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Chinese Direct Investments in the EU and the Changing Political and Legal Frameworks[+]

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Abstract

This paper seeks to shed light on the key geopolitical interests of European countries (EU members) as for technology transfer from China and to China. The paper focuses on the policies of the key EU members (Germany, France, Italy and the United Kingdom). The paper focuses on these countries because on the one hand, these European countries are the main recipients of the Chinese FDI in Europe and offer attractive business environments for Chinese tech firms, while on the other hand, these four countries have measurable geopolitical clout and large markets too. The EU dimension cannot be neglected in this analysis; however, the presumption of the study is that the main features of the national foreign policies are defined by the countries themselves, not the EU. The general question of this paper is how these countries perceive Chinese tech firms' potential role in their economies. Since the paper mainly centers on geopolitical questions, the paper cannot avoid raising the dilemma: how the transatlantic alliance is to be affected by the recent US foreign policy. The paper intends to raise and answer the following questions: (1) What are the basic European interests regarding

international technology transfer? (2) What are the key differences in the interests of the significant European countries? (3) What does the sectoral distribution of Chinese investment say about China's intentions? (4) How is the transatlantic alliance being affected by the recent twists and turns of the US foreign policy? As for the paper's methodology, we must underline that the study paper seeks to deliver a comprehensive analysis of the geopolitical interests, while relying on existing theoretical papers, policy papers of the countries' governments and already existing datasets of Chinese investments.

Keywords: *geopolitics, critical technologies, Germany, France, UK, China, US, transatlantic alliance*

1. Introduction

The European Union's foreign direct investment screening regulation was adopted in 2018 and entered into force April 2019. The regulation created a new coordination mechanism where the European Commission and the Member States can exchange their information and if it is necessary, raise concerns regarding specific investments. There is no doubt that the regulation and the national legal frameworks have the potential to significantly influence Chinese investment in the Single Market. The likelihood of substantial effects is growing when the direct investment targets tech-firms who are front-runners in technology development.

At the same time, we should add that the EU implemented a liberal policy approach (compared to other OECD countries) when setting up the screening mechanism which is rather a platform for the EU countries to cooperate on. Since the implementation of the framework, there has been done significant comparative research on the national regulations;

this paper rather focuses on long-term motivations of these countries, and then it looks at the sectoral distribution of Chinese investments in the selected four European countries. As a first step, let us examine how Chinese firms and especially Chinese investments are perceived in the West.

2. The Perception of China's Technological Development and Its Growing Economy – Literature Overview

When we just go back a few years, the capability of the Chinese firms to innovate was generally evaluated as very low in the West, and the widespread skepticism about the innovative nature of Chinese enterprises dominated the literature. Despite this fact, the Chinese outward investment soared significantly in the early 2000s and peaked in 2016, just a few years ago, and the assumption that the Chinese were unable to innovate was pointed out in the literature. Abrami, Kirby and McFarlan (2014) explained it this way:

> Certainly, China has shown innovation through creative adaptation in recent decades, and it now has the capacity to do much more. But can China lead? Will the Chinese state have the wisdom to lighten up and the patience to allow the full emergence of what Schumpeter called the true spirit of entrepreneurship? On this we have our doubts. The problem, we think, is not the innovative or intellectual capacity of the Chinese people, which is boundless, but the political world in which their schools, universities, and businesses need to operate, which is very much bounded.

As we can see, they establish an alleged link between the capacity of societies to use and innovate new technologies and the nature of their

political institutions. In other words, in their opinion, the rapid technological development ultimately requires the introduction of Westminster-type democratic institutions,[1] though the amazing speed of the Chinese technological development contradicts this assumption. (At this point, it is worth underlining that the paper does not intend to specify and describe this technological development in detail; however, given the fear expressed in the American and in several European countries' foreign policies, we take them for granted.)

By referring to Mao's ideas on scientific and technological advancement, Gewirtz (2019) explains on the one side how deeply technology is embedded into the Chinese economic development strategy and on the other side, he argues, there is a strong link between the technological strengths and geopolitical power:

> He [Mao] envisioned the socialist world's "overwhelming superiority" in science and technology and came to see technological strength as central to economic, ideological, and geopolitical power – the view of catch up and surpass that CCP leaders continue to hold today.

He is certainly right about the existence of the link, however, casualty matters, since in many interpretations, the underlying idea is that Chinese investments throughout the world are motivated by ideological reasons and the acquisition of advanced technology (f. ex. in Europe) serves the purpose of extending geopolitical power and strengthening the ideological superiority of the Chinese model. These ideas can be only corroborated if we could prove that Chinese investments ignore the aspect of profitability. And there is a flaw in the logic too: only the technological strengths of a country can lead to growing geopolitical power, not the other way around.

In some cases, critical remarks contradict each other. Gewirtz points out the problems of the top-down, CCP-led technological innovation, while he also finds that Chine swiftly could move up in the value chain:

> But China has quickly moved up the value chain, creating world-class industries in everything from 5G and artificial intelligence to biotechnology and quantum computing. Some experts now believe that China could unseat the United States as the world's leading technological force. And many U.S. policymakers view that prospect as an existential threat to U.S. economic and military power.

Later, he says:

> Top-down, CCP-led technological innovation brings its share of challenges. Many observers correctly cite the risks of misguided government-steered investment, which has led to waste and massive oversupply, or the challenges of supporting small entrepreneurs and researchers without heavy-handed interference.

Not only that these ideas oppose each other, but each argument needs some substantial amendment:

(1) The criticized top-down technological innovation is not a novelty. The Asian development state model has the heavy intervention of the state at its core. Japan, South-Korea, and Singapore implemented a very similar approach and policies in this field.[2]
(2) The assumption that China's rise is a threat to the West is flawed, since neither the Chinese have relevant geopolitical interests in Europe, nor the European countries in Asia. The development of trade and investment are the channels where they have common

> interests. In contrast to this picture, the US and China have significant conflict of interest in the Asia-Pacific region. In other words, the rise of China is much more a threat to the US, than to Europe. (Even in the American and Chinese case, the development of trade and investment would be a common interest, … at least in theory.)

To sum it up, it is rarely emphasized that European and American interests – despite being allies as NATO members – are not the same and can contradict each other in China's case. It must be added that this is not only because of geopolitical considerations, but sometime due to a different market position of their firms. The fiercely debated case of Huawei has different dimensions in Europe. Goldman (2019) maintains that the European competitors simply do not have the necessary capacity in terms of research to compete with Huawei and the end-products of Ericsson, Nokia, and Huawei are so intertwined that banning Huawei from the Single Market would affect European costumers and put the development of the 5G technology on halt for a few years, causing significant damages to Europe.

In general, it can be emphasized that Europe needs a more nuanced China-strategy than the US has developed recently and has tried to force European allies to follow its lead. Zhenglein and Holzmann (2019) put it this way:

> Compared to a geographically distant Europe, China's immediate neighbors are already experienced in dealing with China. Europe can learn from this approach and their experiences. China's East Asian neighbors must manage a far more sophisticated set of challenges: they depend strongly on China economically and at the same time need to consider issues of national security. This is reflected, for

> instance, in a restrictive approach to investments from and research cooperation with China. Compared to Europe and the US, Chinese investment flows with East Asian countries are largely a one-way street. Taiwanese and Japanese investment in China is 26 and 35 times larger, respectively, than Chinese investment in both countries.

As we could see in this paper, opinions and assessments of how Chinese investments impact the European markets are divergent, and no mainstream flow of ideas can be observed, in some cases contradicting ideas are being utilized to feature the growing Chinese economic presence in Europe. Based on the literature overview and our assessment, we can formulate the following basic statements as for the nature of the growing activity of the Chinese firms:

(1) European countries and China do not have basic conflicts of a geopolitical nature; however, this kind of tensions and problems is palpable in the American and Chinese relations.
(2) It is argued sometimes that European NATO countries are allies of the US. This argument fails to recognize that the NATO was not only established for self-defense purposes, but even that it is restricted geographically. See the article 6 of the NATO treaty![3] In other words, any kind of American and Chinese disputes – especially the so-called trade war – does not require Europeans to side with the Americans.
(3) At the same time, European countries and China have conflicts of economic nature, which can be more easily solved than geopolitical problems. Nowadays, it has become clear that Chinese firms have the capability to come up with genuine ideas and products, and they also have the financial means to put them on the market and sell them.

(4) Technological development along with the interventionist economic development policy can put European firms under pressure, forcing them to adjust to the new conditions. At this point it must be added that an industrial policy in the Single Market would be the proper answer to the Chinese challenge, though given the political conditions the launch of an industrial policy seems to be very unlikely.

(5) Multinational companies have naturally developed by internationalizing and going abroad, as the Chinese firms have done in the recent years, the only difference being the strong state leadership in this process; however, this again is not new in Asia, since countries such as Japan, Korea, and Singapore used the same tactic in the 70s, 80s and 90s (see the literature on the Asian development states.) However, there are two differences in the recent process: (a) the magnitude of this internationalization stage, completely transforming the world economy, creating new challenges to both European and American firms; (b) the fact that this rapid change was triggered by a state-led economy perplexes the ideologically biased observers who do not question the efficacy of the existing Western model.

3. Chinese Investments in the European Markets

Chinese investments peaked in 2016, since then significant decline characterized the market. The total value of Chinese investment transactions totaled to 17.3 billion Euro in 2018, which is less than half of the 2016 sum (37 billion) (Hanemann, Huotari and Kratz, 2019). In 2018, the bulk of Chinese investments flowed into the United Kingdom (4.2 billion Euro), Germany (2.1 billion euro) and France (1.6 billion Euro). As a result of these trends, we can point out four European

Table 1 Chinese Investments in Europe between 2000 and 2018

Country	Billion Euro	Country	Billion Euro
United Kingdom	46.9	Poland	1.4
Germany	22.2	Denmark	1.2
Italy	15.3	Austria	1.0
France	14.3	Czech Republic	1.0
Netherlands	9.9	Romania	0.9
Finland	7.3	Malta	0.8
Sweden	6.1	Bulgaria	0.4
Portugal	6.0	Croatia	0.3
Spain	4.5	Slovenia	0.3
Ireland	3.0	Cyprus	0.2
Hungary	2.4	Estonia	0.1
Luxembourg	2.4	Latvia	0.1
Belgium	2.2	Lithuania	0.1
Greece	1.9	Slovakia	0.1

Source: Hanemann and Huotari and Kratz (2019: 12).

countries where most of the Chinese FDI poured into. Between 2000 and 2018, the UK received 46.9 billion Euro. During the same period, Chinese firms invested 22.2 billion Euro in Germany, 15.3 billion Euro in Italy and 14.3 billion in France (see Table 1). The decline of Chinese investment in Europe has several explanations:

(1) **Brexit.** Since most of these investment transactions were related to the United Kingdom, the Brexit and the surrounding uncertainty

must have made the Chinese investors more cautious than before, and the question of how British firms will have access to the Single Market after Brexit left some investors doubtful.

(2) **Trade war.** The trade friction between the US and China dampened the mood in the world markets. Since success in the negotiations cannot be predicted due to the negotiation strategy of the American president, the confidence in every sector seems to be weak. (In August 2019, he attacked the Chinese president as the "enemy" in a Twitter post, then just a few days later he called President Xi "the great leader".)

(3) **German fears.** The backbone of the Germany industry is the automotive industry, which is caught up in a transformation process, challenging the flagships of the Germany economy. And we can also add that new technologies (digitization, Internet of things, 5G communication etc.) are about to transform economies around the world, and the transformation process has winners and losers as well. The German economy built around the technologies of the later 20th century does not seem to be fit for the challenges which can be already observed in the newest data, which makes Chinese investors uncertain and at the same time German politicians seem to be more worried about foreign acquisitions in Germany.

(4) **The adoption of an FDI screening EU regulation.** It is most likely that German fear contributed to the proposal of the European Parliament in 2017, which suggested drafting an EU directive to strengthen the screening of third countries' foreign direct investments. The Regulation (EU) 2019/452 establishing the framework for the screening of foreign direct investments into the Union can be featured this way: (a) Until now, the EU did not have any regulation for this purpose, though other countries have frequently used this policy tool. (b) The regulation only sets up a

cooperation mechanism; the real screening mechanism must be established on member state level, according to the country's economic development needs, thus decisions are kept on member state level too. (c) The regulation does not apply to procurement transactions, and it can only be utilized based on security and public order concerns. (d) The cooperation mechanism will apply from October 2020. (European Commission, 2019a)

To this date, the following countries implemented a screening mechanism: Austria, Denmark, Finland, France, Germany, Hungary, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Spain and the United Kingdom. As it can be seen, all four main FDI recipients – the UK, Germany, Italy and France – are among those countries setting screening up, thus it can be assumed that the EU regulation is most likely to exert significant effects on Chinese investments.

The European Commission published a report on the foreign direct investment in the EU this year (European Commission, 2019b). In the report, the European Commission pointed out the increase of investment from China and Russia, along with the surge of state-owned enterprises' acquisitions in the EU. Though 80 percent of FDI still comes from the traditional main investors (the US, Japan, Canada, Australia, Norway and Switzerland), the report raises alarm about the share of Chinese SOEs in the foreign direct capital flows:

> While state-owned companies represent only a small proportion of foreign acquisitions, their share in the number of acquisitions and their assets have grown rapidly over the latest years. Russia, China and the United Arab Emirates stand out in this respect with a total of 18 acquisitions in 2017, three times more than in 2007.
>
> (European Commission, 2019b: 2)

At the same time, the same report also acknowledges that just 3 percent of the assets in the EU were held by non-European investors in 2016, and the share of the US, Switzerland, Norway, Canada, Australia and Japan in foreign-assets was 80 percent!

It is difficult to assess how the European enterprises will be influenced by Chinese investment. Zenglien and Holzman (2019) try to summarize the effects this way:

- The ability to offer more competitive prices for technology that might not be top-notch but that is good enough will put pressure on European companies in a broader set of industries, also in third markets.
- Companies have started to divert R&D to China, especially in emerging industries. Europe will feel the heat of this shift: Carmakers like BMW, VW and PSA have already opened up facilities for electric vehicle R&D in China.
- Fierce competition from Chinese companies might erode the profitability of European companies and limit their ability to fund R&D. This could slow innovation in Europe, allowing Chinese companies to close existing technological gaps at an even greater pace.

(Zenglein and Holzmann, 2019: 13-14)

This evaluation emphasizes the adverse economic effects; however, it immediately also points out that they mainly derive from weak competitiveness of European firms in certain economic factors.

Growing uncertainties (trade war, Brexit) might have been the main cause for the decline of the Chinese investments in the EU, which might have been exacerbated by the media too in recent years. At this point it

is worth pointing out that media voices and opinions were not necessarily implemented by European decision-makers and the adopted EU cooperation mechanism to strengthen FDI screening will not be a significant barrier in the way of Chinese direct investment; however, country-level restrictions can be. The basic question is how the main countries implement the screening tools. The next section focuses on how the UK, Germany, France and Italy evaluate these investments.

4. Member States Level Screening Mechanisms and Attitudes toward Chinese Investments

4.1. The United Kingdom

In the United Kingdom, the Enterprise Act 2002 regulates the screening of foreign direct investments (Tauwhare, 2018). Based on the act, the minister can intervene if necessary based on national security, financial stability and media plurality concerns. But the intervention is only possible if the annual turnover is more than 70 million Pound and/or the acquired enterprise has 25 percent or larger market share. The very liberal approach to foreign direct investment was changed when the UK government published its White Paper on this matter in 2018. The triggering point became the case of the Hinckley nuclear power station, where the Chinese firm, the China General Nuclear Power Group became part of the funding. In this case, the government voiced concerns that it did not have the legal power to screen the involvement of the Chinese firm on security grounds (Bell, 2018, August 2). For a while, then Prime Minister Theresa May delayed the approval of the project but since then green light was given to the Chinese involvement.

In 2018, the government introduced reforms allowing to scrutinize deals of a much smaller value (1 million Pound). The proposals of the UK government came from a Green Paper commissioned by the

Department for Business, Energy & Industrial Strategy. The amendment of the Enterprise Act 2002 clarifies what the government understands by the notion of "relevant enterprises". These firms are those involved in "military or dual-use goods that are subject to export control; computer processing units; and quantum technology." (Bell, 2018, May 17)

Despite the fact that the United Kingdom has traditionally one of the most liberal approaches as for foreign direct investment in the world, the public mood has changed over the course of the recent years. The same public mood led to the withdrawal of the United Kingdom from the European Union; the referendum held in 2016 reflected the rise of populism in the British politics. Since then, the political spectrum became more nuanced and complicated, because the traditionally main parties (the Labour Party, the Conservative and Unionist Party) lost support among the voters while left-wing and right-wing Euroskeptics became stronger. The Brexit referendum and the ensuing political chaos put the drafting and the implementation of every long-term political and economic strategy in the United Kingdom, including the China-strategy of the UK, on hold.

The last visit paid by a British Prime Minister was Theresa May's trip to China in 2018, which followed Xi Jinping's UK visit in 2015, when the two countries launched their "*China-UK global comprehensive strategic partnership for the 21st century and the Golden Era of China-UK relations*". Though since the "*Joint UK-China strategy for science, technology and innovation cooperation*" was launched then, Theresa May did not endorse the Belt and Road Strategy formally, suggesting the country still has concerns about China's political objectives (*The Guardian*, 31 January 2018).

Table 2 Sectoral Distribution of Chinese Investment in the United Kingdom between 2005 and 2018

Sector	$ million	Share (%)
Finance	17.940	21.2
Real estate	15.940	18.8
Logistics	13.790	16.3
Energy	9.440	11.2
Technology	6.480	7.7
Tourism	5.100	6.0
Agriculture	4.130	4.9
Entertainment	3.620	4.3
Transport	3.320	3.9
Health	1.950	2.3
Metals	1.790	2.1
Utilities	1.120	1.3

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

According to the Global Investment Tracker, Chinese firms invested around 86 billion Dollar in the United Kingdom between 2005 and 2018, which makes Britain the top target country of Chinese investment in Europe. If looking at the distribution of these investments, it seems to be clear that Chinese investments' motivation is mainly profit, since they heavily invest in strategically less important sectors and technology-orientation cannot be pointed out as mainstream.

At the same time, the traditionally strong sectors were targeted by Chinese firms – finance and real estate. The Chinese Investment

Corporation (CIC) invested substantial funds into one British firm in logistics (Logicor), which is relevant in international trade. The involvement of Chinese firms in the energy sector is substantial; however, it must be added that these transactions rarely led to significant stocks in strategically important firms. (The 1 percent ownership in BP cost the Chinese firm SAFE 2 billion USD, which was almost half of the Chinese investment pouring into this sector.)

To sum it up, the investment climate does not seem to be favorable for Chinese investments now in the UK, though the legal framework is liberal, which does not create sectoral barriers to foreign investment entry, in particular to technology investments. We can admit that at this point the end of the Brexit cannot be predicted and that is the reason why the way of how Britain leaves the EU might change the incentives for Chinese firms to invest in UK's technology firms substantially.

4.2. Germany

Between 2000 and 2018, Chinese firms invested around 22 billion Euro in Germany. Though these investments are significant, they are not if looking at the investments of Germany's main partners. According to Santander data, China cannot make to the group of the top ten investors in Germany.

Like the UK, the German legal framework for foreign direct investment screening is liberal. Although the government can check investment projects in sensitive sectors, however, this kind of validation is not typical.

The German government adopted a new version of the German Federal Act on Foreign Trade and Foreign Ordinance, which became effective in 2013. Based on the new legal framework, the Ministry of Economics and Technology can review and prohibit an investment if the buyer is not located in the EU. The Ministry can investigate the

investment; if the acquisition of voting rights in the firm is about at least 25 percent, it is very important to highlight that not only the direct but the indirect participation of at least 25 percent of the voting rights can be screened and prohibited by the Ministry. Moreover, this same law can be applied if the foreign buyer already owns a firm with at least 25 percent participation located in Germany and this firm acquires a third company in Germany.

However, only foreign participation as criterion is not enough to apply this law; the transaction must involve the aspect of the endangerment of the public order or security as well. According to the law,

> the transaction must either affect material legal interests such as the existence, function and supply of the German population, or substantive issues regarding national and international security, in particular the operation of the German economy, German institutions, important public services and the survival of the German population.
>
> (Engelstaedter and Gernoth, 2014)

As we can see technology-related issues are not mentioned in this description, but the sentence allows for a flexible formulation.

The review process must start within a three-month period after closing the deal. After receiving the needed information and documents from the foreign buyer, the Ministry has maximum two months to conclude the screening process. On the one hand, the buyer is not obliged to inform the Ministry about the deal but on the other hand, it can request a clearance certificate from the Ministry that the transaction does not present any threat to public order or security. After receiving the certificate or the two-month investigation period, the transaction cannot be banned by the Ministry.

Table 3 Sectoral Distribution of Chinese Investment in Germany between 2005 and 2018

Sector	$ million	Share (%)
Transport	17020	40.4
Real Estate	6460	15.3
Technology	6010	14.3
Finance	3710	8.8
Energy	3640	8.6
Other	2410	5.7
Health	1260	3.0
Metals	680	1.6
Logistics	440	1.0
Utilities	220	0.5
Transport	130	0.3
Entertainment	110	0.3

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker <https://www.aei.org/china-global-investment-tracker/>*.

If looking at the data, we find that the pattern of Chinese investments in Germany is very different from the British one, where finance, logistics and energy sectors dominated the landscape. In Germany, Chinese firms mainly invested in the transport sector which practically means investment in the technology-intensive automotive firms (see Table 3). More than half of the 17 billion USD was concentrated on the 10 percent share acquisition in Daimler (9 billion USD). A similar concentration is to be observed in the technology sector, where 77 percent of the funds spent in this sector was used to

purchase the KUKA firm, specialized on industrial robots.

This later acquisition of the Chinese firm Guangdong Midea was the acquisition that drew media attention and became fiercely discussed in Germany. *The New York Times* (16 September 2016) summarizes the story this way:

> In Germany, the takeover of Kuka — frequently cited by politicians as emblematic of the country's future economic development — has drawn particular attention. The economics ministry examined the takeover of the company by Midea Group in China, which already owns 95 percent of Kuka shares, but eventually decided the deal did not meet the strict criteria for a formal review.

The concentration of Chinese investments on two key economic sectors in Germany (automotive and technology) is one of the main concerns of German politicians; however, there are two arguments to add to this picture:

– Germany's performance is excellent at traditional technologies; however the country lags front-runners in digitalization, technologies related to big data, Internet of things etc. That is probably why Chinese investment hurts the German industry that much, and German firms that happen to be the best German firms in these new technologies.
– Ironically, what happens to the German industry now (new foreign capital, technology infusion, and firms entering the German market) is very similar to what took place in Eastern Europe two decades ago, when German firms were the foreign buyers. The Eastern European countries benefited from this process; that same thing could happen to the German economy as well.

Basically, we can argue that the German perception of China's role in the foreign policy is multi-layered. Since they perceive China as a key partner in trade, China is being assessed as key target country of German direct investments and yet, Germany is reluctant to recognize the role Chinese firms could play in the German economy. At the same time, we must point out that the frequency of how often the German chancellor visits China clearly shows that the German political elite is aware of China's economic relevance to the German industry too. To the external observer, the obvious solution seems to be strengthening the trust between the two partners and then building business upon the mutual understanding of each other's aspects and interests. In our understanding, Italy tries to implement a similar approach to China and its technology firms in Europe.

4.3. Italy

Italy is the only country in this group which joined the Belt and Road Initiative. The memorandums of understanding signed by the partners in April 2019 were wide-ranging, covering the banking sector, logistics (ports), agriculture and construction. We can raise the question why Italy's approach widely differs from other European countries' line. There are four basic answers to this question:

– Italy's economy has not improved too much since the Global Financial Crisis hit the country. The permanent government crisis coupled with high public debt, the traditional North-South divide and the problems of the banking system make Italy extremely vulnerable and can make the country the center of a European crisis, thus the country – similar to the Eastern European countries – needs capital import and new technologies.

– Since the Italian economy specializes less on the development of cutting-edge technologies, Italian firms in general are no front-runners in this area, fears of Chinese firms "stealing" Italian technology are not widespread among Italian decision-makers.
– Italy traditionally has been recipient of FDI – in contrast to Germany, the United Kingdom and France – thus the public opinion and the decision-makers are more willing to accept and recognize the need for capital import.
– Italian politicians recognized that while in South Europe there is need for economic incentives but the maneuvering room is minimal, in North Europe there is still maneuvering room for economic stimulus, but the economy policy does not want to use this tool. In other words, they cannot expect the rescue to come from the North, since North European countries seemingly do not want to expand their aggregate demand – in line with the German economic policy, thus Italy must look for other markets. This need was pointed out by Luigi di Maio, Italy's minister for economic development, who after signing said Italy's goal was "rebalance an imbalance" in trade. (*EuroasiaTimes*, 24 March 2019)

Though the Italian stance on foreign direct investment is more liberal than the German one, the Italian government adopted the so-called Decree Law Number 22 that significantly extended the power of the government, thus the laxity (entered into force on 25 March 2019) in declaring 5G technology strategic. It requires an ex-ante notification of any contract/agreement related to design, construction, maintenance, management of the 5G network if foreign entities (outside the European Union) are involved. The government can either prohibit the transaction or require certain conditions from the involved parties. (Giarda, 2019)

The general FDI screening mechanism is provided by the Decree Law No. 21 of 15 March 2012 in Italy. Scassellati-Sforzolini and Iodice (2018) maintain that after the six years of application, the law did not deter foreign firms to invest in Italy. As a rule, the following sectors are considered strategic: defense and national security, energy, transport, communications or high-tech are subject to a prior review procedure mentioned above (*ibid.*).

According to Hanemann *at al.* (2019), Chinese firm invested 15.3 billion Euro between 2000 and 2018; thus Italy ranks as the third in the European Union. The Global Investment Tracker publishes Chinese investment data between 2005 and 2018; according to these data Italy's ranking is slightly worse, seeing as it ranks the fourth. Based on this data set, we can also see the sectoral distribution that might give us a clue about the motivations[4] of Chinese investments in Italy (see Table 4).

In contrast to Germany and the United Kingdom, the real estate and logistics sectors are under-represented in the statistics, which is most likely to change after signing up to the Belt and Road Initiative. The bulk of the transport sector investment (8.6 billion Dollar) comes from one investment transaction (Pirelli – 7.8 billion Dollar). In the technology sector, again one Huawei investment dominates the picture, but in this case the acquisition of Vimpeo stocks did not lead to significant Huawei ownership share in the company. The second most import target sector of Chinese investors has been the energy sector between 2005 and 2018, where the biggest investment was carried out by the Chinese State Grid and SAFE (both transactions' value was 2.7 billion USD).

In Italy's case, it is more difficult to discern patterns or trends in Chinese direct investment. We assume that logistics and real estate will be more present in the data, since the first sector is important due the country's geographical location, and the second can be more important,

since the country being a top tourist target can easily attract real estate investors, though we do not think that technology segment will ever be as strongly targeted as in the German case.

Table 4 Sectoral Distribution of Chinese Investment in Italy between 2005 and 2018

Sector	$ million	Share (%)
Transport	8600	35.0
Energy	6480	26.4
Technology	4040	16.4
Finance	2810	11.4
Entertainment	840	3.4
Others	790	3.2
Health	720	2.9
Logistics	200	0.8
Real Estate	87	0.4

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

4.4. France

France has been a case of tightening rules of FDI screening in recent years; however, this is the only country where the new measures do not necessarily have an anti-Chinese tone, but they also react to American acquisitions to the same extent.

The first law empowering the French government to adopt and implement specific regulations as for foreign direct investment was the 1996 French law on foreign exchange. This act was amended, and the

Law No. 2004-1343 was adopted in December 2004. This version of FDI screening allowed for policing FDI in certain business sectors. The latest evolution on the legal framework was the Decree No. 2014-479, extending the authorization of the government. At the same time, we must point out that this tightening most likely was not the last step in this direction.

The French government discussed a business bill autumn 2018 that proposed to widen the scope for government and increased the usage of the so-called "golden shares".[5] According to the proposal, those firms not seeking ex-ante approval in strategic sectors could be fined as high as 10 percent of the company's annual revenue, the Reuters (19 July 2018) stated.

Ultimately, the government adopted the decree No. 2018-1057 on 29 November 2018; once again the scope of FDI screening was widened to include the next sectors:

– space operations;
– cybersecurity;
– artificial intelligence;
– robotics;
– semiconductors and additive manufacturing;
– data hosting;
– systems utilized for capturing computer data or intercepting correspondence;
– IT systems for public authorities in the field of national security;
– information systems utilized in crucial industries;
– research and development of dual-use goods and technologies.

(UNCTAD, 2018)

As this specialization shows, the decree specially targets technology-intensive sectors. When it comes to the public mood for foreign direct investments, it must be clear that the trend of tighter FDI screening rules is part of the bigger picture, and the result of a different economic policy in France. The French president, often praised as a globalist, clearly wants to strengthen the EU and represent Europe with one voice. This was his attitude regarding the Belt and Road Initiative too. He argued, the EU should implement a coordinated approach and negotiate with China about the terms of BRI. At the same time, when the Chinese president visited France in 2019, he signed a 30 billion Euro deal with China about the sale of Airbuses.[6] This sharp contradiction between rhetoric and action was pointed out by Koenig (2019):

> Yet, surprise-surprise! On President Xi's next stop, Paris, coming from Italy, Macron rolled out the red carpet for the Chinese President and, according to RT, went on to sign billions worth of new contracts with the Asian leader. If this looked like a Macron U-turn, it was a Macron U-turn.

As we argued in the abstract, we analyze these processes on country-level, since attempts to implement coordinated approach in issues where country interests are different tend to fail. Economic benefits of the cooperation with China matter in the long run; however, countries such as France and Germany have more to lose in this process than Italy, which is much more reliant on external financing, or the United Kingdom, whose economic competitiveness is very much dependent on the outcome of the Brexit story.

Table 5 Sectoral Distribution of Chinese Investment in France between 2005 and 2018

Sector	$ million	Share (%)
Energy	6600	25.7
Tourism	6540	25.4
Technology	3370	13.1
Transport	2540	9.9
Other	2400	9.3
Agriculture	1650	6.4
Real Estate	1150	4.5
Chemicals	700	2.7
Entertainment	570	2.2
Health	190	0.7

Source: Own compilation based on American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

Looking at the sectoral distribution of Chinese investment, energy and tourism sectors stand out as the main targeted industries. In tourism, the Accor and Auchan deals made up 54 percent of the transaction value in this sector, and in the energy sector only 2 transactions meant 90 percent of the aggregate value (see Table 5). In France, like Germany and Italy, investments are concentrated very much, and they target sectors in which the country is traditionally strong and that probably is why we cannot say that Chinese FDI would focus on technology-intensive sectors.

5. Conclusions

As we could see in the analyses, the top three European destinations of Chinese FDI strongly differ in their interests. Though the stance on Chinese FDI and the legal framework has been toughened in the UK in recent years, the uncertainty caused by the Brexit will sooner or later require a more sophisticated approach from the British, even though the pressure of the American foreign policy would tell British decision-makers differently. In the case of the United Kingdom, we cannot see why and how investment would be more difficult for Chinese tech firms than any other types of firms; however, given the traditionally strong link between the US and the UK, it would not be surprising that the US would exert strong influence on British decision-makers. What might be advisable is to show gestures to the British in the period after the Brexit, creating more trade opportunities with China and weakening up the British approach to Chinese investments.

Germany provides the Chinese investors with the toughest legal framework, and Chinese investments face the greatest challenges here, though we must also point out that the strategic benefits of the investment can be the biggest here, since the acquired companies in the transport and technology sector are front-runners and highly competitive in the international market. The fact that the German chancellor maintains regular contact with Chinese decision-makers is positive, and it shows the practical attitude of the German politics; however, as said before, the benefits of this cooperation will be clear for the German leadership when trade will become more balanced between the two countries.

In France, the picture is very similar as for the economic effects of Chinese investments, though the political approach is very different. The confrontative style of the French president creates a hostile environment, and at the same time, the rhetoric underlining European values and a

concerted European approach towards the Chinese stands in sharp contrast with actions, showing which negotiating strategy should be pursued by the Chinese. The French case is the only of the four analyzed countries, where hostility is directed against foreign investors in general, since the anti-American tone is equally as typical in these debates as the anti-Chinese investment comments.

Italy – in need of more capital and better technology – is apparently the country that could benefit most from the cooperation with China under the BRI framework. This is the country where the concentration of Chinese FDI is the highest regarding sectors, and maybe the one where Chinese capital is needed the most. At the same time, that is the only legal framework in the four countries, where special attention is paid to 5G frameworks.

Legal frameworks across the analyzed countries have been changing from a more liberal approach to a more sophisticated one, which can be assessed as more suitable for their economic development goals and national interests; however, one must ask if the strategic decisions are made without ideological bias and with reference to national interests. Because on the other side, less globalization would hurt global growth in the medium and long term, and thus not improving economic ties with China would be a strategic failure, since these countries do not have profound geopolitical conflicts. Pieke (2019) argues that:

> Europe needs to disentangle itself from this spiral of aggression driven by binary, winner-takes-all perspectives. As it does not aspire to be a superpower, Europe can deal with Beijing with more nuance than the US – China is indeed a threat in some areas but remains a positive force in others. This is not an economic or a military challenge – it is a political one. How does Europe decide what to share and withhold? It needs to answer that question – not isolate China.

Table 6 Characteristics of Chinese FDI and the Legal Framework

	France	Germany	Italy	United Kingdom
FDI screening adopted?	Yes	Yes	Yes	Yes
FDI screening's legal framework changes recently? When?	Yes, 2018	No, 2013	Yes, 2019	Yes, 2018
Any discernible pattern in Chinese investment?	Yes	Yes	No	No
The two main targeted sectors	Energy, tourism	Transport, real estate	Energy, transport	Finance, real estate
Aggregate share of the targeted sectors within the Chinese direct investment	51.1%	55.7%	61.4%	40.0%
The aggregate value of Chinese investments in the countries between 2005 and 2018 (billion USD)*	25.77	42.09	25.35	87.45

Source: Own compilation; *American Enterprise Institute, *China Global Investment Tracker* <*https://www.aei.org/china-global-investment-tracker/*>.

Notes

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1. This is a very old argument. Lipset (1959) was the first social scientist who connected economic success to democratic pluralism, thus provoking debate, which has never subsided since then. A modern version of this argument is to be found at Ferguson (2011) who summarizes all these important elements of (West European) success under six headings: competition, science, property rights, medicine, the consumer society and the work ethic (Ferguson, 2011: 12).
2. The Chinese economic model is unique because of its size. The country's historic development, however, does bear strong resemblance to the original developmental states model of the advanced Asian economies. The model can be efficiently utilized when depicting the Chinese economy, and

the resemblance is more striking if considering how much the world economy has changed over decades. Therefore, in our understanding, the Chinese economy can be considered a special case of the developmental state in the 21st century. The differences between China and the three analyzed Asian economies would be not outstanding if one did not consider the freedom of maneuvering room for economy policy which comes from the size of the economy. (Moldicz, 2018)

3. "For the purpose of Article 5, an armed attack on one or more of the Parties is deemed to include an armed attack: on the territory of any of the Parties in Europe or North America, on the Algerian Departments of France on the territory of Turkey or on the Islands under the jurisdiction of any of the Parties in the North Atlantic area north of the Tropic of Cancer; on the forces, vessels, or aircraft of any of the Parties, when in or over these territories or any other area in Europe in which occupation forces of any of the Parties were stationed on the date when the Treaty entered into force or the Mediterranean Sea or the North Atlantic area north of the Tropic of Cancer." (*The North Atlantic Treaty*. Washington D.C. - 4 April 1949)
4. Le Corre and Sepulchre (2016) name the next basic motivations of Chinese firms to invest in Europe: (1) they argue that Europe is less politicized than the US; (2) Europe needs Chinese capital more than the US. As for their investment strategies, they point out the next version: (1) the desire to go from cheap products to more sophisticated goods and services; (2) the desire to diversify "out of the low-margin Chinese market into higher-margin foreign ones"; (3) the goal to acquire technology to strengthen their domestic and international position; (4) the goal to serve Chinese costumers better in Europe, typical in the hospitality industry; (5) the intention of big state-owned enterprises (national champions) to expand internationally and enter into positions of global market leadership.
5. Golden share is share held by the government which can outvote all other shares under certain circumstances.

6. 290 planes from A320 Family aircraft and 10 planes from A350 XWB Family aircraft.

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