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Chinese Investment in Greece
and
the Big Picture of Sino-Greek Relations

Plamen Tonchev

Polyxeni Davarinou

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Introduction and Acknowledgements

IIER is delighted to present this study, exactly twenty years into its 'Asian endeavour'. In late 1997, IIER launched its Asian Studies programme, which later on became the Asia Unit of the institute. Needless to say, China accounts for a big part of the research undertaken by the institute's Asia Unit all these years.

IIER is a founding member of the European Think-tank Network on China (ETNC), which brings together some 20 research institutes and universities from Europe. ETNC has published two annual reports to date, with IIER contributing chapters on Sino-Greek relations (2015), and Belt and Road projects in Greece (2016). With regard to its conceptual framework, this study is largely in line with and is included in an abridged form in the 2017 ETNC report.

With this study, IIER intends to contribute to a much-needed discourse on the growing presence of China in Greece as well as on its implications, such as potential benefits, challenges, lessons learned and the way forward. In doing so, IIER presents its findings and raises issues in a frank and open way.

We would like to thank IIER interns Georgia Gouva, Ioanna Bampoula and Konstantina Skounztouri for contributing to the project as research assistants, as well as Minas Lyristis for helping us finalise the text of the report. We would also like to express our gratitude to the Ministry of Foreign Affairs, Enterprise Greece and the Bank of Greece for granting us access to numerical data. In addition, we take the opportunity to express our sincere thanks to members of the Greek government, career diplomats, distinguished experts, businessmen and media representatives who provided valuable insights into various aspects of Sino-Greek relations.

Above all, credit is due to senior researchers, both in Greece and abroad, for proof-reading drafts of the report, and coming up with very pertinent points and constructive suggestions. The co-authors are particularly indebted to Prof. Asteris Huliaras from the University of Peloponnese; Dr Charalambos Tsardanidis, Director of IIER; and Dr Frans-Paul van der Putten from the Clingendael Institute.

Abbreviations

AEI - American Enterprise Institute
AIIB – Asian Infrastructure Investment Bank
BoG - Bank of Greece
BoP – Balance of Payment
BRI – Belt and Road Initiative
CCP – Chinese Communist Party
CCTV - China Central Television
CDB – China Development Bank
CFIUS – Committee on Foreign Investment in the United States
CITC - China International Television Corporation
CMEC - China Machinery Engineering Corporation
EBRD - European Bank for Reconstruction and Development
ETNC – European Think-tank Network on China
EU – European Union
ESM – European Stability Mechanism
FDI – Foreign Direct Investment
FDIR – Framework of Direct Investment Relationships
FEIR/IOBE – Foundation for Economic and Industrial Research
GDP – Gross Domestic Product
HCAP - Hellenic Corporation of Assets and Participation
HRADF - Hellenic Republic Asset Development Fund
IFRS – International Financial Reporting Standards
IMF – International Monetary Fund
IPA – Investment Promotion Agency
IPTO - Independent Power Transmission Operator
M&As – Mergers and Acquisitions
MoU – Memorandum of Understanding
MSC - Mediterranean Shipping Company
NDB – New Development Bank
NDRC - National Development and Reform Commission
OECD - Organisation for Economic Cooperation and Development
OFDI – Outward Foreign Direct Investment
OTE – (Greek acronym of) Telecommunications Organisation of Greece
PCDC - Piraeus Consolidation & Distribution Center
PCT - Piraeus Containter Terminal
PPA – Piraeus Port Authority
PCCW - Pacific Century CyberWorks
PPC – Public Power Corporation
PRC – People's Republic of China
RGH – Rhodium Group
TEU - Twenty-foot Equivalent Unit
TFEU – Treaty on the Functioning of the European Union
UIC – Ultimate Investing Country
UNCTAD – United Nations Conference on Trade and Development
WAIPA – World Association of Investment Promotion Agencies
ZTE - Zhongxing Telecommunication Equipment corporation

Executive Summary

China's growing presence in Greece

China has been increasingly visible in Greece, primarily through some large-scale investment projects in the country. To date, Chinese investors have targeted transport infrastructure, energy and telecommunications, the common denominator of these sectors arguably being the ambitious Belt and Road Initiative (BRI). China's flagship project in Greece is the investment made by COSCO in the Piraeus seaport in two steps, in 2008 and 2016. There is universal consensus that Piraeus is one of the fastest growing sea ports in Europe and even worldwide. The second biggest Chinese investment in Greece is the purchase of a 24% stake in Greece's Independent Power Transmission Operator by China State Grid. A growing number of Chinese companies are involved in the area of renewable energy sources and telecommunications, too. At the same time, tourism and real estate are also becoming increasingly attractive for Chinese investors, and the weight of these sectors of the Greek economy cannot be overstated. In addition, the China Development Bank has created a foothold in Greece, whereas cash-strapped Greek banks are not in a position to finance infrastructure projects in the country.

What is behind China's presence?

The growing footprint of Chinese investors in Greece aims at the attainment of at least one significant goal - the construction of a cross-border transport corridor from the Mediterranean to Central Europe. This would then allow China to meet two more strategically important objectives: (i) the reduction of transportation cost; and (ii) improved access to and increased presence in the European market, but also to the south of the Mediterranean.

While China's presence in Greece is becoming more and more pronounced, this is largely conditioned by Greece's severe fiscal predicament and protracted economic slump. Being in need of financial aid, Greece has had to accept a number of 'unpalatable' reforms in return for being bailed out by the country's international creditors. This is where Chinese investors step in and take advantage of the belated liberalisation of Greece's economy. At the same time, not all the plans of Chinese investors in Greece have come to fruition, due to political instability, legal uncertainty, red tape or EU rules on competition. COSCO's decision to stay out of the race for TRAINOSE, the national railway operator, is a case in point.

A noteworthy aspect of Chinese investment in the country is the close cooperation between different Chinese companies. The vast majority of Chinese investors present in Greece are subsidiaries of big state-owned enterprises, i.e. entities with a 'common parent'. It is clear that an informal web of Chinese companies centred around Piraeus is taking shape, with a considerable potential turnover which is not easy to record.

China and Greece: A Strategy and a Half

Future Chinese investment projects are now being discussed in the framework of the 2017-2019 Action Plan, signed by Greece and China in May 2017. However, while China has a long-term vision, the determination to meet its objectives and the 'chain of command' to streamline its efforts, Greece's strategy vis-à-vis Chinese investment seems to be half-baked at present. Greek governments certainly have high expectations with regard to socio-economic benefits to be drawn from Chinese investment in the country, such as stock sale, fees, taxation and contributions to the national social security system. Furthermore, in promoting Sino-Greek relations, Athens seems to count on political dividends in its tense relations with the international creditors. However, to what extent potential benefits are fully utilised by the Greek side is a different matter.

Arguably, the biggest challenge in making the most of foreign – and Chinese – investment is the insufficient ownership of the process of economic liberalisation on the part of the Greek state and society. This predicament cannot be overcome by the fact that the current government has swerved from adamantly opposing privatisation projects to a pro-investment narrative. Therefore, three crucial questions that Greece needs to answer are whether: (i) there is sufficient political will and administrative capacity, so that hurdles to foreign investment in Greece are effectively abolished; (ii) the potential impact of foreign investment, including Chinese projects, is properly monitored and assessed by the Greek state; (iii) Chinese investment capital alone can ensure the boost needed by the Greek economy, so that it can crawl out of its current quagmire. Notably, while a strict interpretation of the FDI definitions may lead to Chinese economic presence in Greece being underreported, China has yet to join the list of the most important foreign investors in the country.

Greece: Between Brussels and Beijing?

Exactly how the asymmetrical Sino-Greek relationship and the ‘strategic partnership’ catchphrase mix remains to be seen. In any case, Greece’s debt crisis has definitely contributed to the *rapprochement* between Athens and Beijing, and the political implications of this ever-closer partnership are hard to play down. Greece has now become a prospective member of the China-led Asian Infrastructure Investment Bank and expresses its willingness to start talks with the New Development Bank. In addition, the Greek government is considering becoming more actively involved in the 16+1 platform for cooperation between China and countries in Central and Eastern Europe. In what has caused undisguised irritation in the EU, Greece has sided with China on sensitive political issues. Furthermore, amidst the turmoil in the Mediterranean and the Middle East, geopolitical considerations are also sneaking into the big picture of Sino-Greek relations. On an array of issues, not least of all the ongoing European debate on screening foreign investment, Greece is walking on a tight rope between EU membership and flexibility vis-à-vis China.

For its part, China has a comprehensive strategy for its increasing economic presence on a global scale, including Greece. Apart from the specific Greek market, one should look into broader considerations that drive Chinese investors in the country. The activities of most Chinese companies expand across the Balkans, along the Mediterranean rim and further north into Europe. Moreover, Chinese corporations and authorities demonstrate that they know what they are after, but also what they do not want to get embroiled in.

The way forward

Given the enormous needs of the Greek economy, Chinese investment is undoubtedly sought-after, but ideally it should be attracted, assessed and put in use after some necessary questions are raised and answered in a meaningful way. Sino-Greek relations will definitely be developing in the years to come and hopefully this will happen in a way that allows Athens to strike a delicate balance between Beijing’s priorities and Greece's core interests, in the true spirit of ‘win-win cooperation’.

Scope and Methodology of the Study

Research questions

The study covers four topical areas and the research questions have been grouped under the following headings:

1) Mapping Chinese investment in Greece in terms of specific projects: Sectors targeted and overall capital volumes recorded to date, while plans currently being considered are also presented. A significant question is to what extent Chinese capital can help Greece meet the country's need for foreign investment and reduce its investment gap?

2) Drivers for Chinese investment in Greece, i.e. the rationale behind these projects from the viewpoint of both sides: What motivates Chinese investors to target Greece? Are there any patterns to be detected as to the profile of Chinese companies or investment modalities? What motivates Greek stakeholders to seek and facilitate Chinese investment projects – or oppose them? What benefits can Greece possibly expect from Chinese investment in the country? How do the strategies of the two sides compare?

3) Reception and evaluation of Chinese investment in Greece: Perceptions regarding Chinese investment in Greece are examined at three levels - Greece, China and third parties, such as the EU and the international media. For instance, how are Chinese investment projects perceived by local stakeholders, such as political parties, trade unions, the media, the general public, etc? How is China's growing economic presence in Greece viewed by EU institutions and member states? What is the media coverage of Chinese investment in Greece? To what extent is the potential impact of these investment projects subject to a thorough evaluation process, which would then feed into decision-making on the part of Greek authorities?

4) The link between Chinese investment and Greece's international standing: Is there a correlation between China's economic presence in Greece and Beijing's growing

political clout? If so, to what extent does Chinese investment affect the relations between the two countries as well as Greek foreign policy options? Is Beijing's influence in Greece proportionate to the potential benefits to be drawn from Chinese investment in the country? And what should Greece's response be from a strategic point of view?

At the end of this exercise, IIER formulates some policy recommendations on the above issues. Needless to say, they cannot be prescriptive and are meant to serve as food for thought to be considered by key stakeholders.

Methodology

With regard to quantitative investment-related evidence, IIER has not compiled data itself – rather, it presents data as recorded and quoted by other sources. The study was carried out through a mix of desk review of related literature or Internet sources, and interviews with career diplomats, Greek and foreign researchers, Greek public administration officials (ministries, BoG, Enterprise Greece, etc), EU services, representatives of Chinese businesses and the PRC Embassy in Athens, etc. In addition, given the political nature of foreign investment, the IIER research team has recorded views of the main Greek political parties, as reflected by the media.

A key limitation of the research relates to data availability. Collecting data has not always been easy, due to confidentiality aspects, if not outright secrecy, standing in the way. In some cases, though not all, related evidence is understandably considered confidential. For instance, the Bank of Greece (BoG) cannot reveal FDI data in relation to specific enterprises or projects, therefore it only provides aggregate data. Notably, similar cases have been reported by other ETNC partners in their respective countries. The PRC embassy in Athens states that it has never collected specific data on Chinese companies active in Greece, nor are they obliged to submit relevant information to the embassy.[1] Staff from Enterprise Greece, the state's investment promotion agency, note that, while they compile information through official BoG statistics and media announcements, the organisation does not undertake a follow-up on whether and to

[1] Communication with the Commercial Section of the PRC embassy to Greece, 16 October 2017.

what extent those agreements are actually enforced. Furthermore, data announced by FDI global trackers rarely match national statistics due to the divergent collection methods used, which appears to be a common challenge in other countries as well.[2]

The biggest methodological issue of all appears to relate to defining FDI. In doing so, the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD) take into account the notions of 'lasting interest' and a 'significant degree of influence on the management' of an enterprise.[3] Hence, a stake of 10% of the ordinary shares of a direct investment enterprise is generally regarded as being the minimum threshold for a foreign investment to be classified as FDI for statistical purposes. A distinction is made between 'FDI stocks' (the total value of foreign-owned assets at a given time or debt, such as intercompany loans) and 'FDI inflows' (capital provided by a foreign investor to a foreign affiliate in terms of equity, loans or reinvestment earnings).[4] Other FDI definitions refer to the so-called asset/liability principle, as opposed to the directional principle i.e. inward versus outward investment).[5] Key notions relating to FDI definitions are presented in Annex I.

In practice, a precise assessment of the volume of FDI would only be possible if one fine-combed the expenditure of foreign investors in order to establish which expenses can be deemed eligible under internationally accepted FDI definitions. For instance, running costs, such as taxes, utility bills, staff salaries and insurance payments, are not taken into consideration in the assessment of FDI schemes, even if they account for a sizeable portion of overall expenditure and the total cost of an investment project.

Still another issue to be taken into account is the fact that many Chinese companies have their seats in Hong Kong, as is the case with the leading Chinese investor in Greece, COSCO.[6] For the purpose of this research, investors registered in mainland

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[2] 'Challenge and Opportunity: Chinese Direct Investment in Germany', *Bertelsmann Stiftung*, p. 39, https://www.bertelsmann-stiftung.de/fileadmin/files/Bst/Publikationen/GrauePublikationen/NW_Chinese_Direct_Investment.pdf.

[3] 'Foreign direct investment statistics, Explanatory notes', *OECD*, p. 1, https://www.oecd.org/daf/inv/FDI-statistics-explanatory-notes.pdf.

[4] Lisa E. Sachs, Karl P. Sauvant, 'BITs, DTTs, and FDI flows: An Overview', http://ccsi.columbia.edu/files/2014/01/Overview-SachsSauvant-Final.pdf.

[5] 'Foreign direct investment statistics, Explanatory notes', *OECD,* p. 3, https://www.oecd.org/daf/inv/FDI-statistics-explanatory-notes.pdf.

[6] Registration in Hong Kong ensures considerable advantages compared to mainland China, such as convertible currency; uninhibited capital mobility; legal certainty; no tax on interest, dividends and capital gains; total access to

China and Hong Kong are grouped together, based on the ‘ultimate investing country’ (UIC) concept, also presented in Annex I. In addition, the IIER team made a deliberate choice not to cover the area of trade and Sino-Greek cooperation in the strategically important shipping industry – these issues have been extensively studied on a number of other occasions, whereas Chinese investment in Greece itself is a relatively new topic and, in a way, still a ‘terra incognita’.

This study does not focus exclusively on FDI, but covers some other aspects of Chinese investment in Greece in a broader sense. The methodology extends well beyond mere data and quantitative analysis, as the IIER researchers look into drivers, expectations, modalities, hurdles, benefits, and the regional and European context of Chinese investment in the country. In this way, the IIER team aimed to address developments that may be not always be in the spotlight, hence the five case analyses offered in the report - it is hoped that by zooming into some less visible aspects the report will contribute to a better understanding of the evolving Sino-Greek relations.

Being mindful of the international audience that watches closely Chinese presence in Greece, the IIER research team deliberately spent time delving into the intricacies of the Greek political scene and public administration. Hopefully, this will be appreciated by foreign readers who are not sufficiently familiar with the current and oft-puzzling set-up in the country. In addition, this study inevitably touches on some aspects that do not relate exclusively to the bilateral level of relations between Greece and China. In order for the non-Greek reader to grasp the context of Greece in the 2010s, one needs to take into account some broader issues, such as the country’s relationship with the EU and the international creditors in the wake of the crisis that has necessitated three bail-out agreements to date. It is within this conceptual and institutional framework that Sino-Greek relations should be examined.

China’s capital market/savings, and last but not least, Beijing’s support. Pepe Escobar, ‘Xi’s road map to the Chinese Dream’, *Asia Times,* 21 October 2017, http://www.atimes.com/article/xis-road-map-chinese-dream/.

Chapter 1:
Mapping Chinese investment in Greece

Volume of Chinese investment in Greece

China is a newcomer to Greece as a major economic partner and investor. While the two countries have had diplomatic relations since 1972[7], it was only in the mid-2000s that they essentially discovered each other.[8] The first influx of Chinese FDI was recorded by the Bank of Greece (BoG) in 2003, however what could be viewed as the starting point of Chinese presence through foreign investment is the year 2008 - this is when the company China COSCO Shipping[9] signed a concession agreement with the government for a big part of the Piraeus sea port.

The total volume of Chinese investment in Greece till the end of 2016 is hard to establish with a sufficient degree of precision, as different sources quote different figures (presented in Annex II). Thus, Rhodium Group (RHG) places the total volume of Chinese FDI in Greece over the period in question at €840 million. Data obtained from BoG point to an even lower figure, €585.2 million (€137.8 million from mainland China and €447.4 million from Hong Kong), as BoG only records FDI-related data on a balance-of-payment (BoP) basis. The amounts announced as the total value of investment schemes are not paid at once and tracking the schedule of payments is extremely difficult. For instance, the down payment of €50m received by the Piraeus Port Authority (PPA) after the 2008 concession agreement is only partially reflected in the authority's revenue – under the international financial reporting standards (IFRS), it must be equally distributed throughout the entire concession period.[10]

[7] The late Konstantinos Karamanlis was the first Greek prime minister to visit China in 1979.

[8] Plamen Tonchev, 'Greece and China: Discovering each other at last?', in the report 'Mapping Europe-China Relations: A Bottom-Up Approach', pp. 36-40, *European Think-tank Network on China (ETNC)*, 2015.

[9] COSCO Pacific Ltd at the time, China COSCO Shipping was formally established in February 2016 through the merger of China Ocean Shipping (Group) and China Shipping (Group).

[10] PPA 1st Half-Year Financial Report, p. 8

Therefore, the safest indication of the volume of Chinese investment in Greece is provided by BoG, despite the obvious fact that these figures are lower than the actual bulk of investment capital. At the same time, the Chinese Ministry of Commerce (MOFCOM) announces that by the end of June 2017 China had invested a total of $1.3 billion (€1.1 billion) in Greece.[11] According to the Greek embassy in Beijing, Chinese foreign investment in Greece currently amounts to $1.6 billion (roughly, EUR1.4 billion).[12] A recent study commissioned by the European Bank for Reconstruction and Development (EBRD)[13] raises the volume of Chinese investment in Greece to some €4 billion, though some items on the list relate to bank loans. Another foreign investment global tracker, the American Enterprise Institute (AEI), estimates that the total volume of Chinese investment in Greece between 2005 and 2017 amounts to $6.7 billion (€5.7 billion).[14] Some media reports in Greece refer to a total of €7 billion.[15]

While Chinese economic presence in Greece may be underreported,
China has yet to join the list of the most important foreign investors in the country.

The IIER team finds that, in focusing too much on the quantitative aspects of FDI, relevant research may: (i) get caught up in diverging interpretations and estimates; (ii) lose sight of other equally important aspects, such as the institutional framework and political context of foreign investment or socio-economic benefits to be expected. For instance, COSCO holds that since 2009 the corporation has paid more than €1 billion to the Greek state in taxes and staff salaries, i.e. expenses that are not considered 'eligible' under the FDI definition.[16] Yet, salaries and social benefits (e.g. insurance

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[11] A statement released by the Chinese Ministry of Commerce (MOFCOM) to the Global Times 'China ramps up investments in Greece sparking Western concerns', *Seatrade Maritime*, 7 September 2017, https://www.maritimes.gr/art/en_2412.php.

[12] Yin Yeping, 'Greek Ambassador to China has high expectations for bilateral ties', *Global Times*, 22 October 2017, http://www.globaltimes.cn/content/1071332.shtml.

[13] Jens Bastian, "The potential for growth through Chinese infrastructure investments in Central and South-Eastern Europe along the Balkan Silk Road", *EBRD*, p. 10, http://www.ebrd.com/news/2017/what-chinas-belt-and-road-initiative-means-for-the-western-balkans.html.

[14] http://www.aei.org/china-global-investment-tracker/. According to IIER calculations, the total worth of Chinese investment projects presented in the AEI dataset amounts to $7.9 billion (€6.8 billion).

[15] Ilias Bellos, 'To Pekino ehei ependysei pano apo 7 dis evro stin Ellada ta teleftaia hronia' ('Beijing has invested more than 7 billion in Greece over the last years'), *Kathimerini*, 28 August 2017, http://www.kathimerini.gr/924048/article/oikonomia/ellhnikh-oikonomia/to-pekino-exei-ependysei-panw-apo-7-dis-eyrw-sthn-ellada-ta-teleytaia-xronia.

[16] Ilias Bellos, *ibid.*

payments) are very tangible benefits that Greece hopes to draw from foreign investment. Moreover, COSCO is reportedly planning to invest an extra €500 million beyond its compulsory investment in the port of Piraeus[17] – it is not clear whether this amount of money, once the additional investment has gone ahead, will be properly reflected from a strictly FDI point of view.

Chinese investment vs Greece's investment gap

According to BoG data, by the end of 2015 China was not among the top ten foreign investors in the country.[18] This clearly shows that, while a strict interpretation of the FDI definitions may lead to Chinese economic presence in Greece being underreported, China has yet to join the list of the most important foreign investors in the country. Another intriguing question is to what extent current and future Chinese investment could help Greece address its daunting investment gap and crawl out of its current fiscal and socio-economic quagmire.

IN FOCUS

1. Greece's Investment Gap

Greece is not in a position to boast considerable volumes of foreign investment. According to the United Nations Conference on Trade and Development (UNCTAD), in 2010 the total FDI stock in Greece stood at $35.0 billion (or approximately €30.2 billion). By contrast, the volume of FDI was nearly half that in 2015, $17.7 billion (or approximately €15.3 billion) and Greece was only ahead of three other EU member states with much smaller population, namely Lithuania, Slovenia and Latvia (See Annex III on FDI in EU member states). This indicator clearly illustrates the magnitude of the crisis the country has undergone over the last years and its slump in terms of FDI attractiveness.

In fact, this has been a long-standing structural deficiency of the Greek economy. Historically, Greece has not attracted systematically significant foreign funds and

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[17] *Source:* http://www.newgreektv.com/news-in-english-for-greeks/greece/item/20299-cosco-to-invest-an-extra-500m-in-piraeus.

[18] The list includes Germany (€12.5 billion), France (€8.4 billion), the UK (€4.0 billion), Cyprus (€3.7 billion), The Netherlands (€2.1 billion), the USA (€2.0 billion), Switzerland (€1.6 billion), Italy (€1.3 billion), Spain (€1.1 billion) and Canada (€1.1 billion). *Source:* http://www.enterprisegreece.gov.gr/en/greece-today/why-greece/foreign-direct-investment.

has been dependent on domestic capital, leading to an investment gap with negative impact on competitiveness and growth. Investment needs for 2017-2022, compatible with rapid economic growth trends, are estimated at around €270 billion, but foreseeable funding flows amount to less than half that, €115 billion (See Annex III).

The Big Five: Key Sectors Targeted by Chinese investors

To date, the majority of Chinese investment projects have been recorded in the areas of transport infrastructure, energy and telecommunications. At the same time, real estate and tourism are also becoming increasingly attractive for Chinese investors. Two interesting findings coming out of the IIER research are that: (i) some Chinese corporations are targeting more than one sector, probably as a sign of diversification; (ii) there are indications of close cooperation between Chinese investors active in different sectors, which may be inherent to the 'Chinese way of doing business'. Some of the key investment projects, including planned ones, are presented below.

Transport infrastructure

No doubt, China's flagship project in Greece is the investment made by COSCO in Piraeus. The concession agreement worth €831.2m was signed in November 2008[19] and envisaged a 35-year management lease for two of the three piers.[20] Subsequently, in 2016 COSCO paid €280.5m for 51% of the shares of the Piraeus Port Authority (PPA) and is to pay €88 million for another 16% in 2021, on condition that the company invests an additional €350 million during that five-year period. COSCO is not only a shipping company, but a conglomerate of companies involved in maritime and other logistics. Its container-shipping activities are managed by a subsidiary called

[19] In force since October 2009, when Pier II started operating under the new provider, i.e. the Piraeus Container Terminal (PCT).

[20] Cosco Pacific Ltd offered in current prices €4.3 billion as the total fee for the period of concession of 35 years, of which 79% is guaranteed, while it will realise investments of €620m, of which 50% was earmarked for tripling the capacity of the container terminal until 2015, PPA 2008 Annual Report, p. 9.

COSCO Container Lines. The company's subsidiary for port operations, COSCO Shipping Ports, is among the world's largest container-terminal operators.[21]

According to some specialised sources, in 2016 the throughput of the Piraeus Container Terminal (PCT) reached 3,675,000 twenty-foot container equivalent units (TEU).[22] At any rate, there is universal consensus that Piraeus is one of the fastest growing sea ports in Europe and even worldwide. COSCO has stated that it wants to increase the container turnover of Piraeus to 5 million TEU by 2018 and 7.2 million TEU by 2022, which could turn Piraeus into Europe's fifth largest port.[23]

> There is universal consensus that Piraeus is one of the fastest growing sea ports in Europe and even worldwide.

Since 2009, large-scale infrastructure development in Piraeus has been under way or is being planned. Namely, the old exhibition centre is to be transformed into a cruise passenger terminal, while the construction of a five-star hotel has been planned.[24] Following the 2016 takeover, COSCO embarked on a multi-million investment project to turn the Piraeus into a major cruise hub – the port will be able to host 14 cruise ships simultaneously, including four behemoths, and is expected to become a focal point for much of the Eastern Mediterranean cruising industry.[25] The company aims to accommodate up to 3 million passengers per year.[26] Terminals for cars and cruisers are already operational and, in addition, COSCO's ambitious plans include the creation of a floating repair zone for ships of up to 80,000 deadweight tonnes.[27] Furthermore, COSCO plans to establish and expand logistics bases through the conglomerate's subsidiary Piraeus Consolidation & Distribution Center (PCDC). According to the PRC embassy in

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[21] Frans-Paul van der Putten (ed), 'The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey', *Clingendael*, December 2016, p. 14

[22] Theo Notteboom, 'PortGraphic: Top 15 container ports in Europe in 2016 – has TEU growth resumed?', http://www.porteconomics.eu/2017/03/26/portgraphic-top-15-container-ports-in-europe-in-2016-has-teu-growth-resumed/.

[23] 'COSCO sees Greece's Piraeus among world's top 30 ports by 2018', Reuters, http://www.dailymail.co.uk/wires/reuters/article-3802617/COSCO-sees-Greeces-Piraeus-worlds-30-ports-2018.html.

[24] PPA Annual Report 2009, p. 7 and p. 9.

[25] John Psaropoulos, 'Greece's Pivot toward China', 29 July 2017, http://www.thenewathenian.com/2017/07/greeces-pivot-toward-china.html.

[26] As stated by the COSCO's managing director, Xu Lirong, during prime minister Tsipras' visit to Shanghai in 2016, http://www.newgreektv.com/news-in-english-for-greeks/greece/item/20299-cosco-to-invest-an-extra-500m-in-piraeus.

[27] John Psaropoulos, ibid.

Athens, about €5 billion is to be invested in Piraeus by COSCO over the years to come.[28]

Energy

The second biggest Chinese investment in Greece in 2016 was the purchase of a 24% stake in Greece's Independent Power Transmission Operator (IPTO or ADMIE in Greek) by China State Grid International Development Ltd, the biggest company of electricity transmission and distribution operator worldwide.[29] IPTO/ADMIE, which was fully owned by Greece's state-owned Public Power Corporation (PPC) before the deal with the Chinese operator, has a grid of more than 11,000 km of high-voltage power cables across the country. State Grid's investment is worth €320m and the deal was completed in 2017.

A growing number of Chinese companies are involved in the area of renewable energy sources. Sky Solar Holdings Ltd has invested €15m, according to Enterprise Greece, the state agency specialising in the attraction of foreign investment. Since 2012, the company has installed photovoltaic parks, which have subsequently been sold to local operators. Yangtze Solar Power Investment (YSPI) Ltd and China New Era Group Corporation, too, specialise in the construction of photovoltaic parks. Hanergy Global Solar Power Hellas constructs and manages hydroelectric power utilities, wind and photovoltaic power plants, the provision of advisory and technical service, as well as the sale of photovoltaic products.[30]

In November 2017, Shenhua Renewables announced the acquisition of a 75% stake in four wind parks, which are being developed by the Greek corporation Copelouzos Group. The terms of cooperation are spelled out in a three-way MoU between Copelouzos Group, PPC and Shenhua – the latter is to become a partner in the joint

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28 Statement made by the Chinese ambassador to Greece at a conference on 'The New Silk Road of China: One Belt, One Road (OBOR) and Greece', co-organised by IIER on 30 March 2016 in Athens, http://gr.china-embassy.org/eng/zxgx/t1351970.htm.

29 Adam Minter, 'China wants to power the world', *Bloomberg*, 4 April 2016, 'https://www.bloomberg.com/view/articles/2016-04-03/china-s-state-grid-wants-to-power-the-whole-world.

30 *Source*: http://hanergy.gr/about-us/hanergy-hellas/.

company set up by PPC and Copelouzos, PPC Solar Solutions SA.[31] The total worth of future joint projects to be undertaken by the new entity is estimated at €3 billion[32].

Telecommunications

This sector has also attracted a number of Chinese corporations, even though Greece has few businesses with a significant technological edge in this respect.[33] For instance, Huawei sells telecoms equipment, such as mobile phones, and invests in the creation of R & D centres with high-tech applications. The company plans to work together with Greek universities and research centres, though reportedly there have been delays in this particular area. However, Huawei is already cooperating with local software developers and offers stipends to promising young specialists.[34]

The Zhongxing Telecommunication Equipment Corporation (ZTE) also provides equipment in Greece as well as network and big data management, and mobile telephony services. During Greek prime minister Alexis Tsipras' trip to China in July 2016 and his visit to ZTE's R&D center, the corporation signed a Cooperation Agreement with the Greek company Forthnet for the development of a next-generation network (NGN).

Pacific Century CyberWorks (PCCW Global) is a subsidiary of the biggest telecommunications business in Hong Kong, Hong Kong Telecom (HKT), which is active in the areas of telecommunications equipment, network management, mobile telephony and big data management. The PCCW Global has bought off the Greek start-up company Crypteia Networks, which specialises in security-as-a-service. Pacific Center CyberWorks is reportedly interested in the construction of broadband Internet backbone infrastructure in Greece and is seeking cooperation with the Telecommunications Organisation of Greece (OTE).

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[31] Chrysa Liaggou, 'Shenhua joins power market through deal with PPC, Copelouzos', *Ekathimerini*, 2 November 2017, http://www.ekathimerini.com/222917/article/ekathimerini/business/shenhua-joins-power-market-through-deal-with-ppc-copelouzos.

[32] *Source*: http://www.copelouzos.gr/en/news/newsDetails?group=cpmNws~frl=news12052017.

[33] Ivana Casaburi, 'Chinese investment trends in Europe: 2016-17 Report', *ESADE*, p.70.

[34] E.g. in 2014 Huawei financed the participation of 10 Greek students in a Future Telecom Seed training course in China. *Source:* http://www.tovima.gr/finance/article/?aid=764642.

China International Television Corporation (CITC), a subsidiary company of the state broadcaster China Central TV (CCTV), aims at the promotion of a programme known as the Great Wall Pack content. CITC, too, is interested in innovation infrastructure for the development of a next-generation network (NGN) together with Forthnet and ZTE.

Real Estate

Another Chinese company, active in Greece, is Fosun International Ltd, which is involved – among other things[35] - in real estate development. In 2014, a consortium led by the Greek group Lamda Development won a public tender for a €7 billion project for the development of Athens' former airport at Hellenikon. The Lamda Development group, backed by Fosun and the Abu Dhabi-based property firm Al Maabar, offered €915 million.[36] Reportedly, Fosun is ready to invest $200 million in the reconstruction of the former Athens airport.[37]

> While the purchase of real estate in Greece by Chinese individuals is not FDI, the total turnover of this emerging industry is anything but negligible.

In addition, some 850 Chinese citizens are known to have bought property in Greece by making use of the so-called Golden Visa programme. Given that they spend an average between €550,000 and €600,000 each, it is reasonable to assume that the total value of these purchases is in the range of €500 million.[38] While the purchase of real estate by individuals is not FDI, the total turnover of this emerging 'industry' in Greece is anything but negligible.

[35] Since 2011 Fosun has held 13.8% of the shares of Folli Follie Group, a Greek jewellery producer, and Fosun's shares are reportedly worth more than €100m. *Source:* http://capital.gr/agores/3087957/megali-ptosi-gia-folli-follie-logo-fosun.

[36] 'Greece picks Lamda-led group to develop former Athens airport', *Reuters*, 31 March 2014, http://www.reuters.com/article/greece-hellenikon/update-1-greece-picks-lamda-led-group-to-develop-former-athens-airport-idUSL5N0MS45G20140331.

[37] Yiling Pan, 'Fosun Spearheads China's Dominant Investments in Greece', *Jing Daily*, 8 June 2017, https://jingdaily.com/fosun-spearheads-chinas-greek-investment/.

[38] *Source*: Enterprise Greece.

Tourism

Tourism is also an increasingly attractive sector for Chinese companies and individuals. As of September 2017, Air China has commenced direct flights between Beijing and Athens, with onward embarkation for Chinese passengers at Piraeus Port onto cruise ships sailing the Aegean, the Adriatic coast and the Mediterranean. Moreover, in May 2017 COSCO Shipping signed an agreement with China Eastern Airlines for charter flights bringing Chinese tourists to Greece.[39] Fosun, too, is aiming at the tourist sector: the conglomerate plans to use its membership in the Thomas Cook Group to begin building vacation packages specifically for Chinese tourists.[40]

Other actors and stakeholders

Apart from contracting authorities and investors, a number of other actors and stakeholders are involved in China-funded projects one way or another. In the case of Piraeus, as an example, these are foreign corporations using PPA services: Hewlett Packard,[41] Maersk, the Mediterranean Shipping Company (MSC), the CMA CGM Group[42], Evergreen Marine, Hapag-Lloyd, Huawei, ZTE, Sony, Samsung, DHL, etc. Reportedly, British American Tobacco is also considering a €100 million investment in the port of Piraeus over a three-year period.[43] Greek partners participating in these deals are both state-owned entities (e.g. PPA, PPC, etc.) and private businesses. However, as the Shenhua-Copelouzos cooperation illustrates, it is above all state property that is targeted through Chinese investment projects.

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[39] The first Celestyal Cruise ship carrying a group of Chinese tourists set sail from the Port of Piraeus in April 2017. Celestyal will also use the Greek port of Lavrio for home porting.

[40] Philip Chrysopoulos, 'Chinese Investors First in Taking Advantage of Greece's Golden Visa Program', *Greek Reporter*, 6 June 2017, http://greece.greekreporter.com/2017/06/06/chinese-investors-first-in-taking-advantage-of-greeces-golden-visa-program/.

[41] The US technology giant Hewlett-Packard (HP) Inc. is a case in point. In 2013, 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. The China–Czech Republic supply line via Piraeus has been established and is managed for HP by yet another subsidiary of COSCO: COSCO Logistics. Frans-Paul van der Putten (ed), 'The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey', *Clingendael*, December 2016, p. 14

[42] CMA CGM's Terminal Link is part of a consortium, which acquired a majority stake in the port of Thessaloniki in April 2017. The other members of the consortium are Deutsche Invest Equity Partners and Belterra Investments.

[43] *Source:* http://iobe.gr/docs/research/RES_03_08032016_REP_GR.pdf, p. 35

Chapter 2:
Drivers of Chinese investment

Objectives of Chinese investors

The rationale behind the decision of Chinese corporations to invest in Greece varies considerably, however it is clear that the growing Chinese presence in Greece aims at the attainment of at least one very important goal - the construction of a cross-border transport corridor from the Mediterranean to Central Europe.[44] This would then allow China to meet two more strategically important objectives: (i) the reduction of transportation duration and cost[45]; (ii) improved access to and increased presence in the European market as well as to the south of the Mediterranean. For the time being, Greek natural resources are not being used by Chinese investors, though that will clearly be the case if the CMEC project in Meliti[46] gets off the ground. At the same time, access to advanced technologies appears to be an increasingly prominent aspect in the activities of some telecommunication corporations, such as Huawei and ZTE, through cooperation with Greek software companies.

Some of the Chinese investors seem to have identified specific needs in Greece. For instance, Sky Solar Holdings has decided to invest in Greece, despite the crisis the country is going through, mainly due to the relatively high production cost of electricity in the country.[47] Other investors are working towards generating demand for their services and, once again, COSCO is a case in point regarding its plans to increase

[44] Plamen Tonchev, 'China's Road: Into the Western Balkans', *European Union Institute for Security Studies*, https://www.iss.europa.eu/content/chinas-road-western-balkans.

[45] Offloading at Piraeus saves a week's sailing to the ports of northern Europe—and at least $2 million per trip, John Psaropoulos, 'Greece's Pivot toward China', 29 July 2017, http://www.thenewathenian.com/2017/07/greeces-pivot-toward-china.html.

[46] Under the terms of an MoU signed by CMEC and PPC in October 2016, the Chinese corporation was to undertake the construction and operation of a lignite production unit ('Meliti-2') as well as the operation of an existing unit in the same area ('Meliti-1').

[47] *Source:* http://www.enterprisegreece.gov.gr/en/about-us-/media-center/newsletter-view?nwslID=24&sec=2.

the number of cruiser passengers and even construct hotels and restaurants for the rapidly growing flows of Chinese tourists visiting Greece.

An interesting aspect of Chinese investment in the country is the close cooperation between different Chinese companies. Thus, both Huawei and ZTE have decided to develop logistic hubs in Piraeus, in concert with COSCO's Consolidation & Distribution Center (PCDC), though relevant details are not readily available at present. In addition, in March 2014, ZTE signed an agreement with PCT, under which the latter is to become the former's logistics centre for twelve South-Eastern European countries.[48] It is not unreasonable for the notion of Chinese 'fellow enterprises' to be taken into account with a view to Chinese FDI and broader investment in Greece, given that the state is a 'common investor' or a 'common parent' of all the SOEs.[49] For example, it has been pointed out that COSCO is fully owned by the Assets Supervision and Administration Commission of the State Council, which is part of China's central government and is under the control of the Chinese Communist Party (CCP). Therefore, whereas COSCO's primary function is commercial, it does not seem to operate independently from the Chinese political system.[50]

IN FOCUS

2. Profile of Chinese investors

The vast majority of Chinese businesses represented in Greece are subsidiaries of big state-owned enterprises (SOEs). This applies to COSCO, which is controlled 100% by COSCO Shipping (Hong Kong) Ltd, a state-owned company. State Grid is the world's largest electric utility company and holds a monopoly in China. The core of its business revolves around constructing and operating power grids. State Grid was founded in 2002, as a by-product of China's three-stage power sector reform that started in 1986. The reform separated the former State Power

[48] *Source*: http://www.pct.com.gr/history.php.

[49] OECD defines the so-called 'fellow enterprises', i.e. enterprises that do not have a direct investment relationship themselves, but that have a direct investor in common. Transactions between fellow enterprises are included in FDI statistics, because they are likely to result from the influence of the common direct investor. 'Foreign direct investment statistics, Explanatory notes', *OECD*, p. 1, https://www.oecd.org/daf/inv/FDI-statistics-explanatory-notes.pdf.

[50] Moreover, there are indications that the Chinese government controls COSCO not only via the State Council, but also directly, as it appoints the company's top executives, Frans-Paul van der Putten (ed.), 'The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey, *Clingendael*, December 2016, p. 16.

Corporation of China into two grid companies, resulting in the emergence of State Grid. The company now owns and manages five regional power grid companies and twenty-four electric power companies.[51]

Shenhua Renewables is a subsidiary of Shenhua Group Corp Ltd, the largest coal producer in the world and one of the largest producers of electricity in China. In August 2017, the Chinese government approved its merger with China Guodian Corp., which is among China's largest power generators. The new entity will be the world's second-biggest company by revenue and largest by installed capacity.[52] *All the other companies promoting renewable energy resources or those active in the area of telecommunications are also SOEs. For instance, China New Era Group Corporation is owned by the state-owned company China Energy Conservation and Environmental Protection (CECEP), and YSPI Ltd is a subsidiary company of the state-owned China Three Gorges Corporation.*

Furthermore, it is clear that an informal web of Chinese companies centred around Piraeus is taking shape, with a considerable potential turnover which, however, cannot easily be recorded. Thus, much of COSCO's development budget is for hotels and shopping malls within the port[53], in view of the growing influx of Chinese tourists to the area. Air China flies Chinese tourists in, they are then transported to the port of Piraeus managed by COSCO and are taken onboard cruisers operated by foreign companies.

In a longer-term perspective, it is becoming increasingly obvious that the initial Piraeus investment serves the purpose of an 'anchor investment'[54] that has now started to attract Chinese follow-up investment in sectors beyond maritime ports and container shipping. There are indications that the sectors of (port) transport infrastructure, logistics and energy are attracting new Chinese investment groups, such as Dalian

[51] *Source:* Fortune Global 500 List 2017, http://fortune.com/global500/state-grid/.
[52] 'China Is Creating the World's Largest Power Company', *Bloomberg*, 28 August 2017, https://www.bloomberg.com/news/articles/2017-08-28/china-approves-guodian-shenhua-group-to-merge.
[53] John Psaropoulos, 'Greece's Pivot toward China', 29 July 2017, http://www.thenewathenian.com/2017/07/greeces-pivot-toward-china.html.
[54] For instance, following the acquisition of PPA, COSCO Shipping is reportedly considering supplementing this move with an additional port investment in northern Greece. One candidate under consideration is the port of Alexandroupoli. The city in question benefits from its position along land and sea routes connecting Greece with Turkey and Bulgaria.

Wanda Group Co. or Greenland Holdings Corp., which are targeting tourism, commercial real estate, insurance companies, banking services in Greece, etc.[55] COSCO has purchased stock and has acquired terminals in other Mediterranean ports, namely in Kumport in Turkey, in Naples in Italy, and in Valencia and Bilbao in Spain. Moreover, the conglomerate has been expanding its presence in north European sea ports as well.[56]

Apart from the specific Greek market, one should look into broader considerations that drive Chinese investors in Greece.

For its part, State Grid Corporation plans to develop an energy grid that is to draw on wind turbines and solar panels on a global scale[57] and Greece may be just a tiny link in this chain. The magnitude of State Grid's investment in Greece could well be seen as a door-opener for similar cooperation initiatives between Sino-Greek companies expanding into the energy sectors of neighbouring Balkan countries or along the Mediterranean rim. For instance, it is speculated that the recent acquisition of 24% of IPTO by State Grid may give the Chinese corporation access to a significant future project for the construction of the so-called EuroAsia Interconnector, which is to link the power supply systems of Israel, Cyprus and Greece (via Crete). The three countries have already agreed to develop a 1,520 km sub-marine cable. This 'electricity highway', with a capacity of up to 2,000 MW, will have onshore stations in each country.[58] It has not remained unnoticed that the purchase of IPTO stock seems to supplement equity funding by State Grid in Portugal (25% shareholding in REN in 2012), Italy (35% shareholding in CDP Reti in 2017) and Spain (bidding for German utility E.ON's northern Spanish grid). This equity funding creates a network or cluster of investments that enables State Grid Corp. to establish a regional electricity grid portfolio in

55 Jens Bastian, 'Balkan Silk Road Report', *EBRD*, p. 12.

56 Vincent Wee, 'COSCO Shipping Ports Buys Over Zeebrugge Terminal from APM Terminals', *Seatrade Maritime News*, 11 September 2017, http://www.seatrade-maritime.com/news/asia/cosco-shipping-ports-buys-over-zeebrugge-terminal-from-apm-terminals.html.

57 Jian Kejun & Jonathan Woetzel, 'China's Renewable-Energy Revolution', https://www.project-syndicate.org/commentary/china-renewable-energy-revolution-by-jiang-kejun-and-jonathan-woetzel-2017-08

58 *Source*: http://www.euroasia-interconnector.com/.

Europe.[59] Hanergy Global Solar Power Hellas, too, states it targets the markets of the Balkans, Cyprus and Turkey[60].

As regards loans provided by Chinese financial institutions, the China Development Bank (CDB) has created a foothold in Greece and will soon upgrade the status of its country office. In July 2016, CDB signed a MoU with Greece's central bank for the financing of infrastructure projects in the energy sector.[61] Moreover, CDB has signed a cooperation protocol with the Hellenic Republic Asset Development Fund (HRADF or TAIPED in Greek) aiming to promote the active participation of Chinese companies in privatisation projects in Greece. Similarly, CDB has signed a cooperation agreement with Invest in Greece (now incorporated into Enterprise Greece), focusing on economic cooperation in tourism, real estate, telecommunications, transport, energy and investment financing. CDB reportedly provides loans to COSCO and offers an identical facility to PPC. Cash-strapped Greek banks are no longer in a position to play this role in the Greek economy, so CDB is targeting this niche in the local market. Last but not least, CDB's increasing presence in Greece and other Southeast European countries offer may well be part of an ambitious plan of Chinese authorities to establish the renminbi as an internationally accepted currency.[62]

Overall, there are many indications that China has a comprehensive strategy for its increasing economic presence overseas, including Greece. Chinese authorities demonstrate that they know what they are after, but also what they do not want to get embroiled in. Both China's State Council and the top government think-tank, the National Development and Reform Commission (NDRC), have recently issued statements setting out three categories of outbound investments - banned, restricted and encouraged. Notably, Beijing has outlawed investments in gambling and sex industries, whereas property, hotel, film, entertainment and sports investments will now be subject to restrictions. By contrast, the new policy clearly backs companies involved in the ambitious Belt and Road Initiative (BRI) consistently promoted by

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[59] Jens Bastian, ibid, pp. 9-11.

[60] *Source*: http://hanergy.gr/en/about-us/hanergy-hellas/.

[61] *Source*: http://www.enterprisegreece.gov.gr/en/about-us-/media-center/news-&-highlights/agreements-signed-by-china-and-greece?pg=4.

[62] In September 2016, the renminbi officially joined the IMF basket of reserve currencies.

President Xi Jinping.[63] Interestingly, Fosun International Ltd. appears to be among the aggressive Chinese companies, which have reportedly been the target of government pressure to scale back their foreign activities.[64]

Opportunities for Chinese investors

While China's presence in Greece is growing impressively, this is largely conditioned by Greece's current economic situation and severe fiscal predicament. In this respect, Greece is not an exception and fits a broader pattern. The opportunity presented to foreign investors in light of the economic crisis, the brunt of which has been borne by Southern European countries. Of particular interest to Chinese investors was the drop in asset prices, including the value of companies, properties, offices, industrial land and labour. This scenario has afforded Chinese investors a greater knowledge of the potential of these countries, enabling them to identify new business opportunities.[65]

It should be pointed out that for a series of Greek governments attracting foreign investment was not a top priority, therefore the current drive of privatisation projects has been imposed on the country by its international creditors. Thus, Law 4336/2015, published in the Government Gazette on 14 August 2015, incorporates into the national legislation of Greece all the provisions of the third bail-out agreement, which was signed by prime minister Tsipras on 13 July 2015. Subsequently, all the privatisation projects currently under way were included in the so-called Asset Development Plan, drafted jointly by the national government and the creditors. The latest version of the Asset Development Plan is presented in Annex IV.

Similarly, the sale of a substantial stake of IPTO to a foreign investor, State Grid in this case, was a step towards opening up the national electricity market and complying with the terms of the country's international bailout. In fact, this related to the

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63 'China Codifies Crackdown on 'Irrational' Outbound Investment', *Bloomberg*, 18 August 2017, https://www.bloomberg.com/news/articles/2017-08-18/china-further-limits-overseas-investment-in-push-to-reduce-risk.

64 Other companies on that list are Anbang Insurance Group Co., Dalian Wanda Group Co. and HNA Group Co., ibid.

65 Ivana Casaburi, 'Chinese investment trends in Europe: China casts its eye on Southern Europe', 24 May 2017, *China Policy Institute*, https://cpianalysis.org/2017/05/24/chinese-investment-trends-in-europe-china-casts-its-eye-on-southern-europe/.

harmonisation of the wholesale market with the so-called EU Target Model.[66] The Public Power Corporation (PPC/DEH) controlled almost 95% of the Greek retail market and was forced to reduce this to below 50% by 2020 under its third bailout.[67] This is why PPC was forced to unbundle the ownership of IPTO.

IN FOCUS

3. The Unbundling of IPTO from PPC

The sale of IPTO stock to China's State Grid could well be seen as a case study. It was imposed by the commitment of the EU to increased transparency and cost-efficiency in the energy market through the so-called 'unbundling'. Law 4336/2015 provides that 'the [Greek] authorities will take irreversible measures … for the privatisation of the electricity transmission business, IPTO, unless an alternative plan, with equivalent effects on competition and investment prospects, according to the best European practices and in agreement with the Institutions to achieve full ownership unbundling of IPTO (standard delivery) is proposed'.

It is important to note that unbundling is anything but a new issue in the EU. For many years now, EU institutions have been advocating that Greece should proceed to unbundling and thus abolish PPC's monopoly on electricity generation and transmission, but there has always been a shortage of political will in the country to do so. Now that Greece is badly in need of financial aid and is vulnerable to pressure, it has had to accept a number of 'unpalatable' reforms with a view to privatisation. In this sense, all that foreign investors and Chinese corporations in particular do is take advantage of the much-belated liberalisation of Greece's economy.

Overall, the institutional framework for privatisation projects was set up under the terms of bail-out agreements between Greece and international creditors. HRADF was

66 The commitment of Greece to this process is analysed in detail in a document released by the national energy market regulator RAE: 'Basic Principles in the Redesign of the Greek Wholesale Electricity Market. Roadmap and Action Plan by RAE in the context of the implementation of the EU Target Model', *RAE*, December 2011

67 Greece had tried to sell PPC before the China State Grid stepped in. Soon after winning parliamentary elections in January 2015, Greece's leftist SYRIZA-led government froze the process, but resumed it later on by pledging to keep the asset at least partly state-controlled.

established in 2011, with a six-year duration, which can be extended with the decision of the General Assembly of its unique shareholder, the Hellenic Corporation of Assets and Participation (HCAP). HRADF is now part of and reports to HCAP, which was set up in 2016 for a duration of 99 years and its mission is to 'contribute to the impairment of the financial obligations of Greece, under Law 4336/2015'. EU Institutions are strongly represented in the HCAP whose Supervisory Board consists of five members: three are selected by the Greek state, subject to the consent of the EU Commission and the European Stability Mechanism (ESM), while two more are selected by the EU Commission and the ESM, subject to the consent of the Greek Minister of Finance.

HRADF's portfolio is truly impressive (see Annex IV), as it includes major utilities, such as the Public Power Corporation, the Athens international airport, sport facilities mostly constructed for the 2004 Olympic Games, the public water supply and sewerage utilities in Athens and Thessaloniki, a highway, a natural gas storage facility, state-owned enterprises (Hellenic Petroleum, Hellenic Post and the Public Gas Corporation) as well as marinas. In addition, HRADF is in charge of large-scale land development projects across the country, the most emblematic one currently being the former Athens airport of Hellenikon. So far, HRADF has privatised: 14 airports, PPA, the Thessaloniki Port Authority and the train operator TRAINOSE. A public tender for the sale of up to 30% of the stock of the Athens international airport is expected to be announced soon and Chinese companies have already expressed their interest in the project.

A growing number of property purchases by Chinese citizens

Real estate is offering significant opportunities - not only to Chinese corporations, but to individuals as well. In general, Chinese interest in European real estate has been shifting recently. While Portugal once drew the highest number of buyers, it is now being overtaken by Spain. Greece, too, has seen a surge in the number of Chinese property buyers.[68] A significant factor propelling demand is the spectacular drop of

[68] Yin Lu, 'Expat real estate agents share their secrets about selling overseas properties to Chinese buyers', *Global Times*, 22 May 2016, http://www.globaltimes.cn/content/984448.shtml.

Greek residential property prices - by 42% (45.2% in real terms) between the peak year of 2008 and May 2017.[69]

It is pointed out that Chinese citizens are becoming more tuned into what is happening outside of their country and are seeking solutions to their everyday problems. They are very concerned about pollution, the food they are eating and where it comes from. As a result, they want to improve the quality of their life by buying a home abroad.[70] Apparently, the majority of Chinese individuals interested in buying property in Greece are in their late 30s or 40s and have children of primary school age. This is around the time, when wealthy Chinese parents typically start thinking about the education prospects of their children.[71] In addition to that, real estate agencies in Greece contacted by IIER report that the vast majority of Chinese individuals who have bought property in the country are quick to lease it to tenants, which reveals yet another aspect of the motivation behind this decision: apart from obtaining the Golden Visa, buyers are also interested in the recovery of some of the funds spent on the property.

Difficulties encountered by Chinese investors

It is important to note that not all the plans of Chinese investors in Greece have come to fruition. For instance, a large-scale project involving the China Machinery Engineering Corporation (CMEC) on the operation and construction of lignite mines in northwestern Greece has yet to materialize,[72] despite the fact that the China Development Bank (CDB) was ready to provide financing options for the investment in question.

Furthermore, there have been significant delays in the implementation of the Hellenikon property development megaproject. For instance, the Ministry of Culture

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[69] 'Greece's house prices on cusp of rising, as its economy begins to recover', 25 May 2017, https://www.globalpropertyguide.com/Europe/Greece.

[70] 'Chinese appetite for Greek property seen rising', *The Greek Guru*, 15 May 2017, https://www.greekguru.net/single-post/2017/05/14/Chinese-buyer-appetite-for-Greek-property-seen-rising.

[71] An interesting survey of the motivation of Chinese citizens planning to buy property abroad is available here: https://list.juwai.com/chinese-buyers?gclid=EAIaIQobChMItr2Vrr2J1wIVihbTCh0v9wzzEAAYASAAEgJx2vD_BwE.

[72] 'PPC adamant on Meliti II plan with CMEC despite obstacles', *Energy Press*, 29 June 2017, https://energypress.eu/ppc-insisting-meliti-ii-project-cmec-despite-negative-developments/.

and the Central Archaelogical Council have been major stakeholders – and, arguably, stumbling blocks – during the deliberations on the Hellenikon project. In what has been a protracted tug-of-war, the body in charge of archaelogical findings in Greece has imposed restrictions on the surface to be used for construction by the property developers. Prior to that, delays were caused by the position of the Piraeus forestry department that the project implementation should take into account the vegetation at the former airport. In October 2017, the European Commission demanded that the Greek government further the investment at the old Athens airport, a major project, to which Greece is already committed under the third bail-out agreement.[73]

Fosun has made two unsuccessful attempts to take over former Greek SOEs subject to privatisation. In April 2017, Fosun made an offer for the biggest Greek insurer, Ethniki Asfalistiki.[74] However, in the end it was the Greek-American Calamos-EXIN consortium that managed to acquire the insurance company. In addition, Fosun was also one of the eight potential investors to express interest in buying a major stake in the Greek gambling monopoly OPAP, as announced in late 2012.[75] Ultimately, the sale was completed in August 2013 and the bid was won by the Greek-Czech fund Emma Delta.[76]

COSCO, too, has had to alter its initial plans. For instance, the company was interested in the construction and operation of a rail freight terminal in Thriasio near Piraeus, in responding to a €250 million tender launched by the Greek state in 2016. However, Cosco found the surface too small for its ambitions, merely one-fourth of what the conglomerate needed. Furthermore, COSCO was expected to bid for the acquisition of TRAINOSE, the operator of the Greek railway network. Indeed, during his visit to Greece in June 2014, Chinese premier Li Keqiang himself expressed Beijing's interest in investing in Greece's railway network in order to accelerate the transport of goods to

[73] Nikos Konstandaras, 'Desolate Elliniko', *Ekathimerini*, 6 October 2017, http://www.ekathimerini.com/222214/opinion/ekathimerini/comment/desolate-elliniko.
[74] Yiling Pan, 'Fosun Spearheads China's Dominant Investments in Greece', *Jing Daily*, 8 June 2017, https://jingdaily.com/fosun-spearheads-chinas-greek-investment/.
[75] *Source:* http://greece.greekreporter.com/2012/11/11/eight-potential-investors-interest-in-buying-gambling-monopoly-opap/.
[76] 'Greece completes privatization of gambling monopoly OPAP', *Reuters*, 12 August 2013, http://www.reuters.com/article/us-greece-opap/greece-completes-privatization-of-gambling-monopoly-opap-idUSBRE97B0BF20130812.

Europe.[77] However, in the end COSCO decided to stay out of the privatisation of TRAINOSE.

This may have been caused by the political uncertainty concerning the migrant crisis across the Balkans: in November 2015, for example, the railway track from Piraeus to the Former Yugoslav Republic of Macedonia was blocked by a makeshift migrant camp in northern Greece for three weeks. Another blockade of the Greek section of the railway track lasted for more than two months, from mid-March to late May 2016. As a result, freight forwarders were forced to use the sea port of Koper in Slovenia and the Bulgarian railway network as alternative routes to central Europe.

Issues raised by Chinese investors

Chinese companies have complained about the obligation to pay for the social benefits of Chinese staff to the Greek state, their argument being that Chinese nationals are covered by the Chinese social welfare system. In addition, Chinese companies refer to Directive 2009/50/EC, known as the Blue Card Directive of the EU.[78] Notably, in 2016, the European Commission issued a proposal[79] to repeal Directive 2009/50/EC. Other issues raised by Chinese investors relate to what they perceive as: (i) low quality and even unavailability of public services at the port of Piraeus, which leads to high costs and low returns, b) lack of transparency in the taxation system, and c) complexity of the current Greek current legislation. Not least of all, there have been complaints on the Chinese part that the state favours Greek ship-owners and does not ensure a level playing field.

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[77] 'Chinese premier vows to invest in Greek railways to improve transport link to Europe', *Ekathimerini*, 20 June 2014http://www.ekathimerini.com/160894/article/ekathimerini/news/chinese-premier-vows-to-invest-in-greek-railways-to-improve-transport-link-to-europe.

[78] *Source: http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:l14573&from=EN*.

[79] *Source:* http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016PC0378&from=EN.

Chinese investment and Greek expectations

Chinese investment projects do offer opportunities to the Greek economy, in principle at least – to what extent these opportunities will be made the most of by Greece is a different matter. For instance, infrastructure upgrading along the Piraeus-Budapest transport corridor could contribute to regional integration and trade facilitation which, in turn, could help boost Greek exports to European markets. New logistics-related services and even professions could spring up and potential technological gains should also be considered. Not least of all, cooperation with Chinese companies may lead to a better understanding of the 'Chinese way of doing business', which should not be underestimated.

Greece certainly has high expectations with regard to socio-economic benefits to be drawn from Chinese investment in the country.

Greece certainly has high expectations with regard to socio-economic benefits to be drawn from Chinese investment in the country. Once again, Piraeus is a case in point. In 2016, the Foundation for Economic and Industrial Research (FEIR/IOBE) carried out a study of the potential impact of COSCO's buyout of a controlling stake in PPA, along with secondary economic activities further investment will help generate. In terms of fiscal revenue, the cumulative benefit over the period from 2016 to 2025 is estimated to stand at €511 million or €475 million in present value terms. The privatisation of the port and its operation under the conditions of higher efficiency is expected to have a positive impact on the port turnover as well. Overall, IOBE calculates that the public revenue from the two agreements with COSCO, the concession in 2008 and the purchase of stock in 2016, will yield up to €893.5 million (€808,9 million in present value) by 2025. This amount is to be ensured from five sources: stock sale, concession fees, dividends, taxation and social benefits (insurance payments).[80]

At the same time, these projections may be a bit too optimistic and cannot be taken at face value – they are all conditional on certain assumptions that remain to be verified, e.g. 'If a set of particular actions is implemented, the incremental annual output in the Greek economy will range from €17 million in 2016 to €2.6 billion in 2025; the level

[80] *Source*: http://iobe.gr/docs/research/RES_03_08032016_REP_GR.pdf, p. 24

of gross domestic product (GDP) would be higher by 0.8% in 2025; real wages grow steadily over the examined period, while the inflationary pressures remain exceptionally weak; the demand factors related to construction works and the operation of the port create more than 31,000 new jobs in total; the investment in the port contributes to a long-term reduction of public debt by 2.3 percentage points of GDP.'[81] Some Chinese sources, too, refer to jobs created through the COSCO investment, though the quality and credibility of the information provided tends to be affected by the official Beijing rhetoric.[82]

A large number of jobs are expected to be created through the Hellenikon development project, if and when it finally gets off the ground. Lamda Development, the leader of the consortium that won the contract in 2014, estimates that the investment will help create 10,000 permanent jobs during the construction period and 75,000 jobs during its maturity. The Hellenikon project is expected to generate a 2.4% worth of the country's GDP by completion date, while contributing a total of over €14 billion in taxes to the Greek state within a 25-year timeframe.[83] These estimates are formulated in a study carried out by FEIR/IOBE and released in September 2016.[84]

None of the above expected benefits is insignificant. Job creation is badly needed in Greece, which has the highest unemployment rate in the EU – officially, at 21% in September 2017.[85] Equally needed is increased public revenue, given the country's exorbitant public debt, standing at €316 billion in May 2017.[86]

It is not clear whether Greece has a coherent long-term strategy on dealing with foreign - and Chinese – investment.

Therefore, Greek governments quite rightly seek foreign investment capital, including from China. However, three questions deserve to be raised at this point. First, is there sufficient political will and does the Greek state have the administrative capacity to abolish numerous

[81] 'The economic impact of the privatisation of the Piraeus Port Authority', *Foundation for Economic and Industrial Research (IOBE)*, March 2016, pp.3-4.
[82] Laura Lou, 'COSCO creates 4k jobs in Piraeus port', CCTV.com, 05 June 2015, http://english.cntv.cn/2015/05/06/VIDE1430903161588133.shtml.
[83] *Source*: http://www.lamdadev.com/en/investment-portfolio/the-hellinikon.html.
[84] 'The economic impact of the development of the Hellinikon area, Executive Summary', *Foundation for Economic and Industrial Research (IOBE)*, September 2016.
[85] *Source*: https://goo.gl/oTsgaN
[86] *Source*: https://www.debtclocks.eu/public-debt-and-budget-deficit-of-greece.html.

hurdles to foreign investment in Greece? Second, will Chinese investment projects alone ensure the boost needed by the Greek economy, if it is to regain its dynamism and competitiveness? Third, is the potential impact of Chinese investment properly assessed and monitored by the Greek government? Not least of all, so far Chinese investors have been focusing on specific opportunities according to their priorities, whereas Greece needs investment across the board, e.g. in agricultural development, a revival of its industry and other sectors of the national economy. At this stage, it would appear that Chinese investment in the country is driven to a larger extent by China's interests rather than by the 'win-win cooperation' spirit that is persistently advertised by Beijing.

A detailed presentation of the way foreign investment is evaluated in Greece is offered in the next chapter of the report. In any case, the IIER team is not aware of the existence of a dedicated public service monitoring the number of jobs created through foreign investment, including China-funded projects. Similar services have been set up in other EU member states, e.g. Business France, which systematically records jobs created through foreign investment, including Chinese[87], is a state agency under the supervision of three ministries.

Greek authorities promote the commercial real estate sector, supported by the Golden Visa programme, as a very promising field that is increasingly being targeted by Chinese citizens.[88] This view is confirmed by real estate agents in Greece, e.g. some of them estimate that between 8% and 10% of Chinese tourists visiting the country are prospective property buyers.[89] Launched in July 2013, the Greek Golden Visa programme grants a five-year residency visa in return for an investment in real estate. There is no minimum stay requirement and children up to the age of 21 are included in the family application. The visa is granted for five years and renewed every five years, if the property investment is retained. It is not necessary to live in the country in order to retain and renew the Golden Visa. However, citizenship can only be granted after seven years of residency.

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87 Rapport Annuel 2016, *Business France*, pp. 89-90

88 Interview of the Greek ambassador to China, published in Yin Yeping, 'Greek Ambassador to China has high expectations for bilateral ties', *Global Times*, 22 October 2017, http://www.globaltimes.cn/content/1071332.shtml.

89 Interview with Yannis Ziavras, general manager of the Remax real estate agency, Athens, 6 November 2017.

Notably, at €250,000 plus taxes and fees (just over €300,000 in total) this programme offers a relatively low cost to residency in Europe. Not only is the Greek residency programme relatively cheap, but it is also fast, taking around forty days until a residency card is issued. In Spain, the respective investment worth at least €500,000, if a non-EU citizen is to obtain a Golden Visa; an identical threshold has been set for Lisbon, the capital city of Portugal. Some other EU member states (e.g. The Netherlands or Bulgaria) only offer the Golden Visa facility to investors in businesses or government bonds.[90]

Greece's strategy vis-à-vis Chinese investment

The comparison of Chinese pursuits and Greek expectations is telling, as they seem to be based on very different assumptions and types of analyses. The drivers for China's growing presence in Greece relate to strategically important objectives and a sophisticated analysis. It is fair to say that the Chinese investment projects represent opportunities for Greece, but they are promoted primarily by China with a conspicuous element of self-interest - which is fully understandable. What is less clear is whether Greece has a coherent long-term strategy on how to deal with Chinese investment.

Overall, Greece's current strategy vis-à-vis Chinese investment is not well thought-out and, as a figure of speech, appears to be half-baked at best. It is still poorly conceptualised and heavily dependent on domestic political considerations. Since 2012, when SYRIZA became the main opposition party in the country, there have been three distinct stages in the evolution of its attitude towards foreign investment, including Chinese presence in Greece. The initial reaction was reluctance and confrontation, which lasted till July 2015 – that is when prime minister Alexis Tsipras signed the third bail-out agreement after a dramatic negotiation with the country's international creditors.[91] The second stage, which took about a year, was marked by a

[90] *Source*: https://corpocrat.com/2016/01/30/the-best-golden-visa-programs-in-europe/.

[91] There have been three bail-out agreements, officially referred to as macro-economic adjustment programmes. The Greek government headed by prime minister George Papandreou signed an initial bail-out package for €110 billion in 2010. It was followed by a second bail-out worth €130 billion in 2012, signed by prime minister Antonis Samaras. A third package, worth €86 billion, was signed by prime minister Alexis Tsipras in 2015 and is still in force.

painful acceptance of the commitments undertaken by Greece in the framework of the 2015 agreement. Since July 2016 and the first visit of prime minister Tsipras to China, the Greek government has been sending across very positive messages to foreign investors and to Beijing in particular.

Therefore, at the level of official rhetoric at least, SYRIZA has swerved from adamantly opposing foreign investment to an impressively welcoming stance. In fact, the overtures of the Tsipras government to China may be both substantive and ostentatious - they are meant to demonstrate to Greece' international creditors that the country is not isolated and enjoys Beijing's support. In a way, this new policy may be driven by a quest of alternatives to the EU. It may also be that the SYRIZA-ANEL government is more comfortable with the Chinese type of state capitalism than with private corporations investing in Greece. But, above all, Greece is desperately in need of foreign investment, which is a top priority of the country's economy. Some estimates of the overall needs of the Greek economy are offered in other chapters of the report.

Chapter 3:
Reception and evaluation of Chinese investment in Greece

Legal and contractual framework

There is no shortage of Sino-Greek bilateral intergovernmental agreements and, similarly, many MoUs have been signed by Chinese corporations and Greek partners, either businesses or state authorities. The Greek counterparts in the public administration are ministries (e.g. the Ministry of Shipping, the Ministry of Development or the Ministry of Environment, Energy and Climate Change), the Bank of Greece, Enterprise Greece, HRADF, etc. Tellingly, 19 agreements and MoUs were signed by Greek and Chinese partners during prime minister Li Keqiang's visit in June 2014 alone. At the same time, Chinese investors in Greece have to abide by the national legal and contractual framework, which is largely shaped up by rules and regulations in force for all EU member states.

The first Chinese key investment in Greece, the 2008 agreement with COSCO, used a lease format. An international public tender for the concession of use and exploitation of Piers II and III of PPA's container terminal was published in January 2008. After COSCO won the bid, the relevant contract was approved by the Audit Council and, subsequently, was signed on 25 November 2008 in the presence of the President of China and the Prime Minister of Greece. In the end, it was ratified by the Greek Parliament in early March 2009.

> The modality clearly preferred by Chinese investors is stock purchase of privatised public utilities.

Since then, Chinese investors have used modalities, mostly related to the purchase of stock – such were the cases of both the second COSCO investment in Piraeus and State

Grid's investment in IPTO. In the case of the second agreement with COSCO in 2016, the contracting authority was HRADF.[92]

Degree of acceptance of Chinese investment in Greece

Given the institutional framework and the current privatisation drive, which is often seen as a 'straitjacket' imposed by the creditors[93], there is a pronounced lack of ownership of the process on the part of the Greek state and society. However, even before the current fiscal and economic crisis started in the country, on many occasions foreign investment in Greece has been met with suspicion and even resistance. Chinese investors have not been spared the anger of Greek protestors, mostly trade unions.

The very first large-scale Chinese investment in Greece, the 2008 concession contract on Piraeus, brought about intense protests on the part of PPA staff. Piraeus sea port personnel disagreed with the concession of Piers II and III and supported the preservation of PPA as the sole port operator. Rallies went on even after the ratification of the concession contract by the Greek Parliament in 2009. It is noted that the High Court rejected the appeal for a temporary restriction order twice. At the same time, a process of voluntary retirement of PPA personnel was completed in 2010.[94]

The rise of the Tsipras government to power in January 2015 ushered in a period of conspicuous unease on the Chinese side. The initial position of the new government was that the privatisation of a majority stake of PPA would be cancelled. The Chinese Ministry of Commerce (MOFCOM) responded by asking Greek authorities to protect the legal interest of Chinese companies represented in the country. The Chinese media, which tend to cover Greece with a positive spin, raised doubts about the motivation of the new leadership of the country. After a series of contacts between Athens and Beijing, including a phone exchange between prime ministers Alexis Tsipras and Li Keqiang on 11 February 2015, the new Greek government announced that it was

[92] Under Law 3986/2011, HRADF leverages the private property of the Greek state, which has been assigned to it, according to the country's international obligations and the Medium-Term Fiscal Strategy. In close cooperation with the Greek government, HRADF promotes the implementation of privatisation projects in the country.

[93] Eric Maurice, 'Greek deal puts Tsipras in straitjacket', *EU Observer*, 12 August 2015, https://euobserver.com/economic/129876.

[94] PPA Annual Report 2009, pp. 9-13

‘ready to support China's links to Europe, with Greece serving as China’s gateway into Europe.’[95]

With a few exceptions[96], the launch of subsequent Chinese investment projects has not been marked by particular tension, possibly because of the fact that the third bail-out agreement was signed by prime minister Alexis Tsipras in July 2015 as a departure from the firebrand rhetoric of his Radical Left Coalition (SYRIZA) party. However, there are at least two noteworthy recent incidents that illustrate the level of opposition to foreign investment in Greece. In 2016, the Greek Minister of Shipping and Island Policy (later eased out by the prime minister in a cabinet reshuffle) promoted the creation of a new public ports authority, which was to act in parallel to the existing Regulatory Ports Authority. Related provisions in the bill that was tabled in the Greek Parliament in late June 2016 caused a strong reaction from COSCO. The Chinese argued that these last-minute and unilateral amendments would fundamentally change the complexion of the agreement. The final text of the bill was hastily brought back in line with the April 2016 deal with COSCO, the new law was adopted by the Greek Parliament and this opened the way for the visit of prime minister Tsipras to China immediately afterwards.[97]

The second case relates to the large-scale real estate development project at the Hellenikon airport of Athens, a 6.2 million square metre site with 3.5 kilometres of coastline.[98] The area used to be an airport until 2001 and a US military base for four decades, from the early 1950s to the early 1990s. So far, there have been very many delays and hurdles, the last one being a heated dispute with the central archaeological council and the Piraeus forestry department on the terms of environmental protection and preservation of the cultural heritage at the site.

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[95] George N. Tzogopoulos, ‘From China to Greece - on track for the New Silk Road Whither Sino-Greek relations?’, 15 March 2016, *Centre International de Formation Européenne*, http://chinaandgreece.com/wp-content/uploads/2016/03/CIFE.pdf.

[96] The acquisition of PPA by COSCO in 2016 stirred protests in the street of Athens, albeit short-lived ones. The most recurrent complaint voiced by protesters was that the deal was ‘a giveaway of property belonging to the Greek people’ and that ‘the Greek state should call the shots, not China’, Angeliki Koutantou, ‘Workers protest as Greece sells Piraeus Port to China COSCO’, *Reuters*, 8 April 2016 https://uk.reuters.com/article/uk-eurozone-greece-privatisation-china-c/workers-protest-as-greece-sells-piraeus-port-to-china-cosco-idUKKCN0X50XD.

[97] Plamen Tonchev, ‘One Belt, One Road Projects in Greece: A Key Driver of Sino–Greek Relations’, in the report ‘Europe and China’s New Silk Roads’, p. 33, *European Think-tank Network on China (ETNC)*, 2016.

[98] *Source*: http://news.gtp.gr/2017/06/15/lamda-development-submits-master-plan-hellenikon-project/

Perceptions of Chinese investment in Greece

As a rule, objections to foreign investment, including growing Chinese presence in the country, are voiced by two main types of actors in Greece: (i) pressure groups, e.g. trade unions, driven by concerns about the loss of state-subsidised privileges and perks; (ii) ultra-left factions within the ruling SYRIZA party, which are ideologically opposed to capitalism and globalisation, often referred to as modern imperialism and neocolonialism. While SYRIZA is a radical left coalition and ANEL (Independent Greeks) is a far-right populist and xenophobic party, the two government partners actually share a number of anti-globalisation instincts and a eurosceptic mood. Both SYRIZA and ANEL ballooned in the wake of the 2010 fiscal crunch, which shook up the political order in Greece. However, the SYRIZA-ANEL government has now changed tune and prime minister Tsipras often reiterates that Greece stands ready to attract foreign investment, including capital from China.

New Democracy, the main opposition party that covers the right-of-centre part of the political spectrum, supported the initial overtures to China in the 2000s, under the government led by the then prime minister Costas Karamanlis. The centrist Social-Democratic parties of PASOK (Pan-Hellenic Socialist Movement) and Potami (River) are open to foreign investment, though not unconditionally. The Communist Party of Greece has held an unwavering anti-capitalist view on foreign presence, including growing Chinese investment in the country. The ultra-right xenophobic party Golden Dawn has kept silent on Chinese investment in Greece, possibly because its agenda is limited to immigration and a ferocious attack on the political establishment in the country.

The media carry a number of stories about the plans of Chinese investors, though the coverage seldom is sufficiently accurate. The Hellenic Federation of Enterprises (SEV) views Chinese investment in Greece favourably – the presence of Chinese companies is regarded as being beneficial to the struggling Greek economy and as an opportunity for Greek enterprises.[99] The Athens Chamber of Commerce and Industry has also demonstrated a positive attitude.

IN FOCUS

4. Views of the general public on China

The degree, to which the general public accepts – or not – Chinese investment in Greece, has not been properly recorded and analysed yet. Rather, there is some evidence of China's image in Greece, even if relevant perceptions may be shaped up by a host of irrelevant factors. The Pew Research Institute has undertaken an annual worldwide survey on international relations since 2005, including in a changing mix of EU member states, where a number of questions in relation to China are raised. In the 2012 Pew survey, Greece was the most positive EU member state vis-à-vis China.[100] *Another research undertaken by the same institution in early 2017 showed that 50% of Greek respondents had a favourable attitude towards China, while 40% expressed negative views.*[101]

A survey carried out by the agency Public Issue in July 2016 showed that 70% of the respondents had a positive view on China and 67% thought that economic cooperation with it was an opportunity for Greece's growth.[102] *According to another survey carried out by the Greek pollster Kapa Research in November 2016*[103]*, China is largely popular with the Greek general public (53%) and the second most preferred nation, with which Greece should presumably pursue closer relations (39.5%). Only Russia scores higher (47.5%), the US comes third (36.5) and Germany is a distant fourth (20%). While the credibility of this type of exercise can be challenged in many ways, the ranking reflects quite vividly the eurosceptic spirit in Greece and this is where China steps in. However, this stance of the general public often appears to be based on an emotional reaction, as a fall-out of*

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[99] Speech by the SEV president Theodoros Fessas, 11 November 2016, http://www.sev.org.gr/grafeio-typou/omilies-paremvaseis/chairetismos-proedrou-sev-k-theodorou-fessa-sto-1st-forum-of-chinese-and-greek-municipalities-creative-industries-11-11-2016/

[100] George Cunningham, Deputy Head of China and Mongolia Division, European External Action Service, 'EU Public Perceptions of China and Policy Implications', Lecture at Glasgow University, 31 October 2012.

[101] Richard Wike, 'Global Attitudes Toward China and the U.S.', *Pew Research Attitude*, 21 September 2017, slide 21, http://www.pewglobal.org/2017/09/21/global-attitudes-toward-china-and-the-u-s/.

[102] Bali Kaki, 'To Politiko Varometro tis Public Issue: Afxanetai o evroskeptikismos'// The Political Barometer of Public Issue: Euroscepticism on the Rise' (in Greek), *Avgi*, 24 July 2016, http://www.avgi.gr/article/10842/7306363/auxanetai-o-euroskeptikismos.

[103] 'Greece and the United States', *Kapa Research*, November 2016, file:///home/plamengo/Downloads/Greece-USA_Poll__2016_EN.pdf.

the ongoing crisis in the country, rather than on credible information about Chinese investment projects in Greece and benefits to be drawn from them.

Chinese investment in Greece is becoming an increasingly prominent topic in academic research as well. Of all the related activities, the most systematic work is undertaken by the so-called Consortium for the Promotion of Sino-Greek Relations, which brings together five Greek research and educational institutions, namely IIER, the Hellenic Foundation for European and Foreign Policy (ELIAMEP), the Institute of International Relations of the Panteion University, the University of the Aegean and the University of Peloponnese. The members of the consortium in question have published a large number of articles in the media and have organised high-profile events, such as a conference on the 'The New Silk Road of China: One Belt, One Road and Greece' hosted by the Greek Ministry of Foreign Affairs in March 2016. Furthermore, in July 2016, the consortium issued a public comment on the first visit of prime minister Alexis Tsipras to China[104] and, in December 2016, IIER released the report 'The New Silk Road and Greece: Benefits, Opportunities, Challenges'.[105]

Evaluation of Chinese investment

Chinese investment schemes are not subject to any particular scrutiny more than any other large-scale project in Greece run by either foreign or local companies. Apart from FEIR/IOBE, there is no other institution to undertake systematic *ex ante* research into the potential impact of Chinese investment in Greece.[106] Standard evaluation procedures by public authorities include the usual 'filters' and, *inter alia*, a high degree of red tape that has little to do with the assessment of expected project impact. A quick overview of procedures and key stakeholders involved in the evaluation of foreign investment in Greece would hopefully be helpful to the reader.

[104] 'Five Greek academic institutions comment on Tsipras' China visit', http://idos.gr/tsipras-china/?lang=en.
[105] Polyxeni Davarinou, 'The New Silk Road and Greece: Benefits, Opportunities, Challenges', *Institute of International Economic Relations*, December 2016, http://idos.gr/wp-content/uploads/2016/12/%CE%9D%CF%84%CE%B1%CE%B2%CE%B1%CF%81%CE%AF%CE%BD%CE%BF%CF%85-The-New-Silk-Road-and-Greece-Benefits-and-Opportunities-28-12-2016.pdf.
[106] In June 2017, FEIR/IOBE produced yet another report on the impact of the privatisation of the Thessaloniki port, where there is some indirect Chinese involvement as well.

There is the so-called Inter-ministerial Commission on Strategic Investments, which approves large-scale projects, upon assessment and proposals made by Enterprise Greece.[107] In turn, Enterprise Greece, supervised by the Ministry of Development, is the official investment promotion agency (IPA) of the Greek state and a member of the World Association of Investment Promotion Agencies (WAIPA).[108] The mandate of Enterprise Greece is to function as a one-stop shop aiming at the attraction of inbound foreign investment as well as export promotion[109]. So far, Enterprise Greece has not managed to live up fully to its mission. Despite its close cooperation with an array of state institutions and public services, its capacity to collect and analyse data – let alone act as a foreign investment screening mechanism - is limited at present. A key issue to be addressed relates to the very mandate of Enterprise Greece: it is tasked to monitor Greek businesses abroad, but there is no legal provision that would enable it to do the same with regard to foreign investors in the country.

The Hellenic Competition Commission[110] is yet another institution involved in the scrutiny and approval of large-scale projects. Its mission is to ensure that the provisions of the Greek Competition Act and Article 101 of the Treaty on the Functioning of the European Union (TFEU)[111] are duly observed in the country. For instance, in June 2016 the Hellenic Competition Commission cleared the PPA takeover by COSCO, by announcing that 'after taking into account the prevailing conditions and the counterfactual in the relevant market, the efficiencies accrued as a result of the acquisition, as well as the commitments undertaken by the notifying party, concluded that the above concentration does not raise serious doubts as to its compatibility with merger control rules in the relevant markets'.[112]

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107 The list of selection criteria includes, among other things: a total cost of the investment in excess of €100 million or, otherwise, a threshold of €40 million and the creation of a minimum number of employment positions, http://www.enterprisegreece.gov.gr/en/strategic-investments/inclusion-procedure.

108 http://www.waipa.org/members-list/.

109 Enterprise Greece is the enlargement of Invest in Greece incorporating, *inter alia*, the mandate of the Hellenic Foreign Trade Board.

110 https://www.epant.gr/en/.

111 *Source:* http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E101:EN:HTML

112 Hellenic Competition Commission press release, 22 June 2016, 'Clearance of the proposed acquisition by COSCO (HONG KONG) GROUP LIMITED of sole control over PIRAEUS PORT AUTHORITY S.A. subject to conditions'.

Other institutions involved in the process are competent line ministries and services, as the case may be. Large-scale investment projects are also subject to approval by the Audit Council, which is essentially a court of audit. The accounts of the central government, local authorities and all Public Entities are submitted to the Audit Council at regular intervals. Parliament, too, plays a major role by converting into laws agreements on the privatisation of state assets. This is illustrated by the heated debate in Parliament on the terms of the 2016 takeover of PPA by COSCO, presented earlier in this chapter.

During French President Emmanuel Macron's visit to Athens in September 2017, prime minister Tsipras announced the creation of a 'task force', headed by himself, aiming at the attraction of foreign investment. However, for the time being this body looks more like an *ad hoc* college of ministers rather than a permanent and well-resourced structure with a clear-cut mission and a coherent investment attraction strategy.[113] It appears to be a political statement meant to bolster the new pro-investment narrative of the government ahead of the next general elections, which are to be conducted by 2019 at the latest. In any case, while this task force will presumably facilitate and accelerate the attraction of FDI, it is not expected to assess proposals for investment schemes from a strategic point of view and is unlikely to act as a 'screening mechanism' along the lines of the current debate in the EU.[114]

It is questionable whether there is a comprehensive investment review mechanism in Greece, though in practice a number of hurdles stand in the way of foreign investment project. Ironically, with regard to the property development of the Hellenikon airport, there is no critical infrastructure at stake - rather, it would appear that there are objections to the very notion of large-scale investment on the part of vested interests. The protracted – and, so far, futile – discussions on the project since 2014 have been caused by what appears to be an obstructionist mindset and ideological postulates rather than a robust evaluation process or a full-fledged screening mechanism. Unlike related debate in other EU member states, the issue of foreign investment is not

[113] PM chairs 'task force' amid investment snags, *Ekathimerini*, 14 September 2017, http://www.ekathimerini.com/221627/article/ekathimerini/news/pm-chairs-task-force-amid-investment-snags.
[114] Indicatively: http://bruegel.org/2017/09/should-the-eu-have-the-power-to-vet-foreign-takeovers/.

discussed in Greece in view of a coherent long-term development strategy and a meaningful analysis of potential hazards or side effects.

Debate on the creation of a screening mechanism

A number of host countries, especially developed economies, are particularly concerned that China's outward foreign direct investment (OFDI) might compromise their national security, given the central role of SOEs and the question of whether China's OFDI serves purposes other than commercial ones. Not surprisingly, therefore, these concerns have led to the creation or strengthening of regulatory review processes of incoming mergers and acquisitions (M&As), especially in critical infrastructure industries.[115] For instance, Australia, Canada, Japan and the USA operate FDI screening mechanisms, which the EU uses as sources of reference. The Committee on Foreign Investment in the United States (CFIUS) has a very strong mandate and is authorised to undertake national security investigations.

The relevant debate in the EU was launched officially in February 2017 by the French, German and Italian economy ministers with a common letter to the EU Commissioner for Trade, Cecilia Malmström, and, subsequently, the European Parliament put forward an initial proposal.[116] In September 2017 the European Commission published a proposal for a new regulation on the assessment ('screening') of foreign investment in the EU (See Annex V on the European Commission's proposal). Some EU member states already have full-fledged investment review mechanisms of their own in place. FDI security-related screening procedures at the level of EU member states[117] have been recorded by the European Parliament and are also presented in Annex V.

[115] *Source*: http://ccsi.columbia.edu/files/2017/01/KPS-China-the-G20-updated-21-December-2016.pdf, p. 4.

[116] *Source*: https://goo.gl/zobPMc.

[117] Gisela Grieger, 'Foreign direct investment screening: A debate in light of China-EU FDI flows', *European Parliamentary Research Service*, May 2017, p. 7, Table 1.

It is noted that the Netherlands, Nordic countries and Greece are among the member states, which have raised concerns about tougher screening of foreign investment projects in the EU.[118] Exchanges between the IIER team and government officials in Greece have helped record a cautious position, which could be summarised as 'walking on a tight rope between EU membership and a demand for flexibility vis-à-vis China'. Yet, some scrutiny of foreign investment is undertaken by EU institutions, on legal grounds in light of fair competition to be ensured in all member states. For instance, in early 2015 the European Union state aid regulators ordered the Greek government to recover certain illegal fiscal benefits granted to the Piraeus Container Terminal (PCT) and its parent company Cosco Pacific Ltd. The Greek ratification law granted COSCO tax exemptions in terms of VAT and depreciation obligations, which were more favourable compared to the standard obligations of a Greek corporation, including that of PPA itself. Also, accumulated losses could be offset against the taxable profits of later periods without any time constraint.[119] The European Commission stated that the measures, which breached EU rules, included tax exemptions and preferential accounting treatment.[120] Moreover, to avoid further distortions of competition, the Greek authorities were also expected to cease granting these advantages to PCT in the future.[121] Therefore, in many cases EU rules can be beneficial to Greece and can help it uphold its national interests with regard to foreign investment. To what extent Greece is making use of its EU membership in its relationship with China is one of the issues discussed in the next chapter of the report.

In many cases, EU rules can help Greece uphold its national interests with regard to foreign investment.

[118] Jim Brunsden, 'EU plan to curb Chinese takeovers risks 'trade war'', *Financial Times*, 17 September 2017.

[119] Polyxeni Davarinou, 'The New Silk Road and Greece: Benefits, Opportunities, Challenges', *Institute of International Economic Relations*, December 2016, p.11, http://idos.gr/wp-content/uploads/2016/12/%CE%9D%CF%84%CE%B1%CE%B2%CE%B1%CF%81%CE%AF%CE%BD%CE%BF%CF%85-The-New-Silk-Road-and-Greece-Benefits-and-Opportunities-28-12-2016.pdf.

[120] 'Cosco Ordered to Pay for Greek Benefits', *The Maritime Executive*, 23 March 2015, https://maritime-executive.com/article/cosco-ordered-to-pay-for-greek-benefits.

[121] *Source:* http://europa.eu/rapid/press-release_MEX-15-4650_en.htm.

Chapter 4:
Chinese investment in the broader context of Sino-Greek relations

Chinese investment and Sino-Greek intergovernmental relations

Sino-Greek cooperation has come a long way was since the two countries established diplomatic relations in 1972.[122] Closer economic cooperation of late between Greece and China has definitely contributed to the improvement of Sino-Greek relations and the 'strategic partnership' catchphrase is repeated on every conceivable occasion. In fact, as has been aptly pointed out, Beijing does not necessarily trust Greek governments, but it shows a high degree of patience.[123] There has been no shortage of officialdom in the Sino-Greek relations, as manifested by the long list of visits at the highest possible level to Greece and China. Chinese President Jiang Zemin visited Greece in April 2000, which was the first official visit of a Chinese head of state to Greece. In June 2002, the Greek Prime Minister Costas Simitis visited China. During the visit of his successor, Costas Karamanlis, to Beijing in January 2006, the two countries agreed to upgrade their relationship to a Strategic Partnership in political and economic areas. In June 2008, the Greek president Karolos Papoulias visited China. China's president Hu Jintao visited Greece shortly afterwards, in November 2008. The Chinese prime minister Wen Jiabao visited Greece in October 2010 and his successor Li Keqiang was in Greece in June 2014. A month later, in July 2014, president Xi Jinping made a stopover in Rhodes to meet his counterpart Karolos Papoulias. Official

[122] An exhaustive presentation of various aspects of Sino-Greek relations was offered by Sotiris Petropoulos, 'Greek Shipping Industry, One Belt, One Road (OBOR) and the Greek – Chinese Relations', at a conference co-organised by IIER on 'The New Silk Road of China: One Belt, One Road (OBOR) and Greece', 30 March 2016, Athens, http://idos.gr/wp-content/uploads/2016/04/PETROPOULOS-ONE-BELT-ONE-ROAD-OBOR-AND-THE-GREEK-CHINESE-RELATIONS.pdf.

[123] George N. Tzogopoulos, 'Greece, Israel, and China's Belt and Road Initiative', *The Begin-Sadat Center for Strategic Studies*, October 2017, p. 26

visits to China were also paid by Greek Prime Ministers, Antonis Samaras in May 2013, and Alexis Tsipras in July 2016 and May 2017.[124]

Interestingly, George Papandreou was the only recent Greek prime minister, in office from October 2009 to November 2011, not to visit China – possibly because he was overwhelmed by the severe economic crisis that broke out in Greece during his term of office and also because of his extensive travelling as the president of Socialist International since 2006. Yet, it was precisely George Papandreou who appears to have ensured a loan from Beijing at the beginning of Greece's fiscal and economic crisis. He has reportedly stated that China bought Greek sovereign bonds worth €6 billion at the time.[125] Five years later, in early 2015, prime minister Tsipras expected China to help his embattled government out through the provision of a big loan, but all that Beijing did was buy a €100 million worth of Greek T-bills.[126]

Since then the Sino-Greek agenda has changed quite a bit. Lately, there has been a flurry of bilateral activities and initiatives promoting Sino-Greek cooperation. For instance, 2015 was declared a Sino-Greek maritime cooperation year and, tellingly, China was the honoured country at the 2017 Thessaloniki International Fair. At inter-state level, there is a China-Greece Joint Economic and Trade Committee, which had held twelve sessions by September 2017.[127] With regard to Chinese investment, Sino-Greek cooperation has now been operationalised through the 2017-2019 Action Plan[128], signed by Greece and China in Beijing in May 2017. The Chinese official overseeing the implementation of the Action Plan is NDRC Vice-President Jizhe Ning and his counterpart is the Deputy Minister of Economy and Development Stergios Pitsiorlas, who is also the government's coordinator on all Greece-China issues. The

Sino-Greek cooperation in the area of Chinese investment has now been operationalised through the 2017-2019 Action Plan.

[124] Alexis Tsipras was one of the 29 heads of state who attended the Belt & Road Forum in Beijing in May 2017.

[125] George N. Tzogopoulos, 'From China to Greece - on track for the New Silk Road Whither Sino-Greek relations?', 15 March 2016, *Centre International de Formation Européenne*, http://chinaandgreece.com/wp-content/uploads/2016/03/CIFE.pdf.

[126] Ambrose Evans-Pritchard, 'Greek defiance mounts as Alexis Tsipras turns to Russia and China', *The Telegraph*, 1 April 2015, http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/11510384/Greek-defiance-mounts-as-Alexis-Tsipras-turns-to-Russia-and-China.html.

[127] *Source:* http://english.mofcom.gov.cn/article/newsrelease/significantnews/201709/20170902650502.shtml

[128] The precise title of the document is '2017-2019 Plan on Key Areas of Cooperation between China and Greece'.

2017-2019 Action Plan aims to promote economic cooperation between the two countries and the effective combination of China's Belt and Road Initiative with Greece's Growth Strategy.[129]

The initial Action plan did not have a clear-cut content, but at the time it was signed there were public statements about 'investment plans on the table concerning the rail network, ports and airports, and stretching to telecom and energy network interconnections and investment in power plants, including those using renewable energy sources'.[130] At a later stage, the three key sectors (transport, energy and telecommunications) were confirmed and specific projects are now being discussed. Progress is being achieved above all in discussions about cooperation in the area of energy, e.g. regarding the EuroAsia Interconnector, a 1,500-km energy 'electricity highway' from Israel to Greece via Cyprus and Crete.[131]

On a multilateral level, Greece was one of seven states, which were granted prospective membership in the China-led Asian Infrastructure Investment Bank (AIIB) in May 2017.[132] This announcement coincided with the visit of Greek prime minister Tsipras to China to attend the Belt and Road Forum. Greece's participation in yet another international financial institution with a strong Chinese involvement, the New Development Bank (NDB), is also being considered: in July 2017, the Finance Ministry was authorised to start talks regarding Greece's participation in NDB.[133] At the same time, NDB appears to aim primarily at providing loans to the founding members themselves and only then to other countries, mostly developing ones.[134] It remains to be seen how NDB membership will grow over the years to come[135], but in

[129] Interview with Stergios Pitsiorlas, published in 'Pitsiorlas: Greece-China Action Plan meeting 'an important step' for cooperation', *The Greek Observer*, 2 November 2017, http://thegreekobserver.com/politics/article/24959/pitsiorlas-greece-china-action-plan-meeting-important-step-cooperation/.

[130] 'Greece-China Three Year Action Plan Tied to New Silk Road', The National Herald, 17 May 2017, https://www.thenationalherald.com/162445/greece-china-three-year-action-plan-tied-new-silk-road/.

[131] As stated by the Deputy Minister of Economy and Development Stergios Pitsiorlas in an interview with IIER researchers on 14 November 2017.

[132] Three regional states (Bahrain, Cyprus, Samoa) and four non regional ones (Bolivia, Chile, Greece, Romania), https://www.aiib.org/en/news-events/news/2017/20170513_001.html.

[133] 'Greece's participation in the New Development Bank under discussion', *Greek Radio & Television (ERT),* 19 July 2017, http://int.ert.gr/greeces-participation-in-the-new-development-bank-under-discussion/.

[134] The bank was set up by the so-called BRICS group (Brazil, Russia, India, China and South Africa) in July 2015.

[135] 'NDB Board of Governors Approves the Bank's Five-Year Strategy and Terms, Conditions and Procedures for the Admission of New Members', NDB Press Release, 1 April 2017.

this early phase of the bank's evolution Greece is not considered to be a highly likely recipient of NDB loans.[136] Furthermore, Greece is considering becoming more actively involved in the 16+1 platform for cooperation between China and countries in Central and Eastern Europe[137], and was represented at the Budapest summit in November 2017.

A very interesting aspect of Sino-Greek relations is the growing role of cultural diplomacy. Given that both countries rightfully take pride in their rich history and culture, related initiatives easily make headlines and go down well with the general public in Greece. To what extent cultural diplomacy constitutes an integral part of Sino-Greek relations deserves to be studied in the framework of further research.

IN FOCUS

5. Cultural Diplomacy in Sino-Greek Relations

A big part of the official Sino-Greek relations is the public diplomacy campaign launched mostly by the Chinese side in the area of history and culture. The Olympic Games in 2004 and 2008 were held in Athens and Beijing, respectively, which provided an excellent opportunity for the exchange of visits and related expertise. The period from September 2007 to September 2008 was declared the 'Cultural Year of Greece in China'. Greece-China 2017 is the Year of Cultural Exchanges and Cooperation in Creative Industries and is reportedly to be extended into 2018.[138] *A Greek-Chinese Cities forum has been created as yet another platform for Sino-Greek dialogue.*[139] *In April 2017, Athens hosted the first Ministerial Conference of the states invited to the so-called 'Ancient Civilisations Forum', more widely known as GC10.*[140]

Beijing attaches great importance to public diplomacy in Sino-Greek relations. Once again, this stems from a well thought-out long-term concept that China has

[136] Interview with Frans-Paul van der Putten published by the portal 'China and Greece', 27 August 2015, available at: http://chinaandgreece.com/greece-remains-major-potential-target-chinese-fdi/.
[137] http://www.china-ceec.org/eng/.
[138] Yin Yeping, 'Greek Ambassador to China has high expectations for bilateral ties', *Global Times*, 22 October 2017, http://www.globaltimes.cn/content/1071332.shtml.
[139] Jointly set up by the Amphictyony (League) of Ancient Greek Cities and the Chinese People's Association for Friendship with Foreign Countries (CPAFFC).
[140] Apart from Greece and China, the other countries represented at the conference were Bolivia, Egypt, India, Iraq, Iran, Italy, Mexico and Peru.

embraced in order to promote its soft-power image worldwide, but Greece is a particularly relevant 'testbed' for the implementation of this strategy. While the growing significance of culture as a force of progress was highlighted in the 11th Five-Year Plan (2006-2011), it was during the 18th National Congress of the Chinese Communist Party in 2012 that the role of cultural diplomacy in shaping the country's foreign policy was duly analysed.[141]

Political implications of the Sino-Greek partnership

The political implications of the ever-closer partnership between Greece and China are hard to play down. President Xi Jinping is on record referring to Greece as an important strategic partner and China's most reliable friend in the EU, during Tsipras visit to Beijing in 2016.[142] Small wonder then that Greece is viewed by some EU partners as cozying up to China a bit too much among calls for the adoption of a screening mechanism for foreign investment in Europe. There have been thinly veiled references to China and Sino-Greek relations as well.[143]

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141 Andreas Lioumpas, 'Greek Cultural Diplomacy: Between the Platform of Cultural Diplomacy and the Chinese Example', presentation at the Institute of International Economic Relations, Athens, 22 September 2017.

142 Philip Chrysopoulos, 'Greece Is China's Most Reliable EU Friend, says President Xi Jinping', *Greek Reporter*, 5 July 2016, http://greece.greekreporter.com/2016/07/05/greece-is-chinas-most-reliable-eu-friend-says-president-xi-jinping/.

143 To a question about China's political pressure on Greece through investments, the German chancellor Angela Merkel has stated: 'I am concerned about what you described. Mutual dependencies are increasing and the balance […] is constantly shifting', adding that 'Europe must work hard to protect its influence and, above all, it should speak with China with one voice', in 'Merkel's discontent for Greece-China relations', *The Greek Observer*, 3 July 2017, http://thegreekobserver.com/politics/article/13908/merkels-discontent-greece-china-relations/.

Moreover, what has been seen as particularly annoying by a number of EU member states and institutions was Greece's stance in June 2017, at a meeting of the UN Human Rights Council in Geneva. Contrary to the views of the majority of EU member states, the Greek government blocked an EU statement to the UN on China's human rights record, though reportedly there were also other countries that expressed similar reservations.[144] This marked the first time the EU failed to make its statement to the UN's top human rights body. A year earlier, in July 2016, Greece was one of three member states, which opposed the adoption of a joint EU statement on the South China Sea dispute (the other two being Hungary and Croatia). This stance of Athens is seen by many onlookers in the EU and elsewhere as being dictated by China in return for investment in the cash-strapped Greek economy.

Athens is seen by many onlookers as cozying up to Beijing in return for investment in the cash-strapped Greek economy.

Beijing's response, put forward by state-controlled media outlets, such as Global Times, is that this accusation is 'undoubtedly absurd'. As the Chinese argument goes, 'different from the EU, which has treated Athens as a delinquent borrower, Beijing designates the country as a trusted partner'.[145] In the same vein, the pro-China rhetoric of the current government and political support provided to Beijing is largely explained by friction between Athens and EU institutions over the implementation of the July 2015 bail-out agreement. Thus, Greece's debt crisis has definitely contributed to the *rapprochement* between Athens and Beijing.

The Tsipras government expects a great deal from China: both short-term political dividends and long-term socio-economic benefits for Greece. These expectations need to be put in perspective. FEIR/IOBE estimates that total investment in Greece should approach 18% of GDP from approximately 11% in 2015, in order for the country to achieve growth rates in excess of 2.5% from 2017 onwards. The implementation of such an ambitious investment programme presupposes that there are sufficient resources to support it. Given the currently low level of domestic saving, it is quite

[144] Robin Emmott, Angeliki Koutantou, 'Greece blocks EU statement on China human rights at U.N.', *Reuters*, 18 June 2017, https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP.

[145] Liu Lulu, 'NYT sees Chinese investment in Greece through Western centrist lens', *Global Times*, 31 August 2017, https://goo.gl/PRtev1.

clear that Greece needs substantial investment from abroad in order to achieve its economic objectives.[146]

It is an indisputable fact that, trapped in its severe fiscal and economic predicament, Greece is not in a position to discourage foreign investment from any legitimate source – in fact, a certain diversification of foreign investment from countries outside the EU is even welcome.[147] China is rightfully emerging as a powerhouse and a major source of investment capital on an international scale. At the same time, engulfed by its economic woes and disenchantment with the EU, Greece welcomes China without a coherent strategy[148], while it is often unwilling to abide by EU policies.

Yet, the EU certainly casts its long shadow over Greece and this affects the attraction of Chinese investment to the country. It is the EU that spearheads the process of liberalisation of the Greek market, often against vehement opposition from vested local interests, and thus offers opportunities to Chinese corporations – COSCO and State Grid are fully aware of this, being investors in PPA and IPTO, respectively. At the same time, it is again the EU that sets the rules of the game and Chinese investors need to abide by them, as COSCO realised in 2015, when the European Commission forced the Greek state to strip the Chinese conglomerate of some undue privileges.

Therefore, while Chinese investment and Sino-Greek economic cooperation have a strong element of bilateral relations, these issues should also be examined in the broader context of Greece's EU membership. Last but not least, the three bail-out agreements, signed by Greek governments since 2010 and commitments deriving from them, limit the leeway Greece and China have in determining the course of joint action with regard to investment deals.

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146 'The economic impact of the development of the Hellinikon area, Executive Summary', *Foundation for Economic and Industrial Research (IOBE)*, September 2016, p. 3.

147 Thanos Dokos, 'The Geopolitical Implications of Sino-Greek Relations', 10 July 2013, *Clingendae*l, https://www.clingendael.org/publication/geopolitical-implications-sino-greek-relations.

148 As argued in Plamen Tonchev, 'China's Growing Economic and Political Clout through Investment in Greece', to appear in an upcoming ETNC report-2017 on Chinese FDI in Europe.

Geopolitical Dimensions

It has been pointed out on various occasions that the takeover of PPA may be a dual-purpose Chinese investment, thus serving both commercial objectives and – potentially – national security purposes.[149] It is true that the Mediterranean now tops the list of the EU's global security concerns. For the first time since the end of the Cold War, a multi-faceted 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). Developments since the outbreak of the Arab Spring are inevitably forcing the EU to adopt a security-oriented agenda and, no doubt, Greece has a strategically important position in the region.[150]

China was particularly worried in 2011, when it needed to evacuate 36,000 Chinese workers from Libya as violence broke out, forcing it at short notice to enlist the help of Greek merchant ships to make the first few rescue missions. According to media reports, unidentified Chinese officials admit that 'if that was to happen again, we would be much better prepared. We could use the Chinese navy and take the evacuees to our own port at Piraeus.'[151] Furthermore, it has been duly noted by observers that the presence of the Chinese navy in the eastern Mediterranean has intensified since 2011. The Chinese navy occasionally visits ports throughout the region, usually after concluding counter-piracy patrols in the Gulf of Aden and before returning to China. Chinese warships have visited Piraeus several times since 2002, the last time being in October 2017[152], which feeds into the debate on the potential dual use of COSCO's investment.

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[149] Jonas Parello-Plesner, Mathieu Duchâtel, 'China's Strong Arm: Protecting Citizens and Assets Abroad', *International Institute for Strategic Studies*, 29 May 2015, https://www.iiss.org/en/publications/adelphi/by%20year/2015-9b13/chinas-strong-arm-63b7.

[150] Frans-Paul van der Putten (ed.), 'The Geopolitical Relevance of Piraeus and China's New Silk Road for Southeast Europe and Turkey, *Clingendael,* December 2016, pp. 9-10.

[151] James Kynge, Chris Campbell, Amy Kazmin and Farhan Bokhari, 'How China rules the waves', *Financial Times,* 12 January 2017, https://ig.ft.com/sites/china-ports/.

[152] 'Three Chinese warships dock at Piraeus for courtesy call', *The Greek Observer*, 24 October 2017, http://thegreekobserver.com/greece/article/24019/three-chinese-warships-dock-piraeus-courtesy-call/.

Despite Beijing's efforts to downplay concerns, this discussion is not entirely unwarranted. In June 2015, the Chinese government announced that in the future all civilian shipbuilders had to ensure that their new vessels were suitable for military use in emergencies. This new strategy aims at enabling China to convert the considerable potential of its civilian fleet into military strength with a view to the protection of strategic lines of communication and maritime support capabilities.[153] In other words, all new COSCO container ships coming into the Mediterranean and docking in the port of Piraeus will in theory be capable of being converted into military vessels at short notice and used in military operations. In this study, the IIER team does not intend to assess the potential geopolitical implications of the Piraeus takeover by COSCO, but it is noted that a related – and much-needed – discourse has yet to commence in Greece.

The current Greek government's position is that the two countries will continue to support each other 'on major issues concerning respective core interests'.[154] Obviously, this calls for a clear-cut definition of the notion of 'core interests'. An intriguing analogy can be drawn at this point between Greece and Serbia. China's growing economic presence in Serbia has given some observers a reason to believe that Belgrade has secured a special place within the '16+1' format.[155] Chinese presence in both Greece and Serbia is becoming more and more visible. Both Greece and Serbia supported China in 2016 in the dispute over the South China Sea. However, Serbia is outside the EU and is not committed to a large body of legal and administrative rules associated with EU membership. Secondly, Serbia ensures tangible political gains, such as Kosovo's non-recognition by China – by contrast, it is less clear what Greece gains in return for backing China on sensitive political issues and how this helps Athens serve the core interests of the country.

A discourse in Greece on the potential geopolitical implications of Sino-Greek relations is much-needed and has yet to commence.

[153] Zhao Lei, 'New rules mean ships can be used by military', *China Daily,* 18 June 2015, http://www.chinadaily.com.cn/china/2015-06/18/content_21036944.htm.

[154] Statement by Greek foreign minister Nikos Kotzias in April 2017, 'Wang Yi Holds Talks with Foreign Minister Nikos Kotzias of Greece', press release issued by the Chinese Ministry of Foreign Affairs, 23 April 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1456646.shtml.

[155] 'China's investment in influence: the future of 16+1 cooperation', *European Council on Foreign Relations*, 14 December 2016, https://goo.gl/cdAJTX.

The way forward

As a final note, the evolving relationship between Greece and China is inevitably asymmetrical. Indeed, most countries have asymmetrical relations with China due to their difference in size and dynamism. Yet, while Sino-Greek relations will definitely be developing in the years to come, hopefully this will happen in a way that allows Athens to strike a delicate balance between Beijing's priorities and Greece's national interests and international obligations.[156] Chinese investment in the country is definitely needed and sought-after, but ideally it should be attracted, assessed and put in use after some necessary questions are raised and answered in a meaningful way.

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[156] Thanos Dokos, ibid.

Recommendations

1. The Greek state needs to define socio-economic benefits in a detailed way, through credible procedures for the collection and processing of relevant data. The Chinese side needs to be more open and transparent, particularly in relation to the emerging web of Chinese corporations active in Greece - the Piraeus-anchored cluster definitely is a case in point.

2. The Ministry of Labour and other state institutions could be tasked to monitor job creation through Chinese investment projects, on the basis of relevant experience acquired in other EU member states.

3. The Greek government could well consider revisiting the terms of the Golden Visa programme, for instance by raising the €250,000 bar for the purchase of property in Greece by foreign citizens, in return for granting a Golden Visa to applicants.

4. Enterprise Greece should be enhanced in terms of competencies regarding the monitoring and evaluation (both *ex ante* and *ex post*) of foreign investment projects, including those proposed and implemented by Chinese companies.

5. It would be highly beneficial to the Greek economy if Chinese investment projects were not limited to the five sectors prioritised to date. For instance, Chinese investors could be invited to diversify their portfolios by contributing to the revival of industry, agriculture and other significant sectors of the national economy.

6. The issue of Chinese investment should be seen as being part and parcel of Sino-Greek relations in their entirety. In particular:

- Chinese investment projects and their long-term impact in terms of expected socio-economic benefits should not be linked to short-term dividends.

- The issue of China's leverage over Greece should not be blown out of proportion. While the volume of investment capital from mainland China and Hong Kong has been steadily increasing, it is still a small fraction of the flows from other countries, mostly EU member states. Therefore, the political relations between Athens and Beijing should ideally be commensurate to China's share in the overall amount of foreign investment capital in Greece.

- Given China's enormous and steadily growing weight, it is in the best interest of Greece to make the most of its EU membership status with a view to the inherently and inevitably asymmetrical Sino-Greek relations.

- Lessons learned from the increasingly close Sino-Greek relations to date should be examined carefully and both sides should effectively buy in, if the 'win-win cooperation' slogan is to be fully justified.

ANNEXES

Annex I

OECD Glossary

of Foreign Direct Investment Terms and Definitions

(Selected Items)

Balance of Payment (BoP)

The Balance of Payments is a statistical system, through which economic transactions occurring during specific time periods between an economy and the rest of the world can be summarised in a systematic way. The IMF Balance of Payments and International Investment Manual provides conceptual guidelines for compiling balance of payments statistics according to international standards.

Confidentiality

In compiling and presenting FDI statistics, compilers in many countries may encounter the possibility of confidential data occurring in the results to be disseminated. Such information generally does not directly identify the entity, e.g. the name and address of an enterprise, to which the data relate. However, the particular context, in which the data are presented (e.g. classification by country of counterpart, activity of enterprise, type of financial instrument as well as cross-classifications of these attributes), may allow users to determine the identity of the entity in question and the value of its activity from the information provided (as well as other information they may have independently available to them). In general, the greater the level of detail in the analyses, as well as the degree of concentration of particular types of enterprises and their activities in a compiling country, the greater the likelihood of confidential data arising. For many countries, national statistical legislation prohibits the direct or indirect disclosure of information relating to a particular individual or entity. Many international organisations also operate statistical confidentiality regimes to ensure that confidential statistical information is not disseminated.

Directional Principle

Presentation of the FDI data on a directional basis reflects the direction of influence by the direct investor underlying the direct investment: inward or outward direct investment. FDI according to directional principle relates to the treatment of reverse investment and to the treatment of fellow enterprises.

(i) Reverse investment

(ii) Investment between fellow enterprises:

- If the ultimate controlling parent is a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as outward foreign direct investment;

- if the ultimate controlling parent is not a resident of the compiling economy, then the transactions and positions between the two fellow enterprises are categorised as inward foreign direct investment.

Fellow enterprises

An enterprise in one economy may be related through the Framework of Direct Investment Relationships (FDIR) to another enterprise in the same economy, or in a different economy, without either being a direct investor in the other, but through both being directly or indirectly influenced by the same enterprise in the ownership hierarchy. This 'common parent' must be a direct investor in at least one of the enterprises in question. Such enterprises can be considered to be related through a ‘horizontal’ linkage within the FDIR – not involving FDI voting power of 10% or more – and are called fellow enterprises. It should be noted, however, that for FDI statistics, only cross-border transactions and positions between FDI-related enterprises should be recorded.

Foreign direct investment (FDI)

A category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship. Some compilers may argue that in some cases an ownership of as little as 10% of the voting power may not lead to the exercise of any significant influence, while on the other hand an investor may own less than 10% but have an effective voice in the management. Nevertheless, the recommended methodology does not allow any qualification of the 10% threshold and recommends its strict application to ensure statistical consistency across countries.

Ultimate investing country (UIC)

A geographical allocation determining the location of the ultimate source of control of the stocks of inward FDI for a reporting economy. It is recommended to compile, on a supplemental basis, inward FDI positions according to the UIC.

Source: http://www.oecd.org/daf/inv/investment-policy/2487495.pdf

Annex II

Estimates of Chinese FDI in Greece

Explanatory Note

- The Bank of Greece records FDI flows: (i) in accordance with the methodology adopted by the EU and OECD; (ii) strictly on a Balance-of-Payments (BOP) basis, i.e. with a time delay.
- The China Investment Tracker, initially launched by the Heritage Foundation and now hosted by the American Enterprise Institute (AEI), covers China's global outbound investments from 2005 onwards. It includes investment projects worth at least $100 million, which means that a large number of transactions below that threshold are not recorded. In addition, the AEI dataset includes investments that were planned, but never completed, which affects the accuracy of the data to an even larger extent.
- The EU-China FDI Monitor dataset is run by the research firm Rhodium Group (RHG), a private research firm, and only includes completed transactions that meet the conventional definition of FDI, but it applies a much lower threshold for deals to be included (€1 million).
- The study 'Balkan Silk Road Report' (2017), commissioned by the European Bank for Reconstruction and Development (EBRD) and written by Jens Bastian includes, *inter alia*, loans granted by Chinese banks to Greek shipping firms.

Bank of Greece:

Volume of FDI from China and Hong Kong in Greece, 2003-2016

(in million €)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	Sub-total
China	---	---	---	---	---	---	---	1.2	8.0	---	72.8	16.9	18.8	29.3	**137.8**
Hong Kong	5.4	1.1	0	3.5	0.7	0.6	1.6	12.9	10.2	16.1	19.0	27.6	31.7	317.0	**447.4**
Total	5.4	1.1	0	3.5	0.7	0.6	1.6	14.1	11.0	16.1	91.8	44.5	50.5	346.3	**585.2**

Source: Bank of Greece; Balance of Payments
* Provisional data as of October 2017

Rhodium Group:

Chinese FDI transactions in Greece

2000-2016

Year	EUR million	Year	EUR million
2001	0	2010	1
2002	0	2011	91
2003	0	2012	15
2004	3	2013	245
2005	0	2014	92
2006	2	2015	30
2007	0	2016	360
2008	1		
2009	0	**Total**	**840**

Chinese FDI in Greece, 2008-2014

China Global Investment Tracker

Data Collected by the American Enterprise Institute and the Heritage Foundation

Year	Investor	Million USD	Share size	Transaction Party	Sector	Subsector
2008	China Ocean Shipping	4,580			Transport	Shipping
2011	Fosun	120	10%	Folli Follie	Other	Consumer
2012	China Ocean Shipping	150			Transport	Shipping
2013	China Ocean Shipping	300			Transport	Shipping
2014	Fosun	200		Latsis	Transport	Aviation
2016	COSCO	780	67%		Transport	Shipping
2016	State Grid	350	24%		Public Power	Energy
2017	Truking Group	110	75%	Romaco	Technology	Medical
2010	Beijing Construction Engineering	130			Tourism	
2014	Fosun	1,200			Tourism	
Total		**7,920**				

EBRD-Commissioned Study:

Major Chinese Investments in Greece since 2009

Year	Chinese Company	Greek Company	Sector	Value in €bn	State of Investment	Nature of Investment
2009	COSCO	PPA	Transport Ports	0.678	Completed	Concessions Contract
2014	China Development Bank	Costa Mare	Transport Container Shipping	1.1	Completed	Official Lending
2014	Export-Import Bank	Thenamaris Ocean bulk	Transport Container Shipping	0.340	Completed	Shipping Infrastructure
2014	ICBC	Libra Diana Shipping	Transport Container Shipping	0.490	Completed	Shipping Infrastructure
2014	China National Aero Technology	Veritas Ship Management	Transport Container Shipping	0.158	Completed	Shipping Logistics
2015	ICBC – Sinohydro	Terna Energy	Energy	0.880	MoU	Energy Generation
2016	COSCO	PPA	Transport Ports	0.280.5	Completed	Majority Shareholding
2017	State Grid Corp. of China	Independent Power Transmission Operator (ADMIE)	Energy / Electricity	0.320	First stage completed Ongoing	24% Shareholding (Right to acquire 66% majority)
Total				**4.247**		

Source: Jens Bastian; Author's compilation based on company reporting since 2009.

Annex III

Greece's Investment Gap

FDI Stock in EU Member States, 2015

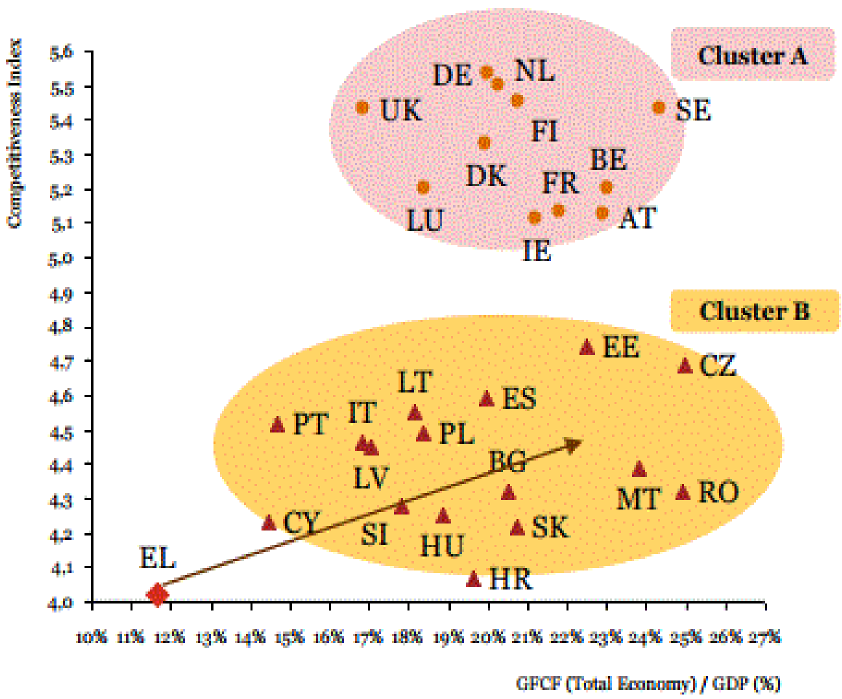
(In million dollars)

Member State	Volume
United Kingdom	1,457,408
Germany	1,121,288
France	772,030
Netherlands	707,043
Spain	533,306
Belgium	468,710
Ireland	435,490
Italy	335,335
Sweden	281,876
Poland	213,071
Luxembourg	205,029
Austria	164,784
Malta	163,522
Cyprus	138,263
Portugal	114,220
Czech Republic	113,057
Denmark	100,858
Finland	92,340
Hungary	92,132
Romania	69,112
Slovakia	48,163
Bulgaria	42,106

Croatia	26,375
Estonia	18,914
Greece	17,688
Latvia	14,549
Lithuania	14,440
Slovenia	11,847

Source: UNCTAD

Competitiveness Index and Investment-to-GDP ratio, 2016



Source: European Commission (AMECO), World Economic Forum

Available Funding and Investment Gap

2017-2022

***Source*: From recession to anemic recovery, PwC, June 2017**

Investment needs for 2017-2022, compatible with rapid economic growth trends, are estimated at around € 270bn, but foreseeable funding flows are not enough to cover them

INVESTMENT (2017–2022)		SOURCE OF FUNDING (2017–2022)	
Type of investment	**Funds**	**Type of investment**	**Funds**
Firms		**Investment**	
1. Investment (at the current rate)	€ 66bn	Foreign Direct Investment (average rate of 2015-2016)	€ 12bn
2. Additional investment for growth	€ 43bn	Public Investment Program (at the current rate)	€ 37bn
3. Equipment maintenance investments	€ 74bn	Equity & credit funds (at the current rate)	€ 46bn
Total	**€ 183bn**	European Commission flows (e.g. NSRF Funds)	€ 20bn
Infrastructure		**Total**	**€ 115bn**
1. Small infrastructure projects	€ 48bn		
2. Large infrastructure projects	€ 21bn		
Total	**€ 69bn**		
Real Estate			
1. Investment (at the current rate)	€ 7bn		
2. Additional investment	€ 12bn		
Total	**€ 19bn**		
Recurring investment	**€ 216bn**		
Additional investment	**€ 54bn**		
Total investment	**€ 270bn**	**Total funding**	**€ 115bn**
Average annual investment	**€ 45bn**	**Average annual funding**	**€ 19bn**

The **funding gap for 2017-2022 stands at about € 155bn (€ 26bn per annum)**. Investment funds to cover the funding gap could come from:

- additional equity
- credit extension
- "soft" financing

Annex IV

HRADF Asset Development Plan

April 2016

1. 14 Regional Airports
2. Hellenikon
3. Astir Vouliagmenis Hotel Complex
4. Two properties in Afantou Rhodes
5. Hellenic Gas Transmission System Operator (DESFA)
6. Piraeus Port Authority (PPA/OLP)
7. Thessaloniki Port Authority S.A. (THPA/OLTH)
8. TRAINOSE S.A. & EESSTY (ROSCO)
9. Athens International Airport (AIA)
10. E-auction III, IV, V, VI & Small Real Estate Assets
11. Marinas
12. Egnatia Motorway
13. Hellenic Petroleum (HELPE)
14. Hellenic Telecommunications Organisation (OTE S.A)
15. Public Power Corporation (PPC)
16. Thessaloniki Water Supply & Sewerage (EYATH)
17. Athens Water Supply & Sewerage (EYDAP)
18. Public Gas Corporation (DEPA)
19. Hellenic Post S.A (ELTA)

Source: http://www.hradf.com/storage/files/uploads/e3a469443ca5f15b2f6c9eab2e0858a6.pdf.

Annex V

EU Debate on FDI Screening Mechanism

European Commission's proposal

for a new legal framework for FDI screening

(September 2017)

In December 2009, the EU concluded the Lisbon Treaty. Consequently, the EU obtained exclusive competence with regards to FDI. It follows from article 3 (1) (e) and article 207 (1) of the Treaty on the Functioning of the European Union (TFEU) that FDI has become part of the common commercial policy. The EU has subsequently taken several initiatives relating to EU's external policy on foreign investments, for example by the conclusion of new trade and investment treaties. More recently, the EU Commission has prioritised EU's internal investment policy for attracting investments into the EU.

It is the European Commission's view that foreign investors sometimes seek to acquire strategic assets, which potentially allow investors to control European companies that operate in security and public order sectors. It follows from article 3 (1) TFEU EU that member states can adopt screening mechanisms for FDI, if they wish to do so. Several EU member states, including Denmark, have already set up national screening mechanisms. However, their scope and design vary largely.

In September 2017, the EU Commission proposed a new legal framework for screening of FDI on grounds of security or public order. This includes, for example, activities relating to the operation or provision of critical technologies, infrastructure, energy or information.

The proposed regulation includes:

1. Article 4: A European framework for screening FDI by member states on grounds of security or public order.

2. Article 8: A cooperation mechanism between member states and the Commission . The cooperation mechanism obliges member states to inform the Commission and the

other member states of FDI undergoing national screening. In that context, the Commission and other member states notably would be entitled, under the proposed Regulation, to request information and provide comments and opinions on the screened investment, although the ultimate decision would rest solely on the member states, in which the FDI is planned or has been completed. Member states are required to await the opinion by the EU Commission before making a final decision.

3. Article 3: A European Commission screening mechanism for FDI, which affects projects or programmes of Union interest, e.g. projects and programmes in the areas of research (Horizon 2020), space (Galileo), transport (Trans-European Networks for Transport, TEN-T), energy (TEN-E) and telecommunications. In that context, the Commission also is entitled to issue an opinion to the member state where such investments are planned. While member states would still be allowed to disregard the European Commission's opinion, as they are entitled to in the context of national screening processes, they would need to justify their decision.

Although the proposed Regulation does not go as far as laying down a screening mechanism, such as that of the Committee on Foreign Investment in the United States (CFIUS), the proposed Regulation still allows the European Commission to weigh in.

The proposed Regulation needs to go through the ordinary legislative procedure, so it will be discussed by the European Parliament and the member states in the European Council. Both institutions will be able to discuss amendments to the proposed Regulation. Given that the average duration of ordinary legislative procedure in the EU is at least 17 months[157], the proposed regulation – if adopted – may enter into force in 2019 at the earliest. However, there are indications that in this case the duration of the process will be shorter due to the urgency of the matter.

[157] Average duration and number of concluded ordinary legislative procedures, https://epthinktank.eu/2014/11/26/european-parliament-facts-and-figures/ep-facts-and-figures-fig-19/.

FDI Security-Related Screening Procedures in EU Member States

Country	FDI scrutiny procedure	(Partial) prohibition	National treatment or prohibition	Scope of FDI reviews		Scrutiny practice	
				only for defence	**defense and/or other reasons**	**case-by-case scrutiny**	**automatic scrutiny**
Belgium	no		no	no		no	no
Bulgaria	no	no	no	no	no	no	no
Czech Republic	no		no	no		no	no
Denmark			no		no	no	
Germany		no	no	no			no
Estonia	no	no	no	no	no	no	no
Ireland	no				no	n/a	n/a
Greece	no		no	no		n/a	n/a
Spain			no	no		(non defence)	defence
France		no	no	no		no	
Croatia	no		no	no		no	no
Italy		n/a	n/a	no			no
Cyprus	no		no	no		no	no
Latvia	(no legal basis)		no	no			no
Lithuania			no	no		no	

Luxembourg	no	no	no	no	no	no	no
Hungary	no	no	no	no	no	no	no
Malta	no	no	no	no	no	no	no
Netherlands				no		no	n/a
Austria		n/a	n/a	no		no	
Poland			no	no		no	
Portugal		n/a	n/a	no			no
Romania		n/a	n/a	no		n/a	n/a
Slovenia	no				no	no	
Slovakia	(no legal basis)		no	no			no
Finland		no	no	no		(non defence)	defence
Sweden	no		no		no	no	no
United Kingdom			no	no			no

Source: Gisela Grieger, ‘Foreign direct investment screening: A debate in light of China-EU FDI flows’, *European Parliament Research Service,* (2017), pg. 7