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#47 Chinese Investment in EU-Seaports

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Key Takeaways

- Chinese foreign direct investment in EU seaports has become a topic of heated debate. The main Chinese investors in EU seaports are Hutchison Ports, Cosco Ports and CMPort.
- This report analyses the impact on economic competitiveness and national security. Case studies of the ports of Piraeus, Antwerp-Bruges, Hamburg, Rotterdam and Gdansk show that Chinese investment only leads to increased competitiveness under certain conditions. Relevant factors are the ownership structure, the degree of integration and the type of investment.
- No clear tipping point for diminishing impact of Chinese investment on port competitiveness could be identified, except for the port of Piraeus.
- When it comes to national security interests and Chinese investments, the risks outweigh the benefits. An important risk factor is not just the Chinese investment itself, but also the related US scrutiny and US-China geopolitical tensions.
- However, this does not mean that Chinese investments in European seaports should in principle be avoided or reduced.
- Port policy should not only focus on Chinese FDI, but also other non-EU sources of investment as well as other forms of foreign involvement and dependencies. Concerning China, this especially includes the use of Chinese technology and software, and the EU's trade deficit with China.

Recommendations

1. Under the EU Ports Strategy, the European Commission will develop criteria and guidance on foreign ownership and control.
2. Explore where and how conditions may be imposed under which Chinese ownership of European port assets can continue to exist, if this means that blocking of new investments or pushing out existing investments can be avoided without endangering national security.
3. Facilitate alternative sources of investment if the conditions lead to the blocking of a new investment, or the pushing out existing investments, to ensure the port's competitiveness is not negatively impacted.

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4. Increase awareness among port stakeholders of the risks and benefits associated with foreign investment from third countries, to bridge the different threat perceptions between EU Member States.
5. Even with a minority stake, security risks exist.
6. A state-owned enterprise like COSCO Ports can be more dependent on a major EU container port than the other way around.
7. Security risks are not only associated with foreign direct investment, but also with other types of foreign involvement, such as LOGINK, the Chinese port community system.

Executive Summary

For years, European ports attempted to attract foreign direct investment (FDI) as part of a growth strategy. With foreign companies investing, owning and operating in the ports, new cargo flows were expected to follow, particularly from China, increasing the port performance and competitive position of the ports involved. However, research by Yang et al.³ indicates that in the initial phase of Chinese companies' international participation, operational and investment experience in ports was crucial for their competitiveness. As these Chinese investments developed over the years, this experience played a less significant role in strengthening a port's competitive position, since Chinese companies had by then gained sufficient experience in handling international transactions. At some point in time, a tipping point occurred. The presence of such a tipping point means that an important characteristic and a significant contribution of Chinese FDI in seaports have weakened over the years. The declining contribution of FDI means that extra added value of Chinese FDI for seaports has become less significant over time.

However, next to effects related to competition and growth, these investments and the interests of the countries involved created dependencies that the EU felt uncomfortable with at a time of heightened tensions between the major powers. The new EU Port Strategy therefore also aims to strike a balance between pursuing greater competitiveness through investments from China and security considerations.

This report analyses the following research questions: how does Chinese direct investment in EU seaports impact the port's competitiveness? Is there a tipping point where an increase in Chinese FDI no longer results in a significantly greater likelihood of attracting cargo flows? And finally, does strengthening competitive advantage through attracting Chinese FDI come at the cost of national security interests, or can they amplify each other?