

Research on the Effects of "Belt and Road" Port Investments and Political Risks of Political Parties

—A Case Study of the Port of Piraeus

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Abstract: Under the promotion of the "Belt and Road" initiative, Chinese enterprises have actively engaged in overseas port investments. During the investment process, Chinese enterprises have encountered party resistance and changes in government. Therefore, the effective response to political risks of political parties directly influences the success or failure of port investments. This paper takes the Port of Piraeus as a case study, first outlining the project's timeline and content and analyzing the investment effects. Subsequently, it expounds on political risks of political parties associated with the project. Finally, it proposes measures to address political risks of political parties, providing insights for China's overseas port investments.

Keywords: Belt and Road, investment effects, political risks of political parties, Port of Piraeus

1. Introduction

With the advancement of the "Belt and Road" initiative, Chinese enterprises have actively participated in overseas project investments, with the total investment scale continuously increasing and yielding positive results. In the 2035 long-term vision, China has set the goal of promoting the high-quality development of the "Belt and Road." This provides more investment opportunities for Chinese enterprises. On one hand, China has signed cooperation agreements with 152 countries, offering vast investment potential. On the other hand, many countries along the route are developing nations, exhibiting economic complementarity with China. For instance, Uzbekistan has lagging infrastructure, while China possesses advanced infrastructure, creating complementary economic systems between the two.

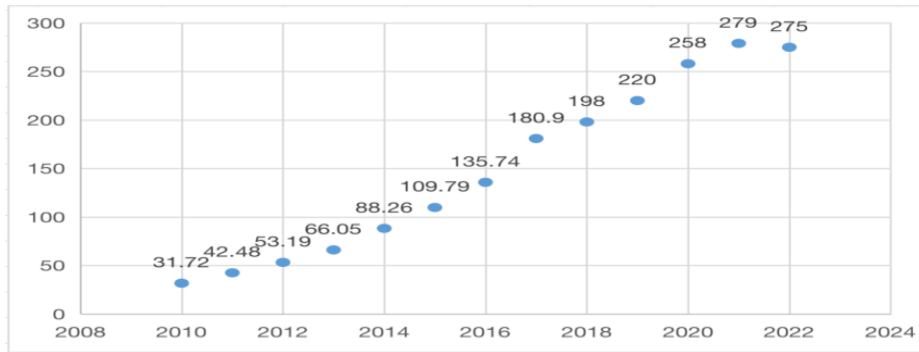


Figure 1: Total Outward Investment by China, 2010-2022

Unit: Million

Data Source: Ministry of Commerce of the People's Republic of China

However, overseas investment under the "Belt and Road" is not without challenges; Chinese enterprises face complex political risks of political parties. For example, the Australian government unilaterally terminated agreements related to the "Belt and Road," the Greek government halted the equity acquisition project of the Port of Piraeus, and the Sri Lankan government suspended the Colombo Port City project. Therefore, effectively analyzing political risks of political parties and implementing relevant measures contribute to the smooth progress of overseas investments.

This paper selects the Port of Piraeus project in Greece as a case study because it reflects the political risks of political parties in overseas port investments. Since the project's inception, both China and Greece have benefited significantly. However, with a change in government, the project was forcibly suspended, requiring multiple rounds of negotiations for implementation. Analyzing the political risks of political parties of this project provides risk management experience for overseas port investments, holding crucial lessons for China's overseas port investments.

2. Case Overview

In the European region, port projects are primarily concentrated along the Mediterranean coast. The Mediterranean not only serves as a vital transportation hub connecting the Indian Ocean and the Atlantic but is also an extension of the "Belt and Road" initiative. Additionally, the European Union has consistently been a significant investment destination for China. Against this backdrop, China actively promotes the integration of the "Belt and Road" with the Mediterranean, seeking cooperation between China and Europe to drive Chinese enterprises' investment in European ports. Among these, the Port of Piraeus is one of China's important port investment projects.



Figure 2: Geographic Location of Piraeus Port, Greece

Data Source: Xinhua News Agency

In 2005, the Greek government initiated a policy of privatizing state-owned assets, with the Port of Piraeus being a crucial component. In February 2008, Piraeus Port Authority S.A. (PPA) officially issued an international invitation for bids for the concession rights of Piraeus Port. The winning company would have the operational rights to the eastern part of Berths 2 and 3. In May 2008, China COSCO Shipping Corporation submitted a bid and was confirmed as the provisional highest bidder. During this period, China COSCO Shipping became the wholly-owned subsidiary Piraeus Container Terminal S.A. (PCT).

In November 2008, PPA and China COSCO Shipping formally signed the concession rights transfer agreement. The main contents of the concession rights were: (1) PCT gained exclusive rights to use and commercially operate the existing land and facilities of Berth 2 and the eastern part of Berth 3. [1] (2) PCT had a 30-year concession period, extendable for 5 years if the construction of the eastern part of Berth 3 was completed, totaling a 35-year concession period. [2] Ultimately, China COSCO Shipping obtained the concession rights for the two berths for 831.2 million euros. In 2010, PCT officially took over and operated the berths. Due to the worsening debt crisis, Greece enacted a new privatization policy. In 2014, the Greek parliament approved the "Second Friendly Consultation Agreement" between PCT and the Port Authority, allowing PCT to expand the western part of Berth 3.

Simultaneously, China COSCO Shipping actively participated in the equity acquisition of PPA. In 2015, the radical left-wing Syriza party led by Tsipras officially came to power. Shipping Minister Dritsas announced the suspension of China COSCO Shipping's acquisition of PPA's equity. In May of the same year, due to Greece being trapped in the debt crisis, the sale of PPA's equity was restarted. In April 2016, China COSCO Shipping and the Greek government formally signed the PPA equity transfer agreement. China COSCO Shipping acquired 67% of PPA's equity for 368.5 million euros and obtained the concession rights for Berth 1. [3] In 2018, China COSCO Shipping acquired the remaining equity of PPA and obtained 100% ownership. With this, the dust settled on the PPA equity acquisition project.

3. Investment Effectiveness of the Port of Piraeus Project

Presently, the Port of Piraeus has undergone a remarkable transformation. In terms of port construction, the annual throughput of the port has shown a continuous upward trend, rising from 684,884 standard containers in 2010 to 5,437,477 standard containers in 2020. The growth momentum was robust in 2011 and 2012, with annual growth rates reaching 73.48% and 77.43%, respectively. Subsequently, the growth of annual throughput slowed down, with an average annual growth rate of 13.74%. Due to the impact of the COVID-19 pandemic, there has been a slight decline in throughput from 2020 to 2022. The well-executed port construction has laid the foundation for creating economic benefits.

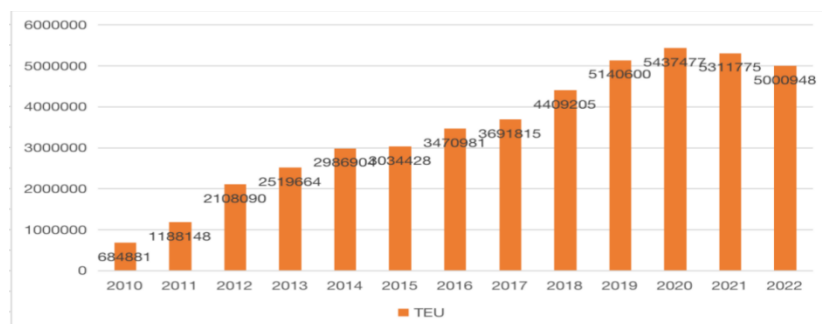


Figure 3: Annual Throughput of the Port of Piraeus, Greece, 2010-2022
Data Source: China COSCO Shipping Corporation Limited

In terms of economic benefits, the post-tax profit of the port was -\$10.156 million in 2010. This was due to the related port facilities still being in the construction phase, with high repair costs and significant investment in new facilities, resulting in economic losses. With the completion of port construction, the port's operations began to turn losses into gains, and profits showed a continuous upward trend. After 2015, despite the risk of the depreciation of the US dollar, the port strengthened efforts to introduce customer routes and provided Mediterranean hub network services, promoting the growth of annual throughput and ensuring stable growth in post-tax profits. In 2020, global trade was affected by the COVID-19 pandemic and deglobalization, leading to a slight decrease in the port's post-tax profit. As the pandemic eased, the quality of port operations improved, and post-tax profits significantly increased. In 2022, post-tax profits reached \$55.7195 million, reaching a historical peak.



Figure 4: Post-tax Profit of Piraeus Container Terminal (PCT), 2010-2022
 Unit: Thousand US Dollars
 Data Source: China COSCO Shipping Corporation Limited

After years of construction and improvement, the Port of Piraeus has undergone a magnificent transformation from an old and dilapidated port to a pivotal pearl. In 2020, the container throughput of the Port of Piraeus ranked 26th globally, [4] making it one of the fastest-growing container ports in the world. From 2021 to 2022, influenced by deglobalization and the COVID-19 pandemic, its ranking has slightly declined.



Figure 5: Trend in the Ranking of the Port of Piraeus, Greece
 Data Source: Lloyd's List

4. Analysis of Political risks of political parties in the Port of Piraeus Project

The Port of Piraeus project stands out as a successful case in "Belt and Road" port investments, yet it also reflects typical political risks of political parties. Throughout the project's progression, it encountered party resistance and changes in government, representing the most significant political risk faced by Chinese enterprises.

In 2015, there was a change in the Greek government, with the radical left-wing coalition coming to power. In the eyes of the "New Left" government, the acquisition of state-owned enterprise equity by foreign companies would lead to the outflow of Greek state-owned assets. The Greek authorities believed it was imperative to maintain absolute control over state-owned enterprise equity to ensure national security. Consequently, the government suspended the sale of PPA equity. Faced with political risks of political parties, Chinese enterprises had not yet developed effective measures. Pressuring the government through the Chinese government could potentially escalate resentment from the government and society, violating the peaceful cooperation principles of the "Belt and Road." Choosing to compromise would place Chinese enterprises in a more passive position. Therefore, China adopted a combined approach of government communication and business negotiation, successfully mitigating political risks.

It is noteworthy that the exacerbation of the debt crisis and the failure of the Hellenic-European Union (Hellenic-EU) negotiations were crucial factors in risk mitigation. Greece sought economic assistance from the EU, but the demands of the radical left-wing government contradicted those of the EU, leading to a blockade of Greece's economic aid application. If Greece intensified its economic crisis by cutting government spending and promoting privatization for fiscal funds, the economic crisis in Greece could worsen. Hence, the Greek government made a pivotal compromise. Through this event, it becomes apparent that even with the considerable success of Chinese enterprise investments, political party resistance cannot be entirely avoided.

5. Analysis of Political risks of political parties in "Belt and Road" Port Investments

In the future, "Belt and Road" port investments will face formidable political risks of political parties. Under the impact of the COVID-19 pandemic and the debt crisis, the influence of extremist political parties in various countries continues to grow, profoundly affecting national policies and political structures. These extremist political parties are primarily divided into radical left-wing and far-right parties.

Radical left-wing parties, guided by European skepticism, use electoral alliances to gain voter support, with their power base representing low-income groups, particularly blue-collar workers, mainly distributed in European countries. The success of radical left-wing parties in Greek elections demonstrates their rapid development. Luis Ramiro points out that highly educated individuals in European countries tend to support radical left-wing parties, with the working class becoming their loyal voters. [5] These parties oppose neoliberalism and privatization, advocating for planned economies and redistributive measures to regulate social wealth. When in power, their political principles inevitably influence government policies. Currently, the influence of radical left-wing parties in European countries is expanding, actively promoting anti-privatization policies and opposing cooperation between domestic industries and foreign capital.

In contrast to radical left-wing parties, far-right parties are often associated with populism. Far-right parties oppose the establishment and advocate for a strong state with weak democracy, employing transnational organizational patterns to gain voter support. In recent years, far-right parties have exploited economic and social issues to inflame societal xenophobia, advocating the dangers of Muslim immigration and globalization. They emphasize strengthening national control, limiting foreign activities, and opposing immigration, rapidly developing political influence. Currently, far-right parties actively promote exclusionary policies and significantly disrupt economic and trade cooperation. Even if governments have reached cooperation agreements with other countries, far-right parties and populist forces can compel governments to revise policies to obstruct collaboration.

Therefore, whether radical left-wing or far-right parties win in elections, the extremist ideologies they propagate will inevitably trigger a wave of exclusionism, directly impacting China's port investments.

6. Study on Strategies to Counter Political risks of political parties

The Port of Piraeus project stands as a successful case in "Belt and Road" port investments, providing crucial insights for port investments. In the future, overseas port investments may face a more complex political environment, and effectively addressing political risks of political parties is key to the success of overseas port investments.

Firstly, actively advancing the refinement of bilateral investment agreements. Bilateral investment agreements constitute the institutional framework for safeguarding enterprises' overseas investments. With changes in the political environment, China needs to actively communicate with other countries, continuously refine relevant investment regulations, and provide Chinese enterprises with effective framework protection and a stable investment environment.

Secondly, identifying points of mutual interest and constructing a community of shared interests. In the initial stages of investment, enterprises need to fully understand local development needs and industrial structures. Based on this understanding, enterprises should strive to balance corporate interests with local development demands, closely connecting the two. Additionally, by creating employment opportunities for the local community, employing local workers and managers, enterprises can build a community of shared interests.

Lastly, establishing a political risk management mechanism. Currently, governments with extremist ideologies enjoy broad social support, and national policies prominently reflect the political principles of the ruling party. Therefore, China needs to closely monitor the political trends of various countries, establish a political risk management mechanism, collect political risk information, adjust investment plans as needed, and mitigate the impact of political risks in a timely manner.

7. Conclusion

With the continuous advancement of the "Belt and Road" initiative, Chinese enterprises have actively participated in overseas port investments, achieving favorable investment results. Throughout the investment process, Chinese enterprises encountered political risks of political parties, such as the suspension of PPA equity sale by the "New Left" government. Through multifaceted efforts, political risks were successfully mitigated. Looking ahead, overseas port investments will continue to progress. China needs to actively refine bilateral investment agreements, establish a political risk management mechanism, and construct a community of shared interests to effectively address political risks of political parties.

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