Istituto Affari Internazionali

The Open Door Swings Back: The Challenge of Chinese Investment

by Ronald H. Linden

On 26 February, the *Taurus* docked at pier 3 in Greece's rebuilt port of Piraeus. At nearly two hundred thousand tons, the ship is longer than four football fields and capable of carrying 20,000 of those familiar 6 meter containers. It is the largest ship ever to dock in a country known for its shipping prowess, and, in fact, the largest ever to dock anywhere in the Mediterranean.

The goods being transported, the ship itself, the departure and arrival ports are all built, owned and run by China. Chinese investment into Piraeus has catapulted a relatively sluggish port into one of the top destinations for transporting goods to Europe and, coincidentally, produced a 92 per cent increase in the port's operating profits in 2017. A half-billion-dollar expansion of port facilities is planned by the Chinese-run port authority.[1]

The famous "Open Door" of early last century has now swung wide – but not in the direction envisioned by that policy. Articulated by the United States, the Open Door Policy aimed to keep China "open" for other countries (like the US) to share in the gains being made there by European powers. Now, those very European states that once elbowed each other to get into China are doing the same to attract Chinese investment to Europe. And they are succeeding.

Spurred by Chinese President Xi Jinping's "One Belt, One Road" mega-policy, Chinese foreign direct investment (FDI) into Europe, once negligible, has grown nearly four times since 2013. For three of the last five years, Chinese FDI to Europe surpassed the amount invested by China in the US.[2] And, unlike the bulk

[1] David Glass, "Cosco Reveals $620m Piraeus Development Plan", in *Seatrade Maritime News*, 29 January 2018, https://goo.gl/AWrcdi.

[2] Data from Rhodium Group. See Baker McKenzie, *Chinese FDI Squeezed in 2017 by Regulatory Crackdowns at Home and Abroad*, 17 January 2018, https://www.bakermckenzie.

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of Chinese investment in developing countries, Chinese FDI in Europe is aimed at securing assets in high-value manufacturing (e.g. cars, machines, high-tech), communications, electronics and energy distribution.

This investment is closely tied to expanding Chinese trade – China is the top source of imports to Europe – so infrastructure investment is a key focus for Beijing. China is the single largest investor in electricity transmission in Europe. The port of Piraeus is only one of several container ports, from Kumport in Turkey to Algeciras in Spain, to Zeebrugge in Belgium that are owned or run by Chinese companies.

By one estimate,[3] China now controls 10 per cent of the port capacity of Europe, where export dependence averages nearly 44 per cent of GDP (by comparison, in the US, it stands at 11 per cent). Of particular interest to Chinese investors are small-to-medium size manufacturing businesses, especially those in export-oriented sectors like information technology where the promise of much needed investment capital is gilded with the lure of the Chinese market.

More recently, along with hospitality investments (hotels, entertainment) and even soccer teams, some of the best known "European" brands, e.g. Pirelli, Volvo, MG, and retail and fashion outlets (Harvey Nichols, Bally) and even the London Taxi Company have been purchased by Chinese conglomerates.

How has this happened and should it be a source of concern? After years of anemic growth in the EU, weak investment resources, and in some cases even punishment (e.g. Greece), China's offering of seemingly unlimited funds can hardly be spurned. This is true even when – as is most often the case – the investor is a state-owned enterprise and thus subject to Chinese government control.

By itself, the size of the Chinese stake in the European economy is not troubling – Chinese investment is still dwarfed by that coming from the US and EU "cross-border" ties. Instead, concern lies in at least three areas: sensitivity, elasticity and fungibility.

The first is evident from the sharp focus of Chinese investment, for example, in infrastructure, and raises the possibility of Beijing gaining control of the licensing, production and sale of high-end technology. Such investment has caught the attention of some European governments, such as Italy and Germany, who have introduced a screening process at the national level.[4] But scrutiny does not yet exist at the EU level, where it might be most valuable if Europe is to avoid (ironically) a "race to the bottom" to lure investors.

com/en/newsroom/2018/01/chinese-fdi-2017. For a country-by-country review of Chinese investment in Europe, see John Seaman, Mikko Huotari and Miguel Otero-Iglesias (eds.), *Chinese Investment in Europe. A Country Level Approach*, European Think-tank Network on China (ETNC) report, December 2017, https://www.ifri.org/en/node/13942.

[3] Keith Johnson, "Why is China Buying Up Europe's Ports?", in *Foreign Policy*, 2 February 2018, http://bit.ly/2Ez0UNG.

[4] Rasmussen Global, *Foreign Investment Screening and the China Factor*, 16 November 2017, https://rasmussenglobal.com/?p=910.

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Elasticity and its dangers are not new to capitalism, even state capitalism. The vicissitudes of depending on China for cash were made clear in 2017 when China imposed new controls and restrictions on investment outflows – leading to a sharp drop in Chinese FDI both in the US and Europe.[5] More pointedly, Italian financial analyst Francesco Galietti[6] points to the fate of Taranto, a once touted port in southern Italy, brought to the party by Chinese promises of development, and then left, one might say, for more attractive prospects in other ports.

The most serious concern is political fungibility. Can and will the Chinese government, which, after all, controls most of the investments, use its economic presence to erode European unity and to create policy distance from the United States? In 2017, Greece vetoed the EU's declaration on China at the UN Human Rights Council.[7] Athens has in fact executed a sharp turn on the issue of Chinese investments, drawn by prospects like Piraeus and frustrated by harsh treatment from Brussels.

Similarly, after the Hague Tribunal in 2016 issued an unequivocal ruling denying China's all-encompassing claim to the South China Sea, the EU reaction was, to say the least, tepid, simply acknowledging the ruling and calling on the parties to "resolve it through peaceful means". Evidently watered down by Hungary and Greece, both darlings of Chinese investment, the statement differed by several nautical miles from that of the US – which pointedly called on China to abide by the ruling and characterized as "binding".[8]

By working together, the US and EU could create effective measures to monitor the nature and extent of Chinese investment. Together they account for nearly one-third of global GDP and imports, and the majority share of personal consumption and inward FDI. They are each other's top trading and investment partners.[9]

The US Chamber of Commerce and European Commission have both sharply criticized the lack of reciprocity in China's trade and investment practices.[10] Washington and Brussels both reject China's demand that it be considered, for World Trade Organization purposes, a market economy. The unapologetically authoritarian nature of the Chinese

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5 Baker McKenzie, *Chinese FDI Squeezed in 2017*, cit.

6 Author's interview, Rome, 27 February 2018.

7 Robin Emmott and Angeliki Koutantou, "Greece Blocks EU Statement on China Human Rights at UN", in *Reuters*, 18 June 2017, http://reut.rs/2sDm89q.

8 European External Action Service, *Declaration on the Award rendered in the Arbitration between the Philippines and China*, 15 July 2016, http://europa.eu/!UW99Hp; US Department of State, *Decision in the Philippines-China Arbitration*, 12 July 2016, https://2009-2017.state.gov/r/pa/prs/ps/2016/07/259587.htm.

9 Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2018*, Washington, Center for Transatlantic Relations, 2018, Ch. 2, http://transatlanticrelations.org/?p=3479.

10 US Chamber of Commerce, *Made in China 2025: Global Ambitions Built on Local Protections*, Washington, March 2017, https://www.uschamber.com/node/143221; European Commission, *On Significant Distortions in the Economy of the People's Republic of China for the Purposes of Trade Defence Investigations* (SWD/2017/483), 20 December 2017, http://trade.ec.europa.eu/doclib/html/156474.htm.

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regime, with its new President-for-Life, is clear. Some action is evident on both sides of the Atlantic. The US Congress has begun the process of making its screening mechanism more muscular.[11] The European Commission has put forth a proposal but under its terms, judgments will not be binding and the aim of this new mechanism is not "to establish EU-level screening".[12]

Unfortunately, at a moment when both the US and the EU seem to recognize the challenge of Chinese investment, the Trump administration has chosen a path that makes effective multilateral cooperation more difficult. The Transatlantic Trade and Investment Partnership (TTIP), negotiated over several years, is dead, and now the President has unleashed a trade war against its most important set of economic and political allies. This is happening just when European and American views and interests coincide.

In facing China, "America First" might well mean "Europe Alone." In such a situation, individual states – even core European economic powers – will be left alone to face a potent economic giant, one that is barging through an open door that now swings in the opposite direction.

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[11] Elias Groll and Keith Johnson, "Washington Strikes Back Against Chinese Investment", in *Foreign Policy*, 6 March 2018, http://bit.ly/2teR168.

[12] Gisela Grieger, "EU Framework for FDI Screening", in *EPRS Briefings*, January 2018, p. 6, https://wp.me/p2qdgs-7ZY.

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