REPORT

Why Is China Buying Up Europe's Ports?

State-owned port operators are the aggressive leading edge of Beijing's massive Belt and Road project.

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China's trillion-dollar signature foreign-policy project, the Belt and Road Initiative, is often lampooned as just a fuzzy concept with little to show for it on the ground.

But in bustling ports from Singapore to the North Sea, state-owned Chinese firms are turning the idea into a reality with a series of aggressive acquisitions that are physically redrawing the map of global trade and political influence.

A pair of deep-pocketed Chinese behemoths, Cosco Shipping Ports and China Merchants Port Holdings, have gone on a buying binge of late, snapping up cargo terminals in the Indian Ocean, the Mediterranean Sea, and the Atlantic rim. Just last month, Cosco finalized the takeover of the terminal in Zeebrugge, Belgium's second-biggest port, marking the Chinese firm's first bridgehead in northwestern Europe.

That deal followed a raft of other acquisitions in Spain, Italy, and Greece in just the last couple of years. Chinese state firms, which once kept close to their home market, now control about one-tenth of all European port capacity.

The port deals are one of the clearest manifestations of Beijing's ambitious plans to physically link China to Europe by sea, road, rail, and pipeline.

The ports underpin the maritime half of the Belt and Road Initiative, snaking from the South China Sea across the Indian Ocean, through the Suez Canal and into the soft underbelly of Europe.

"For somebody like Cosco, the deals make sense financially, and they can make their lords and masters in Beijing happy because it fits the Belt and Road narrative," said Neil Davidson, a senior analyst for ports and terminals at Drewry, the maritime consultancy. "At bottom, there is a geopolitical underpinning to a lot of this."

For China, still shaking off what it views as a century of humiliation by Western countries — which culminated with the forced opening of Chinese ports by European gunboats — snapping up the sinews of modern commerce is a satisfying way to return to what it sees as the normal state of affairs.

"The fundamental goal seems to be to decrease China's dependence on foreign elements and increase China's influence around the world," said Frans-Paul van der Putten, a China expert at the Netherlands Institute of International Relations.

That rising influence is spooking many in Europe. With Chinese investment skyrocketing, European leaders are growing increasingly leery that Chinese President Xi Jinping is turning China's economic heft into political pull. Since Cosco dropped $1 billion into buying and upgrading the once-sleepy Greek port of Piraeus, for example, Beijing has been able to count on Greek assistance to scupper European Union condemnations of China's behavior on issues including human rights and the South China Sea.

Now that Chinese state-owned firms are marching across the Mediterranean — matched with parallel investment drives in Central and Eastern Europe — those worries aren't going away.

"The scale of the Belt and Road investments in key infrastructure means China's political influence in these countries will increase," said Turloch Mooney, who covers global ports for IHS Markit. "That is assured."

Chinese shipping and ports companies used to be relative minnows in a world dominated by giants such as A.P. Moller-Maersk and Hutchison Ports. But in 2016, Beijing created a mammoth national champion by merging China Ocean Shipping and China Shipping Company to form Cosco, a sprawling group that includes the eponymous shipping line, the port operator, and other shipping businesses.

It didn't stop there: Last year, it spent more than $6 billion to acquire a smaller rival, Orient Overseas International, further driving consolidation in the shipping business. Now, Cosco wields control over one of the world's largest shipping companies (and the biggest outside Europe) and one of the world's busiest port operators.

And when it comes to ports, Cosco isn't even the biggest state-owned Chinese firm: China Merchants Port Holdings moves even more cargo and has also been busy overseas, snapping up terminals in Sri Lanka, Djibouti, and Brazil, in addition to earlier acquisitions in Europe.

Cosco and China Merchants have a crucial advantage over their mostly European rivals: easy access to bucket loads of cheap money that they can use to aggressively bid on attractive properties around the world.

Both firms can get low-interest loans from state banks, and Cosco can even tap into a multibillion-dollar kitty of Belt and Road financing made available by the China Development Bank.

“From a trade and commercial perspective, the availability of cheap money and good diplomatic backing is giving the Chinese terminal operators increased ability to beat rival investors and acquire choice port assets,” Mooney said.

That financial freedom comes in particularly handy when, say, a port is more strategically valuable to Beijing than it may be commercially appealing. Cargo volumes at the China Merchants terminal in Djibouti, for example, fell in the first half of last year even as business elsewhere was booming. But Djibouti remains vital for Beijing because it is China’s only overseas military base and is perched right on the vital Indian Ocean sea lanes.

“In the case of projects where there may be a major strategic value for the government,” Mooney said, Chinese firms can “acquire and continue to invest in assets even when there is little or no obvious commercial value.”

That’s not to say that the acquisition spree is only about geopolitics.

After shipping companies were hammered during the trade downturn in 2016 — Cosco lost $1.4 billion that year — ports simply offer better returns, notes Drewry’s Davidson. “Ports and terminals are profitable, whereas the shipping business is a little like airlines — it’s a low margin business.”

And companies like Cosco hope to turn their investments into money-spinners by transforming once-quiet ports into huge cargo hubs. Cosco turned Piraeus from a backwater to a busy key transshipment terminal right where Europe, the Middle East, and Asia converge. It hopes to do something similar in the western Mediterranean with the Spanish port of Valencia and in northwest Europe with Zeebrugge.

But the pace of Chinese expansion into critical sectors of the European economy, including ports but also the energy business and high-tech sectors, has European leaders increasingly on edge.

European Commission President Jean-Claude Juncker last fall warned specifically about foreign purchases of assets like ports, though without singling out China by name. The commission is working on new ways to screen foreign investment in sensitive areas.

French President Emmanuel Macron went further in his state visit last month to China, pointedly referring to Beijing's acquisition of key European infrastructure and calling for a united European front. "China won't respect a continent, a power, when some member states let their doors freely open," he said, according to Reuters.

While Chinese purchases of local crown jewels can spark a backlash — as the acquisition of German robot-maker Kuka did in 2016 — that is more out of concern Beijing will gobble up the cutting-edge technology that European economies need to keep their edge.

The port deals, and other infrastructure projects associated with the Belt and Road in Central and Eastern Europe, threaten to politically hive off vulnerable members of an already tottering European Union, said van der Putten of the Netherlands Institute.

"There is more debate now about the possible political implications of Chinese investment," he said. "The big difference now is that there is the assumption that Chinese investment in Mediterranean and Central European countries will influence their position toward China."

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