Is Europe going cold on Chinese infrastructure investment?

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Is Europe's appetite for Chinese infrastructure investment diminishing? How are geopolitical tensions affecting China's inward investment into Europe?

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REDEFINE's aim

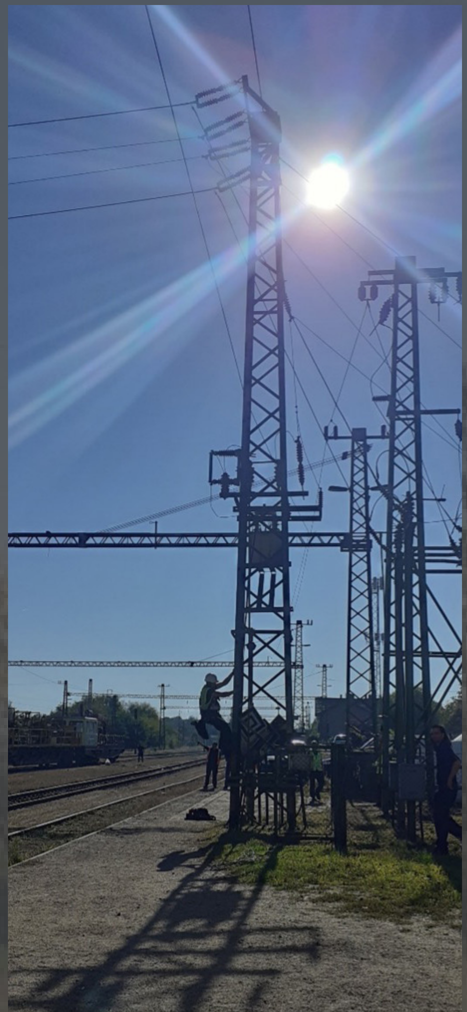
The REDEFINE project, funded by the European Research Council, set out in November 2020 to analyse the drivers, mechanisms and outcomes of Chinese infrastructure investment into Europe. Since the global financial crisis of 2008, China's outward investment into Europe has grown substantially across a range of sectors, but one of the most important was large-scale infrastructure such as roads, railways, ports and energy networks. Reaching a peak in 2016–17, this investment was generally welcomed but raised concerns about whether such projects were leading to undue influence by China in the political and economic affairs of European countries. Such concerns have grown in the past five years, which has affected the implementation of some of these projects, and in this article, we outline how these wider factors have impinged upon REDEFINE's case studies. Crucially, when we talk about both 'China' and 'Europe', we are not discussing homogenous entities with singular voices but multiple actors spread across public and private realms and working across different scales. To capture such complexity and dynamism, REDEFINE chose four European countries—the UK, Germany, Hungary and Greece—and selected two case study infrastructure projects in each. We also selected different types of infrastructure projects—energy, ports, regeneration, railway and telecommunications—which involve a range of Chinese actors, from large central state-owned enterprises (SOEs) to provincial-level SOEs, as well as private multinationals.

Country/Project	Chinese investor/s
Case study 1: UK – real estate & critical infrastructure	
Royal Albert Dock, London. £1.7 billion	Advanced Business Parks & CITIC. Aims to be London's 'third business district' and as a gateway for other Chinese firms. Deal signed in 2013 but went into receivership in early 2022 with only one phase completed.
Airport City Manchester £800-1000 million	Beijing Construction Engineering Group International is building offices, hotels, manufacturing and logistics facilities, and retail space. Hailed by President Xi as the 'first major infrastructure project in the UK with the involvement of a Chinese company'.
Case study 2: Germany – 'green' technology & logistics acquisitions	
EEW Energy from Waste GmbH €1.4 billion	Beijing Enterprises Holdings purchased 100 per cent shares of German-based Energy from Waste (EEW), which is the country's leading energy-from-waste firm. The acquisition gives EEW access to the lucrative Chinese market.
Duisburg Gateway Terminal $100 million	Began in 2019 it was originally slated for completion in 2023. In addition to the Duisport GmbH, the project partners include COSCO Shipping Logistics, Hupac SA and the HTS Group. In October 2022 COSCO withdrew in uncertain circumstances.
Case study 3: Greece – privatisation of state-owned assets	
Piraeus Port Authority €368 million	In 2016, COSCO bought a majority stake in Piraeus Port in an agreement with the Hellenic Republic Asset Development Fund. Piraeus is the only European port where a Chinese shipping company runs the port authority, and it plays a vital role in BRI.
Hellenikon Airport €200 million	Fosun Group initially agreed €200 million of the €915 million. The project is one of the biggest in Europe and will help Greece meet its privatisation targets set by lenders, although Fosun recently withdrew.
Case study 4: Hungary – strategic transport infrastructure	
Belgrade-Budapest Railway $1.27 billion	Tender given to Hungarian-Chinese joint venture of MÁV Zrt. with China Railway International Corp. and China Railway International Group, with China Exim Bank contributing 85 per cent of $1.5 billion financing. Progress has been slow.
Huawei's European Logistics Centre $1.5 billion	In 2009 Huawei set up its logistics centre in Hungary, which is the biggest operation of its kind in Huawei's global production network. The firm focuses on manufacturing and logistics and may invest a further $1.5 billion.

From desktops to boots on the ground

To analyse these projects, we adopted an assemblage approach which seeks to understand the actors involved in these projects, to analyse the projects' 'emergence' over time and to focus on the interactions between the human actors and the materiality of the infrastructures involved. To capture the temporal and causal dynamics, we married this with process tracing (Bennett and Checkel, 2014), a methodology that captures the unfolding of events, focusing on critical junctures and the causality that may or may not link them.

Our starting point was desk-based research, where we gathered information from publicly available documents. This can get quite detailed as you dig into things like the minutes of planning committees or the Facebook pages of community organisations. These desk-based reviews helped us identify the projects' timelines, the key actors and critical junctures, and where there were gaps in our knowledge that we needed to fill in our qualitative interviews. From there, we began visiting the project sites and putting our boots on the ground to find out what was happening. This involves a mix of seeking formal interviews with key actors, informal discussions with experts, and 'hanging out' at project sites to gain an insight into what is unfolding. As with any research, some cases have been easier and more successful than others, but we have



made progress on all of them.

The geopolitics of investment

As we noted, Chinese inward investment reached a peak in 2016–17. The Mercator Institute for China Studies (MERICS) provides regular updates on investment flows between China and Europe and vice versa and has tracked a 'multi-year downward trajectory' (Kratz *et al.*, 2022) in investment from China to Europe but an increase from some European countries into China. They also show that the sectoral mix of Chinese investment has shifted slightly—away from infrastructure, real estate and leisure towards green technologies, AI and advanced manufacturing in line with China's industrial strategy (Kratz, Zenglein, and Sebastian, 2021).

What can explain these shifts, and how have they impacted our case study projects? The reasons for these shifts are complex and evolving, so we cannot address them in any detail, but a critical issue is the changing geopolitical context. Following the global financial crisis, China's economy remained buoyant and held huge foreign exchange reserves, which it could deploy globally. As such, China was an engine for global recovery and so welcomed as an investor. The US was the first to tighten its restrictions on Chinese investment, and so Chinese firms focused much more on Europe, which is when we see the rapid growth in inward investment, which was generally welcomed by political elites in European countries and at the EU level.

Part of REDEFINE's approach is to see the infrastructure assemblages as constituted across scales so that what happens at the local level is shaped by, and in turn shapes, processes at other scales. From the early-mid 2010s, the US, in particular, became much more wary of China, which blew up into a trade war stoked by President Trump's hyperbole. The narratives were around unfair competition, human rights abuses and threats to national security. Infrastructure became a major target because it embodies technologies believed to constitute a trojan horse for Chinese state security interests.

There have also been changes on the Chinese side, some in response to these geopolitical shifts and others more driven by 'domestic' concerns. Crucially, in 2017 the Chinese Community Party began restricting outward Chinese investment in some sectors, one of which was large real estate (State Council of the People's Republic of China, 2017). Then the COVID pandemic came, reducing investment globally and slowing Chinese economic growth. China's flagship infrastructure programme—the Belt and Road Initiative (BRI)—which was launched in 2013 and has been a major impetus behind infrastructure investment from 2013–2017, has had mixed results and some criticism both within China and from recipient states. As such, there is less of a focus by China on the BRI and more on 'high quality' infrastructure investment in line with the country's industrial strategy (Guo, 2019; Xinhua, 2021) and bolstered by a new programme called the Global Development Initiative (Global Times, 2022).

Bumpy times for infrastructure projects

While the causality linking these geopolitical and geoeconomic shifts is not straightforward or uniform, these shifts have affected some of the projects that REDEFINE is analysing. Importantly, national and sub-national governments filter and shape how localised projects and geopolitical forces interact. In our cases, some national leaderships have remained 'pro-China' whereas others have waned in their enthusiasm for Chinese investment (Barkin, 2021; Bartók, 2022; Seaman *et al.*, 2022).

In the UK and Germany, the positive attitude to China has shifted to being more neutral or negative. Our UK cases were similar in that both were initially about building business parks in two major cities—London and Manchester—that were designed to attract other Chinese businesses and so set up virtuous relationships between the UK and China. Both projects were agreed upon during the so-called 'Golden Era' of UK-China relations, which the current Prime Minister has recently declared as officially 'over' (BBC, 2022). Yet these two projects have gone in quite different directions though they share some commonalities. The Royal Albert Dock (RAD) project hit major problems and has not been completed, with the Chinese developer being removed from the project and the development being put into receivership. The reasons for this failure are complex, but one critical factor was the lack of tenants for the offices that were built. No Chinese SOEs leased any space, then COVID hit, and Brexit created further uncertainty. The buildings mostly lie empty, and it is unclear what the future of RAD is. By contrast, the Airport City Manchester (ACM) is progressing well, with the logistics hub up and running and the other developments under construction. Again, the reasons for this success are complex and possibly relate to the buy-in by the Greater Manchester Combined Authority as well as the Chinese developer, BCEGI, being a well-run enterprise with an embedded relationship in NW England. There are parallels with RAD whereby there do not, as yet, seem to be any Chinese businesses taking up space in ACM.

Germany has also seen a big shift in its attitudes to China. The Merkel government were very pro-China and had welcomed a range of acquisitions by Chinese firms. Yet criticism of China has been growing, and the Green Party, in particular, were critical of China's influence and human rights record. The current coalition is split on China, creating a climate of uncertainty. We cannot be definite about how far this has affected our case studies, but we are looking at the involvement of a major Chinese SOE—the shipping firm COSCO—in the Ports of Hamburg and Duisburg. When we started our fieldwork in Duisburg in Spring 2022, COSCO was committed to an investment to rehabilitate an old terminal for container handling. Our respondents were confident that the project was proceeding well, but COSCO was withdrawn from the project behind the scenes, which became public news in October 2022 (Raimondi, 2022). As we write this, the COSCO investment in Hamburg Port is also under review, and COSCO's stake was negotiated down by 10.1 per cent to 24.9 per cent, with Green Party leaders publicly chiding the deal.

By contrast, our case studies in Greece and Hungary are progressing, albeit slowly. Both countries, for different reasons, have remained pro-China despite waning support for China in Central and Eastern Europe. Hungary's eastern turn was built on good relations with China dating back to the Soviet era but latterly have been a cornerstone of Orban's government. The BBRU has had a rocky genesis (Rogers, 2019), not least from the intervention by the EU, which was concerned about the transparency of tendering processes. After forcing a re-tendering process, the project was agreed upon, but progress has been slow, with construction only just starting on the Hungarian stretch of the railway, while the Serbian side is all but complete.

In Greece, our main case is the Port of Piraeus, near Athens. This has been a high-profile and controversial project: partly due to its scale, strategic nature in the Eastern Mediterranean, and as a link in a logistics corridor from China to Eastern and Western Europe. Again, COSCO is the lead Chinese firm and has a lease on a container terminal but has ambitious plans for a major transformation of the whole port and a series of linked businesses such as ship repair, cruise ships and hotels. The latter plans have been rebuffed for reasons of environmental impacts and loss of Greece's heritage, so we will watch with interest whether these plans are revived with the Greek government remaining positive towards Chinese investments despite pressure from the US and EU to reduce its ties with China.

Conclusion

REDEFINE is going well, and our data collection is proceeding, but where we see more localised controversies—respondents are understandably more reluctant to speak to us. What we have seen emerging over the past few years is the influence of geopolitics on the ways in which countries and projects relate to Chinese actors. While these geopolitical tensions are important, they cannot explain by themselves the progress of projects which comes down to complex assemblages of actors, interests and processes. Only through boots-on-the-ground research can we begin to uncover this complexity unfolding at and across different geographical scales. Through our fieldwork, we are beginning to discern some interesting cross-cutting themes, such as the longer histories of Chinese engagement in the project sites we are studying and the role of informal 'brokers' in bringing these projects into being. So, there's much more to do. Moreover, at the geopolitical level, things are continually shifting, and the USA and EU have responded to the BRI with their own infrastructure programmes of Build Back Better World and The Global Gateway, respectively. Over the coming years, the rivalry excited by China's rise will play out globally through these competing infrastructure investments, with unknown—but potentially damaging—outcomes for host countries, communities and ecologies.

References click here

REDEFINE
Development · Infrastructure · People

PROJECT NAME

Reorienting Development: The Dynamics and Effects of Chinese Infrastructure Investment in Europe (REDEFINE)

PROJECT SUMMARY

REDEFINE will examine what China's rise means for how we understand global development and, specifically, Europe's place in it. REDEFINE aims to use the insights from international development to interrogate Chinese engagement in the heart of Europe and, by doing so, reorient the Eurocentric debates in the social sciences around how we define and delimit development, who drives these processes and what it means for societies and communities affected by such investments.

PROJECT LEAD PROFILE

Giles Mohan is Professor of International Development at the Open University. He has held various UK academic posts over the past 30 years and has an area specialism in West Africa. Giles' recent work has addressed China's engagement with Africa, supported by a series of large grants from the UK's Economic and Social Research Council. REDEFINE builds on this China-Africa work to track the implications of Chinese investment in Europe.

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