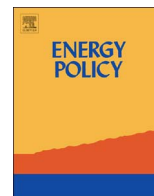




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Chinese investments in Southern Europe's energy sectors: Similarities and divergences in China's strategies in Greece, Italy, Portugal and Spain

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HIGHLIGHTS

- China's FDI in Southern European energy markets has experienced a recent surge.
- Italy and Portugal are the region's top recipients of Chinese FDI in energy markets.
- Italy and Spain have received large Chinese investments in solar greenfield projects.
- Chinese FDI in Southern Europe's energy sectors is market and asset seeking.
- Southern European energy strategies urge to be revised.

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ABSTRACT

China's Foreign Direct Investment in Europe has experienced a significant surge over the last decade. Southern European countries have not missed out on this trend and have gradually consolidated as important recipients of Chinese investments. This has allowed them to accumulate 23.5% of all Chinese FDI to Europe between 2000 and 2014 (10.8 billion Euro). The energy sectors of all four countries have been primary beneficiaries. Chinese entities have carried out impressive acquisitions in the Italian and Portuguese energy markets. In contrast, their presence in the Greek and Spanish energy markets has been discrete. In parallel, the penetration of Chinese investments in Italy and Spain's subsectors of renewable energies has been more prominent than in the Greek and the Portuguese ones. The former two countries have received significant investments in solar-related greenfield projects, whereas the latter have mostly benefited from operations in wind-related ones. The influence of Chinese energy policies and promoting foreignities has had an impact on the markets of all four countries. This trend is not consolidated. Data suggests that Chinese investments have been highly opportunistic. Athens, Rome, Lisbon and Madrid should see China's penetration in their markets as a mix bag of opportunities and challenges that demands better informed analysis.

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1. Introduction

The growth of Chinese investments in Europe over the last decade is a well-known reality. Before 2004 Chinese investments in European countries were almost non-existent and their value was painstakingly low. The number and volume of these investments increased between 2004 and 2008, but annual averages remained below 60 and 1 billion euro respectively. This situation changed in 2009 and 2010, when the number of investments raised to a hundred and their cumulated value nearly tripled that of precedent years. Following this upward trend, the 2011–2015

period witnessed the explosion of Chinese investments in European countries: with more than a hundred investments per year and an average annual value close to 10 billion euro, Europe consolidated itself as one of the main destinations outside Asia of Chinese Foreign Direct Investment (henceforth FDI) (European Chamber of Commerce in China, 2013; Baker and McKenzie/CCIC, 2015; Hanemann and Huotari, 2015, 2016). More than 2000 Chinese firms have now establishments in Europe, they employ more than 47,000 workers and their cumulative investment exceeds 41.6 billion euro (Casaburi, 2016: 11).

This uneven but sustained trend needs to be understood in light of China's "Going Out" (*zou chuqu*) strategy first envisaged in 2000, presented in the 10th Five-Year Plan of 2001 and later developed in several official documents. This strategy replaced the

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core value –“non-government (private) first”, *minjian xianxing*– that used to drive the business operations of Chinese companies abroad during the 1990s (Peng, 2011: 77). Inspired by the need to secure the country's export-led growth model, the weaknesses of which had been clearly exposed during the 1997 Asian financial crisis, this new approach was driven by a diverse range of domestic and international factors (Wang, 2016). Macroeconomic considerations played a significant role, especially those connected to an excessive trade dependence on the manufacturing sector, the convenience of diminishing excess liquidity or the need to cool off the investment-driven Chinese economy. However, the policy shift was also motivated by the central government's interest in gaining access to natural resources and raw materials, national pride calculations and the particular ambitions of some provincial authorities and State-Owned Enterprises (Friedberg, 2006; Yelery, 2014).

The initial strategy has experienced some important adjustments in the past few years, especially since the launch of the 'One Belt, One Road' initiative in 2013 (Yunmo Wang, 2015), but its main purpose –to expand the international presence of Chinese companies and to promote Chinese investments abroad– has remained almost intact. In parallel, the relevance of this policy shift has met remarkable scrutiny in media, academic and policy-making circles in the West. Not surprisingly, some authors have alarmed that “China is buying up Europe” through this strategy (Godement et al., 2011:1) or that the country is carrying out an “offensive” in Europe (Le Corre and Sepulchre, 2016). In spite of these claims, most reports show that Chinese FDI in Europe still represents a modest percentage of both China's global Overseas Direct Investment (henceforth ODI) and all FDI to the old continent (Jia Jess, 2015; Hanemann and Huotari, 2016).

Southern European countries have not missed out on this trend. In 2008, the 4.5 billion euro deal signed between state-controlled COSCO and the Greek Government for a period of 35 years made world headlines as the largest Chinese investment to date in a European country. Many dockworkers reacted to this announcement with a month-and-a-half-long strike and several analysts casted serious doubts about the strategic, undeclared real intentions of Beijing in the old continent (Mihalakas, 2011; Hardy, 2014). Three years later, the victory of state-controlled Three Gorges Corporation in the bid to acquire 21% of EDP-Energias de Portugal for a total value of 2.69 billion euro became the largest investment abroad of the Chinese company and gathered similar attention and reactions. Benefits obtained by both companies during the last five years have toned down some of the initial criticisms, but some suspicions remain (Granitsas and Paris, 2014; Ernst and Young Global Limited, 2015).¹ More recently, the purchase of Italy's energy-related company CDP Reti S.p.A. for more than 2.1 billion euro in November 2014 by State Grid Europe Limited, a subsidiary of State Grid Corp. of China, reinforced China's presence in Southern European markets and reinvigorated debates about the Asian giant's agenda in the Mediterranean and Europe. The words of Policy Sonar's Chief Executive Officer and former advisor to Italy's Ministry of Finance, Francesco Galietti, leave little room for interpretation: “The CDP Reti deal is but a single episode of China's comprehensive charm offensive in the Italian energy sector (...) Moreover, in a hyperconnected space like energy distribution, Italy represents a gateway to the pan-European electricity grid” (Galietti, 2015; Sanderson, 2014). The volume of these operations is uncommon, but the three of them are illustrative of Beijing's growing interests in Southern European markets, particularly in the energy sector. In addition, they play a

crucial role in the cautious but firm assertion of China as an “emerging (regional) power” in the Mediterranean (Guofu, 2013). Paradoxically, this new reality has received little scholarly attention and very few studies have attempted to systematize and analyze existing, scattered and notably unreliable data (Hanemann and Huotari, 2015: 12–13).

The aim of this paper is to explore the evolution, motivations and impact of Chinese investments in the energy sectors of four Southern European countries: Greece, Italy, Portugal and Spain. More precisely, the contribution aims at identifying the main similarities and divergences between these cases, as well as to draw some conclusions on the implications of China's growing presence in the energy sectors of Southern Europe. The explanation for this case selection is twofold: first, relations between these four countries and China show the highest degree of institutionalization within the subregion and all four have been recipients of significant Chinese investments in the past decade; second, in spite of the lack of abundant data, existing reports and publications on China's energy investments abroad only allow for a comprehensive comparison between the experiences of these countries in Southern Europe. In order to achieve the aforementioned goals, the paper looks first at China's investments in the four countries over last decade. This analysis shows that Chinese investments to this group has concentrated in a limited number of sectors and has experienced a significant growth in the past few years, but also that Southern Europe has gradually consolidated as one of the top destinations of China's investments outside Asia. Next, the paper explores Chinese investments in the energy markets of Greece, Italy, Portugal and Spain, paying special attention to the subsector of renewable energies. This exploration reveals the growing significance of Chinese firms in the energy markets of Italy and Portugal and their less visible presence in Greece and Spain. In addition, it brings to the surface the less voluminous but equally influential presence of Chinese entities in the four countries' subsectors of renewable energies, especially in Italy and Spain. The final section summarizes the main findings of the paper and discusses some policy implications.

2. China's investments in Southern Europe (2000–2015)²

The analysis of existing data regarding Chinese investments in Europe since the beginning of the twenty-first century illustrates that Greece, Italy, Portugal and Spain are latecomers. With no exception, China's investments in these four countries between 2000 and 2008 were rare and their value was very limited. The explanation for this may be found in Beijing's perception that they carried little strategic interests and its overall cautious approach towards ODI (Ebberts and Zhang, 2010), but also in the protectionist economic attitude vis-à-vis the Asian giant shared by government officials in Athens, Rome, Lisbon and Madrid. As Godement et al. (2011: 8) have suggested, all four Southern European countries qualified as “accommodating mercantilists” before the outbreak of the European financial crisis in 2008–2009 and their economic resistance contrasted with their open and supportive political attitude towards Beijing. The first two countries to break this trend were Italy and more obviously Greece in 2008. In June, the former benefited from an investment over 220 million euro by Chinese company Zoomlion in Compagnia Italiana Forme Acciaio. In November, the latter secured the aforementioned 4.5 billion euro deal with China's COSCO for the next 35 years. Spain joined

¹ These suspicions gained some momentum in May 2015 in light of the first joint naval exercises of Russia and China in Mediterranean waters in May 2015 –operation “Joint Sea 2015” (Feldman, 2015; Holmes, 2015; Alexandrova, 2015).

² Unless otherwise specified all data included in Sections 2 and 3 are included in American Enterprise Institute/The Heritage Foundation (2016), and Hanemann and Huotari (2016).

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