

WORKING PAPER

Competition or Cooperation: Competing Strategies for Infrastructure Development - the Case of Slovenia

Helena MOTOH/Tina ČOK

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping



**Competition or Cooperation:
Competing Strategies for Infrastructure Development – the Case of Slovenia**

One of the often-debated issues within the 16+1 cooperation is the relation between Chinese infrastructure investment in Europe on one side and EU policies and programs on the other. This issue was especially put on the agenda by the European Commission under the leadership of President Jean-Claude Juncker. From 2015, when Juncker's multibillion-euro investment plan for Europe was launched, China was very much interested in becoming a partner in many of the numerous opportunities offered by this new investment framework, and the Juncker plan looked like a good partnership option for China's Belt and Road initiative. Two years later, the initially harmonious partnership seemed to be going through a rougher patch, when the same EU Commission started preparing sets of protective rules and regulations to control the takeovers and investments made by China. Currently, proposals for a new consensus are being debated, while the relation between the two frameworks remains an open issue.

The complex dynamics of these processes can be seen in the case of two mutually related infrastructure projects in Slovenia - the construction of the second railway track between Divača and Koper and its potential implications for the Port of Koper, which is the finishing point of that same railway line. The port of Koper is one of the most important ports in the Northern Adriatic, which offer two advantages. First, they are located on the shortest route between China and Europe, and, second, they are also in proximity to the European manufacturing industry, which has moved from Western to Eastern Europe in the last twenty years.

The paper focuses on the case of the Port of Koper and the connecting railway line from the viewpoint of the above-mentioned relation between EU strategies and China's strategies for infrastructure investment. A good railway connection, namely, an improvement of the current line, is a necessary prerequisite for the further growth of the activity of the Port of Koper, while the lack thereof presents an important obstacle. The paper analyses the developments so far, the unsuccessful plans for Chinese investment in these infrastructure systems and the role that the Slovenian government played in the complex relation between Juncker's Commission and Chinese potential investors.

Competing strategic frameworks

Beyond the politics of territory, the political power and influence today are mostly related to infrastructure, be it physical or informational. Connectivity is replacing the traditional principles of geopolitics, while some traditional symbols of political influence have remained the same. Much more than military barracks, the railways, roads and ports are a prerequisite of commerce and trade, and thereby necessary guarantees of the widening political power and global influence. Looking at the main priorities of the key global actors,

we are now witnessing an increase in the development of infrastructure strategies, especially in the Euro-Asian context. There are two colossal infrastructure projects underway in this region, one perhaps encouraged by the other; the Chinese BRI (Belt and Road Initiative) and the European Union TEN-T (Trans-European Transport Network) program. Since a detailed analysis of these two infrastructure giants is beyond the scope of this paper, we will instead try to shed some light on the future role of the Slovenian Port of Koper within the dichotomous complementarity of the two programs. In fact, while both projects seem to be of core importance to the future developments of the Port of Koper, possible scenarios are, however, loosely defined.

The TEN-T program, the core network development project within the financial perspective 2014–2020, is the starting point for the European transport policy. The EU transport policy aims to build a trans-European network of roads, railways, river and maritime waterways, ports, airports and terminals that would connect Europe and strengthen Europe's social, economic and territorial cohesion. The main objective of the TEN-T policy is to eliminate bottlenecks and technical barriers in core corridors and to strengthen Europe's social, economic and territorial cohesion and thus create a unified transport area. In 2013, in accordance with the TEN-T policy, the European Union identified nine core corridor networks, namely the Atlantic Corridor that runs from Algeciras, Lisbon, Madrid to Strasbourg, the Rhine-Alpine Corridor starting in Genoa and ending in Zeebrugge, the Orient/East-Med Corridor connecting Hamburg with Athens, the Mediterranean Corridor stretching from Algeciras, Ljubljana, Budapest to the border with Ukraine, the Scandinavian-Mediterranean corridor running from the border with Russia-Napoli to Palermo, the Baltic-Adriatic Corridor, which is one of the most important trans-European road and railway axes running between Gdansk, Graz, Ljubljana, Koper and Trieste, the Rhine-Danube Corridor connecting Strasbourg with Bucharest, the North Sea-Mediterranean Corridor between Belfast and Paris and the North Sea-Baltic Corridor that connects the ports of the eastern shore of the Baltic Sea with the ports of the North Sea. (DG MOVE 2018)

The corridors that involve Slovenia are the Mediterranean corridor that runs from the south of Spain from the port of Algeciras, through Spain, Italy and Trieste, encompassing the track between Divača and Koper. Since all corridors have several nodes, the Rijeka–Zagreb–Budapest line and the Ljubljana–Zagreb route are also located on this corridor, and among the identified projects on this corridor is the Ljubljana multimodal node with a railway connection to the Slovenian international airport. The second core corridor, on which we find Slovenia, is the Baltic-Adriatic Corridor. This corridor also comprises the connection between the ports of Trieste, Venice, Ravenna and Koper and the development of multimodal logistic platforms. (DG MOVE 2018)

The Port of Koper and its railway connection with central Europe, for which the Slovenian government is still pursuing the best investment plan, has been on the other hand also put on the map of the Chinese Maritime Silk Road project. The Adriatic Sea is an end-point of China's 21st Century Maritime Silk Road. As a result, Slovenia, Italy and Croatia are considered important partners in the implementation of the Belt and Road Initiative by Chinese leadership. Ports and rail connections in these countries leading to the markets in

Central, Eastern and Northern Europe have therefore become the focus of attention of the Chinese government, which is keen on exploiting opportunities in the logistics and infrastructure sectors to promote the Maritime Silk Road. (Casarini 2017)

The most probable scenario for the realization of the Maritime Silk Road in the context of the Belt and Road Initiative is the five-port project involving the Italian ports of Venice, Trieste and Ravenna, the Slovenian port of Koper and the Croatian port of Rijeka, linked together in the North Adriatic Port Association (Putten van der *et al.* 2016). Launched in 2014, the five ports alliance has encountered some problems, mainly due to domestic political dynamics. The project has, however, been resurrected in late 2017 on the incentive of the Chinese authorities keen on promoting the Belt and Road Initiative. The North Adriatic consortium aims to attract - and service - China's huge cargo ships reaching the Mediterranean Sea via the Suez Canal. Chinese investors having already shown interest for this project include: the port authorities of Shanghai and Ningbo; the CCCG Group (the world's sixth largest infrastructure company) and the Industrial and Commercial Bank of China (ICBC).” (Casarini 2017, pp. 86–87)

As can be seen from what is stated above, the Slovenian Port of Koper is supposed to represent one of the transport hubs in both infrastructure programs, but as for when and how the cooperation between those two programs can be achieved, many doubts have arisen. Despite some skepticism of the Slovenian inclusion in the Chinese strategic frameworks, many Slovenian experts, most notably Matevž Raškovič (see Raškovič 2017), did repeatedly stress the importance of the maritime dimension of the Belt and Road and 16+1 Initiatives for the development of Slovenian economy. The key element in Slovenian export-oriented economic system is the Port of Koper, according to Raškovič, this can be seen from the comparison of different estimates of Chinese-Slovenian trade exchange on the two sides. According to the report of Slovenian national Statistical Office, Slovenian import from China in 2016 amounted to approximately 760 million Euros worth of goods. The trade imbalance is considerable; the Slovenian export to China is assessed to be a mere one third of this amount. The growth, of the total exchange, however, is of great importance, since the total import and export combined (now just over a billion Euros) doubled since 2010. According to Chinese statistics, the Chinese export to Slovenia is significantly (approx. three times) higher than in the numbers provided by Slovenian statistical analyses, amounting to more than two billion Euros. The explanation for this discrepancy, says Raškovič, also tells us a lot about the great importance of the maritime trade through the Port of Koper for the Chinese side. Namely, the total export number from the Chinese statistics also includes all the shipment which is directed forward from Slovenia to Hungary, Poland, Slovakia and Austria and amount to a much more meaningful share of Chinese exports. The relative importance of trade in the Port of Koper is also visible from the statistical estimate of the national transshipment quantities *per capita*. Slovenia, despite only having one maritime port, almost equals that of Spain, and rates high in the comparison with other neighboring countries (higher than Croatia or even Italy) (Raškovič 2017). According to the estimates, stressed by the Port of Koper itself, the activities of the port also have an important multiplication effect on the Slovenian economy as a whole, each million tons of transshipment generating 820 jobs and 60 million Euros of

service and goods (Šik 2018).

In the light of these statistical analyses, the importance of the maritime dimension of the Belt and Road initiative, but also the importance of the Port of Koper in the 16+1 framework cannot be overlooked. The ability of the Port of Koper to cope with the increasing transshipment will greatly determine whether it will be able to keep its independent position as a maritime gateway for the inland economies, such as Austria and Hungary, or will instead be forced into a role of subsidiary port of a larger hub, as could happen in its relation to Venice.

Strategic importance of the second track project

A key factor, which could thwart the future viability of the Port of Koper, is the lack of inland transport capacities, especially via the railway connection. The last stretch of the existing railway connection from the capital Ljubljana to the coast is a 50 km segment of railway line between Divača and Koper. This segment was completed in the 1960s and its capacity of cargo traffic are now seriously deficient, a situation which was indirectly made worse in late winter 2014, when in catastrophic events related to the widespread glaze frost parts of the connecting railway segment Logatec-Borovnica were damaged and destroyed (Dnevnik, 21. 1. 2015). The status of this railway segment and the project(s) for its repair and upgrade have been debated for decades, and the idea and the project itself have gone through many phases and many different versions, both in technical and in financial aspects. Despite some initial scepticism by the current Minister Gašperšič (Primorske novice, 16. 9. 2014), today there is, however, an almost general political consensus that the railway connection between Divača and Koper requires the building of an additional track. Not only would it provide a bigger transport capacity, but it would also provide a back-up in cases of accidents, natural disasters or suddenly increased traffic.

Despite the initial skepticism from the side of the Port of Koper, especially voiced by the syndicate of crane operators of the Port of Koper in spring 2017 (Lončar 2017), today the Port of Koper is one of the strongest supporters of the project. It also registered as one of supporter campaigners in the repeated (and twice failed) referendum on the validity of the “Act on the construction, management and governance of the second track of the Divača–Koper”, which took place on May 13, 2018. The arguments that the Port of Koper presented for their support of the act are strongly related to the vision of the development of the Port of Koper, where the railway connection plays an important role. In the 2016–2020 Strategic Program of the Port of Koper, the need for a better transport connection is evident. According to the so-called “Development Scenario”, proposed as the better of possible two trajectories for the 2016–2020 period, the growth of transport capacities by railway connections is seen as indispensable. It is seen as especially necessary immediately after the 2020 benchmark in order to maintain the growth of the Port of Koper activities (Povzetek ... 2015).

After 2020 the two scenarios (“development scenario” and “alternative scenario”) greatly differ in quantitative estimates. The assessed transshipment to be achieved by 2020 (from the 20 101 750 tons in 2015) was to be 24 300 000 tons. Beyond that year the plans diverge considerably, and one of the deciding factors is also the availability of transport capacities on

the railroad connection. According to the »development scenario«, the transshipment would rise to 35 100 000 tons, while in case of the “alternative scenario”, it would only reach 27 400 000 tons. Most importantly, a crucial difference of the two scenarios is also in the growth of automobile transshipping, otherwise a preferential direction of development of the Port of Koper, according to the same strategy. In case of the preferred scenario, the transshipment of vehicles would reach 1 250 000 units in 2030, a considerable growth from the planned 525 000 units in 2015 and from projected 850 000 units in 2020. According to the alternative scenario, on the other hand, the growth would continue until 2020, and then almost stagnate, reaching only slightly a slight increase (865 000 units) in 2030. (Povzetek ... 2015). Compared to 2015, when the strategic plan was made, the difference in two scenarios is perhaps even more pressing today, since the Port of Koper successfully reached the transshipment of 24–25 million tons, lifting the starting estimate for 2020 even higher, to 27–28 million tons. In the light of this successful development, the need for a substantial increase in railway capacities is becoming even more evident.

The 2015 estimate of the available transport capacity of the existent railway connection Divača-Koper, was perhaps already too optimistic, as recently assessed (Šik 2018). The estimate of daily capacity, relied on by the 2015 strategy, was approximately 82 cargo trains daily, which already exceeded the actual capacity of the track today, which is around 70 cargo trains per day. With this in mind, even the development scenario for 2020 could not be fully realized and the growth will be – or already is – thwarted already earlier than predicted by the prognosis. In order to fully realize the planned »development scenario« (Šik 2018), the yearly transshipment of 35 million tons would require at least 120 cargo trains daily, a capacity which could only be achieved with the building of the second railway track.

Second Railway Track Project

Among the most important tasks by far to be accomplished for Slovenia, is finding the best strategic partner for the construction of the second track on the Divača–Koper railway line that connects the Port of Koper to other transportation hubs in central and Eastern Europe. “For certain geographical features, Koper has an even better position than Trieste” (Koražija 2017), and this seemed to be recognized by many of the potential investors in the second track who have been negotiating the partnership so far. In the framework of the financial construction for the second track, Slovenia has been successful at the 2017 CEF Transport Blending call, obtaining 109 million Euros for co-financing the construction of seven tunnels on the Divača–Koper route. However, this is hardly enough to set off the constructions. Truth is, the start of constructions have been so far mainly obstructed due to political incompatibilities concerning the “Act on the construction, management and governance of the second track of the Divača–Koper railway”, adopted by the National Assembly but failed to be implemented due to the above mentioned referendum appeals, causing the step back of some of the most important foreign investment partners, such as the Hungarian government, which promised to invest 200 million Euros in form of capital investment in the Slovenian state-run company 2TDK in charge of the railway project.

The structure of the financing of the 2TDK company has also been debated, especially by the related companies, which would – according to the proposed Act – have to contribute to the financing of this state run company. In the beginning of 2017, the representatives of the Port of Koper particularly criticized the selection of the companies, which would be obliged to contribute to the budget of 2TDK. According to the initial draft, the Port of Koper had to contribute a substantial share, while, disproportionately, Slovenian Railways were exempt from contributing to the financial construction of the project. In financing the second track project, Slovenia has adopted the new European funding principle, introduced by the European Fund for Strategic Investments (EFSI) Mechanism, the so-called Juncker Fund. This mechanism expects combining budget resources, capital contributions, non-refundable European funds and loans. That is why the “Act on the construction, management and governance of the second track” envisages that in the share capital, in addition to Slovenia, other countries of the region, among which Hungary has shown the biggest interest, also participate. The prospects are to acquire European funds in the amount of 250 million Euros (the CEF blending call, the operational program of the Slovenian cohesion funds, that will provide additional 80 million Euros of non-refundable European funds and other European calls). Part of the money will be obtained in the form of loans from the European Investment Bank and the Slovenian SID Bank. (Esih 2017)

Among the countries that showed interest in investing in the construction of the second track as foreign partners, we also find China and Russia. First, in the beginning of June 2015, the Slovenian Ministry of Infrastructure welcomed representatives of the Chinese state infrastructure giant China Road and Bridge Corporation that allegedly offered a public-private partnership for the implementation of the second track project, currently estimated at 961 million Euros. This should also include the financing with loans from the Chinese Export and Import Bank (EXIM) (Cirman 2015). Later on, in the beginning of 2016, another Chinese delegation visited the Port of Koper. The delegation comprised construction and financial experts from the China Development Bank and China Gezhouba Group, who wanted to get acquainted with the development plans of the Port of Koper, and who expressed willingness to finance and build the second track between Koper and Divača. (Šuligoj 2016).

Regarding a possible foreign partner for the project, some speculations were put forward about the company Russian Railways, which is well connected to some important Slovenian construction companies. The state-owned company of Russian Railways is one of the world's leading rail infrastructure companies, also active in the construction of railway connections between China, through the Russian territory towards Europe (Esih 2017). With the exception of the Hungarian government, most of these potential foreign partners were either turned down by the Slovenian government or both parties could not find a common ground for a profitable cooperation. Chinese partners were among the most debated in the Slovenian media and by the public at the time of negotiating the conditions of collaboration, mostly because of the proposed short time of realization of the project and a very tempting financial construction - a much more favorable projection than the one made by the Slovenian government. After the deal with the Chinese fell through, there were many speculations on the reasons for the failed negotiation, but not a clear official response.

Different frameworks and the rise of skepticism

Although the Slovenian government was never really clear about the reasons, experts say there were at least two obstacles that prevented the negotiations from being successful. The first was related to the conditions that the Chinese party offered for cooperation. The model of cooperation would have been the same as in Serbia, where China Road and Bridge Corporation started building a 1.5 kilometer long bridge across the Danube River near Zemun, a type of agreement which was allegedly not acceptable for the Slovenian side. Another condition was that Chinese construction workers would be the labor force for the greater part of the building project, which would reduce its macroeconomic attractiveness for Slovenia. Financing conditions and loan rates would also have been less favorable compared to the scenario where Slovenian state borrowed from the European Investment Bank (EIB) for the second track project. For comparison, China's EXIM has approved a loan with a fixed interest rate of three percent for the construction of a bridge in Serbia, with a repayment period of fifteen years (Cirman 2015).

There was an overtly protectionist stand toward potential foreign partners in the second track project in the case of the majority of the companies and countries which have been proposed so far. The protectionist attitude is enhanced due to the strategic position of the Port of Koper and the fear of losing part of the governance over it.

The Slovenian media, political opposition and the broad public called for caution when the government carried out the talks on a potential capital investment from the Hungarian government. This general distrust has been supposedly encouraged by a study of the economic (ineligibility) construction of the second track developed by the International Transport Forum (ITF) of the Organization for Economic Co-operation and Development (OECD) that stressed that the project would benefit mainly other countries, including Hungary (Cirman 2015). The skeptics, mainly coming from the current political opposition in Slovenia, were speculating on how Hungary will be rewarded for its capital investment. Different back-up proposals were made, such as, that if the agreement with Hungary was stipulated, the government could intervene in the concession agreement with Luka Koper. By joining the project, Hungary, according to certain estimates, would gain half of the profits from exploiting the new track, while Slovenia will completely cover the costs of loans, become a co-owner of the second track for 45 years, and would also obtain related contracts for its construction companies and the logistics capacity in the vicinity of the Port of Koper (Esih 2018). What the experts and the general public alike fear most in the deal with the Hungary is losing national sovereignty on its own infrastructure network and being pushed into to a damaging financial situation.

Notwithstanding the oppositions to foreign investment partners, Slovenia has to comply with the official recommendations of the EU on one hand, but also accommodate the strategic positions of the Big Four on the other. Acquiring a foreign partner would provide easier access to European grants, but the rising populism and distrust in the trade relationship of individual member states, especially with China, forces small countries such as Slovenia to be even more cautious when establishing important strategic partnerships on their own. Among

the motives for European oppositions toward investments from China, Hannes Dekeyser (2017) proposes fear of consequences for national security. »Although there is no strict definition on EU or national level of what is considered national security or a strategic asset, Hellström (2016) mentions technologically advanced companies or those assets that are of importance to national security, whereas German Economy Minister, Sigmar Gabriel, reportedly wants to restrict takeovers if they involve key technologies, without any further indication of what constitutes a key technology (Chazan, 2016; Hellström, 2016, p. 28). Hanemann & Huotari (2017) refer to ‘critical infrastructure’, such as electricity grids, power plants, ports and other transportation and communication structure [...]” (Dekeyser 2017, p. 32) Another dilemma Slovenia has to bear in mind when doing business with China, but also Russia, on strategic projects is the fact that these countries are not part of NATO. Being a member, Slovenia has to negotiate and balance security policy, enforced by the alliance, especially when it includes the countries which are seen by NATO mainstream to be non-allies.

In large scale projects such as the Second railway track, where the easiest path of financial and political self-reliance is simply not feasible, Slovenia will have to negotiate a collision of larger frameworks, without having a desirable control of the outcomes. Cases like this, with great economic potential on one hand, but seemingly insurmountable contradictions on the other provide an example of how important the overall partnership strategy between the different strategic frameworks would be – especially for the development and overall stability of the peripheral regions, where different spheres of influence compete.

References

- Casarini N. (2017). Chinese Investments in Italy: Changing the Game? in
Chazan, G. (2016, December 8). Fujian drops Aixtron offer after US blocks deal. Retrieved from www.ft.com/content/b880ba3a-bd4a-11e6-8b45-b8b81dd5d080.
- Chinese Investment in Europe: A Country-Level Approach*. Eds. John Seaman, Mikko Huotari, Miguel Otero-Iglesias. French Institute of International Relations (Ifri), Elcano Royal Institute, Mercator Institute for China Studies. https://www.ifri.org/sites/default/files/atoms/files/etnc_reports_2017_final_20dec2017.pdf
- Cirman, P. (2015, December 10) Bodo denar za drugi tir dali tudi Madžari? Retrieved from www.dnevnik.si.
- Cirman, P. (2015, June 22) Drugi tir bi gradili in financirali Kitajci. Retrieved from www.dnevnik.si.
- Dekeyser, H. (2017) *Chinese Investments in Europe. Bargain Hunt or Salvation for the European Economy?* Faculteit Politike en Sociale Wetenschappen, Universiteit Gent (Master Thesis). Retrieved from <https://lib.ugent.be/en/catalog/rug01:002377323>.
- Esih, U. (2017, September 30) Nobenega zadržka ni, da bi Kitajci gradili. Retrieved from www.vecer.com.

Esih, U. (2018, January 23) Drugi tir: Madžari posredno odločajo tudi o tretji osi. Retrieved from www.vecer.com.

EU Commission, The department for mobility and transport (DG MOVE) (2018, April 15). Kaj morate vedeti o omrežju koridorjev TEN-T in kako do EU denarja za naložbe. Retrieved from www.finance.si.

Hanemann, T., & Huotari, M. (2017). Record Flows and Growing Imbalances - Chinese Investment in Europe in 2016 (MERICS Papers on China No. 3). Berlin: Mercator Institute for China Studies.

Hellström, J. (2016, December). China's Acquisitions in Europe. FOI. Retrieved from www.foi.se/download/18.6f5585fa15a36ec7a961b9b/1487592009526/foir_4384.pdf

Koražija, N. (2017, February 18). Drugi tir med interesi Nemčije, Rusije in Kitajske. Retrieved from www.tl.finance.si

Lončar A. (2017). Drugi tir: koalicija usklajena, v Kopru se kuhajo težave, *Siol.net*, 29. 3. 2017. Retrieved from: <http://siol.net/>.

Luka Koper (2015, August). Povzetek Poslovne strategije družbe in Skupine Luka Koper do 2030 ter Strateškega poslovnega načrta družbe in Skupine 2016 – 2020. Retrieved from: <http://luka-kp.si>.

Putten van der, F.-P., Seaman J., Huotari M., Ekman A. & Otero-Iglesias M. (Eds.) (2016) *Europe and China's New Silk Roads*. Netherlands Institute of International Relations 'Clingendael', Elcano Royal Institute, Mercator Institute for China Studies, French Institute of International Relations (Ifri).

Rašković, M. (2017). Ali se sploh zavedamo pomena Luke Koper? *Manager*, št. 28, 21. 7. 2017.

Šik, S. (2018). Koliko nas stane opustitev izgradnje 2. tira?, *Luški glasnik*, May 2018.

STA (Dnevnik, 21. 1. 2015). Sanacija primorske železniške proge po lanskem žledu naj bi bila končana (še)le marca. Retrieved from: <http://www.dnevnik.si/>.

STA (Primorske novice, 16. 09. 2014). Gašperšič: Drugega tira ne potrebujemo še 30 let. Retrieved from: <http://www.primorske.si>.

Šuligoj, B. (2016, January 20) Kitajci bi drugi tir zgradili ceneje in v treh letih. Retrieved from www.delo.si

About the authors

Helena MOTOH, a senior research associate and head of the Centre for Cooperation with China at the Science and Research Centre Koper, Slovenia.

Tina ČOK, researcher and lecturer in Chinese language and culture at the University of Primorska, Slovenia.