Emerging Giant Shaking Up the EU?:

Impacts, Challenges and Implications of China's Investment Frenzy in Europe

Fatoumata Diallo
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ASIA PAPER
March 2020

Institute for Security & Development Policy

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Niklas Swanström

V. Finnbodavägen 2, Stockholm-Nacka, Sweden
www.isdp.eu

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Printed in Lithuania
ISBN: 978-91-88551-16-0

Distributed in Europe by:

Institute for Security and Development Policy
Västra Finnbodavägen 2, 131 30 Stockholm-Nacka, Sweden
Tel. +46-841056953; Fax. +46-86403370
Email: info@isdp.eu

Editorial correspondence should be directed to the address provided above (preferably by email).

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Summary

- **Chinese Foreign Direct Investment (FDI)** has experienced an exponential surge globally over the past decade, challenging the traditional norms of international investment. This phenomenon is the result of a long series of policies formulated by the Chinese government, that have ushered in key reforms driving China's economic liberalization and its integration into the global economy. While initial reforms launched under the aegis of Deng Xiaoping in the 1970's, were conceptualized as a tool to attract foreign capital and know-how, the onset of the millennium marked a **new phase in China's internationalization strategy**, with Chinese multinationals staggeringly expanding their presence abroad and conquering global markets**.**

- The influent **role of the party-state** in shaping economic policies has remained a perennial element of China's governance model. A thorough examination of the evolution of FDI policies since the opening-up reforms, and the linkages between the Chinese government and commercial actors, evidences that this system has been further consolidated under President Xi Jinping's leadership, as strong institutional, managerial and legal control mechanisms remain in place to ensure the party-state apparatus a decisive power over all corporate decisions that it has deemed necessary to its objectives.

- Forty years into the economic liberalization drive, China's FDI policies and strategy have undergone major restructuring. While the core motives and strategies driving the internationalization of

Chinese firms still partly derive from a complex set of **commercial priorities** (resource-seeking, market-seeking and strategic asset-seeking interests), the strong interconnection between the Chinese party-state and business actors also creates overlaps with **political and geostrategic considerations**. Increasingly, FDI is mirroring President Xi's ambitious vision for **the nation's modernization**, including the **rebalancing of the economy** towards a new model of growth and the industrial policy objectives of building China into a **global technological and innovation leader.** It also contributes to supporting flagship projects such as the **Belt and Road Initiative (BRI)** and the **Made in China 2025** plan.

- The **post-2008 global recession** and China's **GDP growth slowdown** – a result from its economic rebalancing efforts, created stronger impetus for Chinese firms to invest overseas and particularly in Europe. Chinese FDI in Europe **experienced an unprecedented** peak between 2015 and 2016, with the core EU countries retaining the lion's share of investments, although Eastern Europe is increasingly gaining traction as an investment destination through **the "17+1" framework.**

- Concerns have, however, emerged about the long-term consequences of Chinese firms' foray into European markets, as the accelerated trend of acquisitions in strategic sectors as well as the lack of reciprocity and openness in commercial relations with China, entails **far-reaching consequences for the competitiveness and technological leadership of European enterprises** on the long term. The overbearing involvement of the Chinese party-state in the commercial sphere also raises key political and geo-strategic challenges for European countries, considering the risks of a "trojan horse" effect disrupting EU norms and unity, and the potential threats to national security it entails.

- Despite those challenges, it would be counterproductive to interpret Chinese economic engagement solely as a predatory geopolitical move to weaken the EU and "buy off" its technology. Investments from Chinese enterprises **represent important opportunities for EU countries,** conditioning the need to adopt a pragmatic approach, **balancing the risks and gains** of engaging with this emerging economic giant.

Introduction

December 2018 marked the 40th anniversary of China's reforms and opening-up policy. During those four decades, the country underwent major reforms and transformations, becoming a fast-rising economic heavyweight both regionally and globally. China has notably managed to position itself as a major capital provider overseas, outgrowing its traditional role of Foreign Direct Investments' (FDI) recipient. Driven by a strong expansion of its multinational enterprises (MNEs) abroad, Beijing became the world's second largest outbound FDI provider in 2018.

Europe, in particular, has been an increasingly attractive destination for Chinese enterprises in their internationalization efforts. This expanding economic footprint in the region, although met with enthusiasm by some, has brought about a growing wave of uncertainty among EU policymakers, which have now dubbed Beijing both "an economic competitor in the pursuit of technological leadership" and a "strategic rival promoting alternative models of governance".[1]

Underpinning this position is an acknowledgement of the economic and security challenges associated with the European penetration of Chinese enterprises guided by a party-state establishment firmly entrenched at the core of political, economic, legal and military power. On the one hand, concerns have crystallized around Chinese State-owned enterprises' (SOEs) acquisitions of industrial "crown jewels" and cutting-edge technology - which could pose competitive threats to EU countries over the long-term.

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[1] EU Commission. "EU-China – A Strategic Outlook." European Commission and HR/VP Contribution to the European Council, March 12, 2019. https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf

This European "shopping spree" has included, among others, the takeover of Italian tiremaker Pirelli by China National Chemical Corp. in 2015, as well as the acquisition of Swedish car manufacturer Volvo by China's Geely in 2010. On the other hand, Chinese SOEs' acquisitions of critical infrastructure – such as the high-profile takeover of the Piraeus Port by COSCO in Greece and the recent push of the telecommunication company, Huawei, to build European 5G infrastructure – have further exacerbated national security concerns.

With a view to providing a deeper understanding of what the new internationalization drive of Chinese firms in Europe entails, this paper invites new reflections on China's changing role in the global economy.

It firstly first draws an overview of the evolutions in China's overseas FDI policies, as well as insights into the influence of the Chinese party-state in this economic expansion. It further seeks to outline the recent state of Chinese investments in Europe, while highlighting the geo-strategic, commercial and political motives underlying them.

In light of the stronger intersection between economic and security challenges in policy formulation, this paper also aims to analyze the economic, political and security challenges arising from the surge of state-supported Chinese investments in Europe and their potential implications for EU interests in the long-term.

The Rise of Chinese Overseas FDI

The Evolution of China's Governmental Outbound FDI Policies

Following the launch of the reforms and opening-up policy in 1978, under the impulse of Deng Xiaoping, the Chinese government started implementing measures to facilitate exchanges with the aim of boosting growth and achieving economic modernization. As China mainly sought to attract foreign capital during this period, inward FDI grew exponentially while strict control imposed on capital outflows retained outbound FDI to a near-zero level. Outbound FDI experienced a small increase in the 1990s, as China started implementing its industrial rationalization policy, centering on reducing industrial over-capacities and creating national champions able to compete globally.[2]

However, the real turning point came in 2000 with the introduction of the "Going Out" policy (走出去 *zou chu qu*), a governmental plan encouraging the internationalization of Chinese firms. The growing awareness of China's technological gap compared to Western countries was an important factor in the government's decision to relax its outbound FDI policies. China's accession to the World Trade Organization (WTO) in 2001 further facilitated its liberalization efforts and its integration to the global economy. In 2003, for the first time, the Chinese government authorized investments from private firms abroad and in 2007, it created China's Investment Corporation (CIC), a national sovereign fund, in charge of developing overseas investments and diversifying foreign exchange reserves. The need to secure access to natural resources became the major driver behind China's

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[2] National champions include companies such as Lenovo, Haier or TLC.

outbound FDI policies, with large central SOEs such as Sinopec, PetroChina or CNOOC investing significantly in developing countries in Africa and Latin America.

Forty years after the launch of the opening-up reforms, Chinese firms appear to have entered into a "new era" of internationalization. The traditional FDI focus has increasingly shifted away from natural resources and raw materials towards advanced technologies. This change can partially be explained by the rebalancing of the Chinese economy towards domestic consumption but also by the industrial re-orientation towards added-value manufacturing, as envisioned by the "Made in China 2025" Industrial Plan,[3] which has deemed technological innovation a key goal for the country's modernization. Those developments have induced a growing need for investments in more developed countries in Europe and North America.

Nevertheless, since 2016, as part of President Xi Jinping's anti-graft efforts - the Chinese government has adopted a stricter approach to outbound FDI. This new trend can mainly be put down to the endemic dissimulation of fraudulent practices, especially through merger and acquisition (M&A) transactions, which have been exacerbating fragilities in the country's financial system. In this context, the government started cracking down on overseas investments perceived as irrational to control capital outflows. The move is also an attempt to preserve the foreign exchange reserves which have been depleting significantly over the past years, hitting a record low of EUR 2,9 trillion in 2016.[4] Restrictions have had greater negative impacts on private-owned companies, as SOEs still receive substantial support,

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[3] Chen, Yu-Wen, Obert Hodzi, Patrycja Pendrakowska, Cai Yiping, Cecilia Milwertz, 施万通 Niklas Swanström, and Fatoumata Diallo. "Made in China 2025 - Modernizing China's Industrial Capability." Institute for Security and Development Policy. http://isdp.eu/publication/made-china-2025/.

[4] Wei, Lingling. "China's Forex Reserves Plunge to More-Than-Three-Year Low." The Wall Street Journal. Dow Jones & Company, February 7, 2016. https://www.wsj.com/articles/chinas-forex-reserves-plunge-to-more-than-three-year-low-1454816583.

especially for investments in President Xi's flagship project, the Belt and Road Initiative (BRI).

Blurred-Lines: The Role of China's Party-State in the Economy

China's governance system is characterized by a firm control of the integrated Party-State apparatus over the country's economy, with the Chinese Communist Party (CPC) retaining the ultimate political authority in terms of corporate governance. This influence is perceivable through the governance and management system of state-owned enterprises. Since 2003, the activities of Chinese SOEs are administered by the central and local branches of the State-owned Assets Supervision and Administration Commission (SASAC), under the supervision of China's State Council. The National Development and Reform Commission (NDRC) also plays a role in approving domestic infrastructure projects spending and overseas investments.[5]

The influence is further granted through a financial scheme that allows SOEs access to important subventions through state banks - such as China Development Bank and China Exim Bank. This process therefore intertwines their interests closer to the ones of the government.

The selection process for executive leadership of state-owned firms is also generally overseen by the organizational department of the CPC.[6] SOEs are required to have party committees whose appointees usually assume leadership functions and can participate in all the major managerial and financial decisions. The joint appointment of individuals serving

[5] Wendy Leutert, "Firm Control: Governing the State-owned Economy Under Xi Jinping", China Perspectives, 2018/1-2 | 2018, 27-36. http://journals.openedition.org/chinaperspectives/7605 ; DOI : https://doi.org/10.4000/chinaperspectives.7605

[6] Rithmire, Meg. Varieties of Outward Chinese Capital: Domestic Politics Status and Globalization of Chinese Firms, Working Paper 20-009, Harvard Business School, 2019. https://www.hbs.edu/faculty/Publication%20Files/20-009_6c9e3091-9950-4a2b-baa2-633e823eca47.pdf

simultaneously as board chairman and Party secretary is a considerable tool allowing the party to strengthen its decision-making power. Efforts to consolidate the party's leadership over the economy have greatly intensified since the beginning of President Xi's leadership. Upon his arrival to power in 2012, Xi's rhetoric was touted as being relatively liberal and reformist, however, the policies he later implemented disproved this hypothesis. Xi encouraged an authoritarian revival and a recentralization of power which allowed him to increase the party's control over the activities of central and local business actors, both domestically and overseas. He stressed on several occurrences that SOEs should serve as important vehicles to implement decisions made by the CPC's Central Committee, including foreign policy strategies such as the "Going out" policy, Made in China 2025 and the BRI.[7]

Party building efforts have also been extended to the country's private sector after the release of the CPC's Central committee "*Document No. 11 on Strengthening and Improving Party Building in Non-Public Enterprises"* in March 2012. New directives included institutional measures such as sending "party-building instructors" and "increasing party organizations" in private enterprises. [8] Official Chinese data estimated that, by the end of 2017, a total of about "1,877 million non-public enterprises had established Party organizations, accounting for 73.1 percent of the total number of non-public enterprises".[9] It also entailed recruiting private entrepreneurs into the party or rewarding them with prestigious political positions.[10]

As both the public and private sectors have direct or indirect connections with the party-state apparatus, the traditional dichotomy therefore tends to

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[7] Song Wei. "Xi Stresses CPC Leadership of State-Owned Enterprises." China Daily, 12 December 2016. http://www.chinadaily.com.cn/china/2016-10/12/content_27035822.htm.

[8] General Office of the Central Committee of the Communist Party of China. "Zhōng bàn fā 11 hào, guānyú jiāqiáng hé gǎijìn fēi gōngyǒuzhì qǐyè dǎng de jiànshè gōngzuò de yìjiàn (shìxíng)", 2012. http://www.taxsky.com/index.php?m=content&c=index&a=show&catid=6&id=50521

[9] http://news.12371.cn/2018/06/30/ARTI1530340432898663.shtml

[10] Yan, Xiaojun, and Jie Huang. "Navigating Unknown Waters: The Chinese Communist Party's New Presence in the Private Sector." The China Review (2017): 37-63.

lose its relevance in the case of China. A striking evidence of this claim is that, among the four types of SOEs in China,[11] some enterprises can be "owned at less than 50 percent by the state" but still be under its control through pre-established agreements.[12] Since the ownership percentage on paper does not always reflect the reality in terms of actual control, some enterprises can mistakenly pass for private. Besides, statistical classification for the Chinese private sector includes both "privately-run" (sīyíng qǐyè 私营企业) and "people-run" enterprises (mínyíng qǐyè 民营企业). The latter encompasses a vast mix of different entities, which are sometimes subsidized by the state - including companies such as Huawei or Tencent, to name but a couple.

In all cases, strong institutional, managerial and legal control mechanisms remain in place to ensure that the party-state will have decisive power in all corporate decisions that it has deemed necessary to its objectives.

[11] (1) wholly owned by the state, (2) owned at more 50 percent by the state, (3) subsidiaries owned at more than 50 percent by SOEs, (4) owned at less than 50 percent but controlled by the state through pre-established agreements.

[12] SASAC. Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises, Order No. 32, 2016. http://en.pkulaw.cn/display.aspx?cgid=274306&lib=law

Key Dimensions of Chinese Investment Interests in Europe and Implications for Recipient Countries

Chinese Outbound FDI in Europe: Recent Trends

Virtually non-existent at the beginning of the 2000s, Chinese FDI in Europe has grown considerably over the last decade.[13] The 2008 global financial crisis contributed significantly to the acceleration of this trend, especially as countries in the region were grappling with a weakened euro and restricted access to financial capital. In 2009, Chinese FDI in the EU amounted to EUR 2 billion and by 2011 this reached EUR 18 billion – surpassing, for the first time, EU investments in China. This figure then rose to EUR 20.7 billion in 2015 and peaked to EUR 37 billion in 2016.

However, in 2017, Chinese FDI experienced a sharp decline, which pursued its course in 2018. The total investment figure amounted to a relatively modest EUR 18.9 billion for that year, down 36 percent from EUR 29.8 billion in 2017.[14] The downward trend partly reflects the stricter controls on capital outflows in China aiming at reigning in financial risk.[15] It also results from the increasingly hostile regulatory investment environment in Europe after the implementation of FDI screening system regulations at the national and

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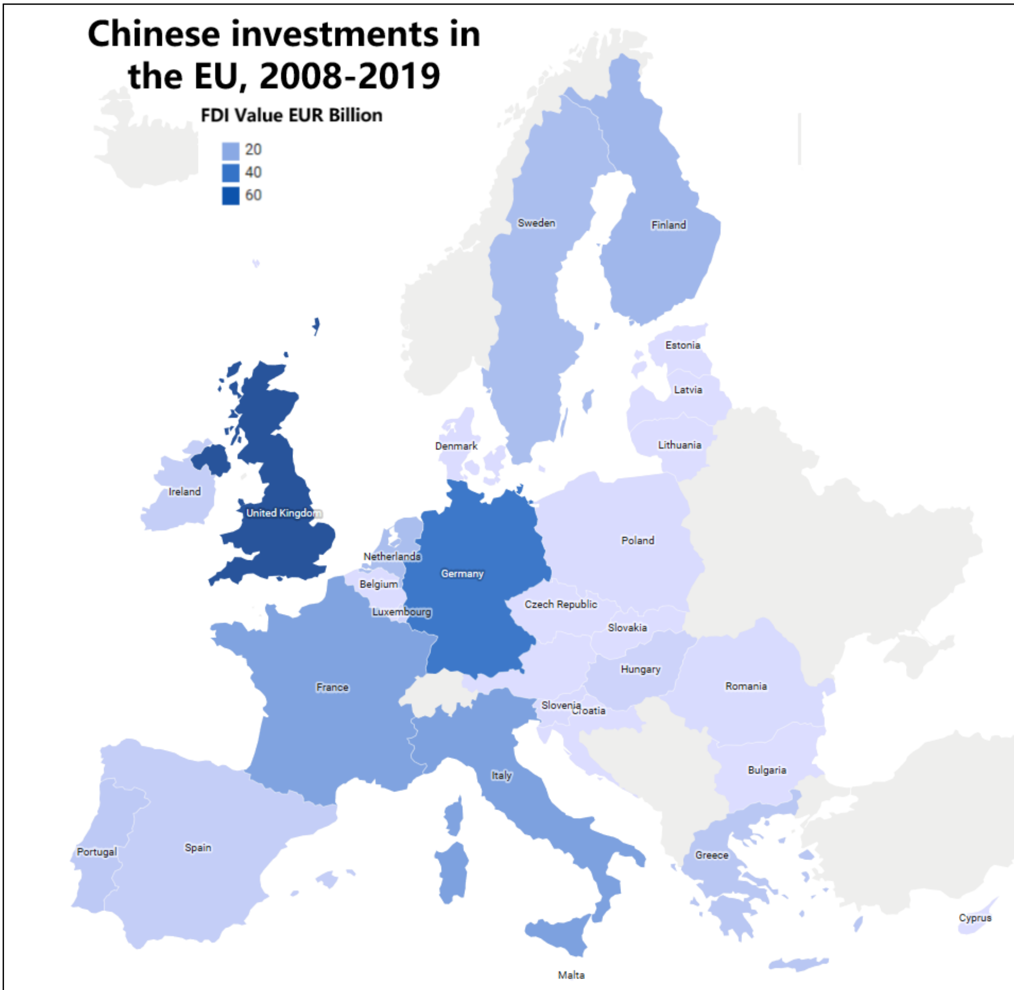
[13] The traceability of Chinese FDI remains complex due the channeling of tax havens and financial centers.

[14] EU Commission. "People's Republic of China <> European Union Direct Investment, Q 2018 and Full Year 2018 Update." Cross Border Monitor (CBM), January 16, 2019. https://trade.ec.europa.eu/doclib/docs/2019/april/tradoc_157871.pdf.

[15] Rhodium Group, "Rising Tension - Assessing China's FDI Drop in Europe and North America.", 2018. https://www.bakermckenzie.com/-/media/files/insight/publications/2018/04/rising_tension_china_fdi.pdf?la=en.

EU-wide levels.[16] Data shows that investments are still largely dominated by **M&A activities ,** with **greenfield investments** remaining modest. They accounted for more than 90 percent of the total Chinese FDI in the EU in the first quarters of 2018 and 2019.[17]



Map 1: Chinese Investments into the EU, 2008-2019
Source: Raw data from American Enterprise Institute, Rhodium Group. Map by ISDP

[16] European Parliament. "Regulation 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union". Document 32019R0452, EUR-lex, 2019. https://eur-lex.europa.eu/eli/reg/2019/452/oj

[17] EU Commission. "People's Republic of China <> European Union Direct Investment, Q 2018 and Full Year 2018 Update."

Chinese FDI Transactions in the EU by Type

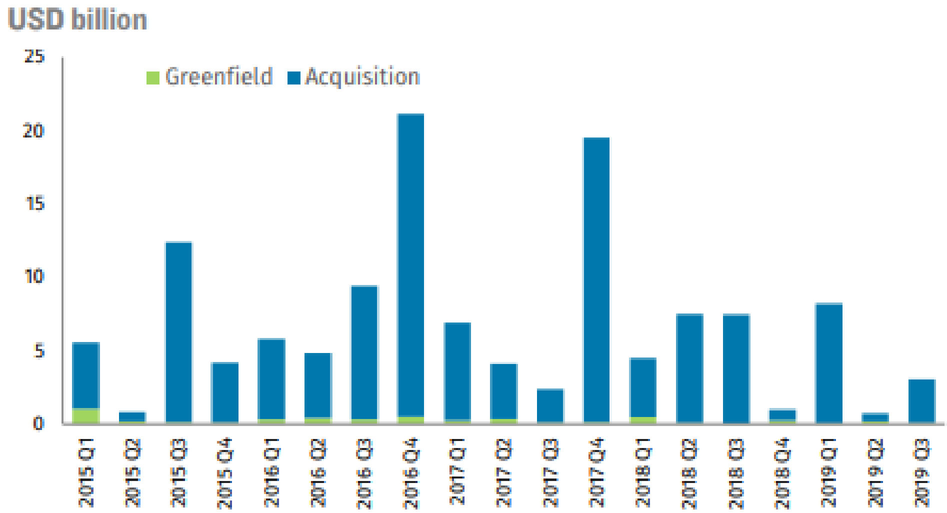


Chart 1: Chinese FDI Transactions in the EU by Type
Source: Rhodium Group.

Chinese FDI Transactions in the EU by Ownership

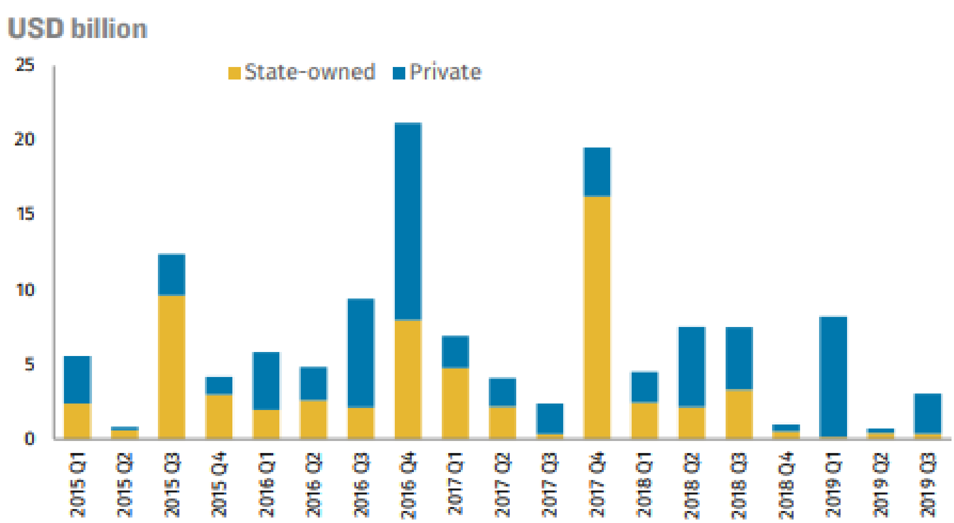


Chart 2: Chinese FDI Transactions in the EU by Ownership
Source: Rhodium Group.

The share of investments from state-owned entities appears to have been decreasing in recent years, falling from 71 percent in 2017 to 40 percent in 2019.[18] This new trend could be dissimulating attempts from mixed-ownership companies to label themselves as private in the hope of avoiding stigmatization. Amid financial difficulties at home, the number of financial investments from Chinese enterprises have significantly decreased in the past year in favour of strategic investments, which went from 53 percent in 2017 to barely 10 percent in the last quarter of 2018.[19]

In terms of geographical distribution, Western Europe retains the bulk of Chinese outbound FDI, with the three core EU economies - the United Kingdom, Germany and France - being among the largest FDI recipients in 2018. They received EUR 4.4 billion, EUR 2.2 billion and EUR 1.6 billion, respectively.[20] In a new trend, Northern Europe emerged in the top five with Sweden receiving 3,6 billion in 2018. Investments in Southern Europe accounted for about 13 percent, with Italy, Spain and Portugal leading the trend. Eastern European countries represented only 1.5 percent of Chinese investment in the EU in 2018 and were concentrated mostly in Hungary and Poland.[21]

While the main investment sectors targeted by Chinese enterprises in 2017 included manufacturing, transportation, utilities and infrastructure; in 2018, the automotive, finance and ICT sectors were leading. In 2019, there has been a greater focus on consumer goods and services, especially real estate,

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[18] EU Commission. "People's Republic of China <> European Union Direct Investment, Q 2018 and Full Year 2018 Update."

[19] EU Commission. "People's Republic of China <> European Union Direct Investment, Q 2018 and Full Year 2018 Update."

[20] Hanemann, Thilo, and Mikko Huotari. "Chinese FDI in Europe in 2017." Rhodium Group. Rhodium Group, LLC, January 4, 2019. https://rhg.com/research/chinese-fdi-in-europe-in-2017/.

[21] Hanemann, Thilo, Mikko Huotari and Agatha Kratz. "Chinese FDI in Europe: 2018 Trends and Impact of the New Screening Policies." Rhodium Group and the Mercator Institute for China Studies (MERICS), March 2019. https://www.merics.org/sites/default/files/2019-03/190306_MERICS-Rhodium%20Group_COFDI-Update_2019.pdf

hospitality, sports and luxury goods. This trend essentially reflects the rebalancing of the Chinese economy towards domestic consumption but also answers to the stronger demand for luxury goods and entertainment services from the rising upper-middle class in China. Nevertheless, the automotive and financial sectors were also part of the top three for 2019.

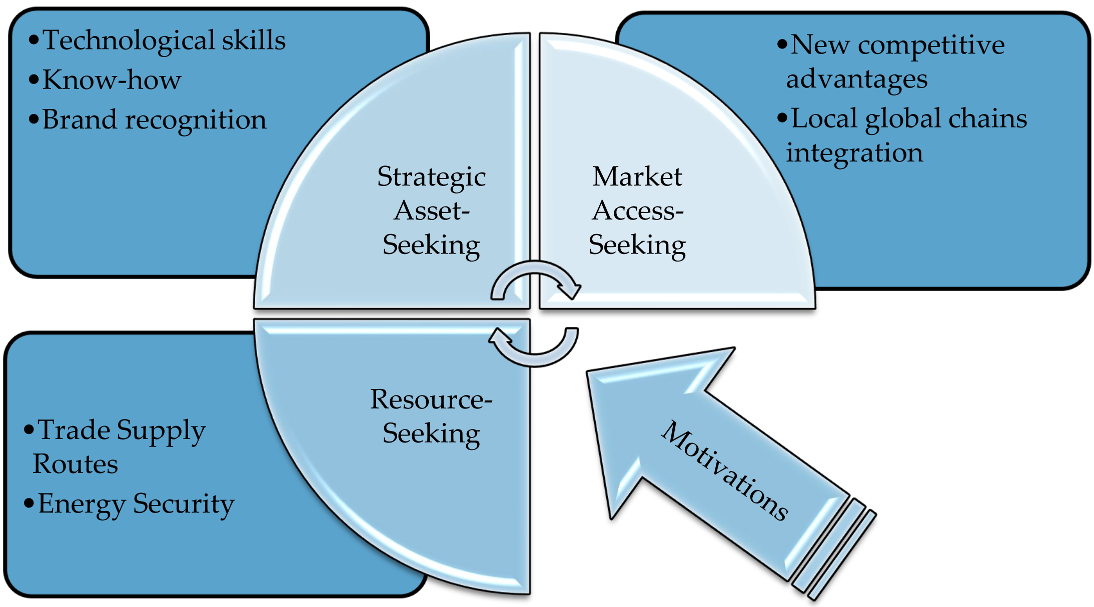
Motives and Strategies of Chinese Investments in Europe

Chinese investments in Europe answer to a first set of commercial priorities which are three-fold: resource-seeking, market-seeking and strategic asset-seeking. First, Chinese firms venture overseas to secure access to natural resources, including raw materials and energy supplies. Investments which support the development of new supply routes for trade or resources exploration contribute to this objective.

Second, faced with growing competitive pressures at home, mainly due to important overcapacities in key sectors such as construction and manufacturing, low domestic consumption and the economic slowdown, Chinese firms need access to new markets overseas that will give them new strategic positions and a comparative advantage to compete.

Third, Chinese firms are looking to acquire complementary capabilities that will facilitate their ascension in the global value-chains. Strategic overseas FDI contribute to this objective as it gives them access to new technological skills and know-how, but also industry-specific expertise and equipment. More specifically they serve in strengthening key aspects of the global value chain such as R&D, branding and marketing channel strategies.

Chinese Firms' Drivers of Internationalization



In light of the connections between the Chinese party-state and business actors, this commercial logic can also give way to political and geostrategic considerations. One of the key objectives formulated by President Xi Jinping during the 19th National People's Congress of the CPC is to position China at the top in terms of global power and international recognition by 2050. His arrival into power undoubtedly heralded the advent of a "new era" of Chinese foreign policy and grand strategy, which ruptures with the low-profile approach advocated by Deng Xiaoping. Beijing is cultivating renewed diplomatic assertiveness and aims to gain prominence on the international stage. Against this backdrop, China's 13th five-year plan (2016-2020) declared accelerating technological development to match Western nations and building China into a global digital innovation hub two key political priorities. In line with those objectives, the "Made in China 2025" plan set a strict deadline for the leadership to acquire a global position in 10 strategic industries (see Annex I).

The key impetus for the leadership consists in going from "Made in China" to "Created in China". There is a desire for firms to rupture with the traditional pattern of relying on Original Equipment Manufacturing (OEM)– which required selling their products under different exploitation licenses through countries which have a better manufacturing reputation - to enter overseas markets. They are at present encouraged to move to Origin Design Manufacturing (ODM)[22] and internationalize their own brands. Premier Li Keqiang emphasized this objective in his work report to the 19th National People's Congress in March 2018, stating that Chinese industries need to "move up to the medium-high end of the global value chain, and foster a number of world-class advanced manufacturing clusters." While achieving technological self-reliance is the final goal, China needs, in the initial stage, to "import a greater amount of advanced technology and advanced equipment" and amid greater difficulties in technological cooperation with the U.S., the EU is considered a privileged market with renewed opportunities in that regard.

Nations with top innovation capabilities (the Netherlands, Sweden, Finland, Denmark, Luxembourg) including those possessing key leadership in industrial technologies (Germany, France, the UK, Italy) are relatively important targets in this strategy, as demonstrated by the large number of greenfield investments in the form of R&D centers that they receive. China also has interest in cooperating with countries in Central and Eastern Europe – such as Poland, Czechia and Hungary – that can provide cheaper

[22] Richet, Xavier. "Geographical and Strategic Factors in Chinese Foreign Direct Investment in Europe." Asian Economic Papers 18, no. 2 (2019): 102–19. https://doi.org/10.1162/asep_a_00700. https://brics.hypotheses.org/files/2017/10/XR-FDI-in-Europe-AEP-9-2017.pdf

labor while adhering to EU quality standard (especially for the green energy sector).

Table 1. Chinese Firms Ascending the Global Value Chains

Huawei Technologies Co.

Originally a contract manufacturer, Huawei has managed to upgrade its position on the global innovation chain and to eventually become one of the leading ICT providers in China through the sustained development of R&D capabilities, which represent over 10 percent of its annual revenues.[23]

Huawei's strategy of implementation in Europe was supported by the creation of R&D Centers in major European innovation hubs (especially Germany, Sweden and Italy). It has also integrated European markets by setting up joint-ventures, notably with the German company Siemens AG that helped to manufacture its 3G wireless standards.

Supporting China's industrial policy goals overseas, the company has developed about 87,805 patented technologies since its establishment,[24] with innovation on 5G and AI being at the core of the efforts. It has currently concluded agreements on 5G infrastructure with the UK and Monaco but faces resistance amid security concerns from several EU countries.

Zhejiang Geely Group

Zheliang Geely's investments overseas mostly stem from a need to improve its innovation capabilities in order to be able to compete with international automobile brands - such as BMW, Mercedes or Audi – that are greatly sought after by Chinese consumers. In a bid to overcome its relative outsider status in China, Geely has made strategic acquisitions in Europe which increased its competitiveness domestically, but also provided access to new markets.

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[23] Huawei Investment & Holding Co., Ltd. "Huawei Annual Report 2018." Huawei, August 13, 2019. https://www.huawei.com/en/press-events/annual-report/2018.

[24] Huawei Investment & Holding Co., Ltd. "Huawei releases white paper on intellectual property." Huawei, June 27, 2019. https://www.huawei.com/en/press-events/news/2019/6/huawei-white-paper-intellectual-property

In Sweden, the company acquired a majority stake in the subsidiary company Volvo Cars in 2010 – which, at the time, was on the verge of bankruptcy.[25] In 2018, Geely further acquired a 10 percent stake in Volvo AB. The Volvo Cars acquisition allowed Geely to increase its portfolio and produce new generation types of vehicles that are more modern, smart and sustainable. The company has also proposed a merger between the two companies which would strenghten China's position as a carmaker on the global scene.[26] In Germany, Geely similarly bought a 50 percent stake in Daimler with the aim to develop smart electric cars.

China Midea Group

China Midea Group is a world leading electrical home appliance manufacturer. Just as Haier or Galanz, it is principally acting as an OEM provider - manufacturing air conditioners, fridges and microwaves - for several reputable brands (including Toshiba and Kenmore).

Over the years, Midea strongly increased its investments in technological R&D overseas. In 2016, it acquired a 10 percent stake in the leading-edge robotics German company KUKA, which allowed Midea to acquire new technological capabilities in the Industrial IoT, robotics and automation fields.[27] The company is now developing smart home systems and industrial big data platforms.

The takeover arose controversy amid concerns it would not only harm Germany's "Industry 4.0" objectives but also would present national security risks as China would obtain core technology that could have potential military use. Following the acquisition of KUKA, the German government implemented tightened regulations and screening mechanisms that lowered the stake threshold above which it can block foreign investors from buying more shares from 25 to 10 percent.[28]

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[25] Yan, Fang. "China's Geely Completes Volvo Buy." Reuters. Thomson Reuters, August 2, 2010. https://www.reuters.com/article/us-geely/chinas-geely-completes-volvo-buy-idUSTRE66S1TC20100802.

[26] Isidore, Chris. "Proposed Volvo-Geely Merger Could Create China's First Global Auto Powerhouse." CNN. Cable News Network, February 11, 2020. https://edition.cnn.com/2020/02/11/business/volvo-geely-merger/index.html.

[27] Taylor, Edward. "China's Midea Makes $5-Billion Bid for German Robot Maker Kuka." Reuters. Thom-son Reuters, May 18, 2016. https://www.reuters.com/article/us-kuka-m-a-midea-group-idUSKCN0Y90DB.

[28] UNCTAD, National Security Related Screening Mechanisms for Foreign Policy: An analysis of Recent Policy Developments, Investment Policy Monitor, 2019. https://unctad.org/en/PublicationsLibrary/diaepcbinf2019d7_en.pdf

Beijing is also moving forward with the BRI in Europe to fulfill the key geo-strategic imperatives of improving infrastructure interconnectivity, in order to secure a greater access to raw materials and energy resources over the long term, and strengthen its economic clout in the region. Given that China remains highly reliant on maritime routes for its trade commerce and has a strong dependency on chokepoints - such as the Malacca-Suez and Hormuz straits -, the BRI maritime strategy has given emphasis to the protection of Critical Sea Lines of Communication (SLOCs). The progression of its economic interests in Europe comes with deepened maritime vulnerabilities for Beijing- notably around the Mediterranean/Black Sea and the North Sea/Baltic Sea axis - in particular, given the growing U.S. military presence in those areas. In February, the "Defender 2020" operation saw the deployment of around 20,000 troops in the Baltic Sea for a divisional exercise including several NATO members, a move which has likely exacerbated Beijing's naval insecurities. For the Chinese leadership, elevating China to the status of a "strong maritime country" and developing the "blue economy" are also deemed core national goals.[29] Those factors contribute to explain the growing investments in marine infrastructure including ports and cargo terminals along the Sino-European segment of the maritime silk road. In 2017, it was estimated that Chinese SOEs - including COSCO, China Merchant Group and Qingdao Port International Development - controlled about 10 percent of the container terminal capacities in European ports [30] (see Annex II).

In parallel, the terrestrial BRI strategy in Europe consists of improving interconnectivity through the construction or rehabilitation of railway infrastructure with the aim of building a transport corridor which would

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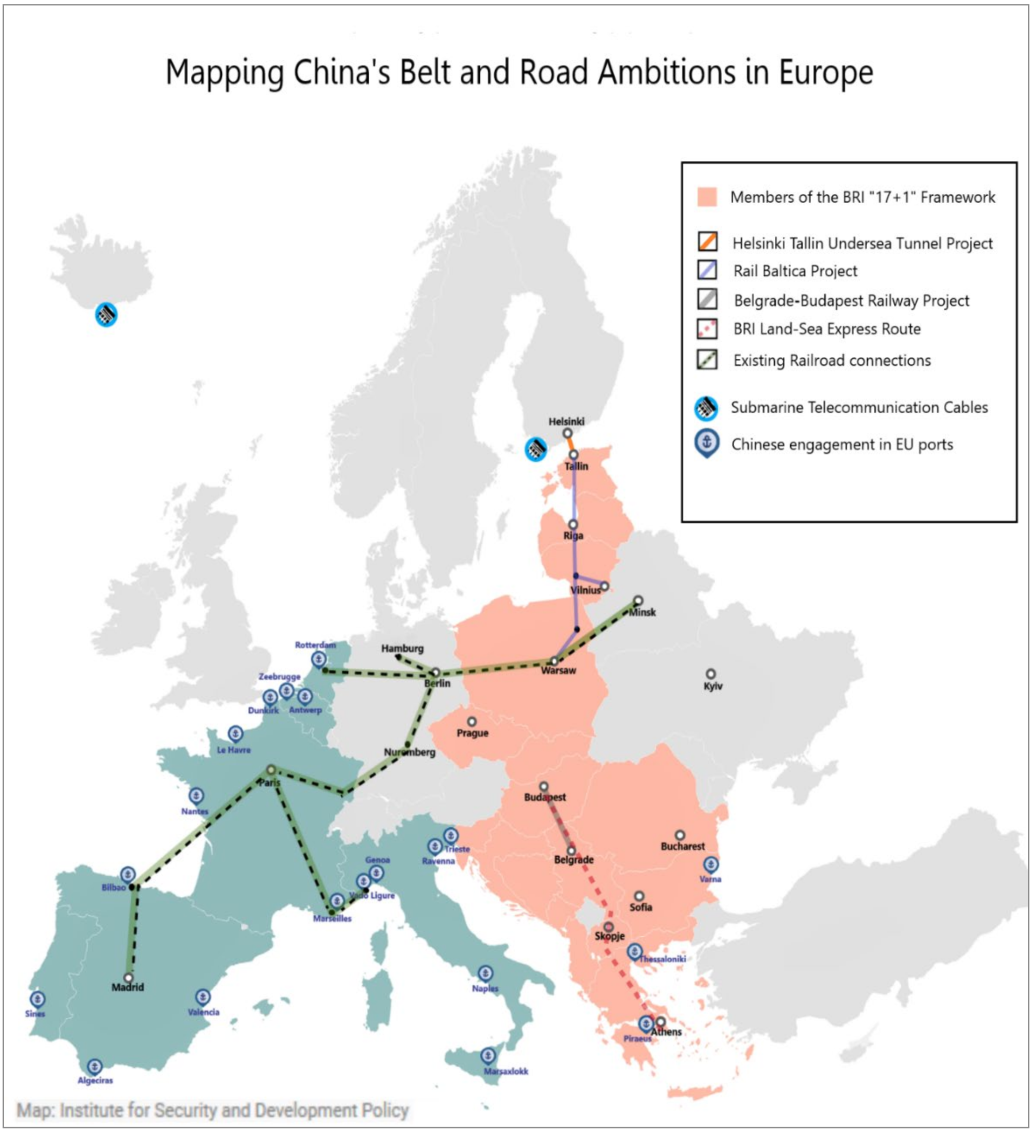
[29] Duchâtel, Mathieu and Duplaix, Alexandre Sheldon. "Blue China: Navigating the Maritime Silk Road". European Council on Foreign Affairs, Policy Brief, April 2018. https://ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-securities-studies/resources/docs/ECFR_BlueChinaMaritimeSilkRoad.pdf

[30] Vogdrup-Schmidt, Louise. "Chinese Investors Own 10 Percent of Europe's Ports." ShippingWatch. JP/Politikens Hus A/S, January 29, 2018. https://shippingwatch.com/secure/Ports/article10255334.ece.

eventually connect the Mediterranean with Central Europe, going from Greece through the Western Balkans. Serbia, given its strategic central position, will be playing a crucial role as a transit country and will serve as a new industrial and logistic hub for Chinese companies. An additional digital focus comes to complement the two first strategies.



Map 2: Mapping China's Belt and Road Ambitions in Europe
Source: Raw data from American Enterprise Institute, Rhodium Group. Map by ISDP

It has so far materialized into important investments in telecommunication networks, data centers and submarine cables projects. For instance, three SOEs, China Mobile International (CMI), China Telecom Global (CTG), China United Network Communications Group Company Limited (CU) are part of the consortium of companies operating on the *SEA-ME-WE 5* submarine cable. The Sino-British joint-venture, Huawei marine Networks, was also involved in the upgrade of the *C-Lion 1 International Backbone Network* going from Helsinki in Finland to Rostock in Germany, as well as in the *Greenland Connect* linking Nuuk to three northern cities in Greenland, and the *Azores Fiber Optic System* linking several islands Portugal.[31]

An important pattern of the BRI in Europe is the sub-regional cooperation formats embedded in the scheme. The creation of the 16+1 framework as part of the BRI, for instance, has been a critical step towards the institutionalization of cooperation between China and both Central and Eastern European countries (CEEC) and the Baltic States. China has been an active participant in railway projects in the region, including the Belgrade-Budapest high-speed railway. As part of this project, China Road and Bridge Corporation signed MoUs for the reconstruction of the– Niš – Preševo line and the modernization of the Novi Sad – Subotica highway. Beijing has also expressed its desire to participate in the Rail Baltica project which aims at linking Latvia, Finland, Estonia, Lithuania and Poland. Increasingly, China has been showing particular interest in investing in key maritime infrastructure in Ukraine including the ports of Chornomosrk and Anaklia and the multimodal terminals of Viv, Kovel and Uzhgorod. Yet, despite a sharp increase in recent years, investments in those areas still remain substantially limited compared to other European regions.

The framework was re-baptized 17+1 after the inclusion of Greece in April 2019. The country has been key recipient of Chinese investments since it was

[31] Marine. Submarine Cables Map Experience. Accessed September 29, 2019. http://www.huaweimarine.com/en/Marine/Home/Experience.

hit by the 2008 global financial crisis and became a centerpiece of China's maritime strategy in the Mediterranean rim. The state-owned China Ocean Shipping Company (COSCO) has made high-profile acquisitions of stakes in the terminals II and III of the Greek port of Piraeus. Its strategic location makes it a key entry point into the EU for Chinese companies. The long-term objective is to build the port into a key commerce and transportation hub, as well as an operational center for Chinese companies. The takeover by COSCO is widely regarded as a success considering that the new installations turned Piraeus into the second-biggest container port in Europe, giving a much-needed boost to Greece's economic competitiveness.

China further strengthened maritime cooperation with several other southern EU nations following the implementation in 2015 of the annual forums on China-South Europe maritime cooperation. In Spain, China has now invested in the ports of Valencia (Noatum terminal), Bilbao and Algesiras; the port of Barcelona is likely to be its next strategic Euro-Mediterranean entry point. Beijing has an advantage due to the strong incentives from the Spanish government to attract Chinese FDI in marine infrastructure. In 2015, Catalonia Trade & Investment and the Port of Barcelona created the Barcelona China's European Logistics Center (BARCELOC) which aimed at facilitating cooperation with Chinese companies that want to use Barcelona as a hub for their logistics and commercial operations in Europe and/or the Mediterranean area.[32] Italy is also playing a growing role in China's strategy in Southern Europe. In March 2019, Rome signed an MoU with Beijing in March 2019, becoming the first G7 member to join the BRI. China Communications Construction Company (CCCC) made important investments in the ports of Naples, Trieste and Genoa. In October 2019, the ports of Venice and Chioggia also signed a cooperation agreement with the Piraeus port authorities.

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[32] Barcelona China. "Barcelona China's European Logistics Center". Accessed October 21, 2019. http://catalonia.com/newsletter_news/newsletter/issue11/barceloc.jsp.

Table 2. BRI Investments in the 17+1 Framework

Belarus: The Great Stone Industrial Park

Placed strategically close to the Belarusian capital (Minsk), the Baltic sea and the Berlin-Moscow transport corridor, the Great Stone Industrial Park is expected to give Chinese companies easier market access to both European markets but also the Eurasian Economic Union (EEU).

The Belarusian Economy Ministry and Sinomach subsidiary China CAMC Engineering (CAMCE) initially had signed an agreement to develop the industrial park in 2012, leading to the creation of a joint-stock company (owned by CAMCE and China Merchants Group at 68 percent).[33] As Belarus is a landlocked country, the seaports of Klaipeda in Lithuania and Riga in Latvia have been serving as the main facilities for cargo transportation for the park.[34]

As a Special economic Zone (SEZ), the park will offer numerous benefits including tax exemptions to participating or residing companies. Several Chinese giants such as Huawei, ZTE and China Merchant Group have already registered in the project.[35]

Greece: The Piraeus Port

The Piraeus port is the key strategic hub serving China's ambitions to build a China-Europe "Land-Sea Express Route", going through both the Mediterranean and the Balkans. China COSCO acquired 67 percent in the Piraeus Port Authority (PPA) in June 2016 and its subsidiary controls Terminal II and III of the port since 2009.[36]

Investments in Piraeus port had stalled over the past three years due to the rejection of some Chinese projects by the Greek Central Archeological Council. However, with the support of the newly ruling New Democracy Party – who appears eager to

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[33] Government of Belarus. "Industrial Park Great Stone." Industrial Park Great Stone | Belarus.by. https://www.belarus.by/en/business/business-environment/industrial-park-great-stone.

[34] Portnews. "Baltic Container Terminal Signed Memorandum of Cooperation with China Merchants Group." Portnews. Accessed October 19, 2019. http://en.portnews.ru/news/281055/.

[35] EY. "The Great Stone Industrial Park in Belarus", Report, 2019. https://www.ey.com/Publication/vwLUAssets/ey-belarus-great-stone-park/$FILE/ey-belarus-great-stone-park.pdf

[36] Xinhua. "Spotlight: China Cosco Shipping Acquires Majority Stake in Greek Port". Accessed October 19, 2019. http://www.xinhuanet.com/english/2016-08/11/c_135584068.htm.

capitalize on Chinese investments - COSCO has recently managed to obtain the green light for an expansion plan of more than 556 billion EUR.

The plan notably includes the construction of a new warehouse, a cruise ship terminal, several 5-star hotels and a museum. Nevertheless, Beijing still faces opposition for the extension of the car terminal to Drapetsona and the expansion of a fourth container terminal. The Chinese-owned Piraeus Port Authority has selected Huawei to be the major company conducting the IT network redesigning for the new extension plans.

Estonia & Finland: The Helsinki-Tallinn Tunnel

The 100km long Helsinki-Tallinn undersea tunnel, which is part of the development of the FinEst Bay Area, is expected to be the largest infrastructure project in Northern Europe. The objective is to create a twin-city region serving both as a logistic hub and an innovation cluster.

Three Chinese companies (China Railway International Group, China Railway Engineering Company and China Communications Construction Company) have signed MoUs with the Finest Bay Development company to cooperate on the construction of the tunnel, which is expected to be operational by December 2024. The Chinese investment fund company Touchstone Capital Partners has also pledged 15 billion euros to support the project.[37]

The FinEst Bay Area Development company is also involved in the construction of a railway project between Rovaniemi in Finland and Kirkenes in Norway as part of an Arctic corridor project which has already sparked interests of a few Chinese companies.[38] For Beijing strengthening its economic presence in Finland is therefore a strategic way to both reinforce its position in the Baltic Sea, but also to fulfill its ambitions for a Polar Silk Road.

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[37] Finest Bay Area. “Three Chinese Companies to Build Tallinn-Helsinki Tunnel: Finestbay Area Development.” Accessed; October 20, 2019. https://finestbayarea.online/three-chinese-companies-build-tallinn-helsinki-tunnel.

[38] Eilertsen, Hege, and Krestia DeGeorge. “When Will Europe's Arctic Railway Be Built? That Could Depend on Cargo Volumes.” ArcticToday, August 29, 2018. https://www.arctictoday.com/will-europes-arctic-railway-built-depend-cargo-volumes/.

China has also reinforced its economic and diplomatic relations with Nordic countries, which it considers as major European gateways to the Arctic. Seeking to establish itself as a stakeholder in the region, Beijing has labeled itself as a near-Arctic state and integrated the Arctic council as an observer member in 2013. The country has also sought to boost its knowledge capabilities in the region with investments in scientific research centers - including the China Iceland Joint Arctic Science Observatory and the China Nordic Research Center - but also several Arctic expeditions carried out by its polar icebreakers (Xue Long I-II). Motivating this interest are the new strategic and economic opportunities resulting from the abrupt climatic changes in the Arctic, which gives China new possibilities for the construction of a "Polar Silk Road" as part of the BRI. The aim is to develop a "blue economic passage" leading up to Europe via the Arctic Ocean.[39] In light of this, COSCO has recently conducted commercial trial voyages in the Arctic, in order to explore potential shipping routes that could reduce freight time for Chinese shipping companies.[40] Beijing also seeks to strengthen its position in the region to gain easier access to natural resources under the permafrost. Chinese companies such as China's Shenghe Resources and China Nonferrous Metal are already involved in extractions of precious metals and rare earth elements in Greenland and China National Offshore Oil Corporation (CNOOC) and China National Petroleum Corporation (CNPC) operate in Iceland and along the Russian coast for the extraction of hydrocarbon resources.[41]

With the lack of infrastructure being the major factor inhibiting the development of new projects, the Chinese government is also actively

[39] Xinhua, "Vision for Maritime Cooperation under the Belt and Road Initiative". June 20, 2017. http://www.xinhuanet.com/english/2017-06/20/c_136380414.htm

[40] Zhang, Yiqian. "Chinese Commercial Ships Explore Arctic Routes amid 'Polar Silk Road' Ambitions." Global Times, February 8, 2018. http://www.globaltimes.cn/content/1088825.shtml.

[41] Zeuthen, Jesper. "Part of the master plan? Chinese investment in rare earth mining in Greenland." Arc-tic Yearbook 2017. https://arcticyearbook.com/images/yearbook/2017/Scholarly_Papers/17_Part_of_the_Master_Plan.pdf

encouraging Chinese enterprises to invest in the Arctic region in order to correct this deficit. For instance, COSCO has shown interest in participating in the construction of the deep-sea port in Iceland as part of the Finnafjord project and China Telecom has shown interest in participating in the construction of the undersea cable infrastructure for the Arctic connect project.[42] Investments have, however, encountered resistance from some countries in the region due to security concerns - especially from Denmark.[43]

Strategic Challenges of Chinese Investments and Implications for EU Interests

While trying to embrace the economic opportunities that FDI from China has generated, EU countries are also increasingly wary about the economic challenges they might bring about for the EU's overall competitiveness in the future. A first concern centers around the question of fair competition in commercial and investment relations. A common criticism addressed to Beijing relates to the unfair competitive advantages resulting from market distorting practices such as the substantial state support to Chinese SOEs - in the form of subsidies or tax incentivizing dumping activities, but also the requirements on transfers of technology imposed on foreign firms that have facilitated multiple cases of intellectual property infringement (including trade secrets, copyrights, trademarks, patents and geographical indicators).

The lack of openness and transparency in public procurements procedures further tends to facilitate legal breaches and may in case give unfair advantages to Chinese companies. It appears that on several occurrences, Chinese enterprises awarded contracts or sub-contracts to other state-owned Chinese firms without going through the standard bidding rules and

[42] Pelaudeix, Cecile. "Along the Road: China in the Arctic", European Union Institute for Security Studies, Brief Issue 13, 2018.
https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief%2013%20Arctic.pdf

[43] Matzen, Erik. "Denmark Spurned Chinese Offer for Greenland Base over Security: Sources." Reuters. Thomson Reuters, April 6, 2017. https://www.reuters.com/article/us-denmark-china-greenland-base/denmark-spurned-chinese-offer-for-greenland-base-over-security-sources-idUSKBN1782EE.

procedures. This practice, however, allows Chinese companies to circumvent EU legislation on investments screening. For instance, the Chinese company Sinohydro was awarded a contract to construct the Kichevo-Ohrid and the Miladinovci-Štip highways in Macedonia through a tender which violated standard bidding procedures.[44] Similarly, in Portugal, Chinese-owned REN bypassed the usual bidding procedures by awarding company Hengtong Optic-Electra a submarine cable contract for the Wind Float Atlantic project.[45]

The accelerated trend of Chinese firms' acquisitions of European "crown jewels" is all the more concerning to EU countries given the lack of reciprocity for market access and the level playing field for foreign investors in China. A majority of Chinese core sectors are still heavily restricted to foreign investments. Under such conditions, an asymmetrical progression of Chinese investments in Europe, with sustained investment restrictions on sectors of interests to EU investors, have the power to threaten the relative competitiveness and technological leadership of European enterprises.

Regarding political challenges, the overbearing role of party-state in the economy, which has blurred the lines between state ownership and state influence, raises legitimate concerns about the long-term implications of Chinese investments potentially influenced by the party-state's agenda. There are, in particular, strong fears about the potential trojan horse effect of Chinese investments that could potentially create divides within the EU. While, it would be exaggerated to state that Chinese investments have divided Europe, it must nevertheless be acknowledged that China has benefited from pre-existing dichotomies - such as "Old Europe"/ "New Europe", EU members/ non-members - in its economic expansion in the

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[44] Krstinovska, Ana. "The Place of Macedonia in China's Strategy for the Western Balkans". Konrad Adenauer Stiftung, 2019.
https://www.kas.de/documents/281657/281706/The+place+of+North+Macedonia+in+China%27s+strategy+for+the+Western+Balkans.pdf/ead21e16-32aa-8c14-07df-3c40696ac851?version=1.0&t=1579528320386

[45] Offshore WIND. "Hengtong Lands WindFloat Atlantic Export Cable Deal." Offshore Wind, July 11, 2018. https://www.offshorewind.biz/2018/07/11/hengtong-lands-windfloat-atlantic-export-cable-deal/.

region. Those fragmentations have been exacerbated both by the several crises experienced in the region, which have broadened divergence of economic and political interests, but also the differences in terms of bargaining power among EU countries. Beijing has, to a certain extent, exploited those weaknesses by playing the card of bilateralism in order to find softer points of entry into the European market. This strategy has largely targeted the EU's peripheral areas, where regulations and standards are laxer than in the "core" Europe; but also, countries in which the economic crisis has left a stronger political will to attract FDI.

The surge of investments in the Western Balkans through the 17+1 initiative, which coincided with a strong diplomatic charm offensive from Beijing, have sparked fears that China is attempting to change the political power balance in the region in its favor. Concerns are high that the Chinese party-state is pressuring them to support Beijing's core interests and preferred political narratives in relation to the One China policy, the South China Sea, Taiwan, Hong Kong and human rights issues. Admittedly, both Hungary and Greece, two major recipients of Chinese investments, have vetoed EU statements criticizing China's poor human rights records as well as territorial violations. Nevertheless, those countries also share common grievances and skepticism about EU policies towards them (including the austerity measures for the EU financial bailout and limited assistance for the refugee crisis), and China is seen as a good alternative. For others, backing China on those issues is also serving their national interests. Serbia, for instance, sees China – a permanent member of the UN security council- as an ally backing it on the issue of Kosovo.

Beijing has in the past often punished countries who oppose its core interests, therefore fear of economic retaliation is also pushing ideological concessions from EU countries. The decision to freeze trade relations with Norway for six years, after the country's Nobel Peace Prize Committee awarded its prize to political dissident Liu Xiaobo, is a case in point. The trend of economic pressure against countries that offer conflicting views with Beijing interests is likely to increase given that the authoritarian revival initiated by President Xi has also materialized into a reinforced political and ideological control over the overseas Chinese diplomatic corps, as evidenced by the more aggressive approach of the network of Chinese embassies in Europe on pushing the pro-Beijing agenda.

Chinese investments in the EU have also sparked multiple concerns related to national security and defense issues. Those have been exacerbated by the recognition of the risks incurred by having strategic investments coming from a non-security ally that is also increasingly participating in defense and security in Europe. In the Western Balkans, China has cultivated a privileged military cooperation with Serbia, through the sales of security equipment sales – including digital surveillance technology such as drone and facial recognition devices - and joint police patrols with the People's Army Police (PAP). Moreover, Beijing has developed a closer security cooperation with actors traditionally deemed to be a military threat by the EU, especially Russia. In recent years, there has been increased military to military exchanges between the two countries, with an important joint exercise between the People's Liberation Army's Navy (PLAN) and the Russian Navy in the Baltic Sea in 2018.

Further, there are important concerns about the dual-use potential of investments in critical infrastructure. The commercial acquisition of the Djibouti port, in the Gulf of Aden, resulted in the creation of a support base for the Chinese People's Liberation Army (PLA). Given that the PLA's Navy (PLAN) has increased its blue-water activities in the Mediterranean rim and the Baltic sea, a similar scenario in ports such as Piraeus - the geostrategic maritime node of the BRI in Europe – is not unconceivable. The PLAN is also increasingly building its naval capacities in the Arctic region, with the construction of nuclear-powered icebreakers.[46] Beyond this aspect, Chinese investments in ports gives Beijing strategic proximity to major military bases in the EU, such as the NATO response force and the allied joint force command in Naples or the III Hellenic Army Corps / NATO Rapid Deployable Corps in Thessaloniki,[47] therefore exacerbating the security risks of espionage or intelligence gathering. There is also a risk that Beijing could use its authority in the acquired ports to block deployment of military forces in case of conflicts.

There are equally important concerns about strategic investments in telecommunication infrastructure, especially Huawei's involvement in facilitating the construction of a European 5G network. The company, which has some party-state connections, is already involved in building an IT interface in the Piraeus port and the 5G network of Monaco. In addition, Chinese investments in submarine communication cables projects have been expanding significantly, both in the North and the Baltic Seas. Investments pertaining to this type of infrastructure raise security risks to a much higher level given that undersea cables are responsible for 99 percent of international data transmissions. The question of data protection should be a core concern to EU countries given the fact that the Chinese government's National Cybersecurity Law, enacted in 2017, requires network operators and critical information infrastructure providers to be "subject to government supervision". It further grants the state Network and IT authorities access to all information servers and data deemed critical, as well as the right of decision on the technical equipment used and entails strict security review and reporting requirements. It means that if Chinese security authorities - including the Ministry of public security or the

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[46] Humpert, Malte, and Krestia DeGeorge. "China's First Nuclear Icebreaker Could Serve as Test Platform for Future Nuclear Aircraft Carriers." ArcticToday, March 26, 2019. https://www.arctictoday.com/chinas-first-nuclear-icebreaker-could-serve-as-test-platform-for-future-nuclear-aircraft-carriers/.

[47] NATO. "NATO on the Map". Accessed October 24, 2019. https://www.nato.int/nato-on-the-map/#lat=52.87061266746144&lon=22.695314687500055&zoom=-1&layer-5.

Cybersecurity agency – were to require the installation of back-doors / data interception systems on devices to thereby gain access to data from entities deemed a threat to national security, the network operators would be legally forced to comply.

Balancing Risks while Leveraging Opportunities

While there is a need to adopt a cautious approach and carefully evaluate what the strategic implications of specific Chinese investments might be, this concern should not be overblown. The anxiety felt today vis-à-vis the scale of Chinese investments in Europe is similar in many ways to the anxiety pursuant to American and Japanese multinationals investments a few decades ago. In 1968, French politician Jean-Jacques Servant-Schreiber warned against the American challenge, stating that Europe had become a new far west for American businessmen.[48] Similarly, when Japan began to rise as new economic power with growing investment interests in the U.S., American headlines about the so-called "Japanese economic invasion" began to appear, along with statements that "the Japanese (were) on the move again in one of history's more brilliant commercial offenses as they (went) about dismantling American industry".[49] The fact is that there is a recurrent pattern of fears when it comes to growing economic engagement from emerging markets in industrialized countries. Of course, the specificities of the Chinese political and economic systems entail relatively different consequences and risks in terms of their nature, but an alarmist rhetoric about their scale lacks pertinence.

China's rise as a net FDI provider in Europe should also be considered as part of a wider change of paradigm in the global economic order, underpinned by the growth of emerging economies as capital providers overseas. India is one of those major fast-rising economies. The economic reforms implemented in 1991 introduced radical changes for the country, as

[48] Servan-Schreiber, J. J., & Steel, R. (1968). *The american challenge* (Vol. 68). New York: Atheneum.

[49] White, Theodore H. "The Danger from Japan." The New York Times, July 28, 1985. https://www.nytimes.com/1985/07/28/magazine/the-danger-from-japan.html.

they marked the beginning of a large-scale liberalization drive of its outbound FDI regime. Total FDI outflow from India increased from about EUR 23 million in the early 1990s to nearly EUR 13 billion in 2007. Like China, the country has imposed itself as a proactive investor in the EU through large investments from its multinational corporations in various sectors including ICT (Lakshmi Mittal), machinery and equipment (Tata Motors, Mahindra & Mahindra) and pharmaceutics (Ranbaxy, Dr Reddy's). There is a certain degree of convergence between China and India's FDI strategies in terms of market entry, as both countries have heavily relied on M&A activities. However, Indian enterprises are conducting a growing number of greenfield operations due to rising opportunities in the software engineering and biotechnology sectors.

Secondly, despite a net increase in recent years, the share of Chinese investments remains negligible compared to other advanced economies. The U.S. remains, by far, the largest FDI provider in Europe. In 2018, American FDI to the EU amounted to about EUR 3 trillion against EUR 20 billion for China.[50] American companies are also greatly involved in acquisitions of strategic assets and technologies in Europe. The acquisition of the French energy company Alstom by US General Electric in 2015 is a case in point.[51]

Third, China's economy is rebalancing towards a more sustainable model of growth and this "new normal" has spelt the end of the Chinese miraculous double-digit growth. While official statistics from the Chinese government have announced a 6.2 percent average GDP growth in 2019, there are strong speculations that the numbers are inflated. Given that sustaining high economic growth constitutes a key source of legitimacy for the Chinese

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[50] Congressional Research Service "U.S.-EU Trade and Investment Ties: Magnitude and Scope." CRS, July 9, 2019. https://fas.org/sgp/crs/row/IF10930.pdf.

[51] The Economist. "How the American Takeover of a French National Champion Became Intertwined in a Corruption Investigation". The Economist Newspaper, January 17, 2019. https://www.economist.com/business/2019/01/17/how-the-american-takeover-of-a-french-national-champion-became-intertwined-in-a-corruption-investigation.

government and the party, announcing growth numbers slower than targets would place them in a vulnerable situation. China's currency reserves have also experienced a sharp drop in recent years. In 2011, they amounted to more than 47 percent of its GDP but currently only represent 22,79 percent.[52] In comparison, Japanese foreign reserves have steadily grown to about 25 percent of the country's GDP.[53] Besides domestic factors, China's economy has also been affected by growing international challenges, in particular the trade war with the U.S. Those new difficulties are visible through the fact that, last year, for the first time, Chinese enterprises were forced to sell a total of EUR 4 billion of European assets amid financial pressure at home.[54]

Finally, the Chinese government has taken steps to address criticism. In March 2019, China's National People's Congress adopted the New Foreign Investment Law - which came into effect in January 2020. The law aims at addressing concerns about forced technology transfers, intellectual property infringements and level playing fields for foreign investors. It notably introduced a pre-establishment national treatment with a "Negative List System for Market Access", which will simplify the approval process for foreign investments.[55] The list has been updated over the past years to lift the number of restrictions on foreign investments in several industries, from 63 in 2017 to 40 in 2019.[56] On March 18, 2019, China's State council also revised the Regulations of the EJV Law and the Administration Regulations of the Import and Export of Technology, removing several clauses requiring forced technology transfers. While the potential for such measures to effectively ensure fair competition remains to be seen, they still represent a

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52 CEIC data. "China Foreign Exchange Reserves: % of GDP [1992 - 2020] [Data & Charts]." [1992 - 2020] [Data & Charts], December 1, 2019. https://www.ceicdata.com/en/indicator/china/foreign-exchange-reserves--of-gdp.

53 CEIC data. "China Foreign Exchange Reserves: % of GDP [1992 - 2020] [Data & Charts]."

54 Hanemann, Thilo, Mikko Huotari and Agatha Kratz. "Chinese FDI in Europe: 2018 Trends and Impact of the New Screening Policies."

55 Ministry of Commerce of the PRC. "Wàishāng tóuzī zhǔn rù tèbié guǎnlǐ cuòshī". MOFCOM, 2019. http://images.mofcom.gov.cn/wzs/201906/20190629212130154.pdf.

56 Saarela, Anna. "A New Era in EU-China Relations: More Wide-Ranging Strategic Cooperation?" Policy Department for External Relations, 2018. http://www.europarl.europa.eu/RegData/etudes/STUD/2018/570493/EXPO_STU(2018)570493_EN.pdf.

good step forward in the creation of a more open market environment for foreign investors.

In a bid to further address concerns pertaining to intellectual property (IP) infringements, in January 2019, the Supreme People's Court of China established an appellate-level Intellectual Property tribunal. Its first partial judgement ruled in favor of Valeo - a French automobile manufacturing company - after two Chinese companies infringed its patent technology. Chinese authorities also implemented new judicial and legislative reforms to strengthen the regulatory framework against patents infringement, violation of trade secrets and trademark registrations in bad faith. The efficiency of those measures, however, risks to be inhibited by the lack of consistent legislation enforcement and the lack of coordination between relevant authorities responsible for IP infringements. The litigation process also puts foreign firms at a disadvantage, as it often necessitates special notarization from Chinese authorities in order for the request to be treated.

Conclusion and Recommendations

Taking into consideration the links between the State, the Communist Party of China (CPC) and commercial actors is critical in understanding the investments patterns of Chinese enterprises overseas and apprehending their potential impacts. While alarmist concerns should be relativized, there is still a need for healthy awareness that both enterprises advertised as public or private have connections to the party-state establishment either through direct control or indirect influence mechanisms - including financing, legislation, personnel appointment. In light of those linkages, EU countries should, therefore, carefully assess the economic and security risks pertaining to Chinese investments in critical infrastructure or core technologies.

It should be acknowledged that China's rise as a net FDI provider is not an isolated phenomenon, but part of the wider context of a changing paradigm in the global economic order, which has seen the economic ascent of several other emerging Asian economies, especially India. As this trend is bound to increase, it is important to assess the implications for EU countries, as well as challenges and opportunities potentially similar to the ones pertaining to China.

Despite the substantial economic and security challenges that Chinese investments might bring about, it would be counterproductive to interpret Chinese economic engagement solely as a predatory geopolitical move to weaken the EU and "buy off its technology". Investments from Chinese enterprises represent important opportunities for EU countries and there is therefore a need to strike the right balance between protectionist reflexes and opening up. Investments contributing to the development of new sectors - such as biotechnology and renewable energy - the construction of new partnerships; and the revitalization of decaying firms or industries should be particularly encouraged.

To ensure the protection of interests for both sides without restraining economic opportunities in the future, negotiations for the implementation of a Bilateral Investment Treaty (BIA) should remain a key priority in EU-China commercial relations. This is crucial because, on the one hand, the lack of reciprocity and restricted market access for foreign investors will likely exacerbate the climate of suspicions and protectionist reflexes witnessed over the past years, as well as create more barriers for Chinese investments in the future. On the other hand, in order to ensure the protection of their intellectual property rights, national security interests and ensure fairer competition, EU countries need to work towards a more comprehensive framework for investments that promotes openness, transparency and reciprocity.

Annex I.

Industries	Chinese Investments in the "Made in China 2025" Framework in the EU
Information Technology Communication (ITC)	• Acquisition of Supercell by Chinese Consortium led by Tencent (Finland, 2016) • Acquisition of LEDVANCE by Chinese consortium group (Germany, 2018) • Acquisition of Imagination Technologies Group by Canyon Bridge Capital Partners' Chinese consortium's investment in Global Switch (UK, 2018)
Internet of Things (IoT), Artificial Intelligence and Robotics	• Acquisition of KUKA by Midea (Germany, 2016) • Acquisition of KraussMaffei in Germany (2016) • Acquisition of WayRay in Switzerland by Alibaba (Switzerland, 2017) • Acquisition of Robot System Products by Huachangda Intelligent Equipment (Sweden, 2017) • Acquisition of FinLeap by Ping An (Finland, 2019) • Acquisition of Data Artisans by Alibaba (Germany, 2019)
Energy efficiency and new energy vehicles	• Acquisitions of Volvo Cars and acquisition of stake in Volvo AB by Geely (Sweden, 2010 and 2018) • Acquisition of Daimler by Geely (Germany, 2018) • Acquisition of National Electric Vehicle Sweden (NEVS) by China Evergrande (Sweden, 2019) • Acquisition of NXP by Chinese consurtium JAC Captal and Wise Road Capital (The Netherlands, 2017) • Acquisition of Grammer by Ningbo Jifeng (Germany, 2018) • Norinco's wind farm (Croatia, 2018) • Unisun's solar farm (Hungary, 2018) • China General Nuclear Power Group's nuclear power plant (Poland, 2017)

Aerospace equipment	• Acquisition of ARITEX by AVIC (Spain, 2016) • Acquisition of Broetjes Automation by Shanghai Electric Group (Germany, 2016) • Acquisition of AIM Altitude by AVIC (UK, 2015) • Acquisition of Gardner Aerospace by Shaazi Ligeance Mineral Resources (UK, 2017) • Acquisition of Cotesa by China Iron & Steel Research Institute Group (Germany, 2018) • Acquisition of Northern Aerospace by Shaanxi Ligeance Mineral Resources (UK, 2018)
Ocean engineering and high-tech ships	• Acquisition of Specialist Machine Developments by CRRC Times Electrics (UK, 2015) • Joint venture between Viking Cruises and China Merchants Shekou (Switzerland, 2019) • Joint Venture between Warsilla and China State Shipbuilding (Finland, 2017)
Railway equipment	• Acquisition of Rail Power Systems GmbH by Tianjin Keyvia lectric Co (Germany, 2016) • Acquisition of SMA Railway Technology GmbH by Beijing Dinghan Technology Group (Germany, 2017)
Power equipment	• Acquisition of a stake in ADMIE by China State Grid Corp. (Greece, 2018) • Acquisition of a stake in REN-Redes Energeticas Nacionais SA by State Grid Corporation (Portugal, 2012) • Acquisition of Energias de Portugal-EDP by China Three Gorges (Portugal, 2019)
New materials	• Acquisition of Polymetrix Holding by Beijing Sanlian Hope New (Switzerland, 2017)
Medicine and medical devices	• Acquisition of Sinclair by Pharma Huadong Medicine Company (UK, 2018) • Acquisition of Biotest by Tiancheng International Investment Limited (Germany, 2017)
Agriculture machinery	• Acquisition of Syngenta by ChemChina (Switzerland, 2018) • Acquisition of Nidera by Cofco International (The Netherlands, 2014)

Annex II.

China's Maritime Ambitions in Europe

Country	Investments in Ports and Terminals	Chinese stakeholders
Belgium	Antwerp (2017) Zeebrugge Terminal (2017)	COSCO Shipping Ports Limited COSCO Shipping Ports Limited
Bulgaria	Varna (2019)	China Machinery Engineering Corporation (CMEC)
France	Marseille (2013) Nantes (2013) Le Havre (2013) Dunkirk (2013)	China Merchants' Port Holdings China Merchants' Port Holdings China Merchants' Port Holdings China Merchants' Port Holdings
Greece	Piraeus (2008) Thessaloniki (2018)	COSCO Shipping Ports Limited China Merchants' Port Holdings
Italy	Vado Ligure (2019) Trieste (2019) Genoa (2019) Ravenna, Italy (2019)	COSCO Shipping Ports Limited China Communications Construction Company (CCCC) China Communications Construction Company (CCCC) China Merchant Port Holdings
Malta	Marsaxlokk (2013)	
Spain	Bilbao (2017) Valencia (2017) Algesiras (2019)	COSCO Shipping Ports Limited COSCO Shipping Ports Limited COSCO Shipping Ports Limited
Portugal	Sines (2019) Vasco de Gama (2019)	Shanghai International Port Group
Netherlands	Euromax Rotterdam (2017)	COSCO Shipping Ports Limited

Author Bios

Fatoumata Diallo, is a Junior Research Fellow at ISDP's Stockholm China Center. She obtained a master's in International Relations at Leiden University, the Netherlands and a bachelor's degree in International Relations and Chinese Studies at the INALCO, Paris. In addition to China-EU relations, her topics of focus and expertise include China's domestic politics, Chinese foreign policy, non-traditional security challenges and China's political economy.

Niklas Swanström, Ph.D., is Director of the Institute for Security and Development Policy, and one of its co-founders. He is a Fellow at the Foreign Policy Institute of the Paul H. Nitze School of Advanced International Studies (SAIS) and a Guest professor at LeShan Normal University. His main areas of expertise are conflict prevention, conflict management and regional cooperation; Chinese foreign policy and security in Northeast Asia; the Belt and Road Initiative, traditional and non-traditional security threats and its effect on regional and national security as well as negotiations. His focus is mainly on Northeast Asia, Central Asia and Southeast Asia.

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