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# A Tale of Two Ports: The Epic Story of Chinese Direct Investment in the Greek Port of Piraeus

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This article is part of our feature **Re-imagining the Silk Road**.


*The new equipment on the PCT (Chinese) port. Photo credit: Sophie Meunier.*

by **Sophie Meunier**

When the Syriza government of Alexis Tsipras took office in Greece in January 2015, one of the first of many shocking announcements was the cancellation of the privatization of the Piraeus Port Authority (OLP in Greek), which controls the ancient port of Athens.[1] The Chinese state-owned company China Ocean Shipping Company (COSCO), which had been managing two terminals on the port since 2008, was widely expected to become the new majority owner. Why was the Piraeus transaction singled out as an example of a Chinese investment that had to be stopped? And could Greece really go it alone, and risk alienating the country that had become an increasingly important investor since the outset of the Euro crisis? This brief essay will begin to answer these questions, which highlight how Chinese direct investment in Europe simultaneously represents a menace and an opportunity.

The management of Piraeus by a Chinese company has captured the public imagination and media attention over the past few years because this was one of the first major Chinese direct investments in the European Union. Piraeus has also become an emblematic story because it touches on all the main concerns surrounding the recent surge of Chinese foreign direct investment (FDI) in the West, blending economic, labor and geopolitical fears into one single case.

Fears of a Chinese “takeover” of Europe are associated with gloomy predictions about Europe’s inexorable decline. The example of Piraeus is symptomatic of this view, since the port is, above all, a symbol of Greece’s past as a powerful shipping nation. A company held by a foreign country taking over what used to be the source of wealth and pride for Greece is a painful reminder that power has been redistributed in the new world economy. It is also one of the most vivid illustrations of the increasingly blurred lines between what constitutes a developed versus a developing economy, especially since FDI has historically been a marker of the flow of power from more to less economically advanced nations.

To be sure, China did not ‘swallow’ Piraeus and its history going back to Ancient Greece all at once. First, the port is still divided, both financially and geographically, between the Piraeus Port Authority-operated passenger terminal from which all ferries to the Greek islands (as well as numerous cruise ships) depart, and the commercial terminals. Second, COSCO did not immediately have access to the entirety of container port operations. Just before public awareness of the Greek crisis, the government of Kostas Karamanlis granted a 35 year concession to Pier II (and Pier III to be developed later) of its commercial port to Piraeus Container Terminal (PCT), a subsidiary of the Chinese shipping giant COSCO, in exchange for €490 million. Pier I is still managed by OLP.

The coexistence of the two ports side-by-side—the OLP-managed piers on one side and the PCT-managed piers on the other—provides a quasi-natural experiment to study the short-term impact of Chinese investment. Over the past five years, the story of Piraeus has indeed been a tale of two ports.


*Chinese-managed PCT piers; photo taken on July 16, 2015. Photo credit: Sophie Meunier.*

This particular investment crystallized fears about the impact of rising Chinese investment on labor rights (and to a lesser extent environmental standards) in Europe. Abundant reports about labor violations committed by Chinese companies invested in Africa led some Europeans to worry that a similar fate would befall Europe. FDI can indeed lead to "social dumping," or a deterioration of labor rights in the host country. Could Chinese FDI provoke a softening of labor rights in Greece, which may become more lax about enforcing its own workers' rights and job safety standards, turning a blind eye to labor violations in order to court and keep Chinese investment? This was the argument made by the Dockworkers' Union in Greece, as well as by the Communist Party, when COSCO was granted the initial concession. As a result, the fate of Piraeus was watched closely in Europe as a test case.[2]

The two side-by-side ports indeed seem to have evolved differently when it comes to labor. One condition posed by COSCO for the deal was to get a "clean" pier—clean of equipment but also clean of workers. The OLP-managed pier received all the workers displaced from the other pier who worked under the labor practices established over decades by the government and the unions. On the PCT-managed pier, labor conditions have been quite different. For one, PCT directly hired a few hundred Greek workers, mostly in administrative and management positions. Contrary to some initial reports, COSCO did not import its own Chinese laborers; only the six top managers came from China, including the chief executive of PCT, Captain Fu Cheng Qui. However, most workers who operate on the docks were outsourced by PCT to another company, Diakinisi, which hires workers only for short-term contracts instead of giving them the higher salary and benefits that come with full-time employment. Crane operators, who are forbidden from operating cranes for more than four hours straight by EU rules for safety reasons, go home when they have finished their shift on the Greek side, whereas they can work for an additional four hours on the docks on the Chinese side. Union leaders on the OLP pier claim to have witnessed several unreported accidents on the PCT piers, which they attribute to a lack of worker training, equipment maintenance, and safety precautions. Their main concerns are not only that the Chinese pier is waging unfair competition against the Greek pier, but also that sooner or later the Greek side would be forced to adopt the Chinese methods in order to remain competitive. The case of Piraeus calmed initial fears in Europe that FDI represents a beachhead from which China will spread its own labor model into Europe and that the companies run by Chinese masters will inevitably influence those that are not.

The Piraeus case also heightened worries about the geopolitical implications of Chinese investment in Europe.[3] Economically, it has crystallized fears that Piraeus would serve as a platform for China to export and distribute its goods even more widely throughout Europe and the Mediterranean region, thereby further accelerating the deindustrialization of Europe. More generally, Piraeus seems to be a crucial hub for the Chinese objective of its new Silk Road, "One Belt, One Road," connecting Europe to China via sea and land. This raises issues of national security throughout Europe and is proving to be a concern for the United States, as some of the Chinese investments in Greece may be driven by strategy in addition to, or instead of, commercial motives. It also raises some questions regarding dependency and political conditionality: if a country becomes heavily dependent on one particular investment, would the home country of the investor be able to leverage this dependency politically? Given China's open threats to economically punish countries whose officials meet with the Dalai Lama or protest Chinese human rights abuses,[4] one may wonder about the self-censorship that

European governments might engage in if they become deeply dependent on Chinese investment.[5]


*The rail link installed on the Chinese port. Containers can now be loaded onto trains directly from the port. Photo credit: Sophie Meunier.*

While the Piraeus epic has become emblematic of the fears associated with rising Chinese FDI in Europe, it has also highlighted the opportunities that such investment represents—as well as the dangers that Greece may risk if it alienates the country that has become an increasingly important investor since the outset of the Euro crisis. The Euro crisis led to a sharp decline of foreign investment into Greece, which fell by 38% between 2003-2008 and 2009-2014. On one hand, the American financial crisis followed by the crisis in the eurozone provoked a collapse of international investment everywhere. On the other hand, the economic environment in Greece became too risky to be conducive to foreign investment. It is against this backdrop that Chinese investment started rising in Europe and that China came to be considered as a 'white knight' in Greece. Indeed, the quasi-natural experiment of Piraeus also revealed the opportunities offered by Chinese investment in Greece.

In addition to the impact on labor rights and on geopolitics, another fear associated with Chinese investment in the West has been the unusual direction of technological flows. FDI typically flows from countries with better technology and know-how. In the case of China, however, FDI into the West has, so far, mostly been characterized by transactions specifically designed to acquire technology and know-how—some analysts have even called this the "reverse Marco Polo effect." [6] This is not a welcome development as, in the short term, this investment may not result in the beneficial spillover usually occurring in the host country and, in the long term, Europe risks a diminution of its current comparative advantage as Chinese investors copy and replicate European technology and *savoir faire*. The Piraeus investment, by contrast, does not fit that pattern. COSCO is one of the largest and most efficient shipping and logistics companies in the world. Within Piraeus, containers are unloaded more than twice as quickly on the PCT as on the OLP pier. Unlike many other Chinese investments in Europe, there is great potential for true technological and know-how spillover into the Greek port management economy.

Chinese investment in Piraeus also led to a tale of two ports economically. Commercial traffic going through the port has increased eightfold since COSCO took over control of the operations of Pier II and, later, Pier III. This has happened through three main mechanisms. First, COSCO invested massively in modernizing port facilities and equipment, for instance new deep-water docks to accommodate the latest generation of giant container ships and new state-of-the-art cranes to service them. In the fall of 2013, COSCO announced that it would invest an additional €230 million to modernize Piers II and III and to build the western side of Pier III into a new oil product terminal. As a result, more than twenty shipping lines now use the PCT facilities. Second, PCT negotiated deals with major multinational companies, such as Hewlett-Packard and the Chinese telecom giant ZTE, to use Piraeus as a main distribution center for Europe, thereby giving the port steady business. Third, COSCO invested in improving transit capacity, notably by completing the link between the port terminal and the national railway system. As a result of these improvements, Piraeus ranked first among the world's largest ports in terms of traffic increase in 2011, 2012, and 2013, and first in Europe in 2014. On my last visit in July 2015, the two PCT piers were running at full capacity with vessels docked all along Pier II and the newly opened Pier III, and cranes and trucks unloading and reloading containers non-stop in a smooth, well-orchestrated ballet.

The contrast was striking with the other side of the port, where I did observe idle facilities and empty loading docks in July 2015 (on my previous visit in 2013, the OLP terminal was moderately active). The expected spillovers from the Chinese investment into Piers II and III have not materialized. The OLP pier has lost many clients to PCT and attracted little business brought about by COSCO. Only one shipping giant still splits its business between the OLP and the PCT terminals – all other shipping lines are exclusively using PCT, with its more modern and dramatically more efficient facilities. The competitive pressures brought about by the investments on the PCT side have not led to an upgrading and automation on the Greek side because the economic crisis has prevented modernizing investments. Today, OLP earns more from the concession to COSCO every year than from its own freight business.

*An aerial picture of the commercial port of Piraeus that shows starkly the empty Pier 1 (Greek) and the busy Piers 2 and 3 (Chinese) (in construction). Photo credit: Sophie Meunier.*

Overall, Chinese investment in Piraeus has annihilated business on Pier I, but it has also generated new jobs, economic growth, and competitiveness. This is not a zero-sum game where PCT has stolen OLP's business; a lot of new business has been created. 'Build it and they will come' could be PCT's motto. The initial investment by COSCO is estimated to have created about 1,000 jobs for Greek workers. It has also increased ties between Greece and one of the world's fastest growing economic regions.

Therefore, when the massive Greek privatization program was launched in order to pay back Greece's bailout, Chinese investors were courted both by the Papandreou and the Samaras governments. In 2014, Chinese and Greek officials and entrepreneurs signed 20 agreements, worth about seven billion dollars, for Chinese investment into Greece. The Hellenic Republic Asset Development Fund (HRADF) launched the privatization of OLP in March 2014. With its experience and successes in managing Piers II and III, COSCO was widely expected to win the bid for a 67% stake in OLP, which includes the passenger terminal in addition to Pier I. The new investments by COSCO in Pier I were estimated to create 700 new jobs directly and 1,500 indirectly, according to studies cited by the former Greek Shipping Minister Miltiades Varvitsiotis.[7]

The early announcement by the new Syriza government that it was cancelling all privatization deals was not targeted specifically against China; rather, it was a statement against privatizations imposed from outside. It is just that Piraeus, as the largest and most publicly visible Chinese investment in Greece, captured the attention of the media when the announcement was made. One month after the new Greek government was sworn in, then Minister of the Economy, Yanis Varoufakis, paid a visit to PCT to reassure investors that privatizations already launched would not be rolled back. Prime Minister Tsipras confirmed that Chinese investments in Greece were mutually beneficial and expressed hope about the great potential for increased bilateral cooperation in trade, transports, and tourism. The future of Piraeus is still not clear, however, as the Tsipras government has made many contradictory statements on the issue. The most likely outcome is that COSCO, as well as two other companies (Denmark's APM Terminals and the Philippines' International Container Terminal Services), will submit bids for a reduced 51% majority stake in OLP.

China is by no means one of the top investors in Greece, which is still dominated by Germany and France. Nor is Greece an essential destination for Chinese FDI, even as Chinese investment is surging in the European Union. But the epic story of Piraeus has captured public attention because it has combined in one single site the fears and opportunities caused by the recent influx of Chinese investment into Europe, as well as the trials and tribulations faced by foreign investors, especially China, which is new to the FDI game, when navigating the uncertain environment that has become the eurozone.

***Sophie Meunier*** *is Research Scholar in the Woodrow Wilson School of Public and International Affairs at Princeton University and Co-Director of the European Union Program at Princeton.*

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[1] This essay is based on interviews conducted in Athens and Piraeus in July 2013 (OLP) and July 2015 (PCT), as well as Greek and other European newspaper articles since 2008. Thanks to Menelaos Mazarakis for research assistance.

[2] Sophie Meunier, Brian Burgoon, and Wade Jacoby, "The Politics of Hosting Chinese Investment in Europe," *Asia Europe Journal* 12, no. 1–2 (2014): 109–26.

[3] Francois Godement and Jonas Parello-Plesner, "The Scramble for Europe," Policy Brief (European Council on Foreign Relations, 2011).

[4] Andreas Fuchs and Nils-Hendrik Klann, "Paying a Visit: The Dalai Lama Effect on International Trade," *Journal of International Economics* 91, no. 1 (September 2013): 164–77.

[5] Sophie Meunier, "A Faustian Bargain or Just a Good Bargain? Chinese Foreign Direct Investment and Politics in Europe," *Asia Europe Journal* 12, no. 1–2 (March 8, 2014): 143–58.

[6] Carlo Pietrobelli, Roberta Rabellotti, and Marco Sanfilippo, "The 'Marco Polo" Effect: Chinese FDI in Italy," *Chatham House IE Programme Paper* 2010, no. 04 (2010).

[7] http://www.chinagoabroad.com/en/newsletter/fdi-greece-0

http://councilforeuropeanstudies.org/critcom/a-tale-of-two-ports-the-epic-story-of-chinese-direct-investment-in-the-greek-port-of-piraeus/