists and freight trains are already running between Piraeus and Central Europe, and between China and Turkey, perhaps the greatest challenges come from political risks. Political instability in many of the region's countries and major geopolitical tensions across the Middle East create uncertainty. Investments and trade flows may be affected by political factors, as happened when the privatization of Piraeus was delayed for more than one year after the Greek elections in early 2015, or when refugees in Greece blocked the railway towards the Balkans and Central Europe at the end of 2015, and again for several months in 2016. As a result, seaports in Turkey, the Black Sea, the Adriatic Sea and the Baltic Sea are relevant additional options for seaborne trade between China and Central Europe. The ambitious five-port project in the Northern Adriatic, with a large new container terminal offshore from Venice, is an example of a significant potential competitor for Piraeus.

Still, COSCO has secured a long-term presence in Piraeus and this provides the Chinese government with a firm basis for its relations with Greece and to facilitate further OBOR-related activities throughout the region. The Balkans, Turkey and Cyprus all welcome investment from and trade with China. China's economic relations with all the Balkan countries are increasing. While these are approached mainly on a bilateral basis, the CEEC 16+1 platform provides an extra avenue for China-Balkans cooperation. The CEEC 16+1 summit allows the prime ministers of these – and other Central and East European – countries to meet with Premier Li Keqiang on an annual basis. Chinese companies are gradually expanding their involvement, not only in ports (such as Kumpport in Turkey) and possibly in airports (for example, in Crete), but also in energy infrastructure (in Greece and the Balkans) and in industry (including steel manufacturing in Serbia).

While there are, and probably will remain, many 'gateways to Europe' for goods from China, Southeast Europe is the entry point where Chinese economic and diplomatic influence is greater than elsewhere in the European Union. This relates particularly to Greece and Serbia, two countries that have been visited by China's President Xi Jinping in recent years, and to the Balkan members of CEEC 16+1 in general. However, so far this influence has remained modest, and is more limited still in Turkey and Cyprus. The dominant great powers in the region are the European Union and the United States, while Russia's geopolitical relevance remains greater than China's.

In the short term, the geopolitical impact of expanding Chinese interests in Southeast Europe and Turkey – for which OBOR has become the main engine – will probably remain limited to making regional countries somewhat less dependent on their relations with the European Union, the United States and Russia. They now have a fourth great power with which they can develop diplomatic or security relations, or at least threaten to do so, as Turkey did when it wanted to purchase a missile defence system.

In the longer run, however, China may develop into a more significant geopolitical actor in the region. As the New Silk Road develops, regional countries will become more dependent on China for their trade and investment relations. At the same time, the strategic importance of these countries for China increases. This process would give China both the incentive and the means for greater involvement in regional affairs. The greatest geopolitical significance, however, of Chinese activities in the region results from Beijing's relations with the other great powers at the interregional or global level. If China's security relations with the United States, Russia and the European Union, or some of these, become more strained and competitive in the coming decades, this may well have a negative impact on regional stability in the Southeast Europe and Turkey region.

Abbreviations

BSEC	Organization of the Black Sea Economic Cooperation
BTK	Baku–Tbilisi–Kars railroad
CCP	Chinese Communist Party
CEE	Central and Eastern Europe
CEEC	Central and Eastern European Countries
CMEC	China Machinery Engineering Corporation
CNOOC	China National Offshore Oil Corporation
COSCO	China COSCO Shipping Corporation
DWT	Deadweight tonnage
EEU	Eurasian Economic Union
ENP	European Neighbourhood Policy
EU	European Union
FCO	(UK) Foreign & Commonwealth Office
FDI	Foreign direct investment
FYROM	Former Yugoslav Republic of Macedonia
IMF	International Monetary Fund
ISIS	(Self-Proclaimed) Islamic State
LSER	Land Sea Express Route
MENA	Middle East and North Africa
MFA	Ministry of Foreign Affairs
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
OBOR	One Belt, One Road
PCT	Piraeus Container Terminal
PPA	Piraeus Port Authority
PPC	(Greek) Public Power Corporation
PRC	People's Republic of China
SASAC	(China's) State-owned Assets Supervision and Administration Commission
SCO	Shanghai Cooperation Organization
SECI	Southeast European Cooperative Initiative
SGCC	State Grid Corporation of China
SOE	State-owned enterprise
TCDD	State Railways of the Turkish Republic
TEU	Twenty-foot equivalent unit
UN	United Nations
UNCLOS	United Nations Convention on the Law of the Sea
VOOPS	Venice Offshore-Onshore Port System
WB6	Western Balkans Six