China's Takeover of the Port of Piraeus in Greece: Blowback for Europe

John A. Mathews

In mid-2016 the Chinese ocean shipping company COSCO succeeded in acquiring a controlling stake in the Greek port of Piraeus. This was the culmination of more than a decade of preparation and prior part ownership, and it represents an important piece in the complex jigsaw of China's One Belt One Road internationalization strategy linking Europe with Eurasia. Along the way there were major setbacks, and in particular a narrowly avoided ejection of COSCO from Piraeus by the newly elected Syriza government, the far left government elected in Jan 2015 by a Greek people exhausted by the austerity imposed by European creditors. This threatened ejection was narrowly avoided by a more comprehensive set of negotiations, which would have seen China funding the Greek government through purchase of its Treasury bills – thereby enabling the Greeks to get around sanctions being imposed by the European Central Bank.

China's entry to Europe via Greece, putting in place an essential piece in Beijing's greater One Belt One Road strategy, must rank as one of the most delicious episodes of blowback in recent history. Institutions like the European Central Bank (ECB) can take sole responsibility for strangling Greece. It was deaf to all pleas for a constructive engagement and restructuring of the debt – as told vividly by Yanis Varoufakis, former Finance Minister of Greece who lived through the entire shameful episode, in his recently published memoirs (https://www.theguardian.com/books/2017/may/03/yanis-varoufakis-greece-greatest-political-memoir), Adults in the Room. But as the EU institutions applied the pressure, so they fostered a determined effort on the part of the Greek government to slip the noose. This was done most effectively by allowing China Ocean Shipping Company (COSCO) to purchase a majority stake in the port of Piraeus. What had started as a demand by the European institutions that Greek public assets be privatized in a 'fire sale', became the means to allow China to penetrate Europe's defences, and build a major transport hub – encompassing rail, road and sea – linking Europe with Eurasia.

While Varoufakis was forced to resign his ministerial position in July 2015, his actions in helping to bring the Chinese and Greek authorities together have borne abundant fruit. While the Chinese had expressed interest in modernizing and expanding Piraeus as far back as 2008, when COSCO acquired a part stake in Pier II at Piraeus, by the time the Syriza government was elected in Jan 2015 there was a real danger that the new ministers would respond to populist pressure and expel the

Chinese. Varoufakis describes how he was able to get past these entrenched positions, and create the foundations for a relationship between China and Greece that would give Greece a 'Get out of Jail' card from the debtor's prison imposed by the Europeans.

What happened is a matter of public record. In mid-2016 COSCO was authorized by the Greek government to purchase an initial 51% stake in the Piraeus port, at a cost of $316 million, to be followed by a further 16% stake within five years, at a further cost of $99 million. (For background, see 'How a Greek port became a "dragon head"' by Andreea Brinza, The Diplomat (http://thediplomat.com/2016/04/how-a-greek-port-became-a-chinese-dragon-head), April 25 2016). So much has been on the public record. But Varoufakis' memoirs flesh out the story, and add further details that reveal what a clear case of blowback this is.

Since being catapulted to global fame in his brief career as the Finance Minister of Greece, from February to July in 2015, Varoufakis has been performing like a man possessed. On top of the two editions of his global analysis of US economic power, using the metaphor of the Global Minotaur, he has also published a lengthy account of the European dilemmas created by the mismanagement of the Eurozone (And the Weak Suffer What They Must?) and most recently his memoirs, Adults in the Room. This latter book provides a vivid and detailed account of his confrontation with the European creditors who were holding Greece to ransom. There is much in this outpouring of personal memoir and robust analysis that is of great value. But one thing in particular struck me as worthy of comment. This is Varoufakis' first hand commentary on his negotiations with China over the mooted investment by COSCO in the port of Piraeus and wider involvement of China in offering a way out of the Greek debt tragedy.

Piraeus Port Authority

China had been looking for an entry into Europe as part of its One Belt One Road strategy, which involves multiple new maritime and land routes linking the parts of Eurasia. In this endeavor the Greek port of Piraeus plays an important role. China's COSCO the shipping and ports giant made waves when it was announced in 2008 that it would be allowed to own and operate Pier II of the Piraeus port. It used the intervening years to substantially upgrade and expand this operating base, and to turn Piraeus into a major transport hub, with rail links into Europe such as the Chinese financed high speed rail link between Hungary and Serbia.

What Varoufakis reveals (and I don't think this is available through any other source) is that as Finance Minister he was setting up a much more comprehensive deal than COSCO merely becoming the owner and operator of the port of Piraeus – subject to all necessary safeguards for employment continuity and labor conditions. What Varoufakis was seeking was to secure a way around the strangulation being imposed by the European Central Bank (ECB) in Frankfurt. The ECB was effectively refusing to allow the Greek government to issue Treasury bills, which would have provided one legitimate means to allow it to meet repayments to the ECB and IMF, at least in the short term. The ECB justified this hostile act on grounds that it was protecting Greek banks from purchasing worthless assets. But as Varoufakis explains, this was reversing causality. The T-bills would have been worthless only because the ECB was stopping banks from purchasing them. And so the noose was tightened – in the Eurozone area where the ECB set the rules. But Varoufakis describes how China was seen as a potential player beyond the remit of the ECB – and as one that could potentially break the impasse.

Varoufakis was sufficiently savvy to know that the Chinese had to be offered a substantial incentive to help out – and reviving their bid to enable COSCO to take over the running of Piraeus was a prospect that fitted the bill. And so a grand scheme was set in motion. China would bid for Greek T-bills at the public auctions staged by the Greek government, in sums large enough to break the government's funding drought. Sums of $1.5 billion were mentioned, for the month of March, with up to $10 billion ultimately being made available. And in return COSCO would be allowed to purchase a controlling stake in the port of Piraeus (subject to all appropriate safeguards). This would provide China entry to Europe, via rail, road and sea, enabling China's One belt One Road strategy to close the gap between Europe and Eurasia. And it would be done right under the noses of the European institutions that were set on strangling Greece in order to make it an example for other weak indebted countries like Spain, Portugal or Ireland.Had this grand scheme been allowed to come to fruition, the Greek story and the Eurozone crisis might have had a very different outcome. Had China proceeded to bid for $1.5 billion in Greek T-bills, this would have enabled the Greek government to demonstrate to the world that some players in the market valued the T-bills, and so overturn the ECB argument that it could not release liquidity to the Greek economy. And this in turn would have forced the ECB to treat the Greek economy as a 'normal' player in the Eurozone, and allow it to begin substantial repayments, allowing for good faith renegotiation of the terms of indebtedness. And this would have ended the arguments that insisted that austerity was the only 'treatment' for the disease of imbalance within the Eurozone, with creditor countries like Germany putting unbearable pressure on debtor countries like Greece. And Varoufakis might have been able to stay on as Minister of Finance, and might have been able to proceed with his proposals for sensible restructuring of the Greek debt.

But none of this came to pass – and the reason (as revealed by Varoufakis at page 320/321 of his memoirs) is that the Chinese side never went ahead to make the purchases of the T-bills as agreed. Instead they made bids at two successive auctions of just $100 million each – certainly substantial, but nothing like the agreed bids of $1.5 billion that would have broken the logjam. And the reason they were so cautious, again according to Varoufakis, is that they were covertly warned off – by the German Ministry of Finance. As he tells the story (p. 321), "Someone had apparently called Beijing from Berlin with a blunt message: stay out of any deals with the Greeks until we are finished with them." This was conveyed to Varoufakis by his Greek Prime Minister, who had sought clarification of what was going on with the Chinese premier in Beijing.

Now this account may or may not be true. Varoufakis is a credible witness -- both because of his own reputation as well as the generally credible nature of his account of the prolonged negotiations between the Greek side and the Europeans over the terms of Greece's indebtedness. As a claim it deserves some comment or corroboration from the Chinese side – as there is unlikely to be any public comment from the German side or the ECB. Until there is any further comment corroborating or failing to corroborate the story, let us allow that it is likely to be true.

If that is the case, then the Germans shot themselves in the foot by blocking Greece in this way. Effectively their actions in strangling the country forced Greece to find an alternative source of funding, and China was available as a player. While it didn't deliver on the immediate funding plan negotiated by Varoufakis –it did deliver as a player in the privatization program that the Greek Syriza government was forced to endure. And this is what enabled China to extend its control to include the European port of Piraeus – in spite of objections (no doubt voiced behind the scenes) by the Germans and the European institutions which would see Chinese logistics firms as competitive threats.

The wider story then is that this episode, while failing to provide a circuit-breaker that might have unlocked the Greek crisis and led to a very different outcome, did in fact allow China to enter southern Europe via the purchase by COSCO of a controlling stake in the port of Piraeus. This is blowback for the Europeans, and in particular for the Germans. Had they not been so obstinate in strangling the Greek economy, and insisting so hard on austerity, then the Greek government might not have been so keen to welcome the Chinese as new owners of their port. This episode reveals that in a multipolar world, there are limits to a strategy of imposing ideologically driven austerity on a single country by squeezing its banks and enforcing fire sale privatizations. In the case of Greece this strategy has succeeded in its narrow aims of keeping Greece as a subservient partner in the Eurozone – but at the cost of allowing China to establish its bridgehead in Europe's transport networks that will be of major long-term strategic significance. And the story provides insight into China's strategy, where the long-term goals are set and then actions are taken to implement these goals as opportunities present themselves. Greece's Eurozone crisis was the perfect opportunity for China to sow its 'dragon head' investments in Europe, with the port of Piraeus as the focal point of the strategy.

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John A. Mathews is Professor of Management, MGSM,Macquarie University, Australia, and formerly Eni Chair of Competitive Dynamics and Global Strategy at LUISS Guido Carli University in Rome. His research focuses on the competitive dynamics of international business, the evolution of technologies and their strategic management, and the rise of new high technology industries. He researches the development of the institutional capacities of firms and governments in the Asia-Pacific, internationalisation processes of firms and the theoretical explanations for latecomer firms' success. His work has focused in recent years on the emergence of the 'green economy' and the transition to renewable energies, and the institutional changes needed to provide industrial capitalism with genuine long-term sustainability. He is the author of *Strategizing, Disequilibrium, and Profit (https://www.amazon.com/Strategizing-Disequilibrium-Profit-John-Mathews/dp/0804754837/?tag=theasipacjo0b-20), Global Green Shift: When Ceres Meets Gaia* published by Anthem Press *and Greening of Capitalism: How Asia is Driving the Next Great Transformation*

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