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East Mediterranean in the context of China's Belt and Road Initiative

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This is the final instalment in a series of articles examining The Belt and Road Initiative (BRI), China's flagship international economic project. The series is examining the BRI by geographic areas in the context of its economic and geopolitical interaction with different regions it is traversing, and consequently, implications for East Mediterranean and broader EU-China relations.

The first instalment of the series was released in late October 2017 following the 19th National Congress of the Chinese Communist Party, where the country's constitution was amended, which handed Chinese President Xi Jinping political power not seen since Mao Zedong was in charge of the country.

During the Congress Mr. Xi presented ambitious vision for the country not just for the upcoming five-year term, but for the next 30 years. His guiding theory "Xi Jinping's Thoughts on Socialism With Chinese Characteristics for a New Era" was enshrined in the Party's constitution, which made him second after Mao most influential Chinese leader.¹

Less than five months later, at the 13th National People's Congress of China, which ended March 20, 2018, the legislature has unanimously approved the reappointment of Xi Jinping as president with no limit on the number of terms

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¹ Haenle P., *What Will a Powerful Xi Mean For the China-U.S. Relationship?* Carnegie-Tsinghua, 25.10.2017, http://carnegietsinghua.org/2017/10/25/what-will-powerful-xi-mean-for-china-u.s.-relationship-pub3550?utm_source=carnegiethisweek&utm_medium=email&utm_campaign=CTW10262017&mkt_tok=eyJpIjoiWIRKbU9HWTFZMkUyTnpneCIsInQiOiI2a2draVILYnFKS1h5YXZYZHZIMkdzcXMzb3BZS1FyRjYrcWV2b2h2b3JlLUHE4aFRxN1dDb2hYbWhVOXIERU9MWFVPMmJyNm9ybU1jNkRQZjBjUFE5STAYRXBzS3VuMmpqRVMwbTJoUTdoNUF3NVVUanl5TnFGQ1ZsUzRXR0EzWCJ9

he can serve. President Xi now has the option to remain in power for the rest of his natural life. The 64-year-old leader was also reappointed as head of the government commission that commands the military. And he already leads an identical party body overseeing the armed forces.²

The National Congress became the culmination of series of legislative moves, which legitimized the process of consolidation of power in the hands of one supreme leader, and at the same time, marked the end of the Deng Xiaoping era, i.e. the period of collegial rule in the Middle Kingdom, when the president's term in office was limited by two consecutive five-year terms.

And although the process of consolidation of power began back in 2013 (when Mr. Xi was elected to serve his first term in office) and it was never a secret to the outside world, nevertheless, only until relatively recently it became the matter of close attention, when the political elites in different parts of the world began calculating potential long-term ramifications of this process.

When Mr. Xi launched the program of domestic administrative reforms five years ago, which included fierce anti-corruption campaign, the international expert community was interpreting it, mainly, as a method of elimination of his internal opponents (which was also the case). Any declaration by the new Chinese leadership of the strategic long-term nature of these reforms was often received with scepticism – dominant majority of the observers shared the opinion that the new President would be unable to break through the entrenched interests of multiple factions inside the Communist Party and fundamentally re-shape the system. Today, when Mr. Xi managed to reorganize and methodically bring under his direct control the key military and administrative structures, amend the Constitution and secure presidency for life, the number of nay-sayers shrank significantly. Scepticism gave place to alarmism in many corners, primarily, in the Western world – Chairman Xi joined the "club" of like-minded leaders as presidents of Turkey, Russia, Egypt and a number of other less significant countries in Eurasia.

The Economist magazine put it as follows: "... China stepped from autocracy into dictatorship. ... This is not just a big change for China, but also strong evidence that the West's 25-year bet on China has failed. After the collapse of the Soviet Union, the West welcomed the next big communist country into the global economic order. Western leaders ... hoped that economic integration would encourage China to evolve into market economy and that, as they grew wealthier, its people would come to yearn the democratic freedoms, rights and

² *China reappoints Xi Jinping as president with no term limit* The Guardian, 17.03.2018, downloaded from <https://www.theguardian.com/world/2018/mar/17/china-reappoints-xi-jinping-as-president-with-no-term-limit>

the rule of law. ... The West has lost its bet on China, just when its own democracies are suffering a crisis of confidence."³

At the same time, it is also important to mention that perceptions of China on both sides of the Atlantic always differed. Thus, the European countries traditionally viewed China as a commercial partner rather than a strategic competitor. Only recently perceptions began gradually shifting, and primarily, in Western Europe, which increasingly views China's activity in the South and the East of the continent through the framework of its Belt and Road Initiative (BRI) as a growing economic and security concern. Such an alarmist perception is not always shared by the Southern and the Eastern members of the EU, which consider China as a viable alternative to the European Union for investment.

Diverging positions on Beijing's economic activities across Europe add additional layer to already existing internal tensions and disagreements inside the block. Thus, Germany and the EU institutions increasingly see Chinese activities in Central, Eastern and Southern regions as affecting the unity of the EU, undermining high-level standards, and exercising negative influence over EU member's strategic choices.

Sigmar Gabriel, former German vice-chancellor, appealed to EU members to pursue a joint foreign policy vis-à-vis the Asian power to counter Beijing's tactics: "If we do not succeed for example in developing a single strategy towards China, then China will succeed in dividing Europe," he said in September 2017.⁴

The list of allegations against China is long: it ranges from state-subsidized dumping and lack of equal opportunities for foreign companies in China to tapping of technological know-how through targeted buying of strategically interesting EU companies. Truth to be said, such allegations are not groundless: Volvo in Sweden is already Chinese, the Greek port of Piraeus, and even a winery on the Moselle in Germany is under Chinese rule.⁵

Chinese companies were on a buying spree over the recent years. In Germany, for example, their investments jumped from €100 million seven years ago to €12.1 billion last year, according to the Cologne-based Institute for Economic Research (IW).⁶

³ *What the West Got Wrong* The Economist, 03.03.2018, p. 9.

⁴ Poggetti, L., *One China – One Europe? German Foreign Minister's Remarks Irk Beijing* The Diplomat, 17.09.2017, downloaded from <https://thediplomat.com/2017/09/one-china-one-europe-german-foreign-ministers-remarks-irk-beijing/>

⁵ Wiegand, W.A., *China, the unbeloved trade partner* Euractiv, 14.02.2018, downloaded from <https://www.euractiv.com/section/economy-jobs/opinion/china-the-unbeloved-trade-partner/>

⁶ *EU drafting law to restrain Chinese takeovers* Deutsche Welle, 28.01.2018, downloaded from <http://www.dw.com/en/eu-drafting-law-to-restrain-chinese-takeovers/a-42339012>

To counter Chinese economic assertiveness across the continent, the European Parliament overwhelmingly passed a law in November 2017 that gives the EU far more legal freedom to tighten trade barriers against excessively cheap imports from China. The law introduces a new method for drawing up anti-dumping duties over imports from third countries that demonstrate significant distortions to the global market.⁷

In February of this year, Germany, together with France and Italy, began drafting the new EU law to restrain Chinese acquisitions of European firms and technologies. The Eastern and Southern Europeans, at least so far, do not seem to be rushing to align with their partners from the West of the continent, and continue favourably engaging China on the basis of both bi-lateral and multilateral frameworks.

China is helping to sustain this discourse and pays considerable attention to its relations with Eastern European countries. Since 2012, the Chinese Premier holds annual summits with the leaders of 16 Central and Eastern European countries, the so-called CEE 16+1 platform. This regional approach brings together a very diverse group of countries between the two seas, from the Baltics to the Balkans, from Estonia in the North to Bulgaria and Albania in the South (excluding Greece and Cyprus).

As a component of the BRI, the "16+1" is a key part of the Chinese transcontinental economic vision. China's interest in CEE comes as no surprise as part of the overall strategy in Europe, through strategic investment undertaking in the core European Union countries, and big infrastructure development projects in its periphery. In the fast-growing CEE region, prices for acquisition are lower, demand for preferential lending is high, human capital is cost-effective, and concessions for Chinese investors are high. Plus, the strategic location is perfect. The "16+1," universally welcomed in CEE, is a framework of bilateral and multilateral initiatives concentrated in three main areas: trade, investment, and transportation networks.

Bolstering trade relations between China and CEE is one the main objectives – trade volume has increased significantly over the last few years and reached \$58 billion in 2016. As for investments, the exact amounts invested in the region are unclear, ranging from \$6 to \$8 billion based on sources from the Chinese Ministry of Commerce. Poland and Hungary are seen as transportation hubs for the two main routes, for overland routes from Central Asia and via the Balkans.⁸

⁷ *European Parliament toughens law to limit cheap Chinese imports* Euractiv, 15.11.2018, downloaded from <https://www.euractiv.com/section/economy-jobs/news/european-parliament-toughens-law-to-limit-cheap-chinese-imports/>

⁸ Zeneli V., *What Has China Accomplished in Central and Eastern Europe?* The Diplomat, 25.11.2017, downloaded from

The Balkan Silk Road begins with the flagship investment in the Port of Piraeus, seeing Greece as a gateway in Europe through the Balkans. The other big project is the Belgrade-Budapest railway (although there are some concerns with regards to this project related to the investigation launched in 2017 against Hungary for breaching the EU laws on public tenders). Other transportation projects relate with Corridor 11, a highway that goes from Romania to Montenegro to Italy, or some projects in Macedonia as part of Corridor 8 to link the country with Western Europe.⁹

By providing alternative sources of financing and investments, China is being regularly supported by voices from Europe's South East. Hungarian Prime Minister Viktor Orbán, for instance, mentioned in his speech at the Budapest 16+1 summit (November 2017) that "Central and Eastern Europe has become the most competitive investment environment on the continent." Similarly, Macedonia's president talked about the failure of the EU in the Balkans, which China can help to undo.¹⁰

Building close economic relations with the region also helps Beijing to reap some benefits of political nature by exploiting friendly voices for its interests within the European circles. This came to the forefront in June 2017 when the Greek government blocked the European statement criticizing Beijing's human rights record. Leading media and think tanks in the West saw it as Greece embracing Chinese cash and interests.¹¹

Chinese capital began penetration of the region years before the BRI was officially inaugurated in 2013. In 2009 Cosco's involvement in Piraeus Port began when it obtained a concession from the Greek government to operate part of the port's container terminal for a period of 35 years. This concession relates to two piers of the container terminal. Since the Chinese company became involved, the productivity at its part of the terminal rose from 10 to 12 containers per hour to 44 containers per hour. In January 2016 the Greek Privatization Fund sold 67% stake in the Port to Cosco for €368.5 million. The concession will end in 2052.

<https://thediplomat.com/2017/11/what-has-china-accomplished-in-central-and-eastern-europe/>

⁹ Zeneli V., *What Has China Accomplished in Central and Eastern Europe?* The Diplomat, 25.11.2017, downloaded from

<https://thediplomat.com/2017/11/what-has-china-accomplished-in-central-and-eastern-europe/>

¹⁰ Turcsanyi R., *Growing Tensions Between China and the EU Over 16+1 Platform* The Diplomat, 29.11.2017, downloaded from

<https://thediplomat.com/2017/11/growing-tensions-between-china-and-the-eu-over-161-platform/>

¹¹ Tzogopoulos G., *Greece, Israel, and China's "Belt and Road" Initiative*, The Begin Sadat Center for Strategic Studies, N139, October 2017, pp. 12-17.

During the same year, a Chinese consortium led by Cosco acquired a 65% stake of Kumport Terminal located on the Ambarli coast of Istanbul. These acquisitions of critical logistical infrastructure in the East Med coupled with the opening of Chinese naval base in Djibouti and massive investments in the development of logistical hub in Egypt near the Suez Canal, represent vital elements of the maritime route of the BRI, which then heads to the land-based route to Europe with the entry point at Piraeus.

Transit time between Shanghai and Piraeus is approximately 22 days, which is 10 days less in comparison to the transit time between Shanghai and the North European ports of Rotterdam and Hamburg. By significantly reducing the delivery time between China and Europe, Piraeus is becoming one of the major penetration points for Chinese goods in Europe.

One indication of Piraeus's potential to grow further is the decision by Hewlett-Packard (HP) to relocate a major part of its distribution activities from Rotterdam to Piraeus. In December 2013, the Chinese telecom firm Huawei launched a distribution centre at Piraeus. ZTE, another major Chinese telecom firm, and Samsung Electronics from South Korea have expressed their interest in establishing distribution centres at Piraeus. Also, since 2013 various Chinese-financed railway projects have been initiated, which are aimed at substantially upgrading rail transport in Greece and other countries in Southeast Europe, including Macedonia, Serbia and Hungary. One of the possible outcomes of these activities would be a high-speed rail connection between Piraeus and Budapest, which would further enhance the usefulness of the port of Piraeus as a gateway and logistical hub.¹²

Chinese acquisition list is not limited only to logistical infrastructure. Thus, in October 2016 China State Grid International Development (SGID) also signed a €320 million agreement with Greece's Public Power Corporation (PPC) to purchase a 24% stake in the Greek power grid operator ADMIE.¹³

Further to the North, Serbia has already attracted over \$1 billion in investments in the form of soft loans to finance road building and energy projects. Other notable investments in the region include a \$3.19 billion project led by the China Pacific Construction Group (CPCG), the country's largest private builder, to build an expressway between Montenegro and Albania.¹⁴

¹² van der Putten F. P., Infrastructure and geopolitics: China's emerging presence in the eastern Mediterranean *Journal of Balkan and Near Eastern Studies*, 05.07.2016, pp. 341-343.

¹³ Tzogopoulos G., *Greece, Israel, and China's "Belt and Road" Initiative*, The Begin Sadat Center for Strategic Studies, N139, October 2017, pp. 12-17.

¹⁴ de Jong S. et al., *A Road to Riches or a Road to Ruin?* The Hague Centre for Strategic Studies, pp. 5-6.

In a similar vein, China is developing the entry points in the North of Europe. In the Baltic region, Latvia has been a steady recipient of Chinese FDI. Latvia is the first Baltic nation to have established a direct rail freight route with China under the unified brand 'China Railway Express' that will connect China with the rest of Europe. Latvia features prominently in China's plans as it seeks to make the Baltic nation the northern European logistics and distribution center in the Europe-Asia land transportation corridor. When looking at Central Europe, China's investments into the Czech Republic are noteworthy. Between 2014 and 2015 Chinese FDI into the country skyrocketed by \$279.9 million and included acquisitions in the energy and transportation sectors.¹⁵

The analysis conducted in this paper indicates that the rise of China will have major implications for Europe's strategic outlook. European nations increasingly need to balance both the benign opportunities and malign consequences of increased Chinese investment and influence in the region.

The relative swiftness of Chinese economic penetration of Europe's Southern and Eastern periphery as well as openness and acceptance of China's growing financial, military and political influence in these regions is an indication of the decreasing attractiveness of the EU narrative in those countries, which potentially might undermine the process of European integration and bring the risk of instability across the continent. The EU therefore needs to increase its influence in its neighbourhood by improving ties with these countries and providing both governing elites as well as the overall population with a more attractive alternative for the future.

¹⁵ de Jong S. et al., *A Road to Riches or a Road to Ruin?* The Hague Centre for Strategic Studies, pp. 5-6.