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HOW CAN A COMMERCIAL ACTION HIDE SECURITY THREATS: CHINESE INVESTMENTS IN EU CRITICAL INFRASTRUCTURE

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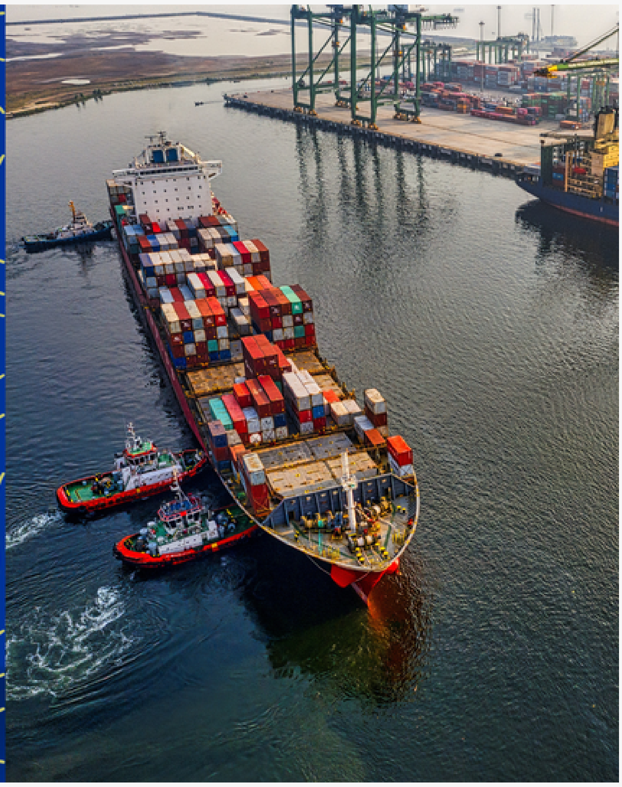

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The means by which the People's Republic of China is seeking to become a global power capable of competing with the United States have been various throughout the years and mainly based on economic actions that can tie China with other countries and allow it to exert influence in the area. The emergence as a global superpower seems to be one of the main Chinese aspirations now. To achieve this goal and finally challenge the US supremacy, China initiated a strategy consisting of investments and purchases in strategically located foreign ports and infrastructures, that permit China to expand in terms of naval and military power and shipping assets. Therefore, what at first glance can seem an economic move hides a bigger project. This paper aims to analyse how China is executing its strategy and what it means for international security, especially in its implications for the European Union, whose market is one of Beijing's main targets.

Navigating through the Silk Road

China is acquiring either terminals or entire ports around the world, placing in them state-owned firms and other ones which theoretically are not owned by the state, but still receive critical influence from the Chinese communist party. These ports are used mostly for military purposes, but the overall activity is hidden under commercial actions since China cannot use the traditional military approach to use foreign ports as it would cause a security dilemma ,i.e., a type of insecurity dynamics between states that foments military competition and arms race, and because China does not have time and space to develop this kind of military strategy (Kardon, Leutert, 2022).

Ports' distribution is not casual: securing shipping lanes is an important part of China's ambitions in the so-called Belt and Road Initiative (BRI), therefore the firms are located along the maritime super-highway that connects China to critical natural resources, major export markets, and high-technology imports. The key shipping routes along the country's new maritime Silk Road include the Port of Djibouti, the Port of Haifa (Israel), the Port of Singapore and the Port of Piraeus (Greece) (Kuo, 2017).

The most relevant actor in this matter is the state-owned China COSCO Shipping, the world's largest shipping company, the third largest in the container transport sector, and the fifth largest port terminal operator. According to data published on the COSCO official website, as of June 2021, the group has operated and managed 357 terminals in 36 ports around the world, with its port portfolio stretching from Southeast Asia to the Middle East, Europe, and the Mediterranean (China Power Team, 2021). Other investments in security-relevant infrastructure include airports and digital and energy related ones.

Chinese investments in Europe

China is Europe's foremost trading partner when it comes to imports of goods, a substantial part of which passes through EU ports. In line with the BRI and the importance of the EU market for its economy, China has developed a great interest in European infrastructures. As of the port strategy, Chinese enterprises mostly invest in European ports by buying stakes, both as majority (which confers far-reaching power) or minority (which only confers a right of co-determination), or individual terminals. Notable investments in the European soil include:

- ·The Port of Piraeus (Greece): COSCO acquired a majority stake in 2016, and, as part of the agreement, the Chinese shipping company would operate in two of the port's three commercial terminals for a concession period of 35 years, while also being required to realise substantial investments to increase the container capacity of Pier 2 and to construct Pier 3. The decision to operate there is strategic: China views the port of Piraeus as a gateway to EU markets, but also to the region's trade routes thanks to its proximity to both Asia and Africa (Stroikos, 2022).

- ·The port of Hamburg (Germany): in 2022, despite opposition from various ministries of the country and warnings about the risks related to the deal from the European Commission, COSCO purchased 24,9% of the shares of the Tollerort Terminal in Hamburg's port (Van der Putten, 2019).

- ·The ports of Rotterdam (Netherlands) and Antwerp (Belgium): COSCO has only minority stakes in these facilities, but both are relevant for the Chinese strategy, since they are, respectively, the biggest and the second biggest port in Europe (Van der Putten, 2019).

Regarding airport investments, for example, Chinese company Alibaba's secured a €100 million investment into the airport in Liège, where it is building its main European hub, and two former military airports in Germany, Frankfurt-Hahn and Schwerin-Parchim, are now Chinese-owned. The energy sector and networks attract significant Chinese capital, too. For example, in 2014 State Grid, a Chinese state-owned electric utility corporation, acquired a 35 % stake in Italy's electricity networks, Cdp Reti, which controls Italy's biggest energy companies: Snam, Terna, and Italgas. Furthermore, shares of Eni (oil and gas) and Enel (electricity) are under the control of the People's Bank of China, the country's central bank (Cristiani, Ohlberg, 2021).

Another issue concerns rare earth elements, essential supplies for the defence industry and renewable energy across the world: China benefits from a great control of rare earth mining and processing, an industry which is considered of great strategic importance, and has repeatedly sought to gain control of major deposits abroad, obtaining in 2016, through Shenghe Resources, a mining company, a major stake in Kuannersuit, in Greenland, with the deal including an option for Shenghe to obtain a controlling stake at some point in the future. Greenland is home to some of the largest rare earth deposits and, most of all, it's a country part of the Danish kingdom: although Greenland is in certain areas autonomous, its security and defence policy falls under the jurisdiction of Denmark, a EU member state. (Martin,2018).

The Risks Behind the Economic Benefits

Many concerns have been raised by think tanks and EU governments in relation to the security implications of Chinese investments in EU critical infrastructures. First, the Chinese port network offers a platform for intelligence collection. At the port terminals, operators collect and process huge volumes of proprietary information about vessels and their various fuel and supply requirements, routes and destinations, cargos, personnel, and other relevant details about the capacity of the facility. These data are potentially valuable for military intelligence purposes, especially given the relative ease with which the same observations may be taken of military vessels calling in commercial ports. Risks of espionage are higher when the Chinese commercial assets are in logistical hubs close to EU and NATO naval bases or port operators hosting Chinese companies, which have agreements to provide support to European or American forces. This knowledge of the technical inner workings of European container terminals used as valuable intelligence can also possibly enable the disruption of shipping operations and supply chains (Kardon, 2023). The involvement of Chinese companies in EU strategic assets, especially with companies that have direct or indirect links to China's defence system, entails a risk that technology and technological expertise that can have military implications will ultimately be transferred to China's military, too, especially those concerning robotics, artificial intelligence, and biotechnology. (Reuters, 2023)

One other relevant risk is that, based on the equity shares, China could also restrict access to adversaries during times of military conflict or political impasse. Restricting port access could give China a strategic advantage in future conflicts and challenge other states by forcing them to consider other routes of transit. An example of the Chinese advantage is located outside the EU: with a 50-year contract granting control of the entry and exit points of the Panama Canal, China now has influence over a key global maritime chokepoint (Jakobs, 2023).
The control of rare earth materials means that the country can take a hostile stance in its achievement of political objectives; in 2023, media reports asserted that the Chinese government was considering a rare earths export ban (Tabeta,2023). This could cause not few problems on the defence industry, since these elements are used to build, among others, missile-guidance systems and drone technology (Vekasi, 2019).
Finally, there has been increased acknowledgement about cybersecurity risks posed by China in the EU regarding ICTs: state-backed companies like Alibaba are already involved in European telecommunications networks, data centers and online payment systems, posing a problem for eventual cyber-attacks and data breaches as an either a sabotage or espionage means towards government and military institutions (Shi-Kupfer,Ohlberg, 2019).

How does the EU address the issue?

Due to the common market and the interconnectedness between European economies, the issue must be assessed at the European level, even though the European Parliament has already started the discussions on the risks in December 2022.

The European response includes the EU framework for Foreign Direct Investment (FDI) screening adopted in 2017, which harmonizes the FDI screening mechanisms of participating European countries. This framework allows the EU to coordinate a response to Chinese investments, although it is the national governments who make the final call. However, it is vital that the Member States not only establish their FDI screening mechanisms, but they must also implement them. As of February 2023, 18 out of 27 EU Member States have proceeded with the implementation.

The EU is also moving towards an anti-coercion instrument to defend itself from economic coercion and extraterritorial sanctions. Last year, the EU approved a regulation on distortive foreign subsidies, which would obligate foreign companies to notify the European Commission if their bid to obtain stakes in a European business is funded by subsidies from a foreign government. However, even though there are many efforts at the EU level, the final decision in many cases is left to the individual member state, which often values its own economic benefit over the common European security (Hildebrandt, 2023).

Conclusions: what do experts recommend?

Although Chinese investments in European ports can bring infrastructure improvements and job creation and may seem appealing in poorer regions such as Southeastern Europe, the geopolitical risks should not be understated.

It is necessary to balance individual economic interests with collective ones to not hinder European security and to find a strategy to limit China's power projection in the organisation. For this purpose, in June 2023 an in-depth analysis on the security implications of China-owned infrastructure in the EU was drafted and presented by the Directorate-General for External Policies of the European Parliament, where a number of solutions to mitigate the risks are given. Some of the policy recommendations in the document include:

- ·the implementation of the FDI screening mechanisms by all member states;
- ·the exclusion of Chinese entities with documented links to China's defence systems from any access to EU critical infrastructure.
- ·the monitoring by European Parliament Committees responsible for defence and security on China-linked entities' involvement in the EU's critical infrastructure.
- ·the commission of original research on potential risks subsequently being made available to Member States' citizens.
- raising awareness among member states stakeholders could provide input for them to implement some of the solutions, especially the FDI screening mechanisms. (Juris, 2023)[GB1] .[GB2]

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