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On Sino-European Investment Relations:
Exploring the impact of a European FDI regulatory shift on the footprint of Chinese investors in the EU

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Glossary

FDI - Foreign Direct Investment
IFDI - Inwards FDI
OFDI - Outwards FDI
SOE - State-Owned Enterprise
R&D - Research and Development
R&I - Research and Innovation
S&T - Science and Technology
EC - European Commission
M&A - Mergers and Acquisitions
BIT - Bilateral Investment Agreement

Abstract

Recent years have seen a shift in the European attitude towards IFDI, both on a Member State's dimension as on a macro, EU institutional dimension, leading to harsher regulatory trajectories being taken. Some hold that Chinese FDI in the Union has been the main perpetrator of this attitude and regulatory shift. This paper correlates the various dimensions of concern to offer the reader a synoptic but global view on this issue affecting the EU as a whole. It tries to ascertain the possible implications for both regions and, more specifically, to what extent may this trend be related with the changing footprint of Chinese investors in the EU, noticeable from recent years' data. The report argues that the recent crash in Chinese FDI to the EU is mildly related with the regulatory environment now enveloping the region, and, because the desire to invest can be seen to remain in Chinese investors, negotiations and agreements between the parties will now be more likely to happen.

Keywords

Business-government Relationships, China, European Union, FDI, SOEs, EU Regulations, FDI Screening

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Introduction

Since the early 2000s, Chinese companies have been investing abroad much more actively than in their past, benefiting from China's booming economy and Beijing's expansionistic 10th 5-year plan. In Europe, this trend has been particularly evident in the aftermath of the European debt crisis[1], from when financially weak companies and strategic state assets began to be acquired more frequently by Chinese players throughout the EU. In turn, this influx of acquisitions triggered many European voices to rise in concern, with some saying that Beijing's goal is to expand its domain by acquiring new brands and technology via companies often assisted by state-run banks and sovereign funds, while others fear the loss of intellectual property, leading technology and respective competitive edge[2], national security, and public order. Because "China operates on a state-led economy" (Wu 2019, 45), the inherent ideological differences with the EU have led to an environment of mistrust and fear. These differences have promoted, via regulations, a climate of asymmetrical market access[3] and a capital advantage of Chinese SOE's in both regions[4]. A Bilateral Investment Agreement[5], which has the potential to solve the issue, has since 2013 been in negotiations but was not yet reached.

As a result, heads of state such as the French President Emmanuel Macron and the German Chancellor Angela Merkel have been campaigning since 2016 for a fiercer strategy to deal with China's gradual penetration into the Union's economy. In 2018, a Common European Framework for Screening FDI (Zeneli 2019) was proposed by the European Commission[6]. Margrethe Vestager, European Commissioner for Competition, said in 2019 the EU was considering new tactics to moderate *unfair Chinese competition*. A proposal from the Netherlands called for more transparency about foreign firms' operations in the EU and for a revision of the EU competition law. A plethora of other examples of this trend is a simple

online search away. While these concerns, related with sudden spikes of IFDI, are no novelty for the EU[7], this time governments appear to be taking more action than ever before.

Related or not, Chinese investment from SOEs fell to 11% of China's aggregate investment in Europe in 2019 (Karindi 2020), the lowest percentage value since 2000[8]. And while total Chinese equity investments fell, non-equity types of activity such has R&D partnerships and institutional R&I joint programs[9] have become a substantial dimension of China's economic engagement with EU members and other OECD economies (Kratz et al. 2020).

Is the landscape of foreign investment in Europe, specifically from China and its SOEs, changing? If so, why? And can it be explained considering the changing EU regulations? The aim of this project is to advance a theoretical debate about the implications of regulations on FDI by shedding some light over these questions[10] via a transparent and fact-based approach, leaving behind any geopolitical convictions, and particularly investigate the relations between those Chinese FDI trends and the recent shift in attitude from some EU members concerning IFDI[11]. This shall be accomplished by reviewing literature of other authors on these topics, compiling and analysing data on Chinese FDI in Europe from past years and relating it with events concerning EU FDI legislation, thus building on existing knowledge with the most recent data available. Investment policy is one of today's leading *geoeconomic* instruments[12] (Blackwill and Harris 2016) and decisions taken by officials or patterns created by investors' actions can shape the future of business in and between the regions, making the project proposed above highly relevant in determining the future of Sino-European investment relations and thus the fate of companies operating between the geographies.

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I – Regulatory Shift

A) Outline of geopolitical tensions from the EU

Annual Chinese investments in the EU-28 have grown from 700 million euros in 2008 to 35 billion in 2016 (Hanemann and Huotari 2018, 10), and while some governments and politicians in Europe show excitement upon this trend, others have shown concern for security, moral and economic reasons, stating that there is a possibility for negative economic and social outcomes being born out of such an investment streak, especially when referring to investments from China's large state-owned enterprises. While it can be argued that these politicians are in a sense exaggerating with their psychological anxieties and economic concerns (Cuervo-Cazurra 2018), speaking from a biased mindset about FDI from SOEs and emerging markets, the reality is that their actions have led to a regulatory shift in the EU regarding the way foreign investments are filtered and accepted. While in the past the EU was one of the most open economies in terms of foreign access to business (Wu 2019, 8), it is slowly but surely becoming more protective of its assets. As stated in the introductory remarks, it is the purpose of the present report to investigate the possible outcomes of this regulatory shift and analyze its impact in the recent (from 2017 onwards) behavior of Chinese private and institutional investors in the EU. The first part of this study shall therefore showcase, via literature review, what is meant by regulatory shift and why it is an increasingly relevant subject vis-à-vis FDI in Europe, what has led to it in the first place – from an EU macro level and briefly from a country-level perspective – and what possible consequences can it have on foreign investment flows into the Union.

Because this report specifically focuses on investments coming from China to the EU, it is important to notice that, although SOEs have been discussed in the public forum with bigger concern, it is difficult to precisely separate them from China's privately owned companies, since many "Chinese private firms (…) were partially privatized in the late 1990s and early

2000s but still retain strong connections to the Chinese government" (García-Herrero and Xu 2017, 10)[13]. For that reason, when discussing Chinese SOEs in the first part of this report, the reader should consider that the concerns raised by their activity in the EU do remain when discussing other state-related companies (which have deep ties with China's government and are therefore indistinguishable from SOE's in their perceived privileges over standard private companies)[14].

The reasoning behind these particular suspicions about SOEs from non-ally countries has to do with the views and the fears of politicians and government officials, believing that SOEs may receive special support from their home countries' governments. This is especially the case when these SOEs' domestic country is an emerging economy[15]. This support is, however, not necessary nor evident when dealing with SOEs from all around the world. In fact, some SOEs are very independent from their home governments whilst others are much more connected[16]. Despite its expected natural evolution into a more market-based economy, which should gradually clear these concerns over its SOEs, China has been identified by some as following the opposite trend in recent years, due to Beijing's "reversal of market-based reforms" and increased influence "on the corporate governance of SOEs, a hike in SOEs mega-mergers and a continuation of preferential treatment of SOEs", leaving the "conduct of SOEs [indeed] growing more problematic" (Business Europe 2020, 12).

Alongside the issue of special state support, the dangers that investments from non-ally countries' SOEs may present are usually broadly categorized in security, military, and moral hazards. Security issues are related with critical infrastructure and information from the recipient country[17]. Military concerns have to do with sensitive information and dual-use technology transfers that can help the SOE's domestic country enhance its military capabilities[18]. Moral concerns, finally, refer to issues about human rights, social and

environmental practices, and governance in the domestic country of the SOE which have not yet been addressed, especially in the case of developing countries[19].

Unreciprocated[20] technological transfer[21] is a fear that leads us to the next point. It is not a danger posed only or mainly by SOEs, particularly in the case of Chinese FDI, it is a transversal problem related with a government's grounded fear of losing its technological edge and economic competitiveness to an investing country, such as China, in the future. This reciprocity problem is many times mentioned when discussing Sino-European investment relations as one of the main drivers for these tensions with China concerning FDI (García-Herrero and Xu, 2017; Business Europe, 2020; Chan and Meunier, 2020; Hanemann and Huotari, 2018). While reciprocity is usually an essential concept in diplomatic relations, a lack of reciprocity does exist between China and the EU with respect to their openness to foreign investors. Beijing exerts a high level of control over many key industries and the overall economy, creating a problem difficult to overcome for investors from the EU (or any other region) seeking to invest in a Chinese company, entering a sector of the Chinese market or wanting to operate from China[22]. Apart from that, some key industries and assets are closed off to foreign investors from the start, and others require a national security review to be conducted[23]. Furthermore, these controls extend passed SOEs and those blocked strategic sectors, through branches of the economy such as financing institutions and the Corporate Social Credit System (CSCS), therefore reaching all firms operating in China[24].

Recent Chinese history, its culture of a pragmatic approach (in contrast with an idealistic one) and its relations with the world's major economies, provide the reasoning behind this behavior.[25] As the Chinese economy grew and its enterprises began investing more in other countries, some started benefiting from the "tilted playing field" outside the Chinese market, enjoying "European openness while being protected from foreign competition at home" (Hanemann and Huotari, 2018, 11). And despite China's efforts of integration with the global

financial system, and its recent improvement in the FDI Restrictiveness Index (with more sectors of the economy having been opened to IFDI), "Beijing's desire for control and dislike of market-induced volatility make full capital account liberalization unlikely [anytime soon]" (Zenglein and Kärnfelt, 2019, 2).

Apart from all the restrictions and impediments to enter the Chinese market, foreign companies also suffer post-entry discrimination, facing disadvantages across the board when compared to domestic companies (Hanemann and Huotari, 2018, 12). And since the booming Chinese economy's growth rates slowed in the last decade, an increase in competition was noticeable, making these foreign companies' need for a level playing field inside China even more relevant. The problem of reciprocity is therefore an issue with roots in the political differences between the EU and China regarding their involvement in the economy, making it one of the core factors contributing to the tensions we have seen amid the two regions, and likely the most strenuous to solve.

B) Policy Review

These concerns and tensions over foreign direct investment in the EU, from China and other powers[26], and from SOEs and private companies, have sprung a European-wide movement for change. Politicians and officials have since 2015 been discussing the issues at hand with an ever-greater audience and searching for ways to better control FDI, seeking to prevent the undesirable outcomes above mentioned. On a centralized dimension, this search was hinged on the Lisbon Treaty of 2009, when FDI policy formally became part of the common commercial policy competence of the EU. Although this did not give the EU bodies power over the specific policies Member States choose to implement to screen inwards FDI, it did give the general competence of FDI regulation to the European Union officials, providing a centralized actor with the power to negotiate investment agreements with third-party countries in name of the Union as a whole[27] and allowing it to discuss and eventually take part in the

processes of regulating and screening FDI with each Member State (Meunier 2014, 999). Nonetheless, a precedent was set, enabling the regulatory shift that would later begin forming[28].

On a country-level dimension, several EU members have individually restricted their FDI policies in recent years. In Germany, for example, a legislation became effective in July 2017, improving the screening mechanism and better defining what investments may be considered as security sensitive[29]. Following this international trend to tighten FDI policies, which extended beyond European countries, the EC presented in September 2017, after several discussions covered by the media, a *Proposal for a Regulation of the European Parliament and of the Council Establishing a Framework for Screening of Foreign Direct Investments into the EU*. This proposed Regulation intended "to provide legal certainty to Member States and to ensure EU-wide coordination and communication, but it did not set out a unified EU-wide FDI screening mechanism" (Bickenbach and Liu, 2018, 17)[30]. A month later, in November 2017, an EC decision of setting up a group of experts to advise the Commission on matters relating to inwards FDI was issued[31]. Again, a path had been created to further unify the FDI screening policies around the EU, whilst providing more jurisdiction to central EU bodies[32].

In March 2019, the *Commission Staff Working Document on Foreign Direct Investment in the EU* report concludes that "foreign investors are present in virtually all sectors of the economy in the EU", "state-owned companies (…) are more and more active in merger activities" and that "those findings support the ongoing policy reflection around investment screening" (European Commission 2019, 67). In that same month, the Regulation 2019/452 (EU) was passed by the European Parliament and the Council, establishing a framework for the screening by Member States of foreign direct investments into the Union.

Regulation 2019/452 aims at establishing such FDI screening framework and a "mechanism for cooperation between Member States, and between Member States and the Commission"

(EU, 2019, OJEU L79I, art.1, par.1). As well, it gives formal competence to the Commission to analyze individual investments and issue an opinion[33] to the Member State whenever it "considers that a foreign direct investment is likely to affect projects or programmes of Union interest" (idem, art.8, par.1) or Member States' national security and public order[34]. This EU law strives, for the sake of security and public order, to better coordinate Member States' FDI screening procedures, by urging them to update their screening mechanisms and "adopt measures necessary to identify and prevent circumvention of [those] screening mechanisms" (idem, art.3, par.6), thus raising awareness about the problems at hand and mitigating them to an extent. It also sets the habit of annually reporting to the Commission the sum of inwards FDI that happened in a Member State's territory (idem, art.5), so as to equip it with the ability to study FDI trends and inform the Member States on possible threats of acquisition or control of strategic assets that put security or public order at risk. Despite the relatively weak character of this legislation and although it being far from a Pan-European screening system, it took another step forward in giving more power for the Commission to address FDI issues and in making more transparent and universal the FDI screening process.

With its choice of words on certain sections, this Regulation seemed to intent at addressing some of the issues discussed above, that were particularly relevant vis-à-vis Chinese FDI in the Union. For example, the document recommends in its preamble that "it should also be possible for Member States and the Commission to take into account the context and circumstances of the foreign direct investment, in particular whether a foreign investor is controlled directly or indirectly, for example through significant funding, including subsidies, by the government of a third country or is pursuing State-led outward projects or programmes" (idem, art.8, par.13). But, because it is a key principle of the EU to be non-discriminatory, such intention or meaning towards a specific country cannot, as expected, be retrieved from the Regulation alone, or from any specific EU communications. In June 2020,

Jack Ewing wrote for the *New York Times* that "the proposals announced by the EC are the first step toward legislation that would compel foreign investors to disclose whether they receive state support. The commission could also investigate companies suspected of receiving subsidies." So, while it cannot be said that Regulation 2019/452 was born solely out of concerns over Chinese FDI, one could argue that those concerns and subsequent discussions in the public forum, specific to investment from one country's companies, were certainly essential to the making of such legislation: "Regulation 2019/452 was believed to a large extend to address the perils derived from Chinese takeover activities in the EU in particular" (Bian 2019).

In March 2020, Brussels issued a document with guidance to the Member States on the recent Regulation relating to the Covid-19 health emergency happening at the time and the protection of strategic assets from takeovers in a potentially upcoming economic crisis, pinpointing the healthcare sector as particularly vulnerable to takeovers[35]. In this communication the Commission advocated for the full usage of screening mechanisms already in place in each Member State and for the completion and improvement of mechanisms (to cover all relevant transactions) in the states which had not yet done so, as to shield critical infrastructures and supply of resources during the times to come. "In response to the guidance, various Member States without an FDI screening mechanism are now bracing to adopt one (e.g., Belgium and Greece). By mid-2021, most if not all Member States are expected to have a fully-fledged vetting procedure in place" (Catrain and Theodoropoulou 2020). In June 2020, the EC issued a *White Paper on levelling the playing field as regards foreign subsidies*[36].

After an amend to its annex in July 2020, the 2019/452 Regulation became operational on 11 October. Although it is still too soon to fully discuss the effects and effectiveness of the Regulation, some remarks can already be drawn from the way it was viewed internationally,

and some scholars' interpretations of the law and predictions about its effects are worth mentioning. The most immediate effect one might expect from the Regulation are time delays concerning the investment process, namely for larger M&As due to their nature of being more likely to pose risks[37]. For Geoff Wu it was important to highlight that the Regulation "never intended to create one FDI screening system for the entire EU", but instead it served to "create a more cooperative regulatory environment in order to lessen the effects of a fragmented and decentralized EU FDI screening landscape" (2019, 23). However, the intention of the EC can also be to gradually become more involved in the screening process, whilst exercising tighter controls over inwards FDI. Stephan Schill has gone further when proposing that if that power to limit IFDI gets centralized in the EU, it could be used with the function of promoting a more level playing field with "major economic powers, such as the United States or China", which is likely its final motive[38].

The international reception of the Regulation, ever since its forming days in 2017, was not homogeneous[39]. Apart from the opinions of third-party countries on the matter, which shall not be referred here, EU countries diverged in opinions. Portugal, for example, alongside Spain and Greece, opposed the proposal. These countries were "dissatisfied with the EC having the competence to screen FDI" (Wu 2019, 21), and were dependent "on Chinese investment as a result of the Euro crisis" (Chan and Meunier 2020, 18). Belgium, Estonia, Finland, Netherlands, and Sweden initially opposed investment screening, but for ideological reasons, "fearing that this was an anti-liberal, protectionist policy" (idem). Other countries, such as Cyprus, Ireland, Luxembourg, and Malta, opposed because "their economies are dependent on being intermediaries of foreign investment" (idem). Although the Regulation later proved to be somewhat weak concerning the real competence of the EC to screen FDI, it is important to note that different countries had different incentives to approve new, more restrictive measures concerning FDI, and a centralized power over it[40].

C) Rundown of country-specific trends

This leads us to a brief analysis of the regulatory shifts happening within different EU countries, which is as relevant for this investigation as the central EU regulations. However, given the extension limitations of this report and its aim to look at the European situation as a whole, the compendium of EU Member States' individual screening mechanisms cannot be examined in great depth, but it is important to leave the reader with the notion that there has been the same attitude shift towards IFDI on a country-level dimension, with different countries simultaneously implementing their own FDI measures before and after the European framework was passed. In appendix (first annex), a list of some Member State's screening mechanisms notified to the EC in the scope of Regulation 2019/452 is provided.

As mentioned above, Germany updated its own Foreign Trade and Payments Ordinance in 2017 to allow the government to "review acquisitions by non-EU and non-EFTA firms (…) of 10% or more voting rights of German companies" (Wu 2019, 11), whilst before that limit was set at 25%[41]. The amendment also includes a list of sectors and operators that define what exactly are public order and security assets. Of course, "it does not directly tackle issues of reciprocity and also does not allow for economic factors to be considered in screening procedures", which would be against EU and German law (Mikko Huotari in Seaman et al. 2017, 67).

France, as the fourth destination for Chinese investments in the EU in 2017, was also one of the countries to propose new measures in European headquarters that year, alongside Germany and Italy. France´s FDI screening mechanism was one of the most developed from the get-go, but the evolution of its government's views on Chinese investment (and IFDI in general), "from a relatively open-door approach towards what some officials describe as a more clear-eyed or 'less naive' position" (John Seaman in Seaman et al. 2017, 59), has allowed for some changes over the years. In 2014, Paris widened the scope of the 2005

Regulation on FDI screening "to include investments relative to water, energy, transport, electronic communications and public health" (idem)[42]. In 2018, France again tightened its national screening rules by including cybersecurity and artificial intelligence in the framework[43] (Chan and Meunier 2020, 16).

Italy presents another key investment destination for Chinese investors, specially SOEs, due to its geographic position in the Mediterranean, which is "the endpoint of China's 21st Century Maritime Silk Road" (Nicola Casarini in Seaman et al. 2017, 84), and its railway connections to Europe[44]. FDI from China in Italy has grown substantially in the last decade, achieving in 2015 the first place for volume of Chinese FDI in the EU countries, due to ChemChina's acquisition of Pirelli for EUR 7 billion, which was in fact partially funded (25%), as many other investments in Italy, by the Chinese Silk Road Fund[45] (idem, 85). This triggered a reaction from the Italian government, which in 2017 reformed its existing FDI screening mechanism to include new strategic high-tech sectors and allow Rome, "under specific circumstances" to "impose conditionality and even block the acquisition[s]" (idem).

In Spain, for example, which saw a later increase in Chinese FDI, several government actions were deployed to attract Chinese investment, especially in the period following the Euro crisis. Spain has a working FDI screening mechanism in place, and although public opinion is generally reluctant of increased FDI from China, the government has not been so drastic as France, Italy, and Germany, but, at the same time, it has not received the same volume of investment. Madrid has incentivized Chinese investment and most deals so far did go well, but "when it comes to large scale operations in strategic sectors, (…) [it] has not been supportive of Chinese companies becoming the sole owner of large Spanish firms" (Mario Esteban and Miguel Otero-Iglesias in Seaman et al. 2017, 149). The Spanish government is therefore of the opinion, alongside Portugal and even Greece, that the EC should not have the ultimate word in IFDI procedures, although it is in favor of a centralized BIT[46].

II – Chinese Investors' Footprint in the EU

A) Methodology

To ascertain the impact of this new regulatory environment on the patterns of investment by Chinese companies in the EU[47], data was collected in October-November 2020 via quantitative research on renowned databases about the recent evolution of Chinese FDI in Europe, to be compared with the evolution of Chinese global OFDI[48]. General data on patterns of investment before and during this regulatory shift, such as types of deals, regions, industries and size of deals was also collected. The overall approach was to compare what was happening in Europe with what was happening in the rest of the world relative to FDI coming from China and compare what happened in the past with what is happening now[49].

In the Bloomberg Terminal, the data was retrieved via the Mergers and Acquisitions function (MA) with specific requests. For example, to evaluate how China's SOEs have behaved in the past 10 years concerning their investments in the EU – one crucial step of this report – a list of companies was compiled using the Equity Screening function. A filter was applied to screen only State-Owned Enterprises domiciled in China[50]. Of course, this information is incomplete as it does not include the companies that are sponsored, backed, and possibly controlled by the Chinese government but which have no official ties with it on record[51]. Between sovereign and regional SOEs, 905 securities, belonging to 430 companies, were found. Because it was also possible to filter a list of Chinese securities by ownership, a search was conducted in the same platform to obtain a list of companies with a government ownership above 10% of the corporation. The result was a list of 561 companies, from which some also belonged to the list mentioned above. This method of selection was also used to filter and obtain the data concerning Chinese SOEs global investments. Both lists were then computed on the MA function of the Bloomberg Terminal to look for the evolution of the equity investments these companies had made in the EU-28 countries over the past 10 years[52].

The drawback with this strategy is that it was only able to give results concerning mostly publicly traded companies and equity types of investment, whereas Rhodium Group's research also contemplates privately owned companies, for which data is generally harder to obtain. Also, the data retrieved from Bloomberg does not include greenfield investments, whereas Rhodium Group's database and reports (cited in literature review) aim to estimate all FDI transactions[53]. That is why it was also used in this report, and although it cannot be considered a primary source[54] (in the way the Bloomberg Terminal can), its seriousness and respectability cannot be overlooked when judging it as a sound source for this type of data. In fact, although they are completely separate sources, both statistics show very similar results concerning the pattern of Chinese FDI into the EU over the years, just on different scales (of total number and total volume of deals), therefore validating each other and becoming, consequently, valuable collections of data for the purposes of this investigation.

In Zephyr the procedure was similar, with a specific search request made for the entire database since it is already a specialized database in M&A[55]. From the American Enterprise Institute (China Global Investment Tracker)[56] data was retrieved pre-collected in excel sheets and analyzed according to the methods used for data from Bloomberg and Zephyr. The Ministry of Commerce of the People's Republic of China (MOFCOM) also provides compiled data on Chinese global OFDI, and the most recent figures were also analyzed against data from other sources. Finally, information about non-equity investments, which proved relevant to study, was retrieved from announcements of private partnerships, media articles and official government publications[57].

Obviously, some limitations do apply to this methodology, which, since it is ultimately impossible to retrieve the intentions of Chinese investors from quantitative data representing their actions, can always be prone to criticism[58]. Nonetheless, once accepted this limitation, no other method could yield the same results. The most sensible way to approach the research

question of this report, although always involving a certain degree of speculation, is to compare current data on Chinese FDI with a control, be it China's total OFDI or its past patterns of investment[59].

The conventional structure chosen to present the analytical part of the present report had to do with the nature of the information and the procedure taken to analyze it. First, the results were obtained from the respective sources and arranged into tables and graphs, which is strictly factual. Secondly, those results were analyzed and compared with critical thought to ascertain whether there were any signs of a relation between regulations and attitudes about FDI in Europe and the actions of foreign investors there[60].

B) Results

Overview of Chinese FDI in the past decade: Figure 1 (second annex in appendix), retrieved from a 2020 publication by MOFCOM, provides an estimate of how the total value of China's global outwards FDI has evolved over the last decade. A peak can be seen in 2016, from when the trend becomes slightly downwards. Figure 2 (also in appendix), retrieved from the MA function of the Bloomberg Terminal, although only displaying data relative to certain Chinese equity investments deals completed on a yearly basis overseas (such as M&As), shows somewhat consistent results with 1. However, the data retrieved from Bloomberg presents a sharper decrease from 2016, meaning that the decrease in equity type investments from 2016 was more accentuated than the decrease in other forms of FDI[61] or FDI from smaller companies for which there is less information available. The decrease in Chinese OFDI in 2017 and 2018, seen in figures 1 and 2, is considered by many sources as a direct result of the administrative restrictions imposed in the 4th quarter of 2016 by the Chinese government "to curb irrational capital outflows" (Kratz et al. 2020, 8). The lower liquidity seen in China's financial system, natural of its maturing economy, can also be considered a relevant factor for said decrease in outward FDI (Hanemann and Huotari 2018).

In figure 1, 2017 saw a decrease of 19% from the previous year (2016 was the year with the highest overall global FDI), 2018 a decrease of 10% and 2019 of 18% from the respective prior years[62]. In the EU – the subject of this study – the pattern seems to follow what the global data suggests, however the decrease in total FDI is more intensified, as can be seen in figure 3 (in appendix)[63]. In this graph, FDI in 2017 decreased 22% comparing to 2016, 2018 saw a decrease of 41% from 2017 and 2019 of 32% from 2018, meaning that through all these years of decrease in FDI to the EU, the percentages of variation from the respective previous years were always higher than what was identified in figure 1 (global data)[64].

However, when comparing only the data retrieved from Bloomberg, specifically figures 2 (global FDI) and 4 (FDI to EU), the case is not the same. Figure 2 shows annual decreases (relative to the immediately antecedent years) of 27% in 2017, 54% in 2018, 15% in 2019 and 39% in 2020, while figure 4 shows only 23% in 2017, 30% in 2018, 29% in 2019 and 70% in 2020. The discrepancy seen when comparing the data retrieved from Bloomberg means that the large equity investments (not all FDI, given the nature of the Bloomberg data) coming to Europe decreased at a slower pace in 2017 and 2018 compared to the decrease seen in the total OFDI from China, but at a faster pace in 2019 and 2020 (the years when the EU legislation concerning inwards FDI became more consolidated[65]). It is important to remember, however, that the Covid-19 pandemic may be partially responsible for the intensity of the 2020 decrease.

Figure 5 (in appendix), when compared with figure 4, shows how most equity investments in the EU identified by Bloomberg have happened in the form of M&As, both in volume and total number of deals. Figures 6 and 7, retrieved from the Zephyr online database for M&As, although presenting less data, serve to corroborate the pattern seen in figures 4 and 5.

<u>Evolution of FDI from SOEs</u>: Figure 8 (in appendix) shows how global FDI from Chinese SOEs has evolved in the last decade[66]. While figure 9 (also in appendix) serves to show, on

the same tone, the aforesaid investments in the last 10 years but without the contribution of the ones made in the EU-28. What can be identified is that while global investment from China peaked in 2016 (figure 2), investments from SOEs kept on growing for another year, only decreasing from 2017 onwards. Also noticeable is that these equity investments from SOEs decreased at a faster pace when compared to total Chinese OFDI (figure 2), with higher differences in overall volume. FDI from SOE's had been rising rapidly since 2013 (a lower year), when in 2018 a big drop can be seen, and although 2019 saw some improvement, both 2019 and 2020 were still comparable to 2013/2014 levels (see figure 8).

The explanation for the disparity in time concerning the peak of Chinese global OFDI when compared with OFDI from SOEs alone (between figures 2 and 8), can be found in the fact that, as we know, the aforementioned restrictions coming from Beijing in 2016/2017 hit private companies first and SOEs later (Karindi 2020). But why did investment from SOEs fall at a higher pace[67]? Well, these administrative controls over Chinese overseas FDI mentioned above are certainly part of the answer: we know it affected SOEs later[68] and likely harsher, since SOEs have an even stricter obligation to follow Beijing's directions[69].

From figure 9 (when analyzed against 8) we can deduct that investments from SOEs in the EU-28 had a big impact in the total in 2010, 2012, 2014, 2015 and 2016. In comparison, 2019 and 2020 columns barely move when we contrast the two graphs. Meaning that the European Union has been representing less weight than before in the decreasing equity investments made by Chinese SOEs worldwide. As established, this discrepancy is likely due to the rise of Chinese private firms in the global economy and the stronger impact felt by SOEs from Beijing's shift in strategy and China's regulatory environment, but it can also be partially attributed to EU's new attitude and regulations on FDI from Chinese SOEs.

Figure 10 (in appendix) represents the evolution of FDI from Chinese SOEs as considered by Bloomberg (serving only an illustrative purpose), while figure 11 (in appendix) shows similar

data about the same companies but adds every Chinese company owned at least 10% by the State (the standard definition of SOE considered for this project). In both cases FDI from Chinese SOEs to the EU fell sharply in 2017 and maintained a steady decrease to this date. Figures 12 and 13 in appendix[70] show how equity investments in the EU from Chinese SOE's have fallen in past years, both in absolute values and in percentage of the total FDI coming from China, respectively. Figure 12 (FDI from SOEs in the EU) is coherent with the data in figure 8 (Global FDI from SOEs), with investment from SOEs peaking in 2017 and trending downwards since. On the other hand, it is noticeable how private investment has been growing throughout the years, falling in 2017 but remaining relatively stable in 2018 and 2019. In figure 12 it is clear that 2019 was the lowest year of the decade concerning investment from China's SOEs into the EU, which also had the lowest SOE's share of Chinese FDI in the EU since 2000, reaching only 11% of the total (figure 13).

Review of FDI by sector and by region: Another indicator of the regulatory shift's influence over Chinese FDI may be in the segregation of those investments by sector[71]. To that purpose, figure 14 was extracted from the China Global Investment Tracker database. From this figure it can be extrapolated that the industries preferred by Chinese investors are changing, confirming what other authors already stated. From 2017 to 2019 there was an increase of investment in Entertainment, Transport and Energy and a decrease in Finance, Health and Logistics. On the other hand, as seen in the first part of this report, some European countries recently enforced harsher FDI measures while others maintained their receptive spirits and even embraced more FDI than before. Shifts in the geographical footprint of Chinese investors in the EU can reflect the effectiveness of those measures. As such, figure 15 was extracted from the same database. From it, one can observe that investments in "Others" (i.e. non-core EU countries) increased in 2018 and FDI in Germany, Spain and France decreased in 2019, while investments in pre-Brexit Britain grew.

C) Discussion & Conclusion

Overview of Chinese FDI in the past decade: As seen in the section above, Chinese FDI fell around the globe in 2017. However, the decrease seen in Europe was higher than predicted, with FDI decreasing gradually but firmly since 2017 (figure 4), and by bigger margins. Although one cannot conclude from this observation alone that the changing regulatory environment in Europe contributed to the higher decrease in FDI seen in the region, it is expected that it tacitly prevented some deals from even being proposed on the Chinese side. These new regulations (both central and country-specific), function on two levels: they directly prevent deals from happening (a punishment function)[72], but they also – and mostly – limit the attempts made (a function the legislation acquires just by existing)[73].

Evolution of FDI from SOEs: The decrease in SOEs' investment volume in the EU seen in figures 12 and 13, with a more stable volume from privately owned companies, helps to explain how the total investment from China to the EU kept decreasing in 2018 and 2019 (figure 3). In fact, SOE's used to dominate the outbound Chinese FDI landscape in the EU, reaching almost 90% of the total in 2012 (figure 13). As seen, Chinese capital controls, rules to more strictly regulate outwards FDI, a financial system affected by lower liquidity and geopolitical tensions (partially raised by the changing regulatory environment in Europe) are all likely to have been responsible for the decline. The years of bigger decrease also coincide with stricter measures taken by EU leaders to better screen FDI[74].

Although China's very gradual transition into a more market led economy has led its private companies to naturally become more powerful in recent years and be able to make bigger acquisitions overseas (Wu 2019, 20), that evolution is not enough to justify the dilution of the SOEs' impact on the whole EU picture, since such a dramatic decrease was not noticed in the data concerning Chinese SOEs' global investments[75]. Global FDI from Chinese state-owned companies kept increasing in 2017 while FDI from the same companies to the EU decreased

sharply in that year. Such sharp decrease was also present in Global FDI from those companies the year after, but with a small recovery happening in 2019, while FDI from them kept decreasing in the EU through the same three years. So, while again these decreases cannot be totally attributed to the changing regulatory system in the EU, having to take note of the other factors that also bear responsibility over China's slowing investment streak in Europe and the world, it can naturally be argued that it has contributed to the numbers we see today regarding Chinese FDI in the region[76].

Review of FDI by sector and by region: As seen, sectors like Finance and Health lost their weight in total Chinese FDI in the EU, while less politicized and restricted sectors, more directed to the final consumer, such as Entertainment and Transport, maintained their share and even grew[77]. Chinese investors have been gradually altering their geographic footprint in the EU, focusing less FDI (relative to EU total) in core EU countries like Germany and Britain (in 2019-2020), and more on peripheric EU countries (mainly Southern and Eastern Europe), which have economies "still lagging behind those of Western Europe and rely to a greater extent on IFDI for economic growth than their Western European counterparts" (Wu 2019, 20). The fact that Chinese investors have been changing their geographic pattern of investment within the EU, and the preferential sectors for that investment[78], suggests that the attitude shift towards IFDI happening in the EU indeed had its effects in investors' behavior. In conclusion, although it cannot be statistically proven that what diverted Chinese investors (namely government related ones) was the evolution of the regulatory environment in Europe, a strong logical argument can clearly be made to state it.

Evolution of non-equity investments: Meanwhile, other types of investments have risen. R&D collaborations between Chinese companies/institutions with European organizations have become more common in recent years (Kratz et al. 2020), proving to be more resilient than equity investments. And although more data is needed on the topic to validate this statement

statistically[79], that increase can be allegorically shown via media, journal articles and reports on the subject up from 2017.

Since the communication of its strategic plan *Made in China 2025*, with the goals of upgrading its role in the world's economy "from low-end manufacturing to high value production", cutting its dependency on foreign technology and becoming "the leading global technological superpower by 2049", China has seen some criticism from leading economies with high-tech industries (e.g. Germany, US, UK)[80]. As a result of these pursuits, in 2020, R&D input from Chinese SOEs grew 11.3% from 2019[81], meaning that SOEs are spending more on R&D. This effort to boost innovation and development has also been present in overseas investments, specifically in the EU. And the trend remains when observing private companies, whose collaboration programs are often backed by state funds and initiatives[82].

Two figurative examples of these partnerships are the Zhejiang Dahua Technology (responsible for controversial security projects in Xinjiang) 2018 partnership with the Danish Scanview Systems[83] and the Xi'an Bright Laser Technology (BLT) 2018 collaboration with the Dutch Airbus[84]. While the first initiative exemplifies a company-company collaboration, the second is also an example of a company-university collaboration, given the presence of a third-party, the Northwest Polytechnic University (NPU)[85]. Many R&D partnerships and other Sino-European research joint initiatives happen between or with universities, research institutes and other public or private organizations whose end goal may be non-profit. According to Agatha Kratz et al. (2020, 17), BLT was formed with the purpose of commercializing NPU's findings on critical materials for national defense, having military production licenses from the Chinese government.

R&I partnerships between governments or state bodies are also more common now and should be accounted for. An example of these large-scale Sino-European ties is China's participation in the Horizon 2020 program, an EU funding scheme for research and innovation[86].

Since its foundation in 2015, the Co-funding Mechanism (CFM), under the Horizon 2020 framework, has been supporting research and innovation partnerships between China´s and EU's institutions, universities, and companies[87]. This, as other joint initiatives, proves the interest from the European Union and Chinese government of taking part in each other's pursuits for scientific and technological advancements. The conditions of this cooperation framework have been improving over the years, with China's funding ability becoming more abundant (European Commission 2018, 18)[88]. S&T partnerships between the two regions are complex and have seen many developments over the years, making it impossible for this report to conduct a thorough analysis of its implications, but the notion that these initiatives have been evolving positively in frequency of communications, number of agreements and intrinsic value of cooperation is worth being highlighted (Kratz et al. 2020; Karindi 2020)[89].

This rise in R&D, which is not scrutinized like acquisitions and takeovers are, presents yet another argument for the case in point. Many forms of these partnerships provide similar advantages to China's technology, information, and enterprise networks as equity investments in comparable companies do[90], so it makes perfect sense that when one type of access to these advantages decreases, another will increase. Of course, this may happen at direct command from China's government (a conspirative stretch of though)[91], but it may also – and certainly does – happen naturally. In any case, it supports the idea that while some equity investments have been discouraged, the access to Europe's technological hubs (across many industries) are still desirable to China's private and public (i.e. state-related) organizations.

Some of the dangers identified in Chinese IFDI can also be present in these forms of investing[92]: "R&D from China is often politically motivated and has a technology exploitation nature instead of a technology exploration usually associated with R&D" (Di Minin et al. 2012). Because these practices have so far been generally working well for China's purposes, and due to its pragmatic approach to business and law, it is unlikely that it will drop them in the

near future without sufficient external pressures[93]. Thus, one can say that the regulatory methods practiced by the EU members in recent years to better screen FDI and tackle the risks of Chinese firms acquiring European ones (which gave place to a new wave of R&D partnerships) have not proven completely effective, since some of those risks do remain in the form of R&D partnerships (and FDI, which is still not efficiently scrutinized). A BIT is still being negotiated and may present an optimal solution for both parties in the long run.

Conclusion: Hopefully, the first part of the present report was able to show the reader how regulations often originate as attitude formalization, for which they cannot be understood if taken out of the context driving them. Correspondingly, several dispersed signs of concern over IFDI in the EU, both at a country dimension and on a centralized one, can be perceived from the outside as a wider unified trend. The direction imposed by this gradual change in attitude from the EU as an entity seems to be towards a shift in investment regulations and FDI screening procedures, through stricter measures and ampler integration within the Union.

The second part exposed the likely impact this recent attitude and regulatory shift has had in Chinese FDI, a main driver of EU concern over FDI and, tacitly, the biggest force in shaping this awakening from European authorities about the dangers of its liberal investment regime. Although not severely affected by Regulation 2019/452 directly, FDI from Chinese enterprises did become more scrutinized around several EU economies, either through countries' individual screening procedures or augmented political and public concern. As a result, the footprint of Chinese investors in the EU is changing: total FDI has been decreasing, FDI from SOEs plummeted (more than around the globe), private investors began focusing on less politized sectors, FDI rose in peripheric countries (with smaller economies and less global competitiveness in high-tech) and dropped in more central ones (where concerns over FDI are higher), non-equity investments such as R&D partnerships increased. All these suggest an existent but unquantifiable relation between the pattern of Chinse FDI in Europe

and the regulatory shift taking place. As stated, the main limitation of this investigation has to do with relating the intentions (and respective actions) of Chinese investors with this EU attitude shift in a very complex scenario, which ultimately cannot be statistically provided.

Some argued this would provide more power to EU officials in negotiations with China, making a BIT between the regions more likely to be agreed upon in the future[94]. Not only the power of using European regulations as a *bargaining chip* to influence reciprocity, but the power that comes with a more integrated Union resulting from the centripetal pressures exerted by IFDI. However, the reverse effect, although unlikely given the trends seen thus far, is also possible[95]. Meanwhile, the Covid-19 pandemic came to assist the EC's efforts for integration, but in the long run only time will tell the effects of concerns over IFDI in EU's policies and the evolution of this Sino-European relation. A too defensive approach can also prove to be harmful for the EU if it discourages investors, making the Commission's primary goal on this matter to reach the right balance between an open FDI environment and appropriate measures to curb hazardous investment deals. Future Research on this topic should therefore assess the evolution of the EC's competence over FDI screening, the EU's situation concerning its fragmentation and the status of EU-China reciprocity negotiations.

Any contemporary researcher would be advised to also compare the data on Chinese FDI in Europe with data from specific geographies[96], as well as investigate how FDI in different economic sectors evolved in individual Member States with distinct regulations. Both of which this report, given its time and length constraints, was not able to impart. Although it became clear that an attitude shift is taking place in the EU, it is also evident that this movement is still in its early days, meaning that future research should also focus on constantly analysing the evolution of FDI concerns and subsequent regulations in the EU while keeping track of Chinese investors' behaviour in the region[97]. The data already provided here can be used as a starting point for such an investigation.

Endnotes

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[1] In 2015, China's investment in the European Union exceeded USD 30 billion for the first time, which is double the amount invested in the United States" (Javier Solana, Chairman of ESADEgeo, wrote in 2017 on the foreword of Ivana Casaburi's report for 2016-2017 Chinese Investment Trends in Europe).

[2] "Now more than ever, Chinese companies need to acquire technology, knowledge and specialization – factors that are heavily present on the European scene. For this reason, the European Union, as well as being China's main business partner worldwide, has now also become the principal recipient of Chinese firms' investment" (Javier Solana, Chairman of ESADEgeo, wrote in 2017 on the foreword of Ivana Casaburi's report for 2016-2017 Chinese Investment Trends in Europe).

[3] "In 2016, new Chinese investment in the EU was more than four times higher (reaching a record high of 35 billion euros) than the European FDI in China (8 billion euros)" (Zeneli 2019).

[4] "EU companies and governments have long complained that China greatly restricts access to its own market and heavily favours domestic businesses" (Peel and Fleming 2019).

[5] See more at: European Commission, *EU-China Comprehensive Agreement on Investment*, 2020 (https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115). A BIT represents a bilateral agreement concerning flows of FDI. Such a treaty between the parties could partially solve most of the issues surrounding the influx of Chinese FDI in Europe (such as the security concerns and reciprocity problems) by defining, on the basis of reciprocity, limits of investment, restricted sectors, amongst other factors. Most European countries have their own BITs with China (García-Herrero and Xu 2017), and it may be argued that the main obstacle precluding the centralized BIT from being reached is Beijing´s preference for the current arrangement, as it allows for its "divide and conquer" strategy with the EU (Meunier 2014).

[6] "Chinese investments remain to be a driving force behind these regulatory changes. This is rather evident when looking at the responses of EU Member States to high profile Chinese investments." (Wu 2019, 10).

[7] "The European Economic Community (EEC), during the 1960s – 1970s, saw a surge in IFDI from the USA. Similarly, during the 1980s – 1990s, the European Common Market received an influx of Japanese and Korean investments" (Wu 2019, 10). Some of the present concerns did apply back then, but technological and know-how spill overs contradicted all government's fears upon realizing the economic benefits of such "FDI invasions". This time, however, other issues exist that require a higher attention from EU officials about the dangers of their liberal investment regime.

[8] SOEs used to account for about 70% of Chinese investment in Europe.

[9] Evident for example with the Chinese corporate involvement in the European research funding scheme Horizon 2020 (Moran 2020), being the EU's second most important partner.

[10] Research question: How is the landscape of foreign investment in Europe, specifically from China, changing? And how does it relate with the changing regulations in the EU? Related questions: Have the political methods practiced by EU members in recent years to better screen IFDI and tackle its risks been successful? And does all this bring us closer or further from a Bilateral Investment Agreement being reached?

[11] For the purpose of this report, FDI was considered all foreign direct monetary investment made by an enterprise into another enterprise located in a different country. Thus, any takeovers, acquisitions, mergers, large scale equity investments and completely new business ventures are considered forms of FDI (since greenfield investments also require the establishment of a company in the host country and a monetary investment there). Monetary aid given by a government to another, for example, is not going to be considered as FDI.

[12] While "forty years ago, 90 percent of all cross-border flows were trade-based; in 2014, 90 percent were financial" (Blackwill and Harris 2016, 53).

[13] Thus, "drawing a stark distinction between SOEs and privately owned enterprises misperceives the reality of China's institutional environment" (Milhaupt and Zheng 2015, 665).

[14] "Based on publicly available information, we identified ninety-five out of the top one hundred private firms and eight out of the top ten Internet firms whose founder or *de facto* controller is currently or formerly a member of central or local party-state organizations such as People's Congresses and People's Political Consultative Conferences" (Milhaupt and Zheng, 2015, 684). This is an effect of the privatization streak that happened in the late 1990s, when a lot of smaller SOEs became private. Naturally for a developing country, who remained owner was many times connected with the government. Therefore, many of the critiques made to Chinese SOEs apply to other companies with ties to Beijing (Chinese companies that have received state support or benefit from

preferential market access in China). When a statistical analysis is made in the second part of the report, however, the lack of such perfect information (if a private company is or not tied with government controls) in the available data concerning ownership of Chinese firms will obligate us to distinct between official SOEs (when the State owns a sizeable share of the company) and all other companies, defined as privately owned. For that analytical purpose, this project will only consider suitable the companies that are sizeable enough to be considered relevant players in the market (discarding SME's and medium-sized companies), meaning having more than 250 employees and more than 50 million euros in annual turnover, thus being considered large companies by EU standards (EU recommendation 2003/361). As well, the standard adopted for a company to be considered an SOE shall be 10% or more of government ownership (either directly or via third party companies).

[15]According to a 2016 OECD report (*State-Owned Enterprises as Global Competitors: A Challenge or an Opportunity?*), this perceived support may be in the form of preferential financing, political clout and foreign state immunity, home base and home bias (protected source of revenue allowing for bigger risk taking, and a privileged position in the domestic market), privileged access to information, subsidies, tax concessions and grants, explicit or implicit guarantees and exemptions, preferential regulatory treatment, preferential treatment in public procurement and assistance in commercial diplomacy.

[16] "There is a considerable variation in the relationships between governments and their state-owned companies across countries; some governments have very hands-off relationships with their state-owned firms (e.g., Norway), while other governments have much tighter connections (e.g., China)" (Cuervo-Cazurra 2018, 138).

[17] In fact, investments from China in the United States have in the past been analyzed by US agencies such as the Department of Homeland Security and the FBI for the evident risk of espionage they posed (Graham & Marchick 2006, 112).

[18] "China has long been known to acquire (through companies it influences or owns) foreign companies in order to gain control of and/or access to their technology and resources" (Lenihan 2018, 282).

[19] The fear is that by allowing investment and cooperating with a Chinese SOE, a government might be taking part in or benefiting from practices it disagrees with, either directly or indirectly, relating to environmental impact, workers' rights, social responsibility, amongst other moral concerns stemming from the domestic and international activities of the SOE.

[20] The term *unreciprocated* refers to the reciprocity problem existing in Sino-European investment relations when companies, resources and business in Europe are more readily available for Chinese investors than the opposite, meaning technological transfers and other perks of mutual FDI flow one way with higher intensity.

[21] The fear of *technological transfer* relates, as the name suggests, to cutting-edge technologies that give a country or its companies a fair advantage over the competition in a specific sector being lost without similar economic compensation. When interviewed by the *New York Times* in June 2020, Agatha Kratz, specialist in Europe-China relations at Rhodium Group, said "The worry is not the volume of investment. The worry is about one or two or three acquisitions that could affect European competitiveness" (Ewing 2020).

[22] When acquiring Chinese companies, foreigners become subject to a case-by-case approval procedure.

[23] In OECD's FDI Regulatory Restrictiveness Index, China scored a 0.244 in 2019, improving from 0.32 in 2017, but still being one of the highest in the world, higher than any OECD country and only lagging behind Russia, Malasia, Indonesia and the Philipines (of the countries covered). The OECD average is 0.064 (www.oecd.org, 12/03/2021).

[24] Apart from further obfuscate the line between public and private sectors, "this unique and extensive system of state control and coordination (…) has given rise to *China Inc*. – a structure in which the state dominates all aspects of the economy" (Business Europe 2020, 4).

[25] In fact, China is a major recipient of FDI from OECD countries, and until very recently, the proportion of inwards FDI was incomparably higher than OFDI. Thus, asymmetries in investment openness between OECD nations and China were not a priority (Hanemann and Huotari, 2018, 11). And, since China had little obligations to liberalize its investment access under WTO/GATT, given it had proven prudent for developing economies to liberalize their capital accounts gradually, in order to retain more instruments with which to face periods like the Asian Financial Crisis of 1997 and the Global Financial Crisis of 2008, OECD nations investing in China exercised little pressure for reciprocity in investment relations being reached. As, however, the Chinese economy evolved and outbound investment grew, naturally and from concrete government directions for companies to invest abroad, these factors changed. In 2017, the total Chinese investment in the EU was more than triple the amount of EU-28 countries OFDI in China (Rhodium Group LLC, 2020, 1Q2020 CBM presentation).

[26] "The fact that these concerns are raised in particular with respect to FDI from China relates to (…) broader reservations about the nature of China's economic and political system and its growing geopolitical and geoeconomics ambitions" (Bickenbach and Liu, 2018).

[27] For example, the EU has been negotiating a bilateral investment agreement (BIT) with China since 2013.

[28] Although the Lisbon Treaty had a more formal than practical significance (concerning the power provided to the EC), Sophie Meunier argued in 2014 that the centripetal pressure exerted by the waves of Chinese investment in the Union could be responsible for accelerating the path of FDI policy integration. In other words, as Chinese FDI increased (along other powers like Russia and Qatar) and made "the costs of cacophony [i.e. European dispersed FDI policy] more visible", that would enable "Member States to overcome their fragmented approach (…) with the expectation that a more united Europe is also a stronger Europe" (Meunier 2014, 1007). "Overcoming the fragmented and decentralized regulatory landscape of FDI screening rules and approach to IFDI [in the EU] is not primarily a matter of legal reform, but rather a matter of economics and politics" (Geoff Wu 2019, 23).

[29] By cataloguing the critical infrastructure and strategic sectors of the country, improving on the previous official list.

[30] To remain true to the foundation principles of the EU, the proposal also pledged "to improve the legal certainty of investors" and "not discriminate between investors from different non-EU/EFTA countries" by ensuring that the grounds of national security and public order it was based upon were not "misused for protectionist purposes or other purely economic ends" (Bickenbach and Liu, 2018, 18). In that sense, no proposal or official legislative document from the EC ever contained a direct mention to the influx of Chinese FDI.

[31] The role of such a group was to "identify assets that have strategic implications", "exchange information and analysis on foreign direct investments, including motives for investment, geographic origin and sources of financing", "discuss issues of common concern, including level playing field issues such as subsidies and other practices by third countries facilitating strategic acquisitions", and, amongst others, "promote convergence in policies, while respecting Member States' autonomy" (Malmströme, European Commission, 2017).

[32] Despite the fact that, as we shall see below, total unification of power is unlikely to happen anytime soon, progress towards that goal was being made.

[33] The opinions issued by the Commission, or another member state, do not serve a legislative purpose and cannot by themselves block any deal. Rather, the obligation to inform the Commission and the opinions by it issued set a standard for FDI related communication within the EU. As well, the FDI common principles proposed in the document serve to lay a base for coherence within the Union, recommending certain measures but ultimately leaving the freedom for the Member States to set their own mechanisms in accordance with EU law.

[34] A list of those Union projects is provided in the annex to the Regulation, which itself defines them as projects "which involve a substantial amount or a significant share of Union funding, or which are covered by Union law regarding critical infrastructure, critical technologies or critical inputs which are essential for security or public order" (EU, 2019, OJEU L79I, art.8, par.3).

[35] "Today more than ever, the EU's openness to foreign investment needs to be balanced by appropriate screening tools. In the context of the COVID-19 emergency, there could be an increased risk of attempts to acquire healthcare capacities" (European Commission, 2020, 1).

[36] In light of the Covid pandemic even more proposals are being reviewed by EU officials to protect strategic assets. A Bloomberg Intelligence article on the matter stated that the Commission is seeking further powers to directly impose sanctions and block investment deals when the acquirer has received subsidies from governments outside the Union. "The new legislation, which could be proposed in 1H21, might include a mechanism similar to the merger control, where the regulator could investigate if subsidies from non-EU governments give undue advantages to the acquirers" (Ortiz 2021). Furthermore it states that "this measure is aimed at Chinese companies such as Huawei and CRRC", although such a reference cannot be found on the referred Commission's communication. The current pandemic might therefore come to accelerate the present legislative path in the EU that this report is trying to highlight, as also suggested by Chan and Meunier (2020).

[37] The process of screening an investment must now include communicating it to the EC and allowing a time window for it to issue an opinion if it so desires. Requests for information by the EC and Member States are also acknowledged in the Regulation and may extend the delays. Austria, for instance, has decided to extend the legal time frame of the first investigation phase for IFDI by one month to accommodate the Commission's interference.

[38] In essence, a *bargaining chip* “to negotiate on the basis of reciprocity, an opening of foreign markets for EU investors in return for treaty commitments that give foreign investors access to the EU market” (Schill 2019, 21).

[39] “When France, supported by Germany and Italy, first raised the issue of the creation of a pan-European foreign investment screening mechanism at the June 2017 European Council summit, the other Member States reacted negatively and watered down the initial mandate for the Commission to examine scrutiny of foreign investments” (Chan and Meunier 2020, 15).

[40] In fact, Chan and Meunier have shown through statistical analysis that EU countries “with higher technological levels are more concerned about unreciprocated international transfer of technologies, especially that of strategic ones” (2020, 26), making them more susceptible to pursue stricter scrutiny of inwards investments.

[41] Following that, the “Chinese HNA Group took a 9.9% share in DeutscheBank, becoming the bank’s largest shareholder” (Chan and Meunier 2020, 17), and thus circumventing the updated legislation.

[42] This decree came as "the sale of the energy division of France’s national champion Alstom to the American firm General Electric was under public scrutiny”, again providing that these measures are not specifically aimed at one country, “but concern all investments from actors outside the EU” (Seaman et al. 2017, 59).

[43] “(…) this time in direct reaction to growing Chinese FDI” (Chan and Meunier 2020, 16): “During his visit in Beijing, the French finance minister, Bruno Le Maire, declared that ‘if investors come to France or Europe only to gain access to the best technology without benefiting France or any other European country than they are not welcome’” (Chan and Meunier 2020, 16).

[44] Its geographic importance is comparable to Greece, which saw its biggest port having to be sold to the Chinese SOE China Ocean Shipping Company (COSCO) in 2016, in the scope of its third bailout from EU creditors following the Euro crisis.

[45] “The Silk Road Fund – whose money comes from the PBOC’s reserves, the China Investment Corporation, the Export-Import Bank of China and the China Development Bank – is thus used to finance takeovers abroad in sectors deemed strategic for the realization of the Belt and Road Initiative” (Nicola Casarini in Seaman et al. 2017, 85).

[46] It is because this list of Member States, also including Hungary and the Czech Republic for example, have higher demand for FDI and lesser concerns over it, that “China is gradually shifting its OFDI focus away from core EU states and focusing more on the newly ascended EU states, particularly nations in Southern and Eastern Europe” (Wu 2019, 20), as we shall later investigate.

[47] Throughout this report, whenever possible, the UK was considered as part of the EU. This is due to the time frame covered by the report and the official date for the end of Brexit’s transition period – 31 of December of 2020. Meaning that for all purposes, EU law was applicable to and in the UK until that date, and investments in the UK were officially considered investments in the EU. The UK did not participate in the recent cooperation mechanism on FDI Screening by the EC’s decision, but it absorbed and participated in the previous European discussions on FDI screening.

[48] It should be noted right away that Hong Kong based companies were not considered in this investigation due to the special status of the region and its particular independence in international relations. Hong Kong’s corporate law is based on the British Legal System, meaning that companies based there do not share the same regulatory system as Chinese ones (and are not even considered legal entities in mainland China). Macau, although less relevant in amount of OFDI, is in a similar situation (with an independent legal system and a semi-democratic regime), which means it was also not considered as part of China for investment purposes.

[49] Naturally, the brief nature of this report only allowed a certain degree of focus, leading the investigation to a more macro approach and leaving behind a more in-depth examination of specific countries’ trends.

[50] Information which Bloomberg retrieves from the following sources: National Association of Financial Market Institution Investors (NAFMII), State-owned Assets Supervision and Administration Commission of the State Council (SASAC), Central Huijin Investment Ltd (Central Huijin), Ministry of Finance, and Credit China.

[51] As well, the list only comprises publicly traded companies or companies for which there is available information about its securities, leaving some private companies (not represented in the stock market) out of the picture.

[52] From these companies, only 83 completed deals were found, showing the limitations about this database and method. Although more deals existed, the sample of the largest ones, involving some of the most meaningful companies from the EU’s perspective, was considered representative of the whole (not only due to the volume of

capital these deals represent, but also because they represent the deals/companies more likely to cause an impact in the recipient's economic and social present).

[53] Including for example real estate/construction projects and the creation of subsidiaries in foreign geographies.

[54] Given that publicly available data from Rhodium Group's database is already compiled, limiting the research possibilities. Datasets from Rhodium Group were retrieved directly from its publications.

[55] Although the Zephyr database specializes in M&As, the datasets retrieved represented small samples of the total, in the likes of the Bloomberg database, for it was only used to compare and validate other datasets (obtained from different sources).

[56] China Global Investment Tracker, in the likes of the Rhodium Group's database, includes a larger number of deals than Bloomberg, such as greenfield and real-estate investments. Thus ending up with a more complete dataset.

[57] The sources consulted for enquiries relative to Chinese non-equity investments in the EU, such as R&D partnerships and R&I joint projects, which can also qualify as FDI and have been identified by some authors as increasing in volume in recent years, were: Financial Times, Bloomberg, Thomson Reuters, Guardian, EC official website, MERICS & Rhodium Group's publications and presentations, the European Management Journal and webpages of particular companies (Chinese and European) involved in such initiatives.

[58] Ultimately, the intentions of these investors and their government cannot be retrieved from numerical data, meaning this report will, whatever its conclusions, always be prone to that type of criticism. Since the conclusions of the present report can therefore be considered based on speculation, it becomes even more important to illustrate and corroborate the arguments made by painting the most concrete picture possible within the boundaries of this investigation. This can only be done if different approaches to the problem end up providing the same results, and thus corroborating the conclusions.

[59] Considering the first part of the report (literature and policy review), sound interpretations can be made from the changing pattern that Chinese FDI in the EU shows in recent years, by usage of the methods proposed: comparing Chinese global OFDI with OFDI to the EU (now and before), comparing Chinese FDI from SOEs to FDI from private companies, and comparing the evolution of Chinese FDI in different EU regulatory environments.

[60] The results were obtained with different analytical objectives in mind, and thus are also presented separately, in this case into three categories: Overview of Chinese FDI in the past decade, Evolution of FDI from SOEs, Review of FDI by sector and by region. The discussion section, which interprets the results, includes yet a fourth area of investigation – Evolution of non-equity investments –, which did not require presence in the Results section for the lack of representative analytical data available about it.

[61] Such as greenfield investments and construction projects.

[62] A more extensive analyze of this data is uncalled for in such a brief report, as these graphs and the investment trends they present are only important for comparison with the more specific data presented below.

[63] While USD was used on all global data, EUR was used for all queries concerning only the EU.

[64] The decrease in Chinese FDI was more intensified in the EU than around the globe. It is the purpose of the present report to investigate why this happened, and that is one of the factors contributing to its relevancy: Does it have to do with something going on inside the EU or between the two regions? Or may it be that simply other areas of the globe were more attractive for Chinese investment than the EU, opposing the past trends where the EU seemed to be a preferential destination for Chinese FDI relative to its size (Casaburi 2017, 39)? And can the new regulations proposed and enforced in the EU be said to have directly affected Chinese inwards FDI? To answer that question it will be necessary to look at how China's SOEs have behaved in past years relatively to their investments offshore, both in and out of the EU, since SOEs are one of the main topics of focus of the recently imposed European regulations discussed above and represent a sizeable portion of Chinese OFDI.

[65] EU Regulation 2019/452 was passed in March 2019 and became effective in 2020.

[66] Because the data was retrieved from the M&A function in the Bloomberg Terminal, it only contemplates larger equity investments overseas, not the whole FDI picture. However, it again serves to give us an idea of the trends that the sum of the investments from Chinese state-owned companies have displayed.

[67] Total Chinese OFDI declined 66% in 2017 and 2018 combined (according to figure 2 from Bloomberg), while OFDI from SOEs declined 83% in 2018 alone (according to figure 8 from Bloomberg). As said, due to the incompletion of these data collections, results may be exaggerated, but do provide a sample of the larger pattern at play.

[68] "Guidelines were issued, first for private companies and then for state-owned enterprises" (Karindi 2020).

[69] On September 2017 rules were issued to prevent 'irrational' overseas investments, following the stricter rules on outwards FDI introduced in November 2016 (Zenglein and Kärnfelt, 2019, 6). As well, a "deleveraging campaign that reduced Chinese firm's ability to finance overseas assets purchases" (Kratz et al. 2020, 9) happened in 2017 affecting all investors in China. This capital control exerted by the central government can also be at the core of the steep decrease in equity investments from SOEs. So, when these restrictions hit SOEs, they hit stronger, making a bigger dent in their investment numbers.

[70] These were retrieved from a 2020 publication by Rhodium Group and the Mercator Institute for China Studies, with data from Rhodium Group's database (Kratz et al. 2020).

[71] Certain changes in the preferred regions and industries within Europe may show Chinese concern with the new regulatory environment. As said, EU Regulation 2019/452 and countries' screening mechanisms provide lists of economic sectors that are more likely to affect security and public order or that can be considered strategic. Therefore, some industries became more scrutinized in recent years.

[72] For example, in August 2018 the German cabinet blocked an acquisition of the engineering firm Leifeld Metal Spinning by a French unit of China's Yantai Taihai Group on the basis of national security. In that same year, "the [German] government also prevented two attempts by the Chinese electricity giant SGCC to acquire a 20-percent stake in 50Hertz, one of Germany's four electricity transmission system operators" (Bickenbach and Liu 2018, 17). Although in this second example, the government was not able to use its screening mechanism directly, it pressured Elia, the Belgian majority owner of 50Hertz, to use its voting rights to veto the deal. Spain has also recently signaled it could block FDI deals from China, and Italy prohibited the acquisition of Iveco SpA (truck and bus manufacturer) by China's FAW Group, citing Iveco as an asset of strategic national interest. Although these examples are not very common, they have been more present in recent years as FDI Screening regulations improve in some Member States. Most times, however, blocked deals are with respect to other aspects of national laws, and not security or public order concerns from FDI screening boards. What this project tries to exemplify is that the function of a law preventing attempts at acquisitions or takeovers does exist without such law ever having to be enforced, because investors consider those regulations and its spirits (attitude/context of creation) before attempting such maneuvers. And that function will most likely have a more visible impact in investors' actions.

[73] While some EU countries did block deals in recent years, the EC as a central body, in the scope of its recent regulations, has not directly prevented or denied any deals from happening (it has nonetheless issued several opinions). Again, what this project argues is that the EU regulations concerning FDI have, in their context, contributed to limiting the number of attempts made, either directly or via individual countries' renewed mechanisms and consequent legislations (predicted in Regulation 2019/452, for example).

[74] Events such as these happened, for example, in 2017 with Italy, Germany and France updating their FDI screening policies, in 2019 with the Regulation 2019/452 being passed by the EU, and in 2020 with the Regulation coming into force and pressuring Member States to develop new screening mechanisms. The influence of the Covid-19 crisis means that most of 2020 can be discredited here, since especially uncommon circumstances were taking place. Nonetheless, it is true that the pandemic, as seen, also pressured EU officials and Member States to upgrade their FDI screening procedures and norms.

[75] It is true that the FDI coming from Chinese SOEs to the world has declined in recent years in percentage of the total Chinese FDI, but not as much as it has decreased in the European environment, which can be extrapolated from comparing figures 11 and 8.

[76] Therefore, this special decrease from SOEs can be partially attributed to the changing regulatory environment of the EU (as the data discussed above presents sound arguments in that sense).

[77] Some outliers like Energy and Logistics do exist and can be attributed to the complexity of the matter for the sake of the present argument.

[78] Indeed, while previously we saw major investments in sectors such as Health & Biotechnology and Financial/Business Services – which nowadays are more scrutinized –, we saw in 2019 that Chinese FDI was more concentrated than ever in less politicized and restricted sectors, such as consumer goods and services, with mostly private Chinese investors involved (which experience less friction from EU and Chinese regulators) (Kratz et al. 2020, 13; Karindi 2020).

[79] The lack of a centralized database with information on Sino-European R&D partnerships was gravely felt. There are already a number of articles about the risks of R&D partnerships and the likes, but little reports or databases actually provide the accounting of these initiatives. The expected increase in scrutiny from EU forums over these ties will likely make available more data in the future. Because the data to support these remarks is

still not available in a representative way, this section is only being presented in the more speculative part of this report, the Discussion.

[80] Mainly for pursuing these goals via "too much involvement of the state and too little of market forces, creating unfair competition (…) and restricting access to the Chinese market" (Karindi 2020).

[81] According to the State-owned Assets Supervision and Administration Commission of the State Council (Xinhua News Agency 2021), China's state-owned assets regulator.

[82] "Some of the Chinese interviewees indicated that support from the Chinese government and preferential policies for international R&D is an external impetus but maintained that political factors from China play a secondary role in their decisions on R&D expansion" (Alberto Di Minin et al. 2012, 201).

[83] Dahua Technology produces advanced video surveillance software employed for security purposes, while Scanview Systems develops high-tech projects mostly related with traffic and parking, such as license plate video analysis. Both companies work with Artificial Intelligence software and state-of-the-art hardware. Dahua Technology (which is partially owned by the Chinese government) was responsible for controversial security projects in Xinjiang and Scanview Systems signed government contracts for traffic management projects with Dutch municipalities. Together, through a successful cooperation, they delivered the car parking projects for both the Copenhagen Airport and the Billund Airport in Denmark.

[84] Airbus, manufacturer and marketer of commercial aircrafts, signed this three-way partnership (including the Northwest Polytechnic University) in 2018 via its Engineering Technology Center in Beijing with the aim of testing and using BLT's metal additive manufacturing equipment to produce structural aircraft parts. More information available in BLT's website, at: https://www.xa-blt.com/en/newslist/from-supplier-to-joint-rd-partners-bright-laser-technologies-together-with-airbus-enter-a-new-era-of-aerospace-application-with-metal-additive-manufacturing/ (consulted on 01/03/2021).

[85] NPU is one of the so called "Seven Sons of National Defense", a group of Chinese universities subordinate to the Ministry of Industry and Information Technology (MIIT) and whose research specifically focuses on armament, maritime technology, aeronautics, and military equipment (including nuclear energy).

[86] From which 2,7% of the funds were granted to Catalonia, a technological hub and a leading recipient, from the Western Continental European regions, of investment coming from China (Ivana Casaburi 2017).

[87] The CFM has mobilized over EUR 500 million on the EU side (EC) and RMB 1 billion on the Chinese side (Ministry of Science and Technology) from 2016 to 2020. Although there is a gap in the available funding from each party, China's involvement has so far been on an upwards trend.

[88] "A new package of EU-China flagship initiatives was agreed for the period 2018-2020" contemplating more branches of cooperation than ever before, with planned research in several areas of sustainability and welfare, be it agriculture, environment, urbanization, transports, or biotechnologies, amongst others (European Commission 2018, 19).

[89] "China has been consistently increasing its spending on R&D" and "is actively seeking international cooperation in R&D" (Liisi Karindi 2020); "Recently, there has been an expansion in R&D between Chinese firms and European entities." (Agatha Kratz et al. 2020, 15).

[90] "R&D partnerships often provide Chinese parties with access to potentially sensitive European assets, sometimes without European counterparts even noticing" (Agatha Kratz et al. 2020, 15).

[91] "To the extent that the [Chinese] state does successfully intervene in SOE operations to achieve policy objectives, it typically does so as a regulator, not as a controlling shareholder" (Milhaupt and Zheng, 2015, 665).

[92] The danger of dual-use technology transfer and refinement for military ends has been exemplified via the Airbus-BLT-NPU partnership, which is likely contributing for the improvement of the Chinese military-industrial complex, even if at a small scale. The danger of condoning wrongful practices in human rights has been exemplified with the Dahua Technology-Scanview Systems collaboration, with Dahua Technology even being blacklisted by the USA for human rights abuses in Xinjiang. "R&D collaborations can contribute to enhancing the Chinese state's ability to exert mass control over its population" (Kratz et al. 2020, 16). Naturally, the European fears of losing information, technology and competitive edge concerning long-term economic competitiveness are also present with cross-border collaboration, but not as hazardous as the above-mentioned risks.

[93] In fact, Wm. C. Hannas and Huey-meei Chang (2019, iii) "have low confidence that any combination of persuasion or disincentives will cause China to abandon its idiosyncratic transfer practices", precisely due to the

proven efficiency of "its current reliance on external models to supplement indigenous research" and because "the alternative [liberalization] is too risky".

[94] In fact, on December 2020, while this report was being developed, an EU-China deal concerning investment reciprocity was advanced. A progress that was partially attributed to EU's increasing restrictions. The document is still to be finalized and signed by the parties in 2021 but it envisions higher equilibrium in FDI regulations and thus better international investment relations between the powers. (EC 2020, Statement/20/2546).

[95] IFDI could provoke centrifugal pressures among Member States (who disagree with the EC's stance on FDI), thus enabling China's *divide and conquer* strategy (Meunier 2014, 1010).

[96] Instead of only comparing data on Chinese FDI in Europe with the data on total Chinese FDI (to the world), it would be interesting to also compare the first with data relative to Chinese FDI in North America (where the USA has a strong FDI screening system in place) and Africa (where a lot of Chinese capital is also being invested).

[97] Namely their profiles, categorized equity investments, non-equity types of investments and relations, and outside factors that can influence the previous.

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Appendix

Table 1 - List of latest updates to screening mechanisms notified by Member States

Pursuant to Article 3.7 of Regulation (EU)2019/452 of 19 March 2019, the table represents Member States' notifications to the EC of their screening mechanisms and amendments, updated on 16 February 2021 and made available by the EC under Article 3.8 of Regulation (EU) 2019/452. Most countries mentioned have screening mechanisms dating from 2012-2013, and others have had them since the beginning of the century, but only the most recent amendments and new mechanisms are displayed. Spain, The Netherlands, Portugal and Romania also notified the Commission about their screening mechanisms, but contained no changes after 2015, for which they were not considered recent and thus omitted.

Member State	Number and title of the law	Unofficial English translation and information	Source
Denmark	Lov om kontinentalsoklen og visse rørledningsanlægpå søterritoriet (LBK nr 1189 af 21/09/2018)	Act on the continental shelf and certain pipelinesinstallations on territorial waters (The DanishConsolidated Act No. 1189 of September 21, 2018)	Danish Ministry of Energy, Utilities and Climate
Germany	Außenwirtschaftsgesetz [vom 6. Juni 2013 (BGBl. I S. 1482), das zuletzt durch Artikel 4 des Gesetzes vom 20. Juli 2017 (BGBl.I S. 2789) geändert worden ist] §§ 4, 5, 13 und 15 Außenwirtschaftsverordnung [vom 2. August 2013 (BGBl. I S. 2865), die zuletzt durch Artikel 1 der Verordnung vom 27. Februar 2019 (BAnz AT 06.03.2019 V1) geändert worden ist] §§ 55 bis 62 Fünfzehnte Verordnung zur Änderung der Außenwirtschaftsverordnung Erstes Gesetz zur Änderung des Außenwirtschaftsgesetzes	Foreign Trade and Payments Act [of 6 June 2013 (Federal Law Gazette I p. 1482), as last amended by Article 4 of the Act of20 July 2017 (Federal Law Gazette I p. 2789)] Article 4, 5, 13 and 15 Foreign Trade and Payments Ordinance [of 2 August 2013 (Federal Law Gazette [BGBl.]Part I p. 2865), as last amended by Article 1 of the Ordinance of 19 December 2018 (BAnz AT 28.12.2018 V1)] Article 55 to 62 On 20 May 2020, the German government adopted a revision of the *Foreign Trade and Payments Ordinance,* which changes procedural and substantive aspects of Germany's investment screening procedure to safeguard essential security interests. The changes extend the application of a10% trigger threshold for acquisitions by non-EU-foreigners and an associatednotification requirement to health- related sectors and adjusts some procedural rules to close identified shortcomings in the operation of the mechanism. The changes came into force 3 June 2020. On 18 June 2020, the German Bundestag adopted a revision of the Foreign Trade and Payments Act which aligns Germany's investment screening procedure with the EU Screening Regulation (452/2019). The Federal Ministry of Economy and Energy will serve as Germany's contact point pursuant to Art. 11 of the Screening Regulation. Further amendments include a prohibition to disclose information which potentially impairs Germany's public order or security during an ongoing screening procedure.	Federal Ministry for Economic Affairsand Energy

	Investment measures relating to national security: Runderlass Außenwirtschaft Nr. 4/2020 Sechzehnte Verordnung zur Änderung der Außenwirtschaftsverordnung vom 26. Oktober 2020 Sechzehnte Verordnung zur Änderung der Außenwirtschaftsverordnung vom 26. Oktober 2020	The changes came into force on 17 July 2020. On 29 October 2020, a further amendment to the Foreign Trade and Payments Ordinance came into effect. The amendment adjusts the rules of the ordinance to the changes brought by the reform of the Foreign Trade and Payments Act (notified on 4 Aug 2020).	
Slovenia	Zakon o interventnih ukrepih za omilitev in odpravo posledic epidemije COVID-19, Official Journal No. 80/20 (adopted 29 May 2020, in force as of31 May 2020)	Act determining the intervention measures to mitigate and remedy the consequences of the Covid-19 epidemic	
France	Code monétaire et financier Partie legislative Livre Ier Titre V : les relations financières avec l'étranger Articles L.151-1 à L.151-7 Code monétaire et financier Partie réglementaire Livre 1er Titre V: les relations financières avec l'étranger Chapitre Ier : Investissements étrangers soumis à autorisation Articles R.151-1 à R.153-18 Article R. 151-1 à R. 151-3 Article R. 151-4 Articles R. 151-5 à R. 151-11 Articles R. 151-12 à R. 151-16 Articles R. 151-17 et R. 151-18 Arrêté du 31 décembre 2019 relatif aux investissements étrangers en France Article L. 233-3 du code de commerce Article L. 430-1 du code de commerce Article 459 du code des douanes (sanctions pénales)	Financial and monetary code Legal section Book I Title V: Financial dealings with foreign countries Articles L.151-1 to L.151-7 Financial and monetary code Infra-legal section Book I Title V: Financial dealings with foreign countries Chapter I : Investments subject to authorisation Articles R.151-1 to R.151-18 Order of 31 December 2019 relating to foreigninvestments in France French Commercial Code Article L.233-3, Article L.430-1 Article 459 of the Customs code (penal sanctions)	DG Treasury – Ministry for Economy and Finances
Italy	Modifiche alla disciplina dei poteri speciali nei settori di rilevanza strategica disposta dagli artt. 3 e 4-bis del decreto-legge 21 settembre 2019, n. 105, convertido con modificazioni dalla legge 18 novembre 2019, n. 133. Decreto-Legge 8 aprile 2020, n. 23. "Misure urgenti in materia di accesso al credito e di adempimenti fiscali per le imprese, di poteri speciali nei settori strategici, nonché interventi in materia di salute e lavoro, di proroga di termini amministrativi e processuali." Art. 15-16 L'articolo 10 ter della legge 18	Amendments to the regulation on special powersin sectors of strategic importance set forth in Articles 3 and 4-bis of the decree-law 21 September 2019, n. 105, converted with amendments by law November 18, 2019, n. 133 Decree-Law 8 April 2020, n. 23. "Urgent measures regarding access to credit and tax obligations for businesses, special powers in strategic sectors, as well as interventions in thefield of health and labour, extension of administrative and procedural terms." Art. 15-16 Article 10 ter of Law 176 of 18 December 2020,that	

	dicembre 2020, n.176,che ha convertito in decreto-legge 28 ottobre 2020 n.137 Decreto del Presidente del Consiglio dei Ministri 179del 18 dicembre 2020 Decreto del Presidente del Consiglio dei Ministri n.180 del 23 dicembre 2020	converted into law Decree-Law 137 of 28 October 2020 Decree of the President of the Council of Ministers 179 of 18 December 2020 Decree of the President of the Council of Ministers 180 of 23 December 2020	
Latvia	Nacionālās drošības likums Noteikumi par Nacionālās drošības likumā noteiktajaiinstitūcijai iesniedzamo informāciju un darbībām ar informāciju par ārvalstu tiešajiem ieguldījumiem (Noteikumu nosaukums MK 06.10.2020. noteikumu Nr. 622 redakcijā) Ministru kabineta 2017. gada 3. oktobra noteikumi Nr. 606 "Noteikumi par Nacionālās drošības likumā noteiktajai institūcijai iesniedzamo informāciju un darbībām ar informāciju par ārvalstu tiešajiem ieguldījumiem"	National Security Law, Chapter VI - Restrictionson Commercial Companies of Significance to National Security *(Translation validity: 01.09.2017.–29.10.2018. Amendments not included: 04.10.2018.)* Regulation No. 606 adopted on 3 October 2017 regarding the Information to be Submitted to the Authority Determined in the National Security Law and the Handling of Information on Foreign Direct Investments (6 October 2020) Regulations of the Cabinet of Ministers of October 3, 2017 No. 606 "Regulations regarding the information to be submitted to the institutionspecified in the National Security Law and activities with information regarding foreign direct investment	Ministry of Economy
Lithuania	Lietuvos Respublikos nacionaliniam saugumui užtikrinti svarbių objektų apsaugos įstatymas, Nr. IX-1132 (nauja redakcija Nr. XIII-992, nuo 2018- 01-12) LRV Nutarimas dėl nacionaliniam saugumui užtikrinti svarbių objektų apsaugos koordinavimo komisijos darbo tvarkos aprašo patvirtinimo, Nr. 1540 (nauja redakcija Nr. 266, nuo 2018-03-21) Nutarimas dėl nacionaliniam saugumui užtikrinti svarbių įrenginių ir turto apsaugos zonų nustatymo, Nr. 1252 (nauja redakcija Nr. 746, nuo 2018-07-25) Lietuvos Respublikos nacionaliniam saugumui užtikrinti svarbių objektų apsaugos įstatymo Nr. IX- 1132 1, 2, 4, 10, 11, 12, 13, 14, 15, 16, 17, 19, 20 straipsnių, 1, 2, 3, 4 priedų pakeitimo ir Įstatymo papildymo 13-1, 17-1, 19-1 straipsniais ir 5 priedu įstatymas, Nr. XIII-3257 Lietuvos Respublikos Vyriausybės nutarimas"Dėl Lietuvos Respublikos	The Law on Protection of Objects Important toEnsuring National Security of the Republic of Lithuania, No. IX-1132 (new edition No. XIII- 992 dated 2018-01-12) Resolution on the Rules of Procedure of the Commission approved by the Government, No.1540 (new edition No. 266 dated 21-03-2018) Resolution on the Determination of the Protection Zones of Importance to National Security approved by the Government, No. 1252 (new edition No. 746 dated 25-07-2018) The Law On The Protection Of Objects Of Importance To Ensuring National Security, No.XIII-3257 Resolution of the Government No 1072, concerning the appointment of the Ministry ofForeign Affairs of the	Sigita Vasiliauskiene Counselor of Public administration division Chancellery of the Government

	užsienio reikalų ministerijos paskyrimo atlikti funkcijas", Nr. 1072 Dėl Lietuvos Respublikos Vyriausybės 2009 m. lapkričio 25 d. nutarimo Nr. 1540 „Dėl Nacionaliniam saugumui užtikrinti svarbių objektų apsaugos koordinavimo komisijos darbo tvarkos aprašo patvirtinimo" pakeitimo", Nr. 1213	Republic of Lithuania toperform functions Resolution on the Rules of Procedure of the Commission for Coordination of Protection ofObjects of Importance to Ensuring National Security approved by the Government, No.1540 (new edition No. 1213 Valid from Nov 4, 2020)	
Hungary	2018. évi LVII. törvény a Magyarország biztonsági érdekét sértő külföldi befektetések ellenőrzéséről 246/2018. (XII.17.) Korm. rendelet a Magyarországbiztonsági érdekét sértő külföldi befektetések ellenőrzéséről szóló 2018. évi LVII. törvény végrehajtásáról 2020. évi LVIII. törvény a veszélyhelyzet megszűnésével összefüggő átmeneti szabályokról és a járványügyi készültségről (85. szakasz, 276. §-292. §) 289/2020. (VI. 17.) Korm. Rendelet a magyarországiszékhelyű gazdasági társaságok gazdasági célú védelméhez szükséges tevékenységi körök meghatározásáról	Act LVII of 2018 on Controlling Foreign Investments Violating Hungary's SecurityInterests Government Decree 246/2018. (XII. 17.) on the Implementation of Act LVII of 2018 on Controlling Foreign Investments Violating Hungary's Security Interests Act No. LVIII of 2020 on the Transitional Rules related to the End of the State of Danger and Pandemic Preparedness (section 85. paragraphs276-292) Government Decree 289/2020 (VI. 17.) definingthe measures required for the economic protection of companies having their seats in Hungary	Ministry of Foreign Affairs and Trade –Trade Policy Department
Austria	Bundesgesetz über die Kontrolle von ausländischenDirektinvestitionen (Investitionskontrollgesetz – InvKG), StF: BGBl. I Nr. 87/2020 (NR: GP XXVII RV240 AB 276 S. 45. BR: AB 10376 S. 910.)	Investitionskontrollgesetz - Austrian InvestmentControl Act / ICA, in force since 25 July 2020 except for those provisions destined to enter into force by 11 October 2020	Federal Ministry for Digital and Economic Affairs
Poland	Rozporządzenie Rady Ministrów z dnia 27 grudnia 2018 r. w sprawie wykazu podmiotów podlegających ochronie Dz. U. 2018 poz. 2524 Ustawa z dnia 19 czerwca 2020 r. o dopłatach do oprocentowania kredytów bankowych udzielanych przedsiębiorcom dotkniętym skutkami COVID-19 orazo uproszczonym postępowaniu o zatwierdzenie układuw związku z wystąpieniem COVID-19 Dz. U. poz. 1086	Act of 19 June 2020 on Subsidies on Interest onBank Loans Granted to Entrepreneurs Affected by COVID-19 and on the Simplified Procedure for the Approval of Arrangements in Connectionwith COVID-19	Departament Skarbu Państwa, Kancelaria Prezesa Rady Ministrów (TheChancellery of the Prime Minister) introduced among others changes to: Act of 24 July 2015 on the Control of Certain Investments (Journal of Laws 2020, items 117, 284, and 1086).

Finland	Laki eräiden kiinteistönhankintojen luvanvaraisuudesta (470/2019) Lagen om tillsyn över utlänningars företagsköp	Act on transfers of real estate property requiring special permission (470/2019) Act on the Screening of Foreign Corporate Acquisitions (172/2020, amendments 2.10.2020/682)	Ministry of Defence Press release of the Ministry of Economic Affairs and Employment on 8 October 2020
Malta	ATT Nru LX tal-2020, 18 ta' Diċembru, 2020	ACT No. LX of 2020 of 18 December 2020	
Czech Republic	Zákon č. 34/2021 Sb. o prověřování zahraničních investic	Act No. 34/2021 Coll on screening of foreign direct investments	Ministry of Investment and Trade

Figure 1.

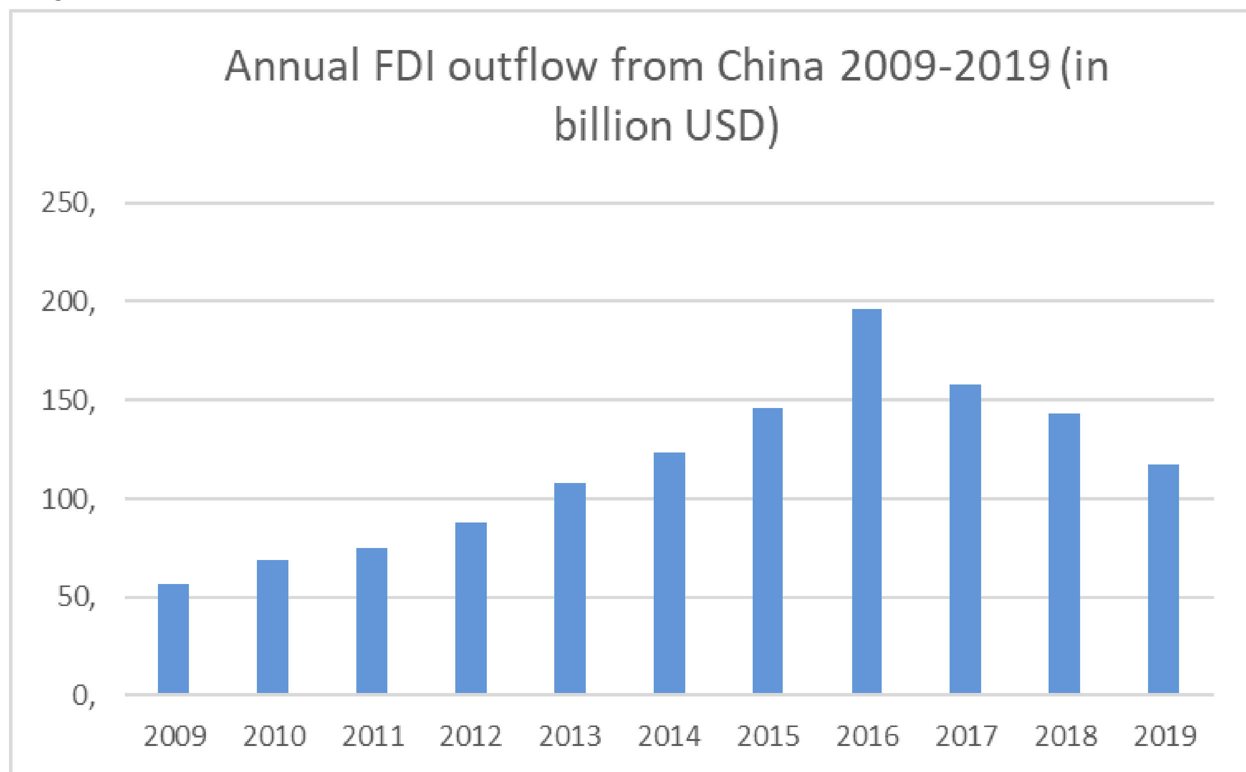

Figure 1- Source: MOFCOM China. Publication Date: January 2020

Figure 2.

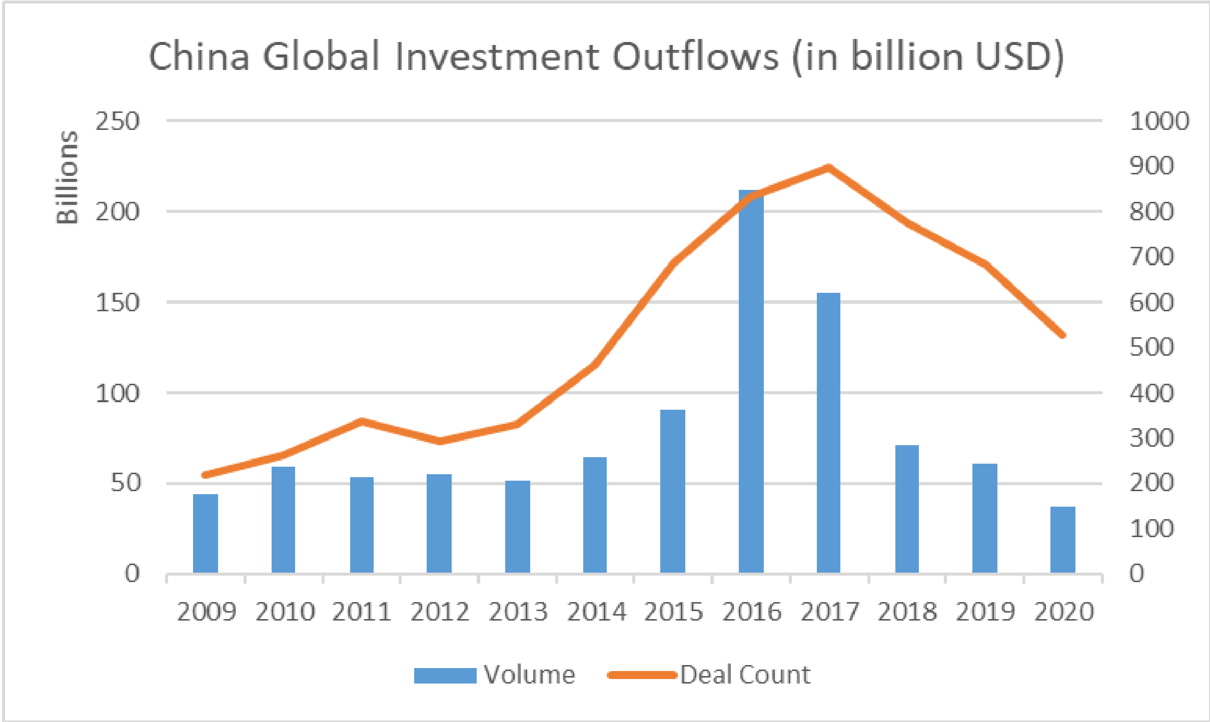

Figure 2 - Source: Bloomberg. Note: only equity investments are displayed

Figure 3.

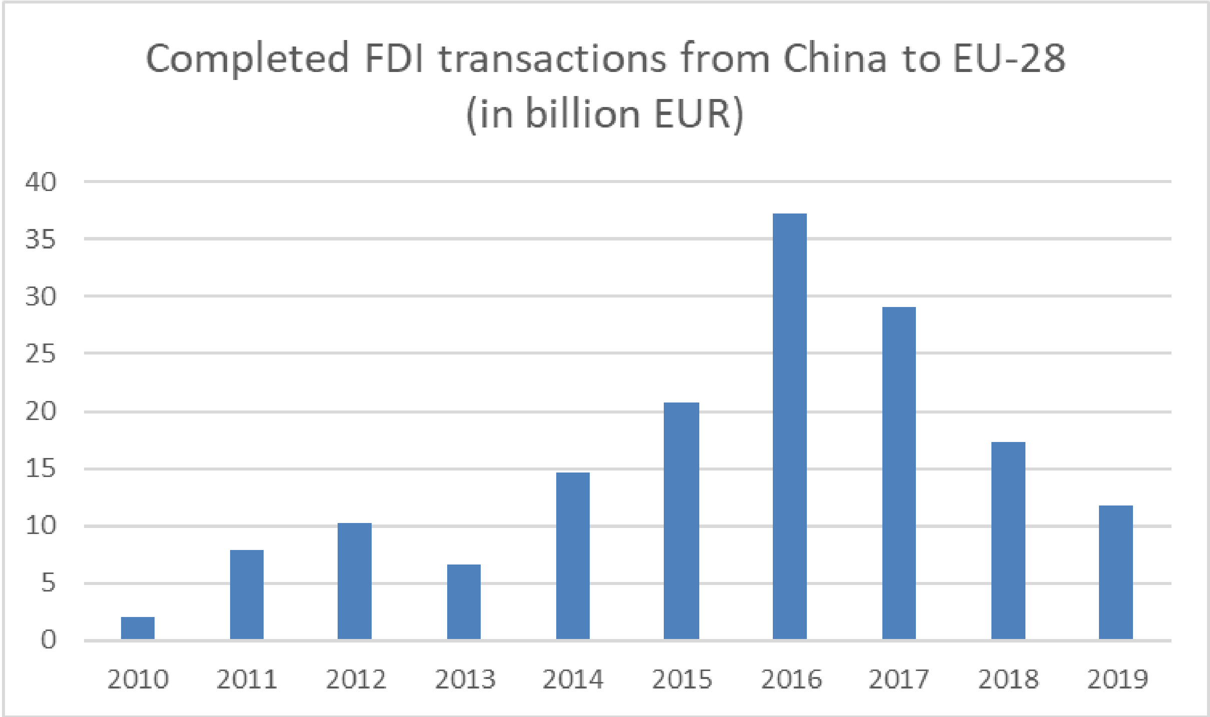

Figure 3 - Source: Rhodium Group Database (includes M&As and greenfield investments)

Figure 4.

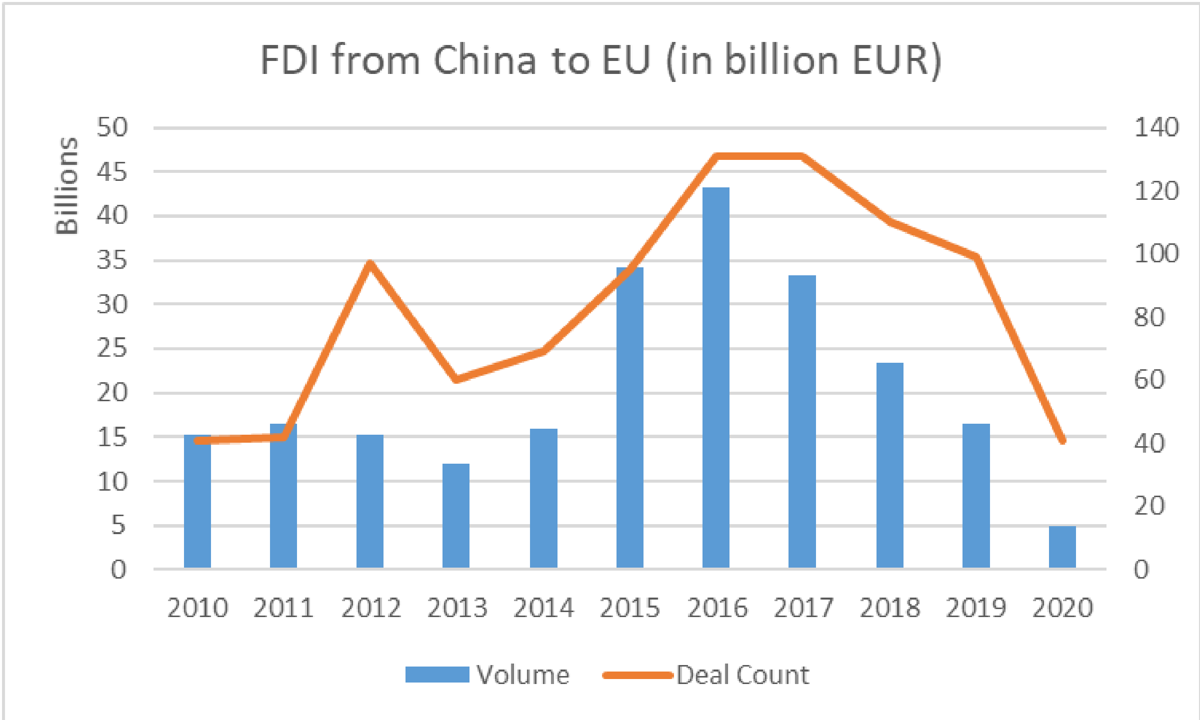

Figure 4 - Source: Bloomberg (all equity investments from China to EU-28)

Figure 5.

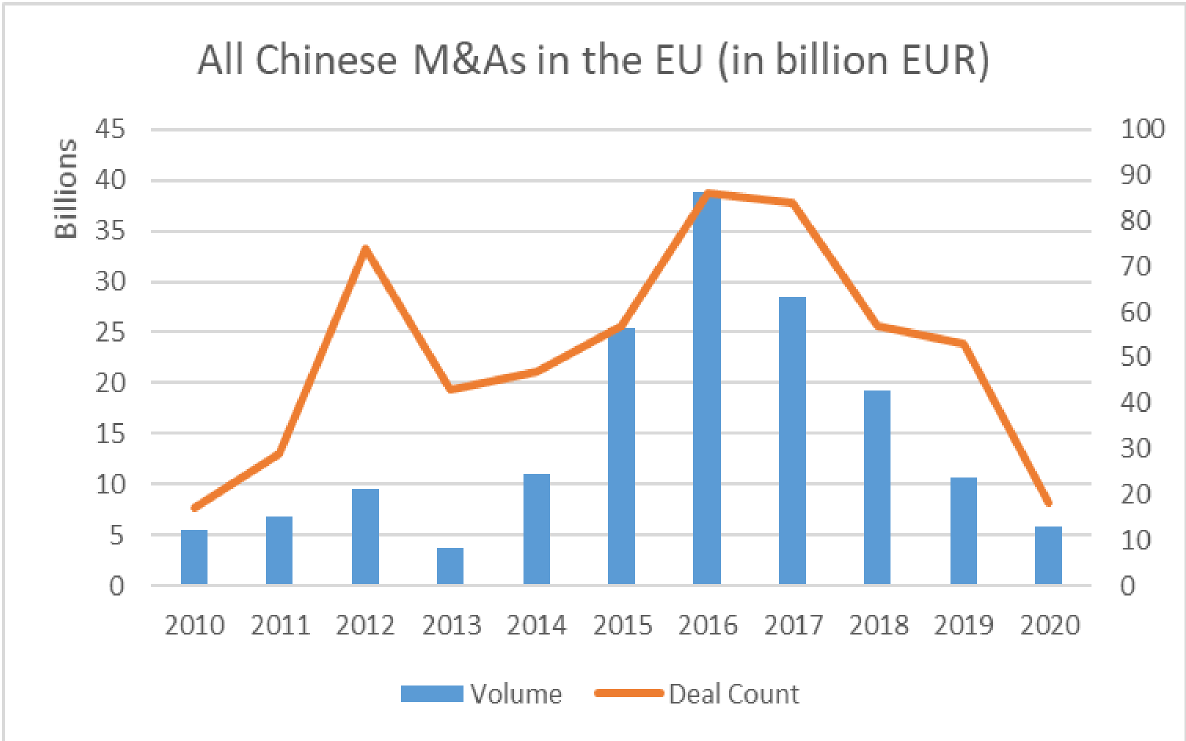

Figure 5 - Source: Bloomberg (representation of all investments from China to the EU-28 classified as M&As). Note: About half the volume of 2020 represents acquisitions in the UK (a country which was in the process of leaving the EU)

Figure 6.

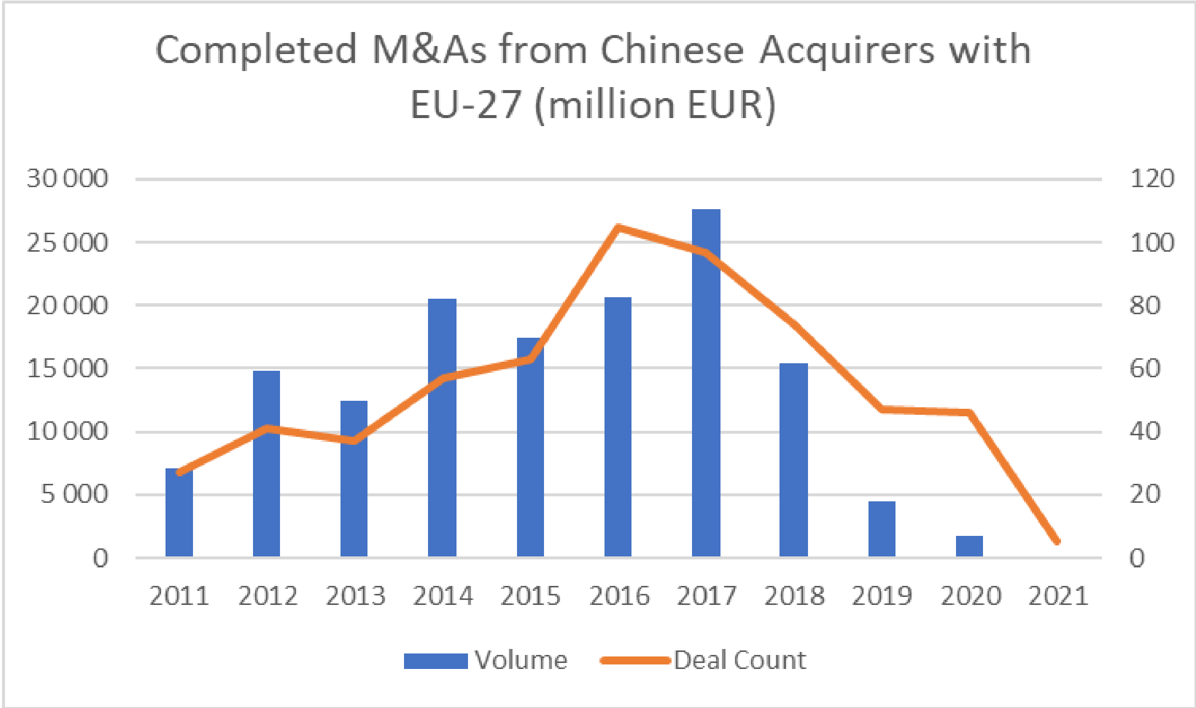

Figure 6 - Source: Zephyr Database. Note: All capital flows to EU in Zephyr; EU-27 countries represent either Target or Vendor; the database already identified the EU without the UK.

Figure 7.

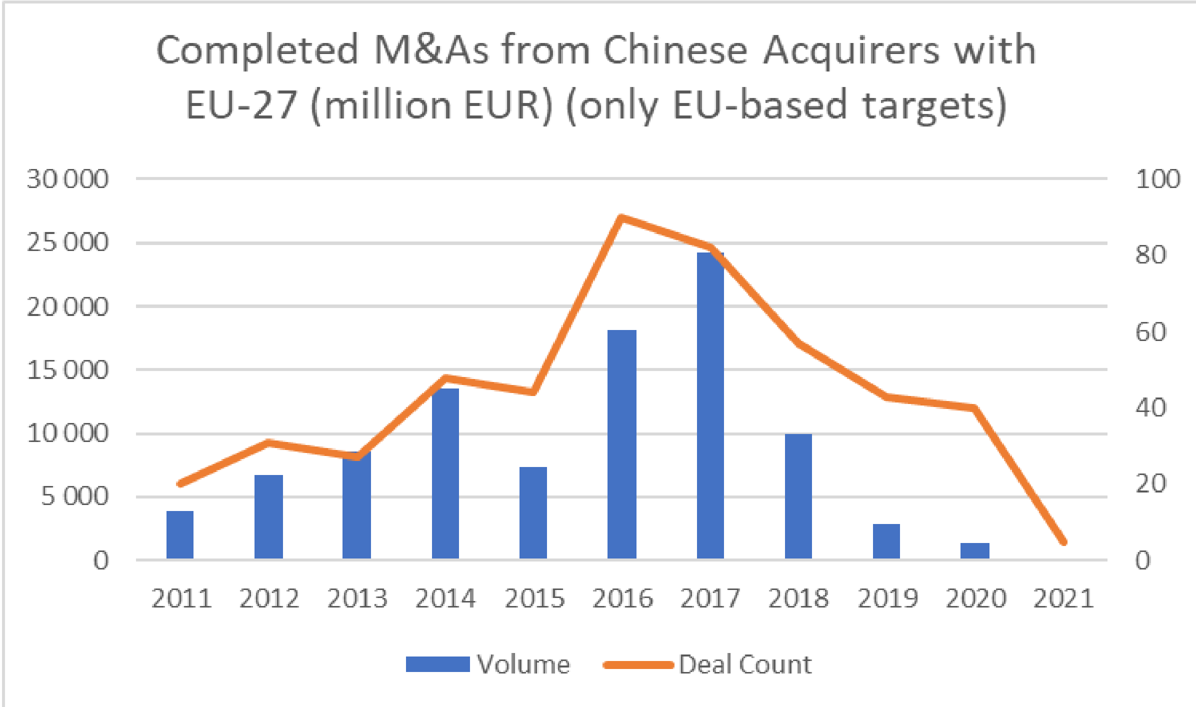

Figure 7 - Source: Zephyr Database. Note: only M&As with companies having EU-domicile; EU-27 countries may only represent Target.

Figure 8.

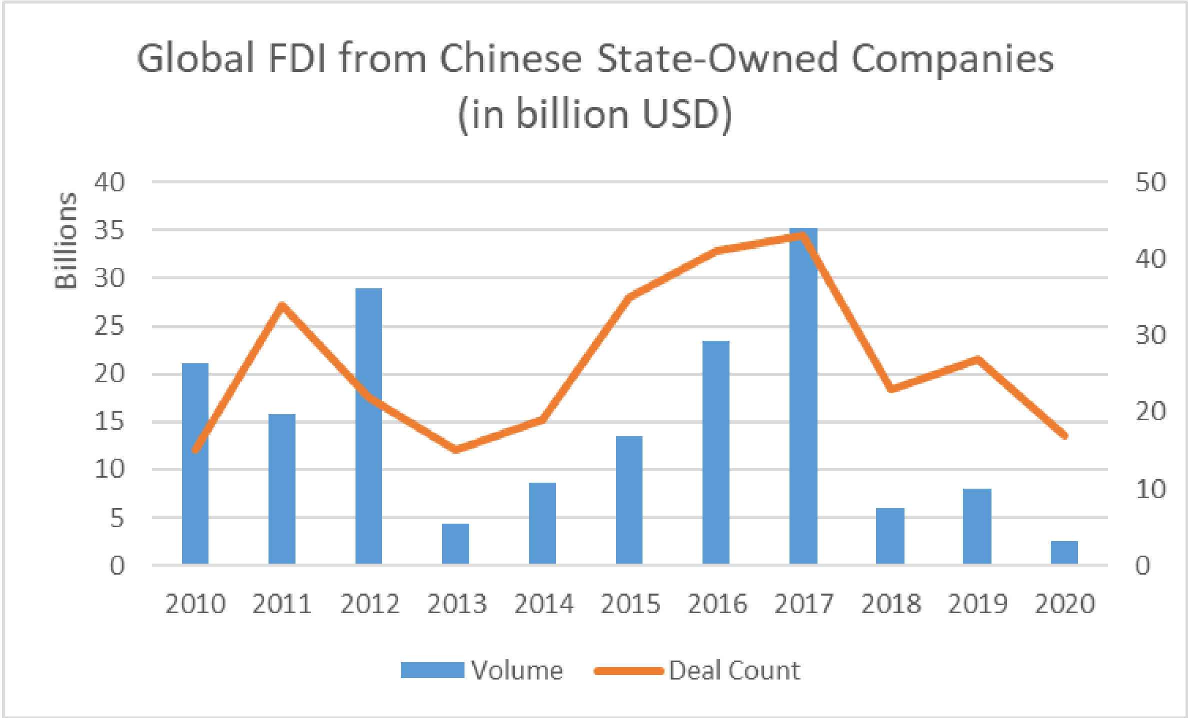

Figure 8 - Source: Bloomberg. Note: all equity investments made outside China by Chinese SOEs (as considered by Bloomberg Intelligence) and companies owned at least 10% by the government or its SOEs

Figure 9.

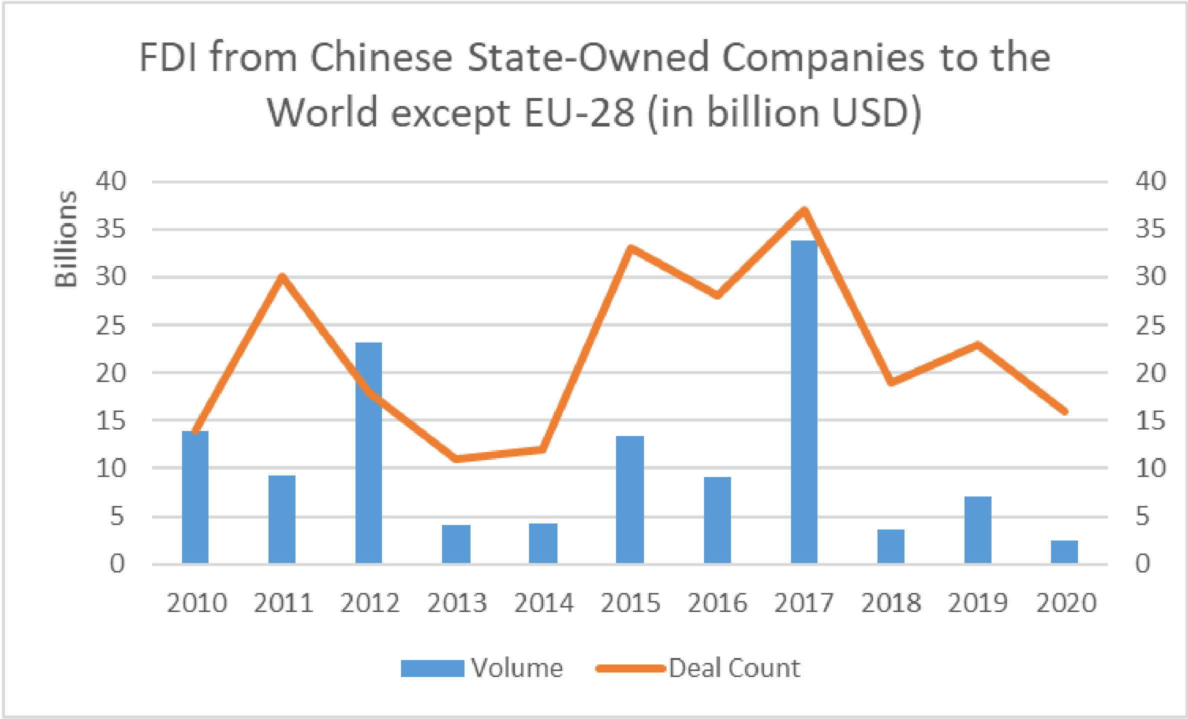

Figure 9 - Source: Bloomberg. Note: all equity investments made outside China by Chinese SOEs (as considered by Bloomberg Intelligence) and companies owned at least 10% by the government or its SOEs; EU-28 countries were excluded from the Target/Seller data

Figure 10.

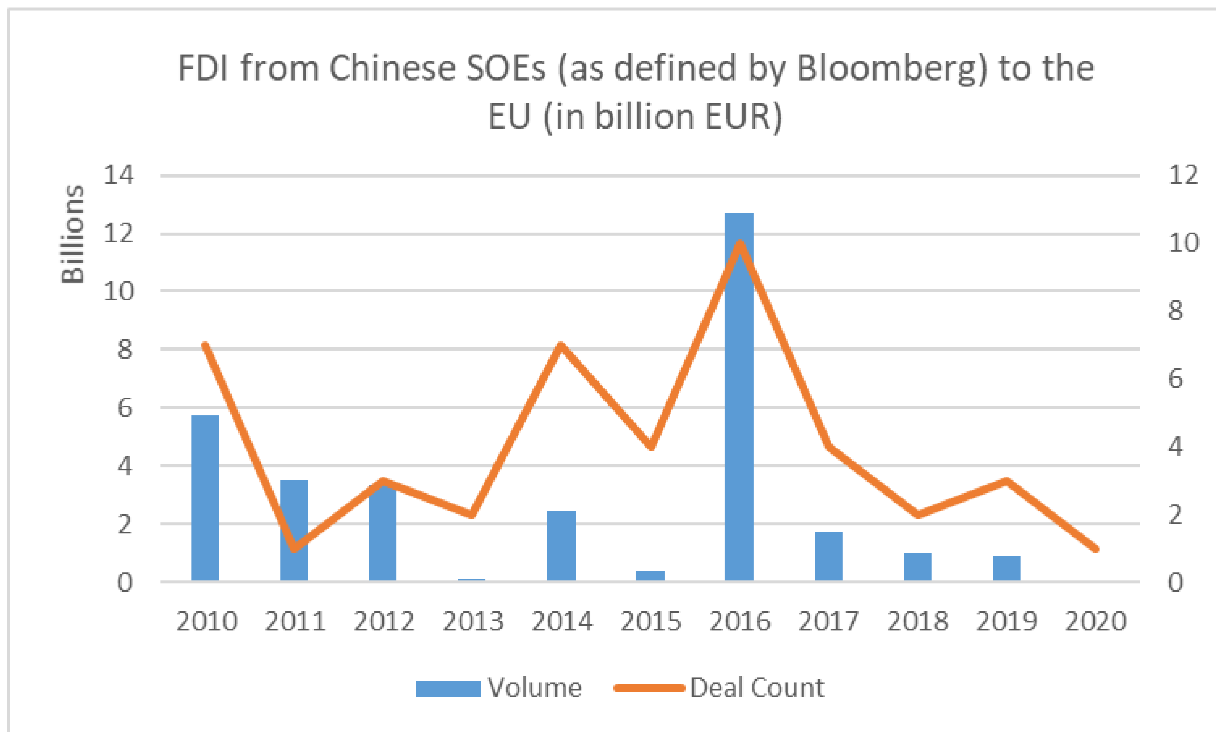

Figure 10 - Source: Bloomberg. Note: only comprises the companies which Bloomberg identifies as SOEs.

Figure 11.

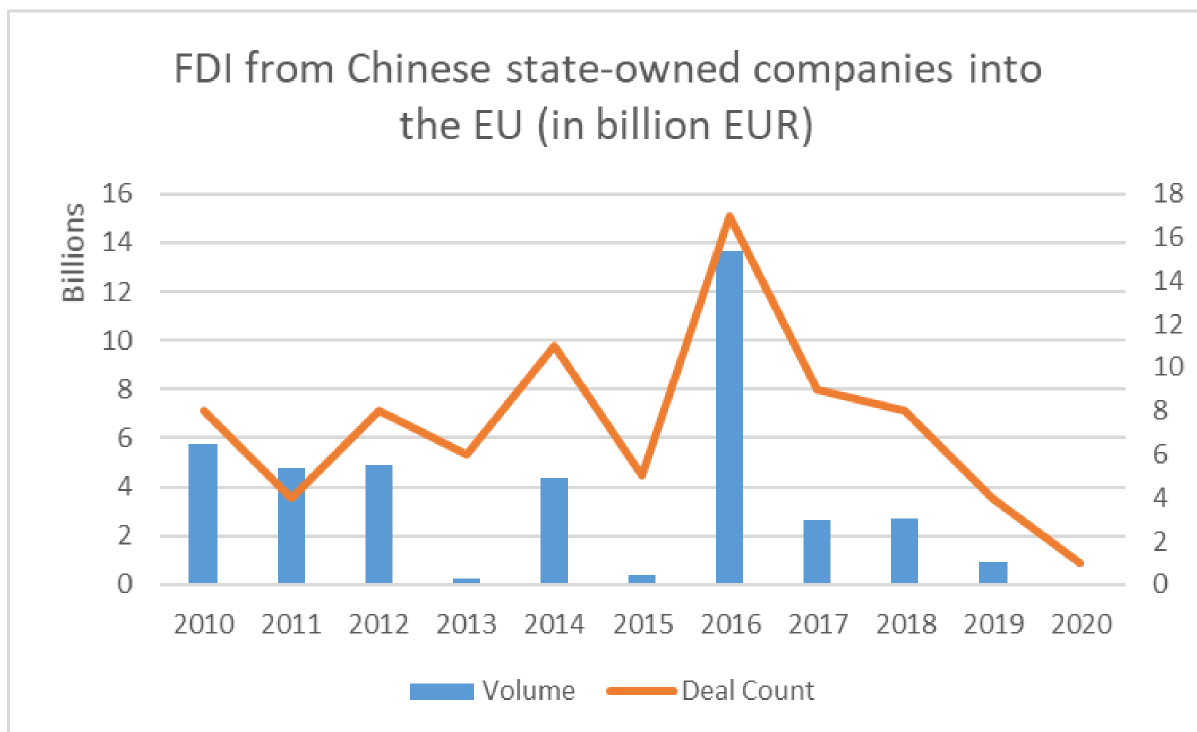

Figure 11 - Source: Bloomberg. Note: State-owned = SOEs (as identified by Bloomberg) + all companies with at least 10% equity owned by the Chinese government (when this information is public and/or has been retrieved by Bloomberg).

Figure 12.

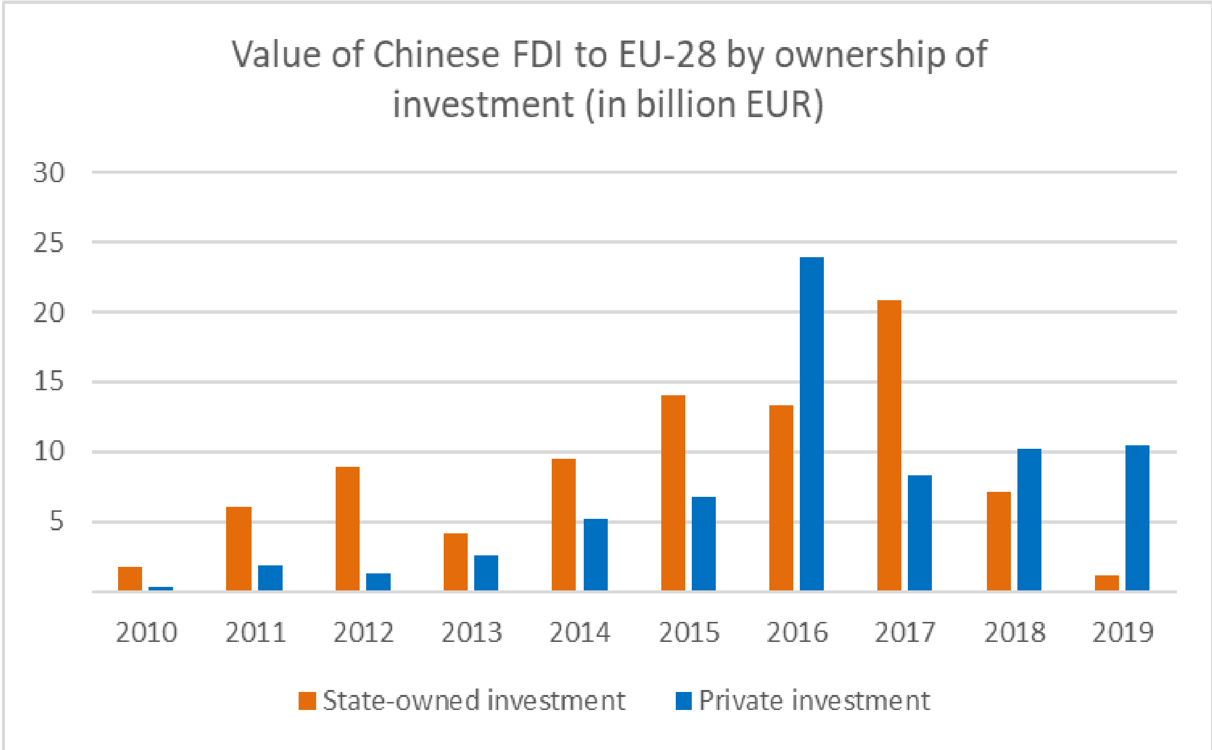

Figure 12 - Source: Rhodium Group Database. Note: State-Owned Investors are considered as companies that are at least 20% owned by the Chinese government or a Chinese SOE

Figure 13.

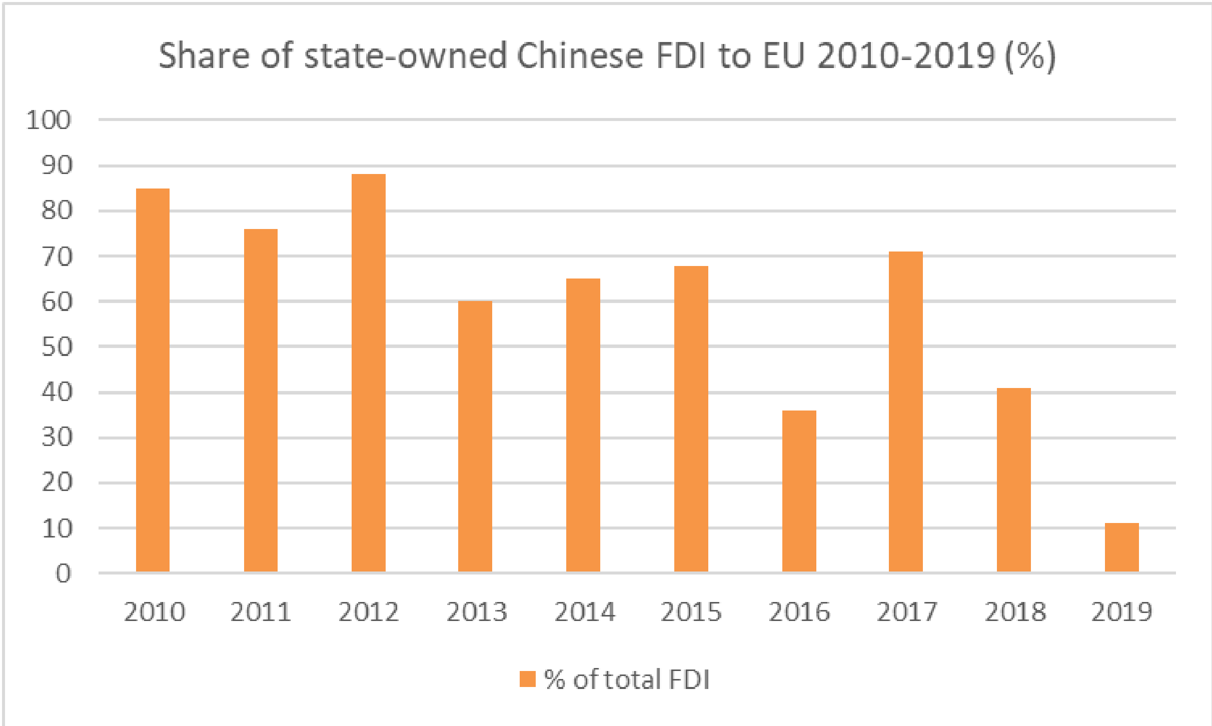

Figure 13 - Source: Rhodium Group Database, published by MERICS in April 2020. Note: State-Owned = companies that are at least 20% owned by the Chinese government or a Chinese SOE

Figure 14.

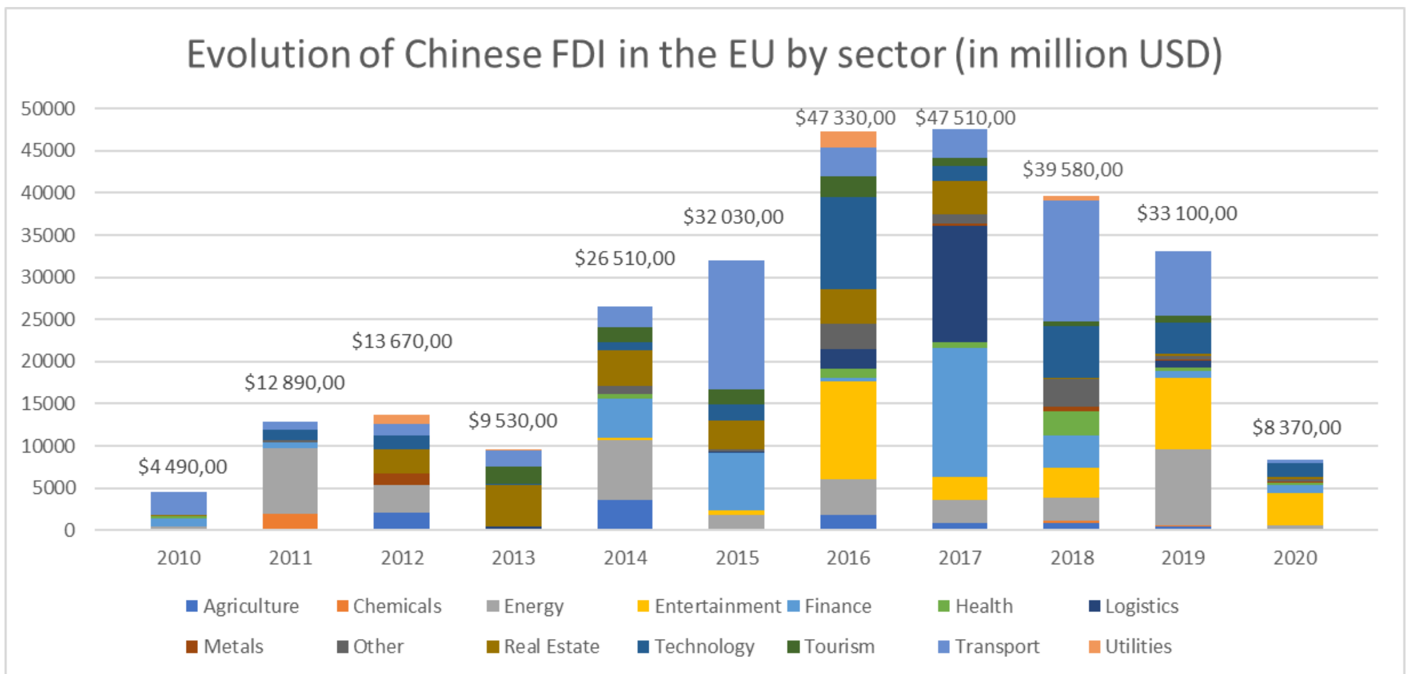

Figure 14 - Source: China Global Investment Tracker by the American Enterprise Institute. Note: The China Global Investment Tracker database contemplates mostly larger investments but does not show the same limitations as Bloomberg, thus englobing more types of investors and investments. As such, the absolute volumes shown above may exceed those of the Bloomberg database.

Figure 15.

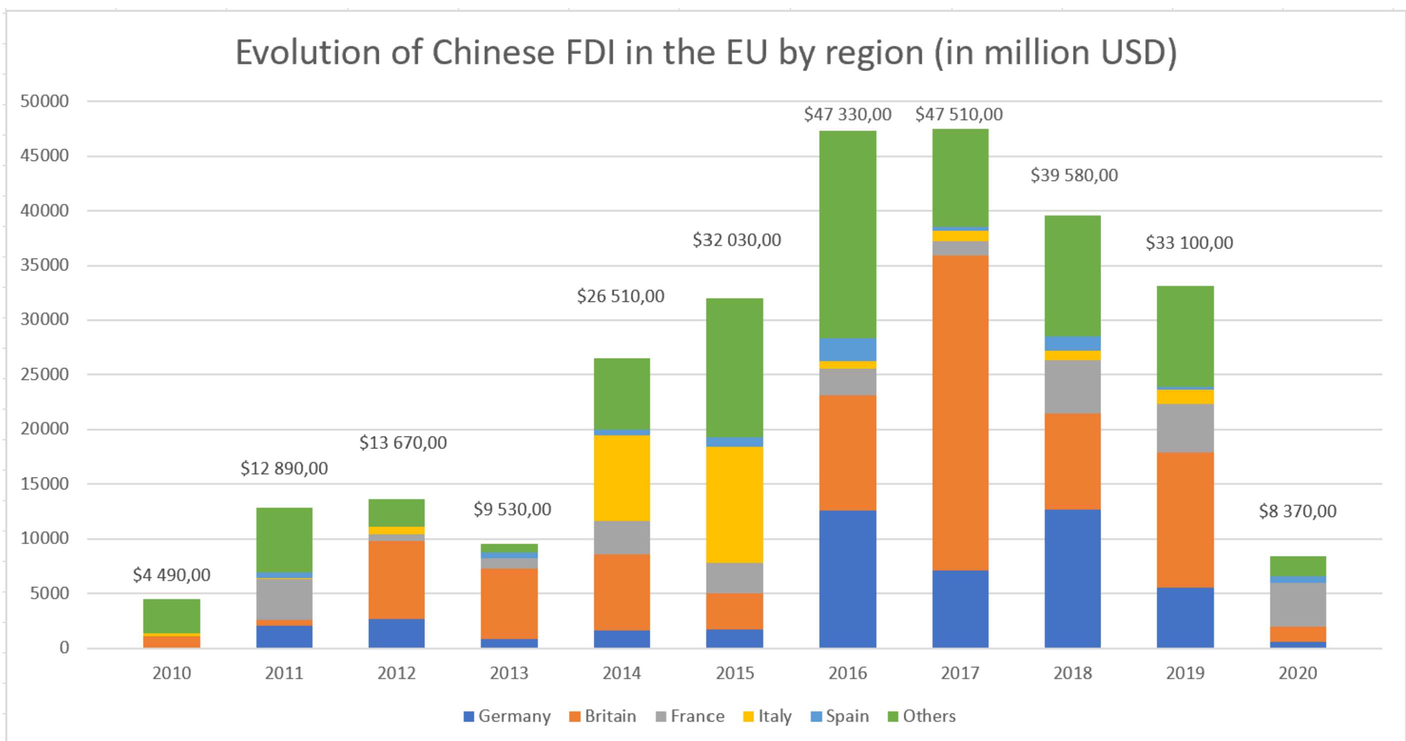

Figure 15 - Source: China Global Investment Tracker by the American Enterprise Institute. Note: "Others" includes all other countries belonging to the EU-28. However, the countries with higher impact since 2017 were Denmark, Sweden, Finland, Poland, Czech Republic, Hungary, Slovenia, Greece, Croatia, Portugal and Belgium.