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From China to Greece – on track for the New Silk Road

Whither Sino-Greek relations?

The beginning of 2016 finds the relationship between Greece and China in a better status in comparison to the same period of 2015. The recent decision of the Greek Asset Development Fund to call COSCO the 'preferred investor' to buy the Piraeus Port Authority[1] can theoretically pave the way for a win-win co-operation. Such a collaboration based on investments and common economic interests constitutes the core of a pragmatic approach in the Sino-Greek partnership. It also contradicts illusions of last year that China could provide bilateral loans to Greece challenging the country's Euro-Atlantic orientation and its stay in the eurozone. As Vice-President of Greece Ioannis Dragasakis said in an interview during the pre-election period of September 2015 his government had unsuccessfully attempted to find a loan in third countries before the so-called 'Agreekment'.[2] Former Finance Minister Yanis Varoufakis goes even further suggesting that a phone call from Berlin blocked an alleged Sino-Greek financing deal.[3]

The 'Dragon's Head'

China has followed a careful and systematic policy vis-à-vis Greece since 2009 when COSCO started its investment in Piraeus. Prioritising its relations with major EU powers such as France and Germany, it has not sought to become critically involved in the Greek debt crisis and unilaterally provide liquidity. Considering the problem a European one per se, it highly supports Greece's stay in the eurozone and has only played a secondary role. According to an interview given by former Greek Prime Minister George Papandreou in the pre-election period of January 2015 Beijing had bought Greek sovereign bonds worth of 6 billion euros at the beginning of the economic crisis.[4] This amount is not insignificant but much lower compared with loans provided by Greece's creditors when the first bailout was agreed in May 2010.

China's interest in Greece is interwoven into the port of Piraeus at the economic and geopolitical level. The management of piers II and III in the port of Piraeus by COSCO has contributed to an increase of its profits. Its revenue from the terminals business rose by 13.6% in 2014 and this - according to the Chinese company - was attributed to three of them, namely Piraeus, Guangzhou South China Oceangate Container Terminal and Xiamen Ocean Gate Container Terminal.[5] Furthermore, the Piraeus port is a key point for China's 'One Belt and One Road' policy.[6] It marks the passage from the maritime Silk Road in Europe to the land-based one (Economic Belt) towards the Old Continent. Specifically, Beijing seeks to establish trade links from Greece to Central and Eastern Europe via the Balkans. This strategy was made straightforward during the '16+1' meeting in Belgrade on 16 December 2014.[7]

Sino-Greek relations have slowly but steadily improved since 2009. COSCO's profits along with the announcement of the Silk Road plan by President Xi Jinping in September 2013 paved the way for a deeper co-operation. In June 2014, China's Premier Li Keqiang visited Athens and discussed with the then Prime Minister of Greece Antonis Samaras the possibility for further collaboration in infrastructure projects including shipping, logistics, ports, airports and maritime affairs.[8] From a Greek perspective, a stronger co-operation with China could also boost tourism as well as the real estate sector. The number of Chinese tourists visiting Greece was 12,203 in 2012 and went up to 28,328 in 2013 and 37,196 only in the first nine months of 2014.[9] As far as real estate is concerned, foreign citizens have since 2013 the opportunity to acquire a long-term entry visa in Greece, if they decide to buy a property worth of 250,000 euros or more.

The misunderstanding

In January 2015 Antonis Samaras inaugurated the beginning of works by COSCO to extend Pier III in the port of Piraeus confirming the spirit of solidarity between Greece and China. Nevertheless, after the victory of SYRIZA in the election 25 January 2015 and for a period of approximately six months Sino-Greek relations entered a new period of relevant misunderstanding. Before the snap election and in its immediate aftermath, some ministers of the new cabinet and other members of the governing SYRIZA party started to put into question the necessity of the privatisation policy. Merchant Marine Minister Theodoros Dritsas, for example, said that the Greek government would be prepared to renegotiate the already signed agreement with COSCO. Then Minister of Economy, George Stathakis announced that the process for the privatisation of a 67,5 percent stake of the Piraeus Port Authority would be cancelled.[10] Subsequently, the Chinese Ministry of Commerce responded by asking Greek authorities to protect the legal interest of companies including COSCO. Also, for the first time during the ongoing economic crisis, Chinese media - traditionally positively predisposed toward Greece - raised doubts on the motivations of the new leadership of the country.[11]

The initial ice between Greece and Chinese authorities broke after some meetings between Greek politicians and China's Ambassador to Greece Zou Xiaoli. Greek Prime Minister Alexis Tsipras spoke on the phone with his Chinese counterpart Li Keqiang on 11 February and eight days later he publicly said that he was 'ready to support China's links to Europe, with Greece serving as China's gateway into Europe.'[12] Further to this, during his meeting in Beijing in March 2015 with Chinese Vice-Premier Ma Kai, Ioannis Dragasakis attempted to put an end to the confusion by asserting that the privatisation of the Piraeus Port Authority would take place as usual and by calling interested companies, including COSCO, to submit offers.[13]

In every occasion Beijing was clearly communicating to Athens that COSCO would be the 'Head of the Dragon' in its investment policy in Greece in the framework of the revitalisation of the ancient Silk Road. COSCO's potential expansion in Piraeus was one of the reasons why the Chinese leadership was highly concerned about the risk of a Grexit.[14] The Chinese company - along with APM Terminal and International Container Terminal Services - were preselected to submit binding offers for the sale of the Piraeus Port Authority. Nonetheless, the privatisation could not be implemented as long as the Greek government was failing to find common ground with its creditors.

The privatisation of the port

The 'Agreekment' of 12 July 2015 gave an end to Grexit fears. From that day onwards and especially after the new snap election of 20 September 2015, the SYRIZA-Independent Greeks government started to employ a completely different approach in carrying out privatisations. Despite ideological opposition and some new delays leading to the partial amendment of the concession agreement of the Piraeus Port Authority, the sale had already entered its final phase. The deadline for the submission of bids by interested companies was set for 21 December 2015. The withdrawal of APM Terminals and International Container Terminal Services facilitated the attempt of COSCO. A few days later, the Greek Privatisation Fund confirmed that the Chinese company had been the only candidate investor but asked it to improve its offer.[15] COSCO improved its offer indeed and on 20 January 2016 it became the preferred bidder offering 368,5 million euros.

In a detailed statement the Greek Privatisation Fund presented the benefits of the agreement for the concession of the Piraeus Port Authority.[16] According to the Fund's assessment, the total value could amount to 1,5 billion euros, including future investments by COSCO in the port. The Chinese company offered a higher price in comparison not only to the share price of the Piraeus Port Authority on the day of the agreement but also to that of two independent appraisers. In fact, COSCO agreed to pay 22 euros per share while the price range of the independent appraisers was from 18.4 to 21.2 euros per share and the share price at close of trading was 12.95 euros on Wednesday 20 January 2016.

Following the recent decision by the Greek Privatisation Fund the tender envelope will be directly filed with the Court of Auditors for a pre-contractual control. The Greek Parliament will also have to approve the concession. The way ahead is not without obstacles. Greece is already under pressure by a recent conclusion made by the European Commission. In particular, the Commission argued in March 2015 that Greece had granted COSCO some benefits - such as tax exemptions and preferential accounting treatment - providing the Chinese company with an undue advantage over competitors in breach of EU state aid rules. Therefore, it asked COSCO to pay back the advantage received to the Greek state and encouraged the latter to avoid further distortions of competition.[17] In parallel with the recommendation from the European Commission, Athens will be also encountered with reactions by trade unions operating in the port of Piraeus as they are losing their privileges and are not prepared to accept new labor conditions.

The sale of the Piraeus Port Authority is an obligation of the Greek government in the context of the bailout agreements. Therefore, the beginning of a debate on whether this decision is wise or an alternative could exist, leads nowhere. What matters more is that after the conclusion of the deal and the expansion of Chinese investments, the Piraeus port can be transformed into a transshipment hub, boosting trade, attracting new domestic and foreign investors and strengthening the geopolitical and strategic importance of Greece. In that regard, several local actors and businessmen have endorsed the agreement and expressed their optimism.[18] All in all, as President of the Piraeus Chamber of Commerce and Industry Vassilis Korkidis puts it 'the impact of the recent agreement will be safely in the future' when potential investors will be specified and tangible results will be apparent.[19]

Last but not least, the amount of 368,5 million euros to be offered by COSCO might seem sufficient taking the ongoing financial crisis and the stock market continuous fall into account but is certainly much lower than the real value of the Piraeus Port Authority under normal circumstances. If this privatisation had taken place earlier, economic benefits for the Greek state would have been much higher. Thus, the important lesson learned is that political instability constitutes a negative factor not only averting foreign players from investing in Greece but also reducing the cost of their future transactions. Unavoidably, the two-year delay in proceeding with the sale of the Piraeus Port Authority has had serious repercussions on the Greek national interest.

Looking towards the future

After the Piraeus port sale Sino-Greek relations are expected to improve. Increased high-level meetings will be high on the agenda of both countries. An official visit of Greek Premier Alexis Tsipras to Beijing is expected to take place soon on the invitation of his Chinese counterpart Li Keqiang. If this happens, Mr Tsipras will be escorted by a group of Greek businessmen looking for new deals with Chinese partners. Further to this, the Greek side is elaborating on a three year plan of bilateral co-operation with China. This idea was first suggested in March 2015 during the meeting between foreign ministers Nikos Kotzias and Wang Yi in the Chinese capital.

The development of close relations between Greece and China creates some skepticism in Western circles regarding potential geopolitical implications. That is because the latter has the opportunity to access Europe via the former by obtaining control in critical infrastructures. However, as Thanos Dokos puts it, even when it comes to the geopolitical consequences of having close relations with China, Greece does not consider its position as fundamentally different from that of other European Union states.[20] In the final account, Greece – as opposed to several European states including Germany, France, Italy and Britain – does not participate in the Asian Investment and Infrastructure Bank (AIIB). Further to this, international media have proven to be wrong in speculating Greece's hypothetical adhesion to BRICS New Development Bank.

In the coming months Greece will insist on combining the privatisation of the Piraeus Port Authority with potential future benefits for its national economy. Pillars of this strategy include the launch of additional investments by Chinese companies around Piraeus, principally in ship building, maintenance and logistics as well as the increase of Greek exports towards China. Additionally, the significant rise of tourists visiting Greece having China as their country of origin is another objective. The launch of new Air China flights connecting Beijing with Athens from 1 June 2016 outlines the will of the Chinese administration to respond to the logic of a win-win co-operation.

To sum up, China's New Silk Road - as it is developing via Piraeus – is not a panacea for the Greek economy. But it can contribute to Greece's growth, also sparking new infrastructure projects in Europe. Financing can be guaranteed by a new European instrument, Juncker's Investment Plan where China participates.[21] In that regard, the role of Piraeus will be central. It is not a coincidence that China's Ambassador's to Greece Zou Xiaoli publicly emphasises - after the port deal - the Sino-Greek future collaboration 'to build the China-Europe Land-Sea Express Route to connect the maritime Silk Road with the Silk Road on land'.[22]

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