CHAPTER 10

Chinese Investments in European Countries: Experiences and Lessons for the "Belt and Road" Initiative

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This chapter focuses on Chinese foreign direct investments (FDI) in Europe, and their potential impact on the landscape of the targeted countries. It examines the investment's possible connections with the current Belt and Road Initiative (BR), which is primarily billed as an international network of infrastructure projects. With the BR in mind, this chapter asks whether Chinese state-owned enterprises (SOE) can build from their recent experiences in Western Europe, and looks at three main questions: (1) What is the political, economic, and social impact on targeted countries when it comes to public investments in the field of infrastructures? (2) How does it relate to the Belt and Road Initiative? (3) What are the stakes for the cooperation between Chinese investors on the one hand, and local public- and private-sector actors on the other?

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The State of Chinese Investments in the European Union

China has almost a millennia-long history of commercial interactions with Europe through the ancient network of trade routes of the original Silk Road. However, these efforts have been redoubled in recent history. This is partly due to the euro debt crisis of 2008; a lower exchange rate for the euro between 2008 and 2016; an ongoing de-industrialization; and a Chinese hunt for world-famous brands and technologies, of which many are in the European Union (EU). According to a 2017 report by Merics and the Rhodium Group,[1] Chinese investments in the EU reached a record $36.5 billion in 2016, up 77% from $23 billion in 2015, which now represents about 4% of total FDI stock in the EU. The United States, in particular, remains a much bigger foreign investor in Europe.

From 2000 to 2016, the top sectors receiving Chinese capital investment were energy, automotive, agriculture, real estate, industrial equipment, and information and communications technology. Chinese state-owned firms also seized opportunities to buy European mining companies, energy assets, and utilities. In 2016, the UK, Germany, and Italy were the three largest recipients of such investments.

China is investing in energy and raw materials in developing countries, and meanwhile looking for opportunities in energy distribution, infrastructure, mergers and acquisitions for brand names, high technology, and market shares in advanced economies. China has also shown a strong interest in airport infrastructures—it took 9.5% of London Heathrow Airport in 2013, 49.9% of France's Toulouse Airport in 2014, and 82.5% of Germany's Hahn airport near Frankfurt. China is also active in Eastern and Central Europe, with controlling stakes in Albania's Tirana Airport and Slovenia's Ljubljana Airport. In addition, the Beijing Construction Engineering Group (BCEG) is committed in a large £800 million project to redevelop Manchester airport, the UK's second largest airport.

This wave of Chinese FDI in infrastructure on the European continent started in 2008 in the midst of the euro-debt crisis, when China was offered the opportunity to buy Eurobonds and invest in some of Europe's infrastructure projects. Bilateral relations between China and EU institutions were also strengthened, and cooperation moved to a new level when President Xi Jinping proposed building a "China-EU partnership" in 2014. China may yet become the largest non-EU contributor to the European Fund for Strategic Investments (EFSI), the initiative launched by the European Commission, with the goal of raising 315 billion euros for stimulating growth and employment. China is expected to contribute 5–10 billion euros to the EFSI. A working group including experts from China's Silk Road Fund, the European Commission, and the European Investment Bank has been set up to explore opportunities for co-financing.

Cooperation Between Chinese Investors and Local Public and Private Actors in the Infrastructure Sector

It has taken some time before Europeans and Chinese started working together. In its three decades of "open door policy" (1978–2008), China was initially a manufacturing country that attracted European companies and others to invest in its industries and market. In China itself, foreign firms were required to engage in joint-venture companies with Chinese partners. China then started hunting for natural resources in places as diverse as Australia, Africa, and Latin America. It only started investing equity outside its borders about 15 years ago. Europe became part of the "going out policy" (Zou Chu Qu 走出去) in 2008 and has since seen a growing number of state-owned enterprises as well as some private companies investing in the EU.[2] There have been a number of cases in the industrial sector such as the Geely-Volvo partnership in Sweden, Zoomlion-Cifa in Italy, Sany-Putzmeister in Germany, and Dongfang-PSA Peugeot-Citroën in France. A few public-private partnerships have timidly emerged, especially in the UK. In Finland, Tencent acquired Supercell for $7 billion, and in Ireland HNA group bought aircraft leaser Avolon. The year 2016 saw much debate in Germany about Chinese takeovers of technology brands in fields where national security is at risk. For example, in 2016, a Chinese company was barred from acquiring the semi-conductor company Aixtron.

Other challenges have arisen from this new Chinese wave, especially in the field of acculturation. Most Chinese companies have been facing difficulties in adjusting not only to a different business model but also a very different political, social, and economic environment. This may have prevented China from expanding more quickly than it would have liked.

Although transactions between Chinese and European firms have evolved over the years, they are still characterized by snags that are capable of making the negotiations fail at any moment. The list of these obstacles is long: a negotiation that lasted much longer than the standard length in the profession; ignorance of Western business norms and customs on the part of the Chinese participants; constant personnel changes on the teams in place; the drafting of changes, ranging from inserting due diligence clauses to the writing of the final agreements; "resolved" clauses that were regularly put back on the table; unreliable valuations; and financing that was once in place, but is now lost.

The diversity of cultures and languages in Europe has often disarmed Chinese entrepreneurs. Poorly understood by some investors, European law is often perceived as overly favorable to the employees. A Chinese lawyer who has settled in Europe cites as obstacles to investors the authorizations required for overtime work or work outside an employee's grade-level duties, the tax system, and the role of trade unions. Meanwhile, there is one Chinese characteristic that is proving difficult when dealing with Europeans: All Chinese SOEs and some private companies are tied to entities of the Chinese government or the Communist Party.

Many intended Chinese investments remain unsuccessful for reasons that are often cultural. "Chinese enterprises do not want to admit that they must produce in Europe if they want to be accepted in the long term," stressed a well-known Chinese academic who prefers to remain anonymous.[3] He deplored the "absence of vision" among his compatriots. Different notions of timeliness are indeed among the principal challenges: While Europeans want results right away (or by a fixed date), the Chinese work over the long term, with economies of energy. The contrast is often that between a sprinter and a marathon runner.

The differences are slowly eroding, however. Little by little, Chinese entrepreneurs are using accountants, lawyers, auditing services, bankers, and other professional services. This is particularly true of groups that have international ambitions, those that interest us here. For example, Lenovo, which inherited a mixed corporate culture since the 2005 IBM acquisition, has been practicing intercultural management at the highest level: Its executive committee now includes four mainland Chinese, a Chinese person from Hong Kong, a Dutch national, an American, an Italian, and a Canadian. All its European subsidiaries are run by European managers.

It will take time before Chinese entrepreneurs adjust to the Western business world. Business school training will not be enough as cultural habits and practices dominate, but if the company of the twenty-first century is to be "Sino-Western," both sides will have to engage in a process of mutual understanding. In the past few years, Chinese firms have stepped foot in Europe, but it is especially the case in two singled-out countries which have allowed Chinese equity into some of their key-utilities: Greece, which started welcoming Chinese investors for its port facilities in 2008; and Portugal, which since 2010 has become a key destination for energy-related Chinese companies.

Case N°1: Greece's Piraeus Harbor COSCO-Run Container Port Targeting Europe and the Balkans

As a principal victim of the financial crisis that struck Europe, Greece scarcely hesitated to call upon Chinese entities to invest. The country was encouraged to do so by institutional loaners such as the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF). In 2008, the 30-year concession given to the Chinese state-owned shipping giant China Overseas Shipping Group Co. (COSCO) to manage two terminals of the commercial Port of Piraeus, near Athens, for the sum of €490 million (apparently five times more than the market value), constituted one of China's most visible commercial actions in Greece.[4] COSCO was later given another five-year contract and the right to build a third terminal. In 2013, COSCO chose to increase its investment by renovating—for another €230 million—the existing terminals, thus making Piraeus its port of entry into southern Europe, with the aim of targeting opportunities in the Balkans and Mediterranean countries.[5]

When COSCO first arrived in Athens, it was met with a month-and-a-half-long dockworkers' strike and a banner along the waterfront: "COSCO Go Home." At the time, Piraeus was a struggling harbor worn down by decades of industrial decline and the country's protracted debt crisis. Greece has experienced a punishing economic crisis since then. The unemployment rate at times reached 70% in the Athens suburbs due to a process of de-industrialization and a badly performing shipping industry, which used to be the nation's economic flagship. According to several reports—at least on its Chinese side—the Piraeus port has been transformed by COSCO, even though the company only ran two terminals out of six until April 2016.[6] COSCO has quadrupled container traffic to just under 3 million units a year. That capacity was to be expanded to 6.2 million units in 2016. "Piraeus has become the story of two worlds—that of the 'turbo capitalism' of the successors to Mao Zedong on one side, and a market economy that can move as slowly as a Socialist one on the other. Some people see the port as an image of the country's future. It's an image that is "a horrific one for many, including a large portion of Syriza voters," a news report stated.[7]

The investment ranks as one of the most successful Greek privatizations in recent decades. COSCO has successfully upgraded the infrastructure, introduced more efficient machineries and equipment, dealt with the issues of labor unions, improved the management system, and created more traffic. In 2008, Piraeus moved just 433,582 containers. In 2014, that number grew more than sevenfold to 3.16 million, 80% of which can be attributed to COSCO, which ran Piers II and III, while Greek state-owned OLP port authority ran Pier I.[8]

Originally, the Greeks and the Chinese shared processing responsibilities for the containers of MSC, the shipping company. Due to the Greek economic crisis, traffic collapsed between 2011 and 2015. Since MSC and Maersk, the two market leaders, began their 2M Alliance in January 2016, all of the company's containers have been loaded by COSCO on Pier II. COSCO is simply twice as fast as its competitor. COSCO has installed 11 new loading cranes that will put its Piraeus operations roughly on equal footing with the capacity at Rotterdam, Antwerp, and Hamburg, Europe's three busiest container ports. By 2016, the new COSCO-built container terminals employed 1200 workers, "silencing" most union unrest.[9]

Chinese leaders have spent a great deal of time visiting Greece. In June 2014, Premier Li Keqiang spent three days in Greece—an exceptional duration for an official trip—which led to no less than 19 cooperation agreements and commercial contracts for a total amount of €3.4 billion.

In January 2015, plans to sell off further port assets, including repair docks as well as car, passenger, and cruise ship terminals, were halted by Alexis Tsipras' newly elected Syriza left-wing government, who decided to take into account the views from the dockworkers' union and the Greek Communist party. Both insisted that COSCO would use Piraeus for social dumping and would limit labor rights. Until his reelection in June 2015, Tsipras remained publicly elusive on the future of the COSCO-Greek cooperation. His former Finance Minister Yanis Varoufakis estimated that "this problem will be solved," but China did not appreciate this uncertainty and speculated about the "risks" the elections would bring to its investments.[10] Towards the end of 2015, the situation started to improve after Tsipras was reelected at the helm of a more moderate government. Although Greece wanted to be less dependent on its creditors, the internal debates reflected the changing political climate in Greece, or perhaps in

Southern Europe, where a number of commentators started monitoring closely the management by Chinese companies of major infrastructure projects in Europe. Piraeus became representative of some concerns regarding Chinese FDI in Europe, including labor issues and national security.

Meanwhile, in June 2015, at the annual EU-China summit, Premier Li Keqiang made clear that China saw its relationship with the EU as vital to its long-term interests, though primarily in economic terms. When Li was asked during his press conference in Brussels (July 2015) if China was willing to provide loans or other financial aid to help Greece, the Premier responded by restating China's preference for "a united Europe, a prosperous EU, and a strong euro." He continued: "As for the issue of Greek debt, in principle it is an internal affair of Europe. Having said that, whether Greece would stay within Europe is not only a question that concerns Europe but also concerns China and Europe … that is why China has made its own efforts to help Greece overcome the debt crisis."[11]

COSCO was given full management of Piraeus in April 2016. It paid $420 million (€368.5 million) for a 67% stake of the harbor authority, which is increasingly becoming China's maritime gateway to Europe, and has plans to further expand. The total value of the COSCO deal is estimated to be €1.5 billion, including additional investment.[12] The announcement led to dockworkers' protests in the streets of Athens although the Syriza government had already sealed the deal.[13] In June 2016, the Greek Parliament approved it, putting a closing line on a long-standing debate. This was followed by an official visit to China by Prime Minister Tsipras.

As a foreign investor, China had seemed all along ready to speak up for its interests. It has shown its commitment towards Greece but admits it has no control over the fast-evolving local situation. For months, it adopted a wait-and-see attitude in order not to become a scapegoat in the Greek context. Eventually, this strategy was successful, and China is now hopeful it can "create jobs and help the Greek economy prospering."[14] There is little doubt that China will use Piraeus to enhance its presence in Greece and the Mediterranean region. Other Greek infrastructures are also on the Chinese radar. Led by the Shanghai-based group Fosun, a consortium has purchased the Elliniko airport south of Athens to make it a leisure complex in the mode of Dubai.[15] China State Construction Group (a state-owned enterprise) has expressed interest in the airport of Kastelli. Lastly, the port of Tympaki on the island of Crete has been a target for COSCO for several years but the deal has not been finalized.

Case N°2: Through Portugal, Is China Targeting the Lusophone Market?

In 2004, China signed strategic partnerships with four European countries: Germany, France, the UK and—perhaps more surprisingly—Portugal. With Germany, Beijing aimed at an increased economic partnership; with France, it aimed at a continuous multilateral dialogue via the United Nations (UN) and African issues; and with Britain, there was the financial weight of the City of London and the longstanding relations formed around the former British colony of Hong Kong, not to mention the Commonwealth, the English language, and multilateralism. But why Portugal, whose tottering economy had made life difficult for the European Union after the financial crisis of 2008?

There are many reasons for this. First, China recognizes the political weight of the former Portuguese empire through language; there are more than 220 million Lusophones in the world. In 1996, seven countries created a new community of Portuguese-speaking countries (*Comunidade dos Países de Língua Portuguesa*). Apart from Brazil, Angola, and Mozambique (a country where China has many economic interests), one should not forget the special relationship between the former Portuguese enclave of Macau and the former Middle Kingdom, which retook possession of its territory in 1999 after more than four centuries of Portuguese colonization. Chinese and Portuguese elites have had close relationships for a long time, through the Sino-Portuguese Chamber of Commerce as well as a number of Macau-related organizations. Each year, the Macau Forum celebrates—in the presence of senior Chinese officials—the relationship between Beijing and Lisbon via Macau, and it now also includes economic cooperation in Portugal and elsewhere.

Second, on the investment side, the Chinese in Hong Kong and Macau quickly swarmed to Lisbon. From the 1980s, thanks to a "Macau connection," overseas Chinese started investing in Portuguese real estate. According to a report published in late 2015, Portugal has in recent years received more Chinese investment than any EU member state except the UK, Germany, and France.[16] "Chinese investors increasingly deployed capital in economies that were severely affected by the financial crisis [and] seized opportunities arising from the privatization of … utilities and transportation infrastructure," says the report. The Head of Portugal's investment and trade agency says the inflow proves "not only the quality of our assets but the closeness of the relationship." Portugal offers "a platform for the Portuguese-speaking world and its 250m consumers."[17]

Third, there is the hot issue of immigration visas. Today, agencies specializing in obtaining "golden visas" are multiplying in Portugal.[18] The principle is simple: whoever invests a minimum of €500,000 in real estate property may obtain a long-stay visa, with the minimal obligation to spend seven days every year in the country. After six years, the investor can ask for Portuguese nationality and then get a EU passport. Of course this procedure still affects only a small number of persons (2788 in Portugal in 2015), but it is expressly aimed at (rich) Chinese nationals who want to emigrate.[19] Up to now, the number of jobs created has remained very small and the results are mixed, and most of the beneficiaries have been individual Chinese property owners. A corruption scandal has made headlines after a probe into allegations of corruption, influence peddling, and money laundering linked to the program prompted 11 people to be detained in November 2014, according to the Portuguese Prosecutor General's Office.[20] Since then, the Portuguese authorities have tightened their visa policy, upsetting a number of applicants. The real question is whether this will benefit employees of Chinese groups, both private and public, that have made important investments.

As part of Beijing's "going out policy" (走出去), China's acquisition wave in Portugal began in 2011 when the state-owned Three Gorges Corporation paid €2.7 billion for 21% of *Energias de Portugal* (EdP), the country's highly indebted top power utility, which has a virtual monopoly on the residential retail energy market. The Chinese company won against Germany's E.ON, following what reports called "Berlin's high-handedness in demanding that Portugal undergo structural economic reforms."[21] Three Gorges' offer to EdP seemed to have come at the right time. In June 2014, the head of EdP, Joao Marques Cruz, declared that, through this deal, his company was interested in working with CTG towards the Brazilian or African market.[22] Three months later, China's State Grid invested €1.4 billion to acquire 25% of *Redes Energéticas Nacionais* (REN), the National Grid operator.

On the private side, the Shanghai-based private conglomerate Fosun International spent €1 billion in 2014 to acquire 80% of *Caixa Seguros Saúde*, Portugal's largest insurance group, and has also acquired the distressed hospital business *Espírito Santo Financial Group* for €460.5 million. Huawei invested €10 million in a technology center and Beijing Enterprises Water Group bought Veolia *Água*.[23] "The important thing in a country in crisis is to shift capital from weak hands—of owners with solvency and debt problems—into stronger hands with the capacity to invest and open up markets," commented José Brandão de Brito, chief economist at Portuguese bank Millennium BCP in a report. "The Chinese are in a very good position to do this."[24]

Many of these investors plan to expand to Angola, Brazil, Mozambique, or other former Portuguese colonies. The link was made particularly clear in 2011 when Sinopec, China's state oil company, paid $4.8 billion for a 30% stake in the Brazilian subsidiary of *Galp Energia*, Portugal's largest oil and gas utility, to jointly develop its Brazilian upstream portfolio.[25] Last June, they unveiled their latest, Hydroglobal, targeting South America and Africa. State Grid created similar ventures with REN in Angola and Mozambique, and in 2013 helped it secure a €1 billion finance line from China's Development Bank. Fidelidade continued its drive into Africa, setting up in Mozambique.

With their Chinese partners, Portuguese energy companies are expanding their hydropower and other new energy businesses to Brazil, Mozambique, and Angola, which all have large energy needs. So far, the process has taken place smoothly, and there has been limited social action in Portugal. The business community has also been extremely supportive of Chinese investors.

In October 2015, as in Greece, a left-wing government led by Prime Minister Antonio Costa was elected in Portugal, with an equal support of local trade unions. Costa vowed to end austerity through "persistence in investment" and "corporate modernization."[26] Chances were high that foreign investors would not be as welcomed as they were under the previous center-right government. There is a possibility that a democratic process in a European country may not be working in favor of foreign investors. China, as an investor, is particularly willing to avoid controversy, although in this case, Portuguese authorities have been very cautious not to address sensitive issues regarding Chinese investments publicly in order not to offend their new partners. There seems to be a left-right political disagreement on whether China might be the answer to some of Portugal's economic problems. A cabinet minister of the new Portuguese administration told the author in July 2016 that his party was originally opposed to the privatization program and expressed concerns about the national security aspects. "We were not happy with the privatization of major parts of Portugal's national power utility (*Energias de Portugal*) and national grid (*Redes Energéticas Nacionais*) orchestrated by the previous government, and we are concerned about long-term consequences for our national security," he said during a private meeting.[27]

What Is the Impact of Chinese Investments on Targeted Countries?

One should here make a clear distinction between public and private investments. Although they often require approval from the Chinese authorities, private acquisitions are made on a case-by-case basis, per the board's decisions—hence they do not generally carry a strategic dimension. On the other hand, investments by public entities do represent a challenge as acquisitions are often made at the highest level in China, either at the state level (COSCO) or sometimes the provincial level.

China's investment in European infrastructures will lead to more questions to European governments. A case such as Piraeus Harbor has started attracting attention, as COSCO has in fact been able to demonstrate its management skills as well as financial capabilities. Chinese investments in Portugal will soon also be closely studied, with *Energias de Portugal* as a prime example of China's ambition. Another critical example would be the UK's Hinkley Point nuclear power plant.[28]

Hence the question that many experts have been asking: besides cash, what is the benefit for European countries to have some of their national infrastructures controlled by a future competitor like China?[29] China is looking at further investments in infrastructures, not just in Europe but also in Central Asia and South Asia, as part of the BR.[30] It is trying to sell high-speed trains and will soon try to export nuclear plants. Therefore, it is natural for European countries to engage in a debate about whether this particular nation should be allowed to take a stake in their utilities.

Secondly, there are questions asked about the long-term interest of China in European utilities: If it does finance a nuclear plant in the UK, for example, the British consumer will be paying for it through its monthly consumption. Hence a legitimate "value for money" question: While China is investing in European infrastructures, it is not always committed to the idea of public service. The bills ultimately land at the feet of the public, whether it is electricity, rail fares, or taxation.[31]

The European general public and the media do not necessarily have a detailed grasp of the financial stakes and implications. Although Chinese investors have been better at communicating their positions recently, there seems to be a gap between European elites and grassroots on the matter of Chinese investments.[32]

Lessons to Be Learned

It is much too early to make a definitive assessment about Chinese investments in Western Europe in the field of infrastructures. The number of compelling cases is limited. Only the Greek case seems worthy of an in-depth analysis because it encompasses several matters that we have alluded to in this paper. First, cooperation between Europe and China: is it short term, long-term, or strategic? Many agreements have been designed and signed, but both bureaucracies and multiplying EU crises have somewhat prevented a faster development. Second, the future of European infrastructures: There are technical aspects that involve the protection of local industries and environmental laws. Third, the impact of national elections on government decision-making: They can be quite radical, and more dramatic changes could take place in the years to come. Fourth, tensions between elites and grassroots views. There is a sense that decisions on allowing Chinese FDIs are sometimes "made by elites" against the will of the people, and not necessarily to the benefit of the latter. Sixth, human resources: Job creation remains the top priority of all the decision-makers in Europe. As explained in the COSCO/Piraeus case, Chinese investors have been better perceived when using local staff.

Most of these issues can be applied to future projects under the BR. If China is to lead through this new initiative, it is implied that it should develop a sense of universality, or at least an understanding of the political, social, cultural, and economic environments where it is intending to invest.[33] Central Asian countries, for example, have a relatively short history as independent nations, but they have the same sense of belonging and history as any other country. Therefore, the BR will have to encompass local aspects as much as global aspects, financial sustainability, transparency, and local political systems.

The internationalization of China, and of its companies in particular, is one of the most important phenomena of the beginning of the twenty-first century. After taking an interest in Africa, Oceania, and Latin America, China has started looking at developed countries, where it engaged in some increasingly important investments. Each of the European countries possesses a sophisticated legal apparatus inherited from its history. The legislation of the European Union adds still another layer of complexity. However, if they want to be engaged over the long term, potential Chinese investors will have no other choice but to understand and accept this system.

Now that China is engaged in a major initiative that will give it responsibilities not just towards its own people, but also towards the foreign populations in countries where it is investing, it is hoped that Beijing's decisions will not be oriented exclusively towards its domestic public opinion, especially when acquiring European technological jewels, or even utilities. Moreover, promises of Chinese infrastructure projects directed at Central Asia, Pakistan, and even Europe must be followed by actual deeds. In too many cases, announcements of cooperation have been made without them becoming reality.

Notes

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27. Meeting with the author took place on July 20, 2016.
28. In October 2015 the UK announced a new partnership on the Hinkley Point nuclear plant in which two leading Chinese nuclear corporations would play a key role next to France's EDF to develop a new nuclear plant in Somerset, England, with a strong financial backing from the China's top sovereign fund.
29. This is very clear when it comes to finance: for example, Chinese sovereign funds have taken stakes in Thames Water, the principal company for water treatment in Britain, and in other utilities. In October, China also signed a Memorandum of Understanding (MoU) with the UK to study the feasibility of the "Northern Power House," code name for a grand project of revamping the Northeast of England.
30. See Jiang in this volume.
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32. Captain Fu Chengqiu, CEO of COSCO, has been giving numerous interviews and speeches. It is also true of the president of China Three Gorges Corporation, Cao Guangjing; "Portuguese and Chinese Companies."
33. See Zhang and Long in this volume.

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