Bachelor's thesis

NTNU
Norwegian University of Science and Technology

Olav Seierstad

Chinese Foreign Direct Investment in Europe: An Analysis of German and Dutch Critical Infrastructure

Bachelor's thesis in Europastudier
Supervisor: Michael J. Geary
May 2024

NTNU
Norwegian University of
Science and Technology

Olav Seierstad

Chinese Foreign Direct Investment in Europe: An Analysis of German and Dutch Critical Infrastructure

Bachelor's thesis in Europastudier
Supervisor: Michael J. Geary
May 2024

Norwegian University of Science and Technology

NTNU
Norwegian University of
Science and Technology

Abstract

When President Xi Jinping’s first visit to Europe in five years happens, one knows that something is looming. With the creation of the Belt and Road initiative, the European critical infrastructure has become attractive for China to invest in. By analyzing the Port of Rotterdam and the Port of Hamburg I will delve into how EU member states react to Foreign Direct Investment (FDI) from China toward critical infrastructure. Utilizing a qualitative method I will analyze the Dutch and German reaction to Chinese FDI. The thesis has an introductory chapter where how the Chinese FDI in Europe has been acting since China's “going global” plan in 1999. Furthermore, two case studies of the Port of Rotterdam and the Port of Hamburg will follow. In the two cases, the arguments will be that there is a difference in how they have reacted. In the Port of Rotterdam case study who owns the port will be the main question. I will take a closer look at Olaf Scholz's role in the Port of Hamburg case study where he was a decisive part. In the conclusion, the findings from the two case studies will be highlighted and compared to the other. The two states ended up with the same outcome, however, there is a difference in how the outcome was constructed. Politics nowadays changes almost daily, and who knows which rules apply after President Xi Jinping's visits Europe.

Sammendrag

Når Xi Jinping besøker Europa for første gang på fem år, så er noe på ferde. Med lanseringen av «Belt and Road Initaitive» i 2008 der Europa er involvert, har Europeisk kritisk infrastruktur blitt mer attraktivt for Kina å investere i. Ved å analysere Hamburgs havn og Rotterdam sin havn skal jeg se på hvordan medlemsland i EU reagerer på Foreign Direct Investment (FDI) fra Kina. Ved bruk av en kvalitativ metode så kommer jeg til å undersøke standpunktet til Nederland og Tyskland mot EU sin FDI mekanisme som ble ferdigutviklet i 2021. Avhandlingen inneholder et introduserende kapittel som tar for seg Kina sin utførelse av FDI etter deres plan «going global» ble lansert i 1999. Videre kommer to case studier. Det første case studiet omhandler Rotterdam havnen. Der kommer det til å bli diskutert om hvem som faktisk eier havnen. I det andre case studiet, kommer Hamburgs havn under lupen. Der kommer jeg til å gå nærmere inn på kansler Olaf Scholz sin rolle, der han var en avgjørende del av utfallet. Til slutt i konklusjonen, kommer jeg frem til at det er en likhet i utfallet for medlemslandene. Det er derimot ulikhet i hvordan de har kommet seg frem til samme utfall. Samtidens politikk endres nærmest daglig og med Xi Jinping på besøk i Europa, hvem vet hvilke regler som gjelder etter besøket.

Preface

I would like to thank my supervisor Prof. Michael J. Geary for the help he has given me through this bachelor period.

Table of Contents

List of Abbreviations

BRI	Belt and Road Initiative
EU	European Union
COSCO	China Ocean Shipping (Group) Company
FDI	Foreign Direct Investment
HHLA	Hamburg Hafen und Logistik AG
TEU	Maximum capacity of containers

1 Introduction

“A spy balloon in American phones” was how rep. Michael McCaul, chairman of the Foreign Affairs Committee, introduced the debate concerning the TikTok ban in The House (The Washington Post, 2024). Today there is an ongoing debate in society about TikTok and its ties with China. TikTok has in response answered that a potential ban will oppose free speech and disputes lawmakers’ suggestions of any links to the Chinese government. China has quickly risen to become a global superpower and has recently gained a stamp as the bogeyman in the world. It is not only in America where China is a topic. In Europe, China is also on the agenda. The Belt and Road initiative is a Chinese project in which Europe is involved, because of China’s intention of tying the Eurasian continent together through trade (European Parliament, 2018, p. 3). In the development of the project, acquisitions of ports in Europe have been a priority for China. The interest in ports has created a debate in Europe evolving China and their involvement in critical infrastructure in Europe. This leads to what I am going to examine in this thesis. I will examine the treatment of Chinese Foreign direct investment (FDI) into ports in Germany and the Netherlands. I will analyze how the two governments have responded to Chinese FDI and check for similarities or differences between them.

The first aim of the thesis is to expand my knowledge of how the larger EU member states react to FDI from China. The larger states are more often targeted by Chinese FDI and by choosing Germany and The Netherlands and their ports in Hamburg and Rotterdam as examples, it will be interesting to see how the governments respond to Chinese FDI. Secondly, I will look at the state's position on Chinese FDI and how they act towards control over critical infrastructure.

As the world has developed over the last decade becoming more globalized and closer, China has tried to use its position as a global superpower to influence the world in its own way. Not only through TikTok and social media but critical infrastructure too. China is not only focused on ports in Europe, they have shares in ports in other continents of the world too. We live in a world today with a lot of tension and China has gained a negative reputation in the world. FDI is one of the instruments that China uses to gain influence in the world, and this especially targets critical infrastructure.

This thesis will function as a study on FDI from China to Europe. I will take the point of view of Germany and the Netherlands. I will use a qualitative method approach due to the nature of the relevant sources. My research question will be: How do member states in the EU differ in their treatment of Chinese FDI directed to ports? A comparative case study on Germany and the Netherlands.

2 Literature Review

The European public opinion has a critical stance on Chinese FDI, however European governments tend to favor inward FDI from China (Nicholas, 2014). With how the financial crisis impacted the European economic market, the competitiveness for Chinese FDI increased. Many European states were facing recession and wanted a fast inflow of capital. However, their interest in FDI inflow had to be balanced with the danger of foreign interest in strategic activities. Germany applies an open politic over FDI. They see themselves as an export state, and access to other foreign markets is vital. Germany has been open to FDI and pursuing a non-discriminatory policy (Nicholas, 2014). There were growing concerns about FDI in the government, and in 2008 Germany voted through a screening mechanism that had the authority to review and block certain foreign investments from non-EU states. However, the investment had to be worth more than 25% of the voting rights in the company. In the Netherlands, there is no review process for foreign investment, and they lack the authority to block investments (Nicholas, 2014). Domestic and foreign companies are treated equally, and they both must overcome an anti-trust review. However, these reviews lack authorization to block investments on national security grounds.

Conrad and Kostka argue that there is strong political interest in China’s investment in the energy sector (Conrad & Kotska, 2017). However, some member states in the EU chose to overlook the danger of China investing in private companies on their territory. With the fast inflow of capital China is an attractive partner, and especially during and after the financial crisis in 2008 European states were competing for the FDI from China. The article elaborates on the risk to national security, especially towards investments in the energy sector (Conrad & Kotska, 2017). Energy infrastructure is a sector with direct security implications, and thus the heightened security around the sector. With China’s history of cyberattacks and the energy sector moving towards more digitalization, the risk increases with the EUs lack of control. The article underlines that not all investments from China are bad neither, nor some investments will more likely help the EU. They conclude that the EU should respond as one. Making policies together and approaching the problem together as one. One can draw a line between the European energy market and European ports. There are similarities in how China approaches the energy market and the European port market. The two sectors are also important for national security and vulnerable to cyberattacks.

Tim Hildebrandt in “China observers in Europe” analyzed the risks of Chinese presence in European ports. Firstly, he mentions the potential of altering the flow of goods. If they decide to adjust their port, it can create economic destabilization for the respective port and create insecurity in the market (Hildebrandt, 2023). Further, he emphasizes the possibility of acquiring knowledge about the inner terminal workings. This can be exploited as valuable intelligence and provides an opportunity to fickle with supply chains and shipping operations. Hildebrandt sees it as conceivable that Chinese shareholders will try to influence the development of the port infrastructure in Europe, as they want to gain knowledge about the domestic transport system in Europe. This can lead to a foreign power acquiring the ability of the development of the port infrastructure in the future for Europe (Hildebrandt, 2023). In the concluding part of the article, Hildebrandt pinpoints the importance of balancing the act between legitimate interest in developing Europe economically while protecting the European strategic infrastructure. If the balancing act is not obtained, it will increase the difficulty of keeping European ports secure. One needs investment; however, one does not have to give them access to critical information either. To strike the correct balance between them is difficult, if too many safety measures are taken, investment will halt, and the development of the port will hinder itself. On the other hand, if they let everyone invest, one loses control over the intentions behind the investments.

In Roland Freudenstein's chapter on "Chinese FDI in the EU and US", he presents his views on how the member states in the EU should respond to FDI from China. He punctuates that FDI alone is not threatening, however, it is how China uses FDI as a strategy in their foreign policy that is threatening. Freudenstein writes that political influence and control of assets with relevance to national security is what the EU fears with FDI from China (Freudenstein, 2019, p.84). EU is afraid that with China's increasing investment they will have political influence over member states inside of EU. Freudenstein remarks on the example of Greece where they vetoed an EU resolution critical to China's expansion in the South China Sea. Further, he highlights the national security threats. Allowing China access to critical infrastructure and technologies in technical fields creates threatening situations in the future. Additionally, he gives his opinion that Europe should respond together as one using a screening system that the EU started to develop in 2017. The purposes of the screening system are to increase the transparency between the member states of the EU and the Commission, to a higher awareness of the security implications of FDI in strategic sectors of the economy, and to introduce direct screening of FDI in projects involving EU funding or established through EU legislation (Freudenstein, 2019, p.88). He concludes that the EU's way forward should concentrate on making a common screening mechanism. He reasons that it would facilitate the exchange of information and lead to common definitions of potential threats to the security and interests of the EU. For port security, it makes it easier for them to recognize where they should draw the line regarding foreign investment. Are there separate rules between member states, the more open states will gain market advantages.

Louis Brennan and Alessandra Vecchi argue that the evolution of Chinese FDI can be divided into three time periods; The pre-eurozone crisis, the eurozone crisis and the aftermath, and the current phase (Brenna & Vecchi, 2021, p.1073). In the pre-eurozone phase, the member states were divided into three groups. One was protectionist containing France, Italy, Spain, and Portugal. They felt threatened by the Chinese and were vocal in their case against Chinese investment. On the other hand, the Scandinavian members and, Ireland, raised their voices with concerns about the rising protectionism inside the EU. The last group was Germany and the Eastern European member states which were somewhere in the middle between the two opinions. In this phase, the authors describe the common response from the member states as varieties of capitalism. In the Eurozone crisis and the aftermath of the crisis, the protectionist rhetoric lost followers, while the liberal argument gained followers as states became more dependent on investment. The authors described that phase as an economic and financial imperative until the current phase started in 2016, where they classified member states' response as China anxiety (Brennan & Vecchi, 2021, p.1080). After 2016 an increase in FDI from China towards strategic assets in the EU occurred. The establishment of the Belt and Road initiative, Chinese FDI struck fear in the member states of the EU.

In 2017, Jean Claude Duncker addressed in his State of the Union speech that they were developing a framework for investment screening. In an article from 2022 Chan and Meunier describe how the FDI screening mechanism was established. Germany, France, and Italy were the main contributors to the mechanism to be established. They voiced their concern over FDI in strategic technologies (Chan & Meunier, 2022). In the beginning, there were a few member states that agreed with the trio, however, there was opposition too, and among them was the Netherlands. The reason for the Dutch opposition is believed to be for ideological reasons fearing it would be understood as an anti-liberal and protectionist move (Chan & Meunier, 2022). Germany who has been the main receiver of Chinese FDI realized in the middle of 2010s the dangers FDI could lead to. China's bid on Kuka, a German company creating industrial robots, was heavily debated in Germany, however, it went through. Just a few months later China tried to invest in Aixtron, a German chipmaker company. This time the USA intervened and blocked the transaction. This showed Germany they had to push for creating a common screening system.

A common denominator in the articles is one must answer Chinese FDI in critical infrastructure together. If different rules apply across Europe, it will most likely lead to more confusion. A common understanding of what critical infrastructure is will make it easier for not only the EU but for member states in the EU too. A common framework will increase the chance for smaller member states to follow the EU framework and not accept Chinese FDI into Europe which can harm the EU or other states. A framework started its development in 2017 with Germany as one of the initiative takers. This solution deals with FDI into generally all critical infrastructure. It is not specified for ports. I will look at the Dutch and German governments' stance on FDI, and if they intervene in Chinese investment proposals.

Allowing Chinese FDI into European ports grants China to gain first-hand intel and knowledge of the European port infrastructure. China may gain the power to alter the power of goods and can create unhealthy competition between European ports. It can have fatal consequences for Europe if China decides to start a trade war between European states and it is one of the dangers one must calculate with. In addition, China might use the opportunity to influence further development in the European port sector. China can then influence the future of European port infrastructure in a favorable way for themselves. Chinese investments in the sector are seen as highly political, one can use it as an argument that investment into the European port sector is motivated by the same factors.

3 Methodological framework

The thesis has the objective of complementing the existing literature on Chinese FDI in the EU and how member states in the EU respond to FDI from China. This thesis is defined as a comparative study which is a qualitative study. I will apply John Stuart Mills's method of agreement. The method checks if two or more instances of the phenomenon under investigation have only one circumstance in common, the circumstance in which alone all the instances agree is the cause of the given phenomenon (Moses & Knutsen, 2019, p.101).

The method I will apply to collect information is document studies. It is understood to be an unobtrusive method, where data from non-research is involved too. By analyzing existing documents, we gather information about a topic from specific timeslots and places. Documents are usually exerted as secondary sources, however since this thesis only employs documents it will also oversee primary sources from documents (Tjora, 2021, p.48). The documents can be both case-specific or from newspapers. The strength of documents is that they give us information about a case that is specified to a time and place and often directed to a specific reader. While gathering information through documents one must be careful and put them in the context of when they were written, who wrote it, and for whom it is meant to (Tjora, 2021, p.48).

The two cases I will research are Hamburg in Germany and Rotterdam in The Netherlands. They are the largest and third largest seaport in Europe and are subject to investment from Chinese FDI. With two similar cases, it will be interesting to see how the EU and their respective states operate towards Chinese FDI. Ports are classified as critical infrastructure, and with China's interest in developing the Belt and Road Initiative (BRI) outwards to the world, both ports have significant potential for Chinese investment. The objectives will be to figure out how member states have responded to EU directives and councils from their governments. Further objectives will be to find if there is a parallel between how the two member states have responded.

The Xs and Ys in the paper will be:

Y: How member states in the EU react to FDI from China

X1: How large is the shares being bought in the ports?

X2: How has the government reacted to investment directed to ports from China?

X3: What is the Dutch and German stance on the EU FDI screening mechanism.

According to Jonathan Moses and Torbjørn Knudsen, case studies are the lowest in the naturalist hierarchy of methods (Moses & Knutsen, 2019, p.133). The reason is the problem with generalizing. A comparative case study cannot provide a generalizing statement; however, it can extend the literature on the field where qualitative studies are strongest. There are some shortcomings regarding the use of case studies. Overdetermination and sampling bias are the two major flaws. Overdetermination is when you generalize with too few observations. This can be avoided by increasing the number of cases. Sampling bias is when you choose cases that only support the theory in question (Moses & Knutsen, 2019, p.110-113).

The thesis will utilize both primary and secondary sources. Primary sources to gain information first-hand, and secondary sources to set a context for the thesis. Since I am applying a document analysis, the importance of sources increases, especially a wide scope of sources.

The thesis is built up with a literature review, a methodological framework, three chapters, and a conclusion. In the first chapter, I will elaborate on how Chinese FDI in Europe has behaved after China's initiative of "going global". Further, the case studies will be in chapters two and three. I will analyze the ports and their respective governments and how they manage Chinese FDI. The Port of Rotterdam and the Netherlands will be first, and then the Port of Hamburg and Germany afterward. Lastly, is the conclusion where I will draw the lines together and summarize my findings. It is structured in this way, to first give background to how Chinese FDI has behaved and evolved. The case studies will bring a greater understanding of how the issue of FDI directed to ports is conducted by member states in the EU.

4 Chinese FDI in Europe

The Sino-EU trade relationship is important for both parties. China is the EUs second-largest trade partner, while the EU is China's largest trade partner (Brennan & Vecchi, 2021). In 1999 China proposed their global economic strategy called "Going global" where they began with FDI. Their investments in the first half of the 2000s were less successful, however in the second half of the 2000s the FDI increased drastically (Matura, 2017, p.52). The motives of China can be viewed as macroeconomic reasons, business motives, and China's intention to expand its political influence on the globe (Filipov & De Saebi, 2008). From 2000 to 2014 annual FDI went from 0 to 14 billion euros, and in that time, it is projected there were acquisitions and greenfield projects in the EU worth 46 billion euros funded by Chinese FDI (Haneman & Houtari, 2015, p.5). Until 2014 the energy sector was their main target for FDI, while the manufacturing and machinery sectors were the following main recipients of Chinese FDI. Statistics until 2021 show FDI from China was at its highest in 2016. In the following years, it was a big drop in 2017-2018 when the FDI halved, and in the years after it decreased slowly, hitting the bottom point in 2020 before it increased again in 2021 (Kratz, et al, 2021).

The real influx of FDI to Europe can be traced back to the financial crisis in 2008. The crisis led many EU member states into recession and Chinese investment was seen as an escape from economic trouble (European Parliament, 2021, p.24). The lack of ability from European investors made way for FDI from Chinese investors. With time the European economic situation got under control, and the FDI from China increased and made its way into critical infrastructure. After 2010 China increased its focus on investing in the high-tech sector. They invested in electronic companies and construction equipment companies in 2010 and 2012. There were protests from the workers who were afraid of losing their jobs. However, German authorities allowed it. In 2016 the turning point for FDI in Europe began. A Chinese company acquired a controlling stake in Kuka, a world-leading German robot manufacturer of industrial robots and supplier of intelligent automatization solutions (Dudas & Ranohja, 2020). The German government tried to block the bid by finding other buyers. Unfortunately, there was no ability or interest from other parties.

The most controversial acquisition proposal happened in 2017 when Aixtron, a German semiconductor firm, was targeted by Chinese investors. The high-tech company had run into financial trouble and Chinese Fujian Grand Chip Investment proposed a take-over (Dudas & Ranohja, 2020). The German government approved the take-over initially, however, the government revoked the decision a few weeks later. The decision was likely taken based on US national security. US security feared China would use Aixtrons devices to develop chips for its nuclear program (Dudas & Ranohja, 2020). in the end, the Obama administration blocked the acquisition. There were US subsidiaries in Aixtron and it made the acquisition impossible and the proposal collapsed.

The European Commission is committed to maintaining an open trade relationship with China (European Commission, 2020). On 30th December 2020, the EU and China agreed on the principles of an investment deal. The agreement granted EU investors a greater level of access to China's markets. China ensured their commitment to fairer treatment of EU companies allowing them to compete on almost similar terms in China

(European Commission, 2020). However, there are still a few problems that the EU highlights with China. Lack of transparency, industrial policies, and non-tariff measures that discriminate against foreign companies are some of the problems the EU underlines. There is a large gap in the trade balance for FDI and goods between inward and outward investments from China. In 2022, the EU had a negative trade deficit in goods with China at almost 400 billion€ (European Commission, 2024). The deficit has doubled since 2020. Furthermore, the EU had a positive FDI deficit with China in 2021. On 30 June 2023, the EU published conclusions from the European Council where a new strategy towards China had been discussed. The European Council ensured that China would still be an important trade partner in the future emphasizing level playing fields and a mutually beneficial trade relationship (Council of the European Union, 2023). Interestingly the European Council emphasized that they want to de-risk and diversify its supply chains and reduce critical dependencies and vulnerabilities towards China. Allowing Chinese interest entrance to supply chains and critical dependencies, the EU independence decreases, and the dependency on China will rise. By aiming for mutually beneficial trade relationships one avoids eventual issues that may occur.

One can see a pattern in how China targeted Europe with FDI. It was the most prevalent during the financial crisis and in the years following. European investors did not have the same capacity to invest in Europe. China came to the rescue of European states and companies that needed investment. Some of the investments from China benefitted Europe and helped them through the financial crisis. The time from the eurozone crisis until 2016 is seen as an economic and financial imperative. Without the investments from China, Europe's economic development could have halted even more, and the poorer states in Europe could have had an even harder time getting out of their financial problems. For the poorer states in Europe, Chinese FDI worked as a helping hand pulling through the financial crisis and not ending up in economic recession. The larger states had the economy to pull itself through the crisis, and the need for Chinese FDI was not as vital as it was for the smaller economies.

As the economic landscape in Europe developed the need for Chinese FDI decreased. With China challenging national security in some of its proposals, states became more cautious. There is a significant decrease in 2017 and 2018. This can be traced to European states being attentive to the possibility of the intentions of Chinese investors. Germany voiced their concerns to the EU and wanted a common FDI screening mechanism that prohibits investments into national security or critical infrastructure. The decrease can stem from Chinese actors wanting to show Europe what types of damages it could lead to if the investments from China vanished. Another argument could be that the Chinese government sought to erase the allegations of having ulterior motives. 2017 when the Aixtron proposal came to Germany, where the USA intervened and blocked the acquisition, this could have led China to not be as offensive on investing in critical infrastructure.

From a Chinese perspective, one does not want to have their FDI associated with allegations of threatening critical infrastructure or national security. China has a target of expanding its global political influence and needs to ensure they do not ruin its reputation simultaneously. It can be argued for the decrease in FDI from 2017 to 2020. In 2021 FDI increased from the previous years, and that can be seen as a fresh start for increasing their global political influence. In addition, 2021 was the year COVID-19 devastated the world and Europe. With COVID-19 ravaging the world, Europe's and the world's economies took a significant hit, and the need for investment became crucial again.

China utilized its chance and provided investment for states in need. The increase in FDI was however not significant, so one cannot conclude that the increase occurred because of Covid 19.

5 Port of Rotterdam: A generous port?

The port of Rotterdam contains 12 container terminals and is Europe's largest container port. In 1999 the first inquiry from China reached the Rotterdam port. Hutchison Port Holdings Ltd, a company based in Hong Kong, and Rotterdam Port Authority sought to gain control over three out of ten terminals at the port (European Commission, 1999). In 2001 the acquisition was accepted. Moving forward to 2006 the Chinese state-owned company COSCO entered a memorandum of understanding that they will jointly construct, develop, and operate the Euromax terminal at the port of Rotterdam (Huo, et al, 2019, p.437). In total the joint venture accounted for a share worth 12.5%. Fast forward to 2016, COSCO acquired a stake worth 35% in the Euromax terminal adding their total share to 47.5%. However, in 2021 COSCO Shipping Port sold its share to Navigator Investco, a wholly-owned subsidiary of COSCO company (Si, 2021). The company is a joint venture between COSCO and the Silk Road Fund and owns 35% of the Euromax terminal. The maximum capacity of containers (TEU) in the Rotterdam port is 17.8 million TEU. If one counts Hutchison as a Chinese state company, they have control of 12.8 of the 17.8 million TEU or 71.3% (Van der Putten, 2023, p.10). On the other hand, if you count without Hutchinson, it will only be 6, 2%. That is a drop off roughly 65% Chinese influence which is monumental if one uses those measurements.

There is a large difference between 6% and 71% ownership. These are the numbers the port of Rotterdam is operating with regarding state-owned vs. private company ownership in the port. It is a huge question if the Chinese government is influencing Hutchison or if they are separated. If only 6% of the shares are controlled by Chinese government companies, the risk to critical infrastructure and national security is not as dangerous. The shares are too short to join in on the further development of the port and the inner information. With 71% of the shares, one has the majority of the shares and most power. One can be in the decision-making rooms and influence the future as one wants. There is a colossal difference in having the majority of the shares versus a small percentage. Some signs point to the direction that there is Chinese intelligence interest in ports, and maybe the port of Rotterdam too.

On 8th of March 2024, a US Congress document revealed that there were found communication equipment, that could be used for espionage and sabotage, in Chinese cranes in an unidentified American port (CNN, 2024). The Dutch infrastructure minister said they take the findings "very seriously", however there is no evidence for the equipment yet. The Dutch cabinet has taken steps to check Chinese cranes operating in the port of Rotterdam (Dutchnews, 2024). If the Congress document is true, one can assume there is Chinese intel interest in the port of Rotterdam as well. The equipment reportedly found in the American ports, is not reported to be in the port of Rotterdam. They were found in ZMPC cranes, which are the same as the port of Rotterdam utilizes. This does not bring us any closer to figuring out who owns the port of Rotterdam. There are no links to either Hutchison or COSCO. One can assume that there is governmental interest in Hutchison shares. They began their ownership in 2001 at the same time as China began with its "going global" plan. This can be linked together, and with ownership of over 70% of the port of Rotterdam, one can argue that the "going global" strategy has worked.

When Hutchison and COSCO bought their shares in the Rotterdam port there was no screening mechanism or authority to block FDI into critical infrastructure. However, as the EU developed its China strategy the Netherlands has progressed with its own. China memorandum published in 2019 can be seen as an important mark where the Dutch stance on Chinese influence in ports turned towards a more protective path (Van der Putten, 2023, p.23). Most noticeable is the change of the lower house and cabinet of the Dutch government. The cabinet is highlighting integrated EU actions towards China, especially monitoring if there are any efforts for reciprocity. The lower house decided in December 2022 to call on the government to make efforts on the EU level to create a European port strategy that protects itself from unwanted foreign influences (Van der Putten, 2023, p.23). The government answered the call, and the Ministry of Infrastructure and Water Management went to Brussels with the aim of joint action on the topic. The trip was successful and an exploratory memorandum that will address the European framework needed for decision-making around foreign investment in European ports would be created.

In 2021, the Ministry of Infrastructure and Water Management requested a scenario study for the future of maritime logistics in the Netherlands on how China may influence it. The scenario study offers 4 scenarios that may occur depending on how the world develops (Kuipers et al, 2019, p.3). The researchers recommend how the Dutch government should act. Among many suggestions, they mention the importance of urgent action. The Chinese influence is already great, and one must start with safety measures in an urgent fashion. In addition, the importance of refining the China strategy, which should be clearer on the gains and losses in their relationship with China, and they must strike a balance between security and market forces (Kuipers et al, 2019, p.15). Thirdly, the strategy does not focus on specific sectors, and with the lack of specificity, it will increase the difficulty of finding the right decision. The Dutch government looks to the EU regarding further development of port strategy. In January 2024 after calls for a European Port summit to advance the attention on the issues and to explore the possibility of cooperation within the European ports (European Parliament, 2024). Contrary to Germany, the Dutch government emphasizes port security. By requesting a scenario study, it shows the seriousness of the situation they are in. They are also following what the study is suggesting by acting urgently. Calling on the EU for a European port summit shows urgency and willingness to address the issue.

When Hutchison arrived with a proposal in 1999 there were no screening mechanisms that the Netherlands could use to investigate the inquiry. In 2001 when the inquiry was accepted, China had a very different standing in the world. They were an up-and-coming state, that was at the start of its rise to become a global superpower. China had just released its "going global" strategy and the world did not pay that much attention to Chinese investment, however, that has changed for The Dutch part. It is just recently they have taken precautions for the future. By requesting the scenario study, the Ministry of Infrastructure and Water Management has acknowledged that China has the power to influence the future of the port of Rotterdam. Until the last investment from COSCO, there has been an unawareness of how China operates, however, since 2019 the Netherlands has become more aware of the port future for Europe. With the proposal of developing a port strategy inside of the EU one can assume they are taking China's position as a port operator seriously. The Chinese ownership exceeds 70% of the port of

Rotterdam, the Netherlands do not have as much power over the port as they most likely would like. It can be seen in the new China strategy from 2019, where they emphasized the importance of protection of ports towards Chinese interest. The Netherlands is already in the deep water of Chinese influence in ports; however, they are trying to protect it now, or at least not make it worse.

As the trend in Europe after the financial crisis, The Netherlands was positive to Chinese FDI. Like Brennan and Vecchi argue that the Chinese stance can be divided into three, the Netherlands behaved in the same way. As time went the security around FDI became a greater problem. Many member states in the EU had some sort of screening mechanism set up, but there was no common screening system for the EU at that time. However, in 2017 EU started developing the screening framework that would come into use after 2021. In the beginning, the Netherlands was among the opposition to the screening mechanism, reasoning it being against liberal ideas. However, in 2019 The Dutch government changed its stance and supported an EU screening framework that would enter force in 2020 (Brattberg & Le Corre, 2020, p.2). Nonetheless, since the screening idea from the EU was just a framework there were a few dots left to fill to make a Dutch screening system. The Netherlands launched in 2023 a Dutch screening system based on the EU framework, however, customized to Dutch needs.

Like Germany, The Netherlands is one of the top recipients of FDI from China, therefore it is not a surprise that they were not the biggest supporters of a common screening mechanism. The latest investment into the port of Rotterdam in 2016 came just before the EU launched the plans for an FDI screening mechanism. In addition, China owned a significant part of the port of Rotterdam previously. It could have led to the investment getting less attention since the ownership had been working up to then, and there was less anxiety over letting another Chinese company into the port. However, this company was fully state-owned. Hutchison is not a state-owned company, and ties to the Chinese government are not as strong as they are with COSCO which is fully owned by the state. Since not all investment from China is negative either, the Netherlands can have interpreted China's intentions as good, however, one can argue that China has political intentions as to why they invest in other states. With how Chinese FDI has developed in the last 5-6 years, understandably the Netherlands has become positive to an FDI screening system. By being opposed to an FDI screening system because of their liberal ideology and their belief in the free market, acknowledging the potential security threats is an important step to take.

6 Port of Hamburg: Scholtz shows leadership

The port of Hamburg is Europe's third largest container port, with 4 high-performance container terminals giving them an annual handling capacity of 12 million TEU (Hafen). Hamburg Hafen und Logistik AG (HHLA) is the largest owner of the port. They own three of the four high-performance terminals. In 2022, COSCO made a proposition to the port of Hamburg which would give 35% ownership (Mohan & Pollard, 2023, p.65). The investment attracted a lot of attention because the investment was heavily politicized. Many political parties were opposed to the investment. In a document from the foreign ministry, they believed it "disproportionately expands China's strategic influence on German and European transport infrastructure as well as Germany's dependence on China" (Rinke, 2022). In effect of the saga, German Chancellor Olaf Scholz enforced a decrease in the original ownership from the proposed 35% to 24.99%. That eliminated COSCO from the possibility of influence on any management of operations, customer relations, or IT infrastructure. Inside the three-party coalition, there were different viewpoints where a representant for the Green Party stated, "It was wrong, it is wrong, and it remains wrong" (Mohan & Pollard, 2023, p.65). An opposition politician stated:

> "Since the intelligence services and other ministries have massively warned against the sale of shares in the port terminal to COSCO, the whole thing looks even more like a solo effort by the Chancellor on his wrong path in China policy" (DPA, 2023)

When the COSCO proposal arrived, Germany had already a developed screening mechanism. As one of the instigators of a common FDI screening mechanism in EU, Germany was aware of what actions they potentially could take. Germany has a history of prior proposals from China directed towards critical infrastructure. Through those proposals, Germany has given attention to the problem and pressured the EU to develop a common screening mechanism. COSCOs investment highlighted the lack of action toward risks (de Quant et al, 2024). The EU Commission gave the German government a negative opinion of the proposal from COSCO (European Parliament, 2023b). The FDI screening framework from the EU has no right to stop one member states investment policy. They have the power to issue an opinion if the FDI is likely to impact the public order or security of the EU (European Parliament, 2023a). The screening framework Germany is applying is strict after 25%. If one has more than 25% of the shares, one gets saying in the administrative and other benefits. The 25% rule is important, and the first proposal from COSCO was originally 35%, and contrary to the port of Rotterdam, it was reduced to 24,99% to avoid them having potential influence over the port of Hamburg.

Unlike the Netherlands, COSCO's proposal created a big debate in the political sphere in Germany and it was not a surprise. The first proposal was worth 35% and would allow China to influence the future of the port of Hamburg, however, Scholz negotiated it down to 24,99%. National security experts and the European Commission were still displeased. Scholz did not care about other's opinions, and he overruled what the majority wanted. Why did he do it? There can be many explanations for that. One can be that he wanted to maintain the trade relationship between the two states. Germany is dependent on China. They are the biggest recipient of Chinese FDI, and he wants to keep it that way. Scholz had also earlier been the mayor of Hamburg and was at that time positive to investment from China into the port of Hamburg. It looks like it is Scholz's personal preference that is the main driving force of the deal. Scholz attempts to do what is best for Germany. However, is that to accept a deal with China, or is it to protect critical infrastructure?

Since the deal is already accepted, one may assume that Scholz believes that trading with China is better than having a protectionist attitude. Germany was fully aware of what action they could take to block the deal with China through the screening mechanism themselves where one of the driving forces to pull through. This also questions Germany's stance on the FDI screening mechanism they were advocating for. If the biggest power in the EU is not planning to follow the screening mechanism, what are the chances that the smaller powers will follow it? It can create a bad spillover effect that undermines the FDI screening mechanism.

Germany has been one of the largest recipients of FDI from China. This originates from their open economy and their view of themselves as an export state. Having an open economy will most likely give opportunities for Germany to export goods too. As China has tried to invest in critical infrastructure, Germany has taken a more restrictive approach against Chinese FDI, however not everyone shares that same vision. Chancellor Scholz has rather gone the other direction. He stated that the Hamburg port was the largest "Chinese port" in Germany and would happily promote the Belt and Road initiative (CGTN, 2017). It is not only Scholz that has lobbied for investment from China. Angela Titzrath, CEO of HHLA, has also tried to sell themselves as the end of the Silk Road (Lauterbach, 2019). On the other hand, Chinese transactions represent 30% of the turnover the port of Hamburg produces (Benner, 2023). In addition, there are reports that the Chinese Embassy in Berlin has contacted German companies and stated that a situation with no deal could lead to consequences (Rundfunk, 2022). If there is truth in the reports, it has most likely influenced the proposal's outcome.

Another argument could be that Scholz is afraid that China with its port power in Europe, can decide to alter their export to other European ports. The Port of Hamburg is dependent on China, and the dangers of losing its main trading partner to competing ports will only make the rivaling ports stronger. In a world that evolves around the global market, the importance of having access to the market and utilizing it is important. There has been a lot of interest from the port board to cooperate with China, they have set themselves in a position where they are an easy target for Chinese FDI. By offering the port as the end stop for the Belt and Road initiative and stating that the port is a "Chinese port" there is clear evidence that there is interest from the German side to let Chinese interest into critical infrastructure in Germany. If the Chinese are also threatening that no deal could lead to consequences, the situation changes and the economic repercussions can be even larger than what was initially thought. This can set Germany further back economically and they can lose the port competition with the other large ports in Europe.

Germany’s last governments have campaigned for an open economy, and with an open economy, there will be proposals that challenge the security of the state. After many years of productive FDI from China, there were a few proposals that changed Germany’s viewpoint on FDI and a screening mechanism. The shift can be seen in 2016-2017 with China’s proposal of buying stakes in both Medea and Kuka. This led to Germany initiating contact with the EU to start the development of a framework for a screening system in the EU. Germany, together with France and Italy was the driving force behind the development of the screening framework. They voiced their concerns over FDI in strategic technologies in the EU. The FDI proposal led to a framework that is applicable after 2021. However, as the framework says, it is just a framework. Germany developed their screening mechanism by making any investment over 10% of the voting rights from non-German investors into the defense sector would trigger a sector-specific examination of the investment (Hagemeyer-Witzleb & Hindenlang, 2021). Outside the defense sector, the rules are a bit looser. Investments by non-EU investors over 10% of the voting will lead to cross-examination if the target company is listed on the sensitive sector list. Germany’s viewpoint on the EU screening mechanism has been positive, however, one wonders what their real stance is on the screening mechanism after the supervision by Scholz on COSCO’s proposal of investment in the port of Hamburg.

Germany’s stance on the FDI screening mechanism can be viewed as a bit superficial. They want to be seen as the leader who watches over the rules, but the rules do not apply to them in the same way. Germany developed their own FDI screening mechanism, which focused on the defense sector. They did not emphasize critical infrastructure. It is also important; however, it does have another role than the defense sector. The main objective of the defense sector is to defend the state from other states. The critical infrastructure is there to keep society going. The critical infrastructure sector is in a lose-lose situation if another state gets a hold of a bit in the sector. Hypothetically if China owns the entire port of Hamburg, they can decide what comes in and goes out. They can stop critical supply that a state needs. On the other hand, since China owns a lot of ports in Europe, they can overlook the port, and rather direct their ships to other ports. This can lead to instability on the economic spectrum in Europe. All in all, one can believe that Germany takes the FDI screening mechanism seriously, however, they have focused on the defense sector, rather than the critical infrastructure sector.

7 Conclusion

Through my analysis, I have found evidence that has taken me closer to finding an answer. Using the ports of Rotterdam and Hamburg as my case studies, I have found similarities in how their respective states have reacted to Chinese FDI. COSCO's proposition to the port of Hamburg was heavily debated in Germany, while in the Netherlands there was nothing close to a debate in either 1999 or 2016. In Germany, Chancellor Scholz was the main driving force in completing the deal, however in The Netherlands, the politicians became aware of the issue of Chinese interest in ports while Scholz was pursuing the deal with COSCO. By requesting studies and summoning the EU for a common port summit the politicians in the Netherlands emphasize port control more than the German politicians who emphasize the entire Chinese FDI problem.

There was a shift in the German stance on Chinese FDI in 2016-2017, however, that shift never truly hit the Netherlands before 2021. Before 2016-2017 Germany was receptive to FDI, but after they became more restrictive and rendered it as an issue. The Netherlands did not see Chinese FDI as an issue before recently when they adopted the EU FDI screening mechanism, which they have developed further. Germany has been the frontrunner for FDI screening, however, Scholz's behavior during the COSCO proposal can create confusion on their stance. The Netherlands started as opposition but has adopted the FDI screening mechanism today so one can assume they are positive today.

The two states reacted to Chinese FDI directed to ports differently, however, they ended up with the same outcome. Port of Rotterdam is 71% owned by Chinese interest, however, only 6% of it is owned by COSCO company while the rest is owned by Hutchison Ltd. This creates a question of how large the Chinese state's interest in the port is. This question applies to the port of Hamburg too, because COSCO owns 24,99% there. The investment in Rotterdam began just after China's "going global" plan, one can assume there was political interest behind the investment. One can draw the same assumption about China's interest in Hamburg, however, it occurred after China had become a global superpower, and they probably had different political motives. If there is 71% Chinese state interest it should be seen as an issue, contrary, the port of Hamburg has 24,99% Chinese state interest ownership. The first proposal directed to Hamburg was worth 35%, however, it decreased to 24,99% to avoid Chinese influence in the port administration. One can assume there is greater Chinese influence in the Port of Rotterdam than in the Port of Hamburg.

For further research, one can expand its knowledge of ports by researching the port of Antwerpen, and the port of Piraeus in Greece. Due to FDIs' growing importance in the interconnected world, the energy sector would allow for a greater understanding of how member states in the EU perceive Chinese FDI. It will widen the scope of knowledge on the theme of FDI.

For the first time in five years, Xi Jinping visited Europe on 7th May (CNN, 2024). It will be interesting to see what the outcome is, with two wars in the world, and the start phase of shaping BRI.

References

Andreas Rinke, J. S. (2022). German go-ahead for China's Cosco stake in Hamburg port unleashes protest. https://www.reuters.com/markets/deals/german-go-ahead-chinas-cosco-stake-hamburg-port-unleashes-protest-2022-10-26/

Benner, T. (2023). Turning the tables on Cosco. https://gppi.net/2022/10/21/turning-the-tables-on-cosco

Brattberg, E., & Le Corre, P. (2020). The EU and China in 2020: more competition ahead.

Brennan, L., & Vecchi, A. (2021). The European response to Chinese outbound foreign direct investment: introducing a dynamic analytical framework. Development and change, 52(5), 1066-1089.

CGTN. (2017). Olaf Scholz: Hamburg is the largest 'Chinese port' in Germany. https://news.cgtn.com/news/30516a4d32517a6333566d54/index.html

Chan, Z. T., & Meunier, S. (2022). Behind the screen: Understanding national support for a foreign investment screening mechanism in the European Union. The review of international organizations, 17(3), 513-541.

CNN. (2024, March 7). Congressional probe targets communications gear linked to Chinese cranes. CNN. https://edition.cnn.com/2024/03/07/politics/congressional-probe-communications-gear-chinese-cranes/index.html

CNN. (2024, May 7). China's Xi Jinping is heading to Europe. CNN. https://edition.cnn.com/2024/05/07/china/china-xi-jinping-europe-macron-france-serbia-intl-hnk/index.html

Conrad, B., & Kostka, G. (2017). Chinese investments in Europe's energy sector: Risks and opportunities? Energy policy, 101, 644-648. https://doi.org/10.1016/j.enpol.2016.12.016

Council of the European Union. (2023, June 30). European Council conclusions on China, 30 June 2023. Council of the European Union. https://www.consilium.europa.eu/en/press/press-releases/2023/06/30/european-council-conclusions-on-china-30-june-2023/

de Quant, S., Tordoir, S., & Vallée, S. (2024). Caught in Geopolitical Fragmentation: How to De-risk Germany's Economic Model.

DPA. (2023). Weiter Streit in der Ampel-Koalition über Cosco-Beteiligung. Süddeutsche Zeitung. https://www.sueddeutsche.de/wirtschaft/verkehr-weiter-streit-in-der-ampel-koalition-ueber-cosco-beteiligung-dpa.urn-newsml-dpa-com-20090101-230511-99-647254

Dudas, T., & Rajnoha, R. (2020). Chinese high-tech foreign direct investments in the EU–trends and policy responses. Problems and Perspectives in Management, 18(2), 316.

DutchNews.nl. (2024, March 1). US warning: Chinese cranes may be watching Rotterdam port. DutchNews.nl. https://www.dutchnews.nl/2024/03/us-warning-chinese-cranes-may-be-watching-rotterdam-port/

European Commission (2020). EU-China Agreement. https://ec.europa.eu/commission/presscorner/detail/en/IP_20_2541

European Commission. (1999). commission opens in-depth inquiry into acquisition of ECT by Hutchinson and the Rotterdam port authority. https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_99_229/IP_99_229_EN.pdf

European Commission. (2024). Maritime transport of goods at port level - quarterly data. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Maritime_transport_of_goods_at_port_level_-_quarterly_data&oldid=629435

European Parliament. (2018). China's Maritime Silk Road initiative increasingly touches the EU. https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/614767/EPRS_BRI(2018)614767_EN.pdf

European Parliament. (2021). Strategic or critical infrastructures, a way to interfere in Europe: state of play and recommendations. https://www.europarl.europa.eu/RegData/etudes/STUD/2021/653637/EXPO_STU(2021)653637_EN.pdf

European Parliament (2023a). Answer given by Executive Vice-President Dombrovskis on behalf of the European Commission. https://www.europarl.europa.eu/doceo/document/E-9-2023-000417-ASW_EN.html

European Parliament (2023b). Foreign direct investments into the EU – the COSCO case at the port of Hamburg. https://www.europarl.europa.eu/doceo/document/E-9-2023-000417_EN.html

European Parliament. (2024). Building a comprehensive European port strategy. https://www.europarl.europa.eu/doceo/document/TA-9-2024-0025_EN.pdf

Filippov, S., & Saebi, T. (2008). Europeanisation strategy of Chinese companies: Its perils and promises.

Freudenstein, R. (2019). Rising to the Challenge: The EU and Chinese Strategic Investments in Europe. In Chinese FDI in the EU and the US: Simple Rules for Turbulent Times (pp. 81-89). Springer.

Hafen, H. Hafen Hamburg - Container Terminals. https://www.hafen-hamburg.de/en/terminals/#containerterminals

Hagemeyer-Witzleb, T. M., & Hindelang, S. (2021). Recent Changes in the German Investment Screening Mechanism in Light of the EU Screening Regulation. Central European journal of comparative law (Online), 2(2), 39-64. https://doi.org/10.47078/2021.2.39-64

Hanemann, T., & Huotari, M. (2015). Chinese FDI in Europe and Germany: Preparing for a new era of Chinese capital. Mercator Institute for China Studies and Rhodium Group.

Hildebrandt, T. (2023). Chinese stakes in European ports: Geopolitical threat or mere business venture? China observers in Europe. https://chinaobservers.eu/chinese-stakes-in-european-ports-geopolitical-threat-or-mere-business-venture/

Huo, W., Chen, P. S.-L., Zhang, W., & Li, K. X. (2019). International port investment of Chinese port-related companies. International Journal of Shipping and Transport Logistics, 11(5), 430-454.

Kratz, A., Zenglein, M. J., Sebastian, G., & Witzke, M. (2021). Chinese FDI in Europe: 2020 update. Mercator Institute for China Studies. Available at: https://merics.org/en/report/chinese-fdi-europe-2020-update [accessed 25 July 2021].

Kuipers, B., Son, L. v., Putten, F.-P. v. d., Martin, X., Zwart, S., Krijgsman, E., & Abrahams, D. (2022). Navigating an uncertain future:' summary. Clingendael, December. https://www.clingendael.org/sites/default/files/2022-11/Navigating_an_Uncertain_Future_summary.pdf

Lauterbach, J. (2019). „Hamburg soll Ende der Seidenstraße werden". https://www.welt.de/regionales/hamburg/article199190559/Angela-Titzrath-Hamburg-soll-Ende-der-Seidenstrasse-werden.html

Matura, T. (2017). Chinese investment in the EU and Central and Eastern Europe. China's attraction: the case of Central Europe, 49-71.

Mohan, G., & Pollard, N. (2023). How far is Chinese infrastructure investment in Europe a success story? The Project Repository Journal, 18, 64-67.

Moses, J. W., & Knutsen, T. L. (2019). Ways of knowing: competing methodologies in social and political research (Third edition. ed.). Red Globe Press.

Nicolas, F. (2014). China's direct investment in the European Union: challenges and policy responses. China Economic Journal, 7(1), 103-125. https://doi.org/10.1080/17538963.2013.874070

Norddeutsche Rundfunk. (2022). Hamburger Hafen: Kanzleramt will China-Geschäft offenbar durchsetzen. https://www.ndr.de/der_ndr/presse/mitteilungen/Hamburger-Hafen-Kanzleramt-will-China-Geschaeft-offenbar-durchsetzen,pressemeldungndr23516.html

Si, K. (2021). Cosco sells stake in Euromax Terminal to investment arm. https://www.seatrade-maritime.com/ports-logistics/cosco-sells-stake-euromax-terminal-investment-arm

Tjora, A. H., & Tjora, A. H. (2021). Kvalitative forskningsmetoder i praksis (4. utgave. ed.). Gyldendal.

The Washington Post. (2024, April 20). House passes bill to ban TikTok. The Washington Post. https://www.washingtonpost.com/technology/2024/04/20/tiktok-ban-vote-house-passes/

van der Putten, F.-P. (2019). European seaports and Chinese strategic influence. Clingendael, December, 2019-2012. https://www.clingendael.org/sites/default/files/2019-12/Report_European_ports_and_Chinese_influence_December_2019.pdf

Van der Putten, F. -P. (2023). China's strategic relevance to the port of Rotterdam. Clingendael. https://www.clingendael.org/sites/default/files/2023-12/Chinas_strategic_relevance_to_the_port_of_Rotterdam.pdf

NTNU
Norwegian University of
Science and Technology