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NATIONAL SECURITY IMPLICATIONS OF CHINESE FDIs

United Kingdom, Germany, Italy and France as host states

(2006-2016)

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Summary

Chapter 1. Introduction

1.1 National security or futile alarmism?

In 2016 the flow of Chinese outward foreign direct investments (ODIs) into the EU hit a record high, attracting €35 billion in completed Chinese foreign direct investment transactions and marking an increase of 77% compared to 2015 levels, while EU's foreign direct investments to China continued to decrease to €8 billion (Hanemann and Huotari, 2017). China invested in Europe in 2016 as much as it did in the 10 previous years, and this happened in sharp contrast with the continued decline in EU's foreign direct investment flow to China. According to the World Investments Report, in 2016 many countries reinforced their regulatory frameworks for the screening of foreign takeovers. As a consequence, many proposals for transactions were aborted because of concerns by competition or prudential authorities regarding security concerns or for tax-related reasons. "In 2016, governments raised objections against a number of foreign takeovers, in particular when they involved the sale of strategic domestic assets to foreign companies" (UNCTAD, 2017: 103). While there was not a centralised FDI screening on security grounds at the EU level in 2016, almost half of the EU Member States operated national security reviews (Grieger, 2017). The spectre of a new global economic trend, in which an authoritarian capitalist power such as China engages in increasingly aggressive foreign investment behaviour, raises tensions that have long been dominant in international relations, such as the idea that "the return of authoritarian great powers" will mount a potential challenge to the "Western liberal order" (e.g. Gat, 2007), or "the West" (Hellmann et al., 2014). After thirty years of economic reforms, China's transition failed to materialize in a democratic transition. Nathan in 2003 spoke about its "authoritarian resilience" (Nathan, 2003), while now the question is if we can speak about an "authoritarian advance". When Xi Jinping became secretary general of CCP in November 2012, he concentrated his personal power in a way that his predecessors never had, and to find similar power we have to go back to Mao. Anti-corruption campaigns hit both "tigers" and "flies" of the Party and of State-Owned-Enterprises (SOEs). National identity has been bolstered together with historical rhetoric based on "selective remembering" and "selecting forgetting". At the international level, China under President Xi Jinping "has begun to flex its muscles as a major power" (Nathan, 2015: 156).

From an economic standpoint, the period from 2006 to 2016, marked a stage of "Acceleration or Grand-strategy", characterized by the speeding up of the "going global" strategy and the eventual launch of Belt and Road Initiative. But it was also the time of the elaboration of the Chinese technological development strategy (IDAR), which relies completely on foreign sources of technology and knowledge (Cheung, 2014). The independent variable in this process, and the subject of this research, is Chinese outward foreign direct investment behaviour. In strategic business theory, many international business scholars have engaged with the internationalization of Chinese companies. The existing literature can be divided into four fields: 1) a "latecomer disadvantages" perspective, 2) the role played by the government and State, 3) the dynamics between firms and institutions and 4) the "liability of foreignness" (Deng, 2013). If certain behaviours can reasonably be attributed to the normal game of a regular economic environment (i.e. resource seeking, market seeking, diversification, pursuing strategic assets and their determinants), the analysis of the Chinese case has led some scholars to look for a "special theory nested within the general theory" (Buckley, 2010: 83). In fact, if at first the "China model" was considered a transitional phenomenon, the Chinese OFDI's "catch-up model" is not culminating with a convergence with that of other developed countries, but revealing itself to be "an open one" (Liu, 2005). More recently, authoritarian capitalist behaviour, when it engages in outward expansion through foreign direct investments, can be analysed by looking at the "capacity of the state to engage in corporate intervention" and the "motivation to intervene" (Carney, 2018: 5). While the first is analysed by looking at the skills of the government machinery and its capabilities of strategic planning, the motivation to intervene is linked to the regime stability and CCP legitimacy.

The aim of this research is to test these hypotheses:

1. *Null Hypothesis*: there is no correlation between outward direct investments performed by an authoritarian regime, such as China, and national economic security issues in a democratic hosting country.
2. *Correlative Hypothesis*: there is an association between two concepts, but it is not possible to specify the nature of this relationship.
3. *Causal Hypothesis*: ODIs performed by an authoritarian capitalist actor, such as China, are moved by a national strategy, which under certain circumstances, such as sharp power, can cause a national economic security issue for a democratic country.

This research will not make a difference between private and public enterprises, or between SOEs and Sovereign Wealth Funds. I will follow Milhaupt and Zheng's challenge to the "ownership bias", exploring the "mechanism of capture", which is the ability of the State "to exert control over the deployment of financial and regulatory resources" (Milhaupt and Zheng, 2015). This approach is warranted and reinforced given the overlap between the board membership and Party committees that is common. According to Rosen, Leutert and Guo, for the analysis of corporate governance in China, "serious concerns remain about transparency, the effectiveness of internal monitoring, and

Party influence on enterprise affairs" (Rosen et al., 2018). In 2006, 178,000 party committees had been established in private firms and by 2016 that number had increased sevenfold to approximately 1.3 million (Cave et al., 2019: 7). Moreover, Article 11 of the recent State-Security Law of the People's Republic of China foresees that under any requests from the Chinese government, any company, organization or individual is obligated to let the government employ their own systems for its own purposes under the guise of national security.

The Dependent variable is the economic national security of the host country. The goal here is to understand when a foreign direct investment constitutes a national security threat to the host country. The basic analytical approach of this research uses an integrated perspective of security. I argue that in the actual interconnected world, the formulation of security provided by Buzan seems to be more adapt for interpreting the actual globalized phenomena (Buzan, 2016). His approach encompassed on the one hand a variety of actors and on the other hand a variety of fields. In fact, economic, societal, environmental, technological issues are today often as relevant as military ones. My assumption is that foreign direct investments are a powerful instrument for growth and development. They represent an important source of external financing not only in developing countries, which they help to develop faster and catch up with other countries, but also in developed countries. The recent economic crisis in Europe has shown the critical need to increase investment flows to boost domestic economies, maintain or create jobs, and promote knowledge and productivity. In the contest of the existing literature on national security, foreign direct investments are a recent addiction. The existing literature and the normative approach are mainly based on list of sectors. However, in an interconnected world, economic sectors are no longer self-contained areas. Claims of no-harm implications for one sector may ignore implications in other sectors and end undermining an objective analysis of what can be really harmful. I argue that Moran's threat approach is a valuable definition that separates useless alarmism, securitisation for political reasons and blind ignorance to the real threats (Moran, 2017). Moran's threat approach establishes patterns between more phenomena, with the connection "if *a)* …then *b)*" cataloguing "not simply…a relationship that has been found, but … one that has been found repeatedly" (Waltz, 1979: 1). I then operationalized the current debate on economic security over foreign direct investments in the host countries through a matrix to figure out the economic and political narrative, in order to outline a cooperative or a competitive scenario. Utilizing this matrix, the current narratives over FDIs from the host country perspective can be represented via four ideal-types. The first scenario is an **Open market scenario**, with FDIs conducted in a liberal order and a cooperative political environment. The second one is a scenario of **FDI regulations,** with a protectionist economic environment yet cooperative political environment. The third one is a **Contested environment,** with a liberal order in the economic environment and competition in the political environment. The fourth is an **Economic warfare** scenario, with a protectionist environment on the economic side and competition on the political one. The analysis of the political implications placed into this analytical matrix help to surface the main patterns of "amity and enmity among states" and to identify where there is a "security complex" among states with shared security priorities (Buzan, 2016: 160).

1.2 Methodology

The first assumption behind my research is that I use a *post-positivist* perspective. There is an independent reality that needs to be studied through observation; it is objective, but imperfectly knowable. As happened in science when the Newtonian model of action was replaced by the field of forces through electricity and electromagnetism, or in mathematics, with the discovery of non-Euclidian conceptions of space, this approach accepts that some phenomena are governed by probabilistic laws. Therefore, knowledge contains a certain degree of uncertainty. However, this can be considered the nearest approach to that of modern scientific science. Since there are different ways to acquire knowledge, it is important to recall that the aim of my research project is to look for causal explanation – why authoritarian capitalist countries are causing national security concerns in Western democracies. There are two basic ways to study national security: a logic-deductive one and an inductive one. In the former case, the explanation of an event is derived from a theoretical hypothesis about the processes that brought it about (Little, 1991: 7). This approach starts from some prior, theory-guided conceptualization, then it is translated into a model through which empirical situation can be explained. In my case, the logic-deductive assumption would assume that states naturally pursue their strategic interests, such as preserving their territorial, political or economic integrity. The second approach, as opposed to a deductive approach, starts from the empirical investigation of the phenomena under investigation (Merton, 1968). Then, the empirical information is interpreted conceptually. A view of the object emerges from the perspective of involved actors. After a careful description of empirical regularities, data are attributed to concepts. In the more scientific tradition, however, this implies starting from a theory, generating a hypothesis, testing the phenomena under investigation and accepting a conclusion only if it survives the test. In this research project, I will use an inductive approach to define what is national security. This approach implies deriving generalizations from specific observations. It will be done by looking from different perspectives at bureaucratic preferences, societal, industrial and political pressures, in order to identify patterns of variation (Glaser and Strauss, 1967; Nachmias and Frankfor-Nachmias, 1979: 47).

My research is qualitative in nature. As far as methods are concerned, this research will entail a case-oriented comparative method. The aim of my research is to arrive at in-depth understanding of a context: the economic and political effects for western democracies of authoritarian capitalist investments. I will look at a small number of cases (four). This will provide the basis for generalisation to a temporarily limited number of cases whose wider relevance (large-N) could then be checked in further research. The cases are represented by countries, each understood as "unique and complex social configurations" (Skocpol and Somers, 1980).

Most discussions of case-oriented methods refer to John Stuart Mill's work on methodology. This method is useful to establish an empirical generalisation for an inductively oriented scientific investigation. Two of Mill's method are relevant to case-oriented investigation – the method of agreement and the indirect method of difference. A case-oriented comparison "points at similarities and differences through dense narratives" (Della Porta, 2008: 204). According to the agreement method, which is considered "the simplest and the most straightforward", "if two or more instances of a phenomenon under investigation have only one of several possible causal circumstances in common, the cause of the phenomenon is the one circumstance that is present in all the analysed instances" (Ragin, 1987: 36).

Mill's method of differences assumes that "when two or more cases have different values on a certain phenomenon we want to explain, we have to look for the one circumstance on which they differ" (Della Porta, 2008: 206).

Focusing on a small number of cases, comparison will point at similarities and differences, through dense narratives. I will look for "internal" explanations that identify reasons for action. The aim here is to understand the historical diversity, singling out internal reasons of similar or different patterns of national security and reactions to perceived threats to economic security. As suggested by Ragin, "case-oriented researchers may intentionally select cases that differ relatively little from each other with respect to the outcome under investigation, focusing in particular on positive cases, that is, cases where a phenomenon is present" (Ragin, 2004, cited in Della Porta, 2008: 212).

The first strategic choice in the research design was the selection of the time reference. Since the internal interpretation, which looks for the reasons for action – *verstehen*, rather than *erklähren* - requires a long-term analysis, I chose the decade from 2006 to 2016. It is a time during which, among other things: 1) China launched its ambitious OBOR (One Belt One Road) stretching from the Pacific to the West; 2) Chinese investments in developed countries increasingly grew; 3) the 2008 economic crisis in Europe spurred many countries to look for Chinese capital.

The second strategic choice I made in my research design process was the choice of the cases. This should be seen as not as an *a priori* spatially delimited process, but as a choice that falls within the theoretical conceptualization of democratic countries. The amount of investment received from China, as an increasingly active authoritarian capitalist player, led to the selection of countries. The top destinations in Europe from 2000 to 2016 were United Kingdom (23,633 EUR million), Germany (18,817 EUR million), Italy (12,839 EUR million) and France (11,458 EUR million) (Hanemann and Huotari, 2017). However, this is the aggregate flux of incoming investment from China, while the unit of analysis in my research is the single investment. Therefore, for each country I chose the top two deals as measured by the amount of investment, as registered in the China Global Investment Tracker's database of the American Enterprise Institute.

Careful description of the investment is provided, highlighting on the one hand the behaviour of the Chinese investor and on the other the characteristics of the domestic firm acquired. The analysis also provides evidences of trajectories of the deal dynamics and of their political implications both at domestic level and at international level.

1.3 Organization of the chapters

Chapter 2 starts with a definition of national security. I review the existing literature on the topic and provide evidence that an interdisciplinary approach to national security is actually necessary. The conceptual analysis is then carried out by looking at the economic aspects and at foreign direct investments. Here, I set the stage for the rest of the analysis, providing on the one hand an operational definition of national security for the evaluation of FDIs and, on the other, a matrix of economic security through which each country can be placed according to an economic and political dimension.

Chapter 3 focuses on Chinese investment behaviour when it engages in outward investment. Here a vast bulk of literature is reviewed in order to understand the peculiarities of the outward expansion. Two dimensions are largely analysed: 1) China's state capacity and 2) its motivation to intervene. Here an intervening variable is introduced - sharp power – as a force to "pierce, penetrate, or perforate the information environments in the targeted countries" (Walker and Ludvig, 2017).

Chapter 4 deals with the case analyses. As said before, I chose four countries with the highest inflow of Chinese investments in Europe. As single investments formed the unit of analysis, I chose the two biggest deals for each country. Through an extensive description of the causal sequence of observations, the operational definition of national security is tested and the political implications are described in the economic security matrix. At the economic level the degree of openness is promptly provided by the FDI restrictiveness index (OECD). At the political level, the analysis requires in-depth investigation of reactions of governments, politicians, trade unions and entrepreneurs.

The aim of this research is to provide a method of analysis of national security for the host country when it addresses incoming foreign direct investments. While economic theory suggests that FDIs are beneficial for the recipients, empirical cases showed that sometimes positive results could be reversed when financial transactions lead to exploitation of resources and know-how. Such argument has been recently stretched for political reasons – securitized – and the common debate highlights the introduction of protectionism in international trade. The main objective of this research is to provide an objective framework of analysis which could help to disentangle real threats from futile alarmism, and offer a matrix to detect cooperative or competitive attitude both at economic and political level towards incoming foreign direct investments.

Chapter 2. National Security threats of inward FDIs

2.1 Introduction

Political concepts are the monads of a political argument. They work as the building blocks needed for the construction of a political debate and, as a consequence, every study of statements for or against a specific ideological position should first offer a clarification of the political concepts that are involved. It may seem a paradox, but national security has not itself been an important analytical concept for most security study scholars. The term is in general use in International Relations and other disciplines, but literature on it is still unbalanced. It is well established in the political discourse of international relations that designate an "objective of policy distinguishable from others" (Wolfer, 1952). A vast bulk of literature exists on the empirical side, trying to deal with contemporary national security issues, which have varied a lot over time. An historical evolution of the concept of National Security from the end of the Second World War to our day can provide relevant elements which influence the connotation process. The goal of this chapter is to clarify the meaning of concepts. Concepts in fact play a key role in human societies by organizing them and shaping the understanding of history in any given time period. For Oppenheim "the language of political science is by no means an idle exercise in semantics, but in many instances a most effective way to solve substantive problems of research" (Oppenheim, 1975). The multidimensionality directly derives from the fact that the concept of security – unlike others – connects directly with a verb. As a consequence, a variety of values can be secured. This leads to many different kinds of security, such as military security, economic security, environmental security, social security, physical security, etc. Moreover, in this chapter more attention will be put on the most recent scholarly debate which is usually indicated via geographical connotations and schools: The "Aberystwyth (or "Welsh") school", "Copenhagen School" and "Paris school".

The basic analytical element of my research is an integrated perspective of security. The literature debate on national security has long been deeply rooted in a system of international relations which follows the tradition of a Westphalian/Vattelian sovereignty based on equality and autonomy and where states are the dominant units. The reformulation of security provided by Buzan seems to be more adapt for interpreting the actual globalized landscape. On the one hand it encompasses a variety of actors, with individuals, states, firms and the system all playing a part, while, on the other hand, economic, societal, environmental issues are as relevant as the military ones. The "securatization" process, under a constructivist guidance, can be applied to both western and eastern landscapes, to both “strong and weak states”, to democracies and authoritarian regimes. It interprets both value-guides and policy actions, highlighting the risk of policy-makers mobilising all necessary resources in pursuit of their objectives under the umbrella of security.

Starting from this conceptual definition of security, I will analyse the concept of economic security. Moreover, this concept will be interpreted within the debate of international political economy where the main political economy position (Neo-Mercantilist, Liberal and Marxist) differs on the priority position of states or societies or markets. This will help to clarify the conceptual map on which locate the discussion on the economic threat narratives of FDIs.

The aim of this chapter is to clarify and restate the concept of economic security threats concerning FDIs in “unambiguous terms”. This is necessary not only to identify the concept’s properties, but also to highlight the subjects (people, nations, states, firms, and so on) to which the concept applies. The ultimate end of this chapter is also to provide an operational definition “which describes the instrument to be used in measuring the concept or putting a conceptual definition “into operation” (Pollock, 2005: 8).

2.2 Definition of National Security: an historical evolution of the concept

The concept of security first appeared in an article published in 1952 by Arnold Wolfer who defined “"National Security" as an "ambiguous symbol"”. History, giving more or less attention to specific issues, influences the connotation of national security. To this, let’s add that security is not the only concept used to deal with national security. Traditionally, this subject has been analysed through the lens of power and peace. However, it is easy to ascribe those who favour the approach of power (such as Carr and Morgenthau) to the Realist school, and those who favour the approach through peace to the Idealist school. Until the 80s, the debate on national security was characterized by these two different approaches and had a strong military connotation, being mostly between Cold War scholars more interested in military statecraft. The last decades have witnessed many attempts to rethink the security *problematique*. Baldwin in 1997 on this point argued that “redefining“security “has recently become something of a cottage industry” (Baldwin, 1997: 5). In spite of scholars’ numerous attempts to redefine the policy agenda of nation-states highlighting high-priority issues (economy, human rights, feminism, environment, external military threats, terrorism), basic conceptual tools for rethinking security have been available at least since the publication of Wolfers’ article in 1952. In fact, when discussing the ambiguity of the concept, he did not intend to dismiss the concept itself. “It would be an exaggeration to claim that the symbol of national security is nothing but a stimulus to semantic confusion, though closer analysis will show that if used without specifications it leaves room for more confusion than sound political counsel or scientific usage can afford" (Wolfers, 1952: 483). Walter Lippmann in 1943 argued that "a nation is secure to the extent to which it is not in danger of having to sacrifice core values, if it wishes to avoid war, and is able if challenged to maintain them by such victory in such a war" (Lippmann, 1943: 51). According to Wolfers, Lippmann's definition implies that "security rises and falls with the ability of a nation to deter an attack, or to defeat it" (Wolfers, 1952: 484). Hans Morgenthau (Morgenthau, 1951) was one of the most explicit authors pleading for a "foreign policy which shall follow but one guiding star – the National Interest". At the same time, Morgenthau was not equally explicit in regarding the meaning of the concept. Nevertheless, what is clear is that he linked this "perennial interest" with that of power. Wolfers made a translation of Lippmann's concept of national interests into National Security Interest. His definition of security highlights two main aspects: "in an *objective sense*, [it] measures the absence of threats to acquired values, in a *subjective sense*, the absence of fear that such values will be attacked" (Wolfers, 1952: 485). In the early years of the New Deal, just after the Great Depression, U.S. policy makers were concerned about welfare issue as "an interest for all of mankind". Wolfer's article was written during the Cold War, amid perceived threats of external aggression and not of economic depression and social reform. As a consequence, "the change from a welfare to a security interpretation of the symbol national interest is understandable" (Wolfer, 1953: 482). The economic interest at the time of Wolfer's article was overshadowed by the national security interest. In his conceptualization of security, the state is both the object of security and the source of threats, basically military threats. This inevitably evokes John Hertz's "security dilemma" (Hertz, 1950), whereby, in a "zero-sum world", it is difficult for one state to improve without threatening the survival of the others. The threatened states, at the same time, would do everything necessary to ensure survival, and this inevitably leads to a perpetual security competition.[1]

As pointed out by Walt "the first wave of security studies ended in the mid-1960s, and the field entered a period of decline" […]. "The renaissance of security studies began in the mid-1970s" (Walt, 1991: 215). This new scholars' debate largely criticized the previous setting[2]. The historical context was different. The *détente* of the east-west relationship and the stipulation of the Prevention of

[1] According to Hertz, individuals are usually "concerned about their security from being attacked, subjected, dominated, or annihilated by other groups and individuals. Striving to attain security from such attack, they are driven to acquire more and more power in order to escape the impact of the power of others. This, in turn, renders the others more insecure and compels them to prepare for the worst. Since none can ever feel entirely secure in such a world of competing units, power competition ensues, and the vicious circle of security and power accumulation is on" (Hertz, 1950: 157).

[2] i.e. Hadley Bull, Bernard Brodie, Frank Trager, Frank Simonie, Hug Macdonald, Hans Mouritzen, Robert Jervis, Gert Krell, Richard Ashley, Ken Booth, Leonard Beaton, Stanley Hoffman, W.B. Gallie, Richard Little, etc.

nuclear war agreement (1973), the end of the Vietnam war and the economic and energy crises provided a different background for the discussion. For Trager and Kronenberg, "national security is that part of government policy having as its objective the creation of national and international political conditions favourable to the protection or extension of vital national values against existing and potential adversaries" (Trager and Kronenberg, 1973: 36). Krause and Nye argued that "neither economists nor political scientists have paid enough attention to the complexity of the concept of security, including the instrumental role in the enhancement of other values" (Krause and Nye, 1975, cited in Buzan, 2008: 28). Robert Jervis was the first who suggested an alternative path to the spiral model of power struggle, re-interpreting international dynamics and the perception of the other's intentions[3], highlighting the interdependent elements of security relations (Jervis, 1976). Richard Ullman argued that assuming national security merely "in military terms conveys a profoundly false image of reality. That false image is doubly misleading and therefore doubly dangerous. First, it causes states to concentrate on military threats and to ignore other and perhaps even more harmful dangers. Thus, it reduces their total security. And second, it contributes to a pervasive militarization of international relations that in the long run can only increase global insecurity" (Ullman, 1983: 129). But in the early 80s, at the height of the Cold War, "the political climate was not favourable to Ullman's argument" (Katzenstein, 1996: 8). Postmodern political scientists, such as Richard Ashley, strongly criticized the previous approach to security, which he called "technical rationality", because it was too reductionist and actor-oriented and inevitably ended exacerbating the security dilemma (Ashley, 1980). The way out of this dilemma, which reproduces rivalry, perpetuates differential growth, and a violence-based balance of power, for him, is the pursuit of a kind of grammar which acknowledges the interdependence of humans and social organisations with their environment and social processes of which they are part. He in fact, looked for a more systematic view, which he called "rationality proper"[4] (Ashley, 1984). This ensures that "concepts of autonomy, knowledge and power are soldered into one" (Ashley, 1980: 209-16). However, this alternative view retains critical awareness of this interdependence. "For each state, therefore, opposition to multilateral limits on state autonomy represents an expression of aspects of its deeply structured identity. To the extent that this 'high political' identity pervades and finds expression in all domains of activity – to the extent that it is dominant – states are likely to resist the imposition of multilateral regulative

[3] Using Military analysts' talk of the "fog of the battle", he suggests the image of "The fog of foreign policy making" […]. "It is terribly hard to tell what others are up to, to infer their predispositions, and to predict how they will behave. Because of the importance and difficulty of these tasks, decision-makers do and must employ short-cuts to rationality, often without being aware of the way they are doing so. But these short-cuts often produce important kinds of systematic errors, many of which increase conflict" (Jervis, 1976: 113).

[4] "Rationality proper commences the search for human freedom by allowing that human beings, in their thinking as in their choices, are distinctly unfree of historical-processual influences" (Ashley, 1980: 216).

norms, not only in the political-military domain, but also in the domains of technological, economic, and population growth" (Ashley, 1980: 203-204). The common theme among these critical voices however was that the discussion about the rule of the states in a more interconnected world and the military issues alone were clearly inadequate. The early 80s witnessed on the one hand the election of Ronald Regan in the U.S., and on the other hand, the Soviet invasion of Afghanistan. As a consequence, the foreign policy debate was characterized by a harshly persistent rhetorical tone of nuclear war deterrence. The increased budget on defence under Reagan Administration (much higher than during the Vietnam War) ended up expanding peace movements and several initiatives providing funding to Strategic Studies, such as the Mac Arthur Foundation, with the aim of broadening the debate on security studies. If deterrence was a persistent feature of foreign policy among the all cold war period, the global landscape of the 80s was not that of the 50s. These were the years after the oil crises and the collapse of the Bretton Woods system of pegged exchange rates, but also the years of increased trade and economic transactions, and of the Japanese economic miracle[5]. "Concerns about economic competitiveness and problems of trade protectionism look large in the public debate. Opinion polls show many Americans more worried about trade wars with Japan than hot wars with the Soviet Union" (Nye, 1989: 22). The literature debate of the '80s reflected the "relentless pressure of interdependence on the older ways of thinking of both Realist and Idealist" (Buzan, 2016: 33). Moreover, on the one hand, the Neo-realists with Waltz put security at the centre of state behaviour in an anarchic system and "in anarchy, security is the highest end… the goal the system encourages (the states) to seek is security" (Waltz, 1979: 126). Later, in 1988, he stated that "the ultimate concern for states is not for power but for security" (Waltz 1988: 616). On the other hand, for peace researchers, the interdependence approach offered a credible solution for getting away from the corner between isolationism of unilateral disarmament and the globalist solution through world disarmament and global order. The alternative defence debates rose to prominence with the nuclear protest movements in the early and mid-80s[6]. A wide debate emerged among the idea of interdependence as competitive interactions among states, and ended in developing the concept of non-offensive defence, as more stabilising than deterrence and nuclear reliance[7]. This political debate argued for a reduction in super-power hegemony and called for cooperation toward mutual rather than unilateral security. A new vision of security was outlined in the Brandt Report of 1980, in the Palme Report of 1982 and in the Brundtland report of 1987. All called for a

[5] See Clausen (1982) and Keohane and Nye (1987).

[6] i.e. Greenham Common Women's Peace Camp (Sept, 1981); European Nuclear Disarmament from 1980 to 1989.

[7] In the early 80s the alternative defence debate was basically a Western phenomenon, more widespread in Germany and Western Europe (i.e. see Galtung (1984), Booth (1985) and Gates (1987)), rather than in the U.S.A. In the late 80s, the debate spread in Eastern Europe and Soviet Union (i.e. see Arbatov (1989), Bluth (1990), Holden (1989)).

reconceptualization of security based on the concept of *common security*, as the result of the interdependence of security relations, instead of the traditional national security priorities. The Brandt Commission (1980), providing an understanding of the differences of development between the rich North and the poor South, introduced the concept of interdependence, according to which national security can only be ensured by global security, which might transcend the military defence notion. It adopted a pluralist perspective, combing several social, economic and political risks together with classical military perils[8]. In 1982, in the *Common Security report,* the Palme Commission, dealing with the escalating nuclear arms race between East and West, suggested that the military-based notion of security could be transformed through greater international cooperation, transparency, disarmament, conversion, and demilitarization. The Brundtland report then assessed environmental issues and inappropriate models of sustainable development. As pointed out by Galtung, the approach of all these three reports "show(ed) an almost unbelievable faith in negotiations and agreements" (Galtung, 1982: 142). However, for Buzan, this idea of "common security" represented a synthesis between "the logic of anarchy and the imperatives of security promoted by states and the imperatives of Idealism" (Buzan, 2016: 33) and, as a consequence, large sections of both Realist and Idealist scholars adopted this reformulation of security as a conceptual tool. Among the optimism of this Golden Age of academic debate, the tendency to focus on short-term analysis of policy issues should not be underestimated. In fact, it leads to a pervasive problem in addressing security studies, which Sartori (Sartori, 1970) called "conceptual stretching". Over the last two decades in the literature debate the concept of security has been largely cited, yet most dissertations were more concerned in defining the priorities of the policy agenda of the states. For Walt, "security studies must steer between the Scylla of political opportunism and the Charybdis of academic irrelevance" (Walt, 1991: 223). As Morgenthau once warned, "active involvement in policy debates inevitably tempts participants to sacrifice scholarly integrity for the sake of personal gain or political effectiveness" (Morgenthau, 1970, cited in Walt, 1991: 222).

It was Barry Buzan with his book, *People, States and Fear*, in 1981, who provided a relevant tool toward a broader understanding of security, filling the gap in the scholarly debate. He addressed three level of subjects that are referenced - individuals, states and international systems - and five sectors of security: political, military, economic, societal and environmental. He started accepting the neorealist postulate that "the international political system is an anarchy, which is to say that its

[8] In fact, "all nations will benefit from a strengthened global economy, reduced inflation and an improved climate for growth and investment. All nations will benefit from better management of the world's finite resources (and from a stabilization of the world's population). All nations industrialized and developing, market or centrally planned economies — have a clear interest in greater security, and in improved political capability and leadership to manage global problems" (Brandt Report, 1980).

principal defining characteristic is the absence of overarching government" (Buzan, 2016: 128), but walked away from it, favouring constructivism. The point of departure from the Neo-realism is that anarchy should not be seen as a mere struggle for power, which is an old-fashioned and short-sighted approach. "Security is a broader idea than power, and it has the useful feature of incorporating much of the insight which derives from the analysis of power" (Buzan, 2016: 159). "The anarchy context", for Buzan, "sets the elemental political conditions in which all meanings of national and international security have to be constructed" (Buzan, 2016: 39), leaving the space for a more comprehensive understanding. States are the basic units of analysis, because "they are both the framework of order and the highest source of governing authority". Despite the prominent role of the state as referent object, "the dynamics of national security are highly relational and interdependent between states" (Buzan, 2016: 40). For this reason, it is impossible to understand "the national security of any given state without understanding the international pattern of security interdependence in which it is embedded" (Buzan, 2016: 157).

However, "if security of each is related to the security of all, then nothing can be fully understood without understanding everything. Such a tall order threatens to make the study of security unrealistic" (Buzan, 2016: 158). The solution he provides is to find a "hierarchy of analytical levels within the international system" and define manageable "self-contained features of the security problem" (Buzan, 2016: 158). A top-down analysis, from the international political system and the individual states, finds a medium level in the regional security where the main pattern is the concept of "amity and enmity among states" (Buzan, 2016: 160). Moreover, the amity goes "from the genuine friendship to expectations of protection or support", while enmity is a relationship based on "suspicion and fear". These concepts go beyond the simple "distribution of power". The amity/enmity pattern moreover arises from a vast range of "specific things such as border disputes, interest in ethically related populations and ideological alignments, to longstanding historical links, whether positive or negative" (Buzan, 2016: 160). On this basis, Buzan defines the *security complex* as "a group of states whose primary security concerns link together sufficiently closely that national securities cannot realistically be considered apart from one another" (Buzan, 2016: 160). The idea of a security complex provides a good framework of analysis to discuss issues endemic to one region, as well as a simple analytical device that emphasizes the interdependence of rivalry as well as share interests. If regional complexes may vary during the time, and the socio-political cohesion may shift and change, the model can be reapplied to interpret the new international order.

In brief, with the end of Cold War and the break-up of Soviet Union, traditional security studies, based on a narrow definition of national security focused on material capabilities and control of military forces by states, were overtaken by a new critical approach which provided a broader conception of security studies. This new intellectual narrative can be summarised with the "broadening and deepening of the security agenda" (Peoples and Vaughan-Williams, 2010: 5). On the one hand, it related to the expansion of the analytical horizon of study which goes beyond the military sectors and encompasses environmental, economic, political and societal areas. On the other hand, the referent object of security can incorporate other actors such as institutions, human individuals and groups, and not only states. Along this path, the UN Development Report in 1994 referred to "human security" as a key milestone in recognition of the human as a referent object of security (Peoples and Vaughan-Williams, 2010: ch.8). If before the concept of security was determined by territorial and national interest due to the risk of nuclear destruction, the literature debate of the 90s highlighted the need for protection against disease, hunger, unemployment, crime, social conflict, political oppression and environmental hazards, as a universal concern. However, conventional constructivism scholars, such as Wendt, Katzenstein, Barnett and Adler, did not go far from a critique of Realism. Katzenstein emphasises the importance of non-material factors instead of a "traditional, narrow definition of security" taking the national military security as his ultimate focus (Katzenstein, 1996: 6-11). "The Cold War made relatively unproblematic some of the cultural factors affecting national security", but in the 90s, with the end of Cold War "issues dealing with norms, identities and culture are becoming more salient" (Katzenstein, 1996: 3). His perspective is a sociological one. He argues that "security interests are defined by actors who respond to cultural factors". Power-economic and interest-based explanations are overtaken by sociological, culture-based explanations. States behave as "social actors", and here is the main distance from neo-realism and neo-liberalism. The state, for him, "is embedded in social rules and conventions that constitute its identity and the reasons for the interests that motivate actors" (Katzenstein, 1996: 23). "What matter is how identities and norms influence the ways in which actors define their interests in the first place" (Katzenstein, 1996: 30)[9]. If rationalism (both realist and liberalist) believes that norms have a regulative effect, for conventional constructivism, the state identity itself is shaped thorough norms. Therefore, norms constitute and affect states, "providing them with knowledge of their interests". What is relevant here is that conventional constructivism, in contrast to rationalism,

[9] The author uses the concept of "norm" in order "to describe the collective expectations for the proper behaviour of actors with a given identity", the concept of "identity" as "a short-land label for varying constructions of nation and statehood", and then the term "culture" as "a broad liable that denotes collective model of nation-state authority or identity, carried by custom or law. Culture refers to both a set of evaluative standards (such as norms and values) and a set of cognitive standards (such as rules and models) that define what social actors exist in a system, how they operate, and how they relate to one another" (Katzenstein,1996: 4,6). As brilliantly pointed out by both Onuf and Tamamoto, the Katzenstein's definition of culture, as we can see, is too inclusive and tend to collapse into his definition of norms (Onuf, 1998 and Tamamoto, 2003). For Cho, critical constructivist approach sees culture as "not fully formed substance, which can measure its impacts on state identity and interests" (Cho, 2009: 86-87). Here lies the main difference with conventional constructivism. For critical constructivism, culture is not a static substance, as "in need of ideological excavation" (Koltz and Lynch, 2007: 13).

brought the concepts of culture and identity seriously into the international politics. Critical social constructivism emerged with the work of Jutta Weldes (1999), Karin Fierke (2007) and David Mutimer (1999). Weldes, in *Culture of Insecurity*, starts from the assumption that "insecurities rather than being natural facts, are social and cultural productions" […] "insecurity is itself the product of processes of identity construction in which the self and the other or multiple others are constituted […] identity and insecurity are produced in mutually constitutive process (Weldes et al., 1999: 10, 11). Along this way, the Soviet deployment in Cuba represented a real danger and threat to the U.S. The Cuban missile crisis in 1962 was socially constructed as an external threat from a culturally constituted site. In Foucault's sense, the central role is the "discourse" as "the systems of meaningful practices that form the identities of subjects and objects" (Howarth, Norval and Stavrakakis, 2000: 5). Discourses are never neutral and objective. If conventional constructivism is grounded in the positivist approach, the critical constructivism is grounded in a post-positivist approach. This approach criticizes the fact that traditional security studies (or Neo-Realist) tend to refer to a world "as it is". More in particular, the traditional studies accept (i) the state, (ii) the anarchic nature of the international system, and […] (iii) wars between states are an inherent feature of the international system" (Peoples and Vaughan-Williams, 2010: 20). As Campbell pointed out, the state in fact is not a pre-given unified actor, America's identity "has been produced and reproduced through foreign policies operating in its name" (Campbell, 1998: x). Security regards "discourses of danger", which provide the state inputs about "who and what "we" are by highlighting who or what "we" are not, and what "we" have to fear" (Campbell, 1998: 48). The Coxian approach (Cox, 1981) applied to the security studies, leads to see the war in international life as a part of the problem. For some scholars, such as Richard Wyn Jones, the assumption of the State as a protector of citizens should be taken with caution (Wyn Jones, 1999). Ken Booth, along the same lines, argued that "people are more threatened by the policies and inadequacies of their own government than by the Napoleonic ambitions of their neighbour's" […], in fact "to countless millions of people in the world it is their own state, and not 'The Enemy', that is the primary security threat" (Booth, 1991: 318). Critical Security Studies scholars are sceptical on the exclusive focus on war and conflict, even if statism is an approach can have some empirical advantage and can justify the *status quo*.

Mapping the concept of security means taking a long journey from the Cold War period to nowadays, and as we have witnessed the relationship between the theorization of security and the historical context has been useful to understand the context in which such theorization took place. This relationship became even more relevant if we consider how the events known as 9/11 impacted security studies. Like the fall of the Berlin Wall, 9/11 marks a turning point in the narrative of security. However, this relationship should not be considered as linear, in order not to underestimate the critical works which pre-dates 1989[10]. "The association between the end of the Cold war and the rise of critical security studies obscures critically oriented work that pre-dates 1989. were, for instance, arguably seminal in the formation of critical approaches to security" (Peoples and Vaughan-Williams, 2010: 9).

The most recent scholar debate is usually indicated via geographical connotations and schools: the "Aberystwyth (or "Welsh") school", "Copenhagen School" and "Paris school". It is relevant to highlight that the traditional vs critical distinction is generally recognized in Europe and in some extent in Canada, but not in the USA. The US security debate is still an intra-realist debate, which gives strong relevance to military issues and the role of the state. The schools' metaphor underlines two aspects. First, these critical approaches are the product of both individual and collective intellectual activity. Second, the debate is characterized by its Western European origins, and this raises questions on the influence of institutions and their funding structures. Briefly, the scholarly debate in the European contest can be summarised as follows. The Aberystwyth (or "Welsh") school is represented by Ken Booth and Richard Wyn Jones. They adopt a normative approach, linking the study of security to the goal of human emancipation. They doubt the primacy of the state and try to seek the conditions for achieving individual security from poverty, political oppression, violence, environmental degradation and conflicts. The Copenhagen school is represented by Wæver, Buzan and others, and it is linked to the Copenhagen Peace Research Institute (COPRI). They adopt an analytical approach and, focusing on how security affects different issues, developed the concept of securitization. However, in comparison with Aberystwyth's scholars, they are more sceptical about including the issues of poverty and environmental degradation as security threats. The Paris school is linked to Science Po and Bigo's *Cultures et Conflicts* journal. It is characterized by a more sociological approach and a focus on how bureaucracies do security. According to Bigo, security is necessarily about "sacrifice" (Bigo, 2008: 2), in fact the security of one inevitably leads to the insecurity of another. According to him, "The knowledge of who needs to survive, be protected and from what, also supposes knowing who is sacrificed in this operation. That is perhaps one of the limits of understanding security as survival or as protection and reassurance" (Bigo, 2008: 2). For this reason, it is not possible to treat security as a positive condition and insecurity as a negative one. These words are interrelated and interdependent and not polar opposites. If in this zero-sum game it is possible to detect a similarity with the realist "security dilemma", it is clear that the main different is in the role of the states. For Bigo, states are not the only agents, and he refers to different

[10] i.e. see Richard Falk's (Falk, 1975) contribution to the World Order Models Project (WOMP) in 1970s and his critique to the state-system approach as unable to deal with global problems and Richard K. Ashley's (1984) post-structural critiques of neo-realism.

actors. The aim of a sociological and critical approach to any security study is to answer this question: "Who is doing an (in)securitization move, under what conditions, towards whom, and with what consequences?" (Bigo, 2008: 124).

Based on the above literature overview, we have seen that "the absence of threats" is generally accepted as a definition of security. Two main aspects have been addressed. First, the "security of whom?". Security complexes cannot be limited to state and interstate relations. A new framework is needed in order to leave room for other types of security units. Individuals are the referent object of security, but it is essential to understand how individual, states, international institutions, and other actors can be related. Second, the "security of what"? The classical focus on political-military issues is overrun by new types of issues. There are many potential referent objects that cannot be achieved in isolation from the others.

The basic analytical approach of this research deploys an integrated perspective of security. The reformulation of security provided by Buzan seems to be more adapt for interpreting the actual globalized landscape. In fact, on the one hand it encompasses a variety of actors: individuals, systems and the system playing all a part. On the other hand, economic, societal, environmental issues are relevant as much as the military ones. "From this integrative perspective, the levels and sectors appear more useful as viewing platforms from which one can observe the problem from different angles, than as self-contained areas for policy and analysis" (Buzan, 2016: 268).

> "Security interdependence is markedly more intense among the units inside such complexes than with units outside them. Security complexes are about the relative intensities of security relations that lead to distinctive regional patterns shaped by both the distribution of power and relationship of amity and enmity A security complex is defined *as a set of units whose major processes of securitization, de-securitization, or both are so interlinked that their security problems cannot reasonably be analysed or resolved apart from one another.* The formative dynamics and structure of a security complex are normally generated by the units within it—by their security perceptions of, and interactions with, each other. But they may also arise "from Collective securitizations of outside pressures arising from the operation of complex metasystems, such as the planetary environment or the global economy" (Buzan et al., 1998: 201).

2.3 The nature of the State

After assessing the historical evolution of the concept of security and the choice for Buzan's constructivist perspective, specific attention should be put to the use of the term *national*[11] security and what constitutes the referent object of security. If the individual represents the basic unit to which the concept of security can be applied, the relevance of individual security immediately takes a broader societal and political dimension (Berki, 1986: 24-40). For Buzan, "most threats for individuals arise from the fact that people find themselves embedded in a human environment which generates unavoidable social, economic and political pressures" (Buzan, 2016: 50). These threats for Buzan can be summarized in four types: physical threats, economic threats, threats to rights and threats to position or status. Dealing with these threats entails one of the biggest political philosophical dilemma about "how to balance freedom of action for the individual against the potential and actual threats which such freedom poses to others", or in other terms "how to enhance the liberation of community without amplifying the oppression by authority" (Buzan, 2016: 51). The state, in both Hobbes' and Locke's view, provides order in a primal anarchy[12]. According to Berki, the states, through law, balance the rights of citizens against one another's security. Moving from the premise of an anarchical context, the political order provides the limits to citizens' rights and society mediates the interaction through the cultivation of moral values. The paradox according to Buzan, is that "as the state power grows, the state also becomes a source of threats against the individual" (Buzan, 2016: 51). Along this path, contradictions between individual and national security are inevitable. There are four types of threats: "those arising from domestic law-making and enforcement; those arising from direct administrative or political action by the state against individuals or groups; those arising from struggles over control of the state machinery, and those arising from the state's external security policies" (Buzan, 2016: 55)[13]. As these contradictions are inevitable, the aim of the analysis is not skewing the debate to the minimum common denominator

[11] The term "national" in the common usage refers to "a large body of people united by common descent, history, culture, or language, inhabiting a particular state or territory" (Oxford dictionary).

[12] For Hobbes people look for states to "defend them for the invasion of foreigners and the injuries of one another, and thereby to secure them in such sort as that by their own industry and by the fruits of the earth, they may nourish themselves and live contentedly" (Hobbes, 1651: ch. 17), and for Locke, being the state of nature unsafe and insecure, "the great and chief end of men's […] putting themselves under government is the preservation of their property" (Locke, 1690: Sec. 124).

[13] For the sake of clarity, the first threat "can occur as a result of inadequate or excessive policing and prosecution practices", such as the use of arms in the U.S. or more recently, some environmental issues (Buzan, 2016: 55); the second one occurs when "individuals are specifically targeted by the institutions of the state" (Buzan, 2016: 55); third one generates from political disorder, "the struggle for control over the state's institutions", in fact "only a minority of states have developed stable mechanism for the transfer of political power. In the rest, violent conflicts over the reins of office pose an intermittent and frequently serious threat to sections of the population" (Buzan, 2016: 56). The fourth is related to foreign policy, "the state is supposed to provide a measure of protection to its citizens from foreign interference, attack and invasion" (Buzan, 2016: 57).

of individual security. This should remain "essentially subordinate to the higher-level political structures of state and international system" (Buzan, 2016: 62). However, identifying the state as a referent object of security reveals some difficulties as it brings us to the core of the debate of many International Relation studies. For some scholars, to use Weberian terms, the state is distinct from society as long as it provides the political institutions and it is also dissociated from class, as for Marxists. A narrow definition of the state is provided by Migdal. According to him, the state is "an organization composed of numerous agencies led and coordinated by the state's leadership (executive authority) that has the ability or authority to make and implement the binding rules for all the people as well as the parameters of rulemaking for other social organizations in a given territory, using force if necessary to have its way" (Migdal, 1988: xiii, 19, cited in Buzan, 2016: 66, 67). For many scholars, however this narrow definition of state is unsatisfying. States are not only political and territorial "billiard balls". From a systemic perspective they "represent human collectivities in which governing institutions and societies are interwoven within a bounded territory" (Buzan, 2016: 67). According to Buzan, in security analysis, "the "state" has to be conceptualized broadly enough to encompass not only the relationship between the internal dynamics of individual territory-government-society packages, but also the larger systemic dynamics of the way in which these packages relate to each other" (Buzan, 2016: 67). His "fuller, almost organic, conception of the state"[14] departs from the concept of "state and system into a mutually constitutive relationship", in fact states are both "self-constructed, from their own internal dynamics, but also "products of the competitive and sometimes fierce anarchic environment" (Buzan, 2016: 67-68). Buzan develops a figure of the state that encompasses three components: "the idea of the state", "the institutional expression of the state" and "the physical base of the state". Each element is distinguishable from the other, but not self-standing. Moreover, each element is "interlinked in myriad of ways" with the other. This model encourages the "examination of the linkages" between the single components and provides a "fruitful source of insight into the national security *problematique*" (Buzan, 2016: 71). Looking more in detail to these components, the third one, "the physical base of the state" is the easiest to grasp and the most concrete. Speaking about the physical base of a state in terms of security means to deal with both a state's territory which can be threatened by other states and by secessionist movement, and to deal with threats to a state's population. This latter is more complex. It often arises from human migration, and works not only on cultural and societal level, but also in economic and environmental sectors. If the physical base of a state (made of population and territory) is the most concrete dimension, the more abstract one

[14] The analogy that emerges from this concept of states "in terms of territory/population (body) and socio-political character (mind)" with the individuals is however "profoundly misleading" (Buzan, 2016: 69).

is the “idea of the state”. This derives from the fact that the term national security seems to imply that “the object of security is the nation and raises questions about the links between nation and states” (Buzan, 2016: 74). If territories of a nation and a state coincides, then the purpose of the state is “the protection and expression of an independently existing cultural entity: nation would define much of the relationship between state and society” (Buzan, 2016: 74). This, however, is a very narrow case. Buzan defines four kind of possible nation states: the primal nation states, the state-nation, the part nation state and the multination-state. The first refers to the case in which the nation precedes the state, as is the case of Hungary, Italy or Japan. In the second, the state plays an active role in creating the nation, as is the case of United States or Australia, where the populations were relocated from elsewhere. The third type is nation that are divided among two or more states, as is the case for Korea, China, Greece, or East and West Germany during the Cold War. In these casesthe imperative of reunification overrides all other security issues. The fourth model is the multination-state, which is made up of more nations within their territories. A sub-model here is the federative state, that “rejects the nation-state as ideal type” (Buzan, 2016: 78). Canada and the former Yugoslavia offer examples of this multicultural model. Another sub-model of this fourth kind is the imperialist state, in which “nations within the state dominates the state structures to its own advantage” (Buzan, 2016: 78). For Buzan, these are ideal types, and real-world instances can reveal some special cases, such as the case of Switzerland, in which there are three fragments of nations organized in a federative way. Through this model it is possible to investigate considerable insights into the relationship between the idea of the state and of some security implications. “Organizing ideologies are perhaps the most obvious type of higher idea of the state”, such as “Islam or democracy, or some more specific doctrine, like republicanism or communism” (Buzan, 2016: 80). Ideas in fact provide the mechanism that gives “coherence and purpose to the state” […] “persuading citizens to subordinate themselves to the state’s authority” (Buzan, 2016: 83). The last dimension is the “institution of the state”. It could be seen as at an intermediate level in terms of tangibility, between the more abstract idea of the state and the more concrete idea of the physical base. It refers to the “machinery of government”, of its “executive, legislative, administrative and judicial bodies” (Buzan, 2016: 83), and it encompasses the laws that enables them to operate. Ideas and institutions are “inseparably intertwined”. In fact, “the idea of democracy or communism is useless without institutions to put it into operation, just as the institutions would be pointless, and maybe even impossible, without the idea to give them definition and purpose” (Buzan, 2016: 85). This implies that institutions and ideology may stand together as well as fall together, and “this fact has obvious implication for either, or both, as object of security”.

However, this dimension should not be seen as a static one. It reveals to have a vitality as long as "government institutions can change without interrupting the continuity of the state". Government institutions establish the international orientation of the states. A change at the domestic level of one state could have serious repercussions on the international environment. As a consequence, other states could interfere in the domestic issues of another one. The problem of national security related to this dimension is that a security concern attributed to the government can be easily exploited in order to gain leverage in domestic politics. Governments have their own life and their own agenda, so they could have "their own interests, both organizational and individual, apart from the state interests which they represent" (Buzan, 2016: 88).

Adopting this broad definition of state provided by Buzan, it is clear that investigation of the diversity of national security problems inevitably echo from the diversity of states. He introduces the concept of strength and weakness of states, which must not be misunderstood with that of power. "Weak or strong states will refer to the degree of socio-political cohesion; weak or strong powers will refer to the traditional distinction among states in respect of their military and economic capability in relation to each other" (Buzan, 2016: 93). For example, states such as Austria, Singapore, Norway are weak powers, but strong states. By contrast, such as China and Russia are major powers, but weak states. In terms of national security, "where the state is strong, national security can be viewed primarily in terms of protecting the components of the state from outside threat and interference" and "where the state is weak, only its physical base, and sometimes not even that, may be sufficiently well defined to constitute a clear object of national security" (Buzan, 2016: 95). There is a direct proportionality between the strength of a state and the clearness of the concept of national security.

On the one hand, in the case of weak states, it could be more appropriate "to view security" in terms of "contending groups, organisation and individuals, as the prime object of security" (Buzan, 2016: 96). Buzan, makes the example of "Lebanon, Mozambique, Chad and Uganda", cases in which there is often not even the idea of state, and the governing institutions have themselves become the main source of threats, where "national security almost ceases to have a content" and where the enemy is someone classified by one contending group but not by another. "The weaker a state is, the more ambiguous the concept of national security becomes in relation to it" and often the "security of government becomes confused with the security of states and factional interests are provided with a legitimacy which they do not merit", (Buzan, 2016: 96). In the case of China for example, the national security is cast as about ideology while often it is "really about CCP security as the ruling party" (Ji, 2016: 179). Rapid transformation due to rapid economic growth has led to an increased number of social protesst, more and more structured, which of course can become highly politicized.

The securatization process, reinforced through the establishment of the National Security Commission (NSC), is "becoming the norm in leadership anticipation of an event's potential upward spiral in severity" (Ji, 2016: 179). You Ji, in an article published in the Journal of Contemporary China, clearly represented through a graph how the regime's security is "central to political security, which is value-embedded, comprehensive, hierarchical and open-ended" (Ji, 2016: 180).

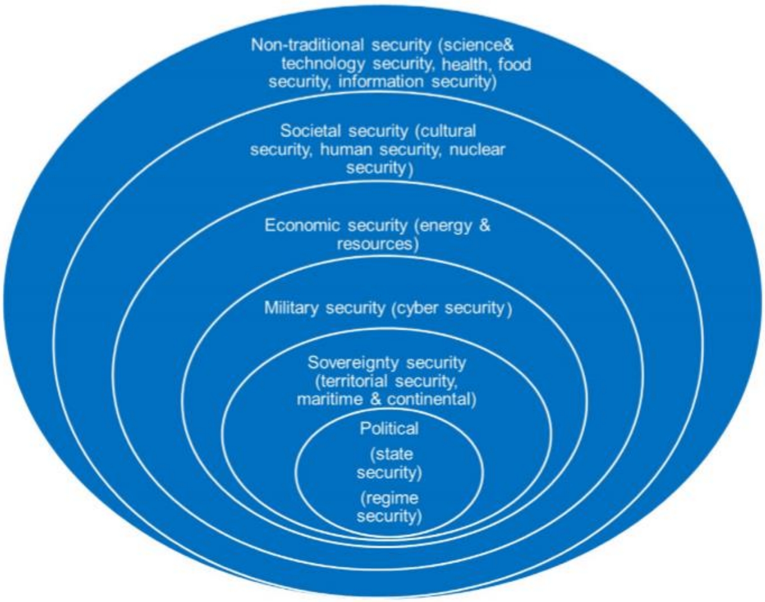

Figure 2.1. Chinese conceptualisation of national security (Ji, 2016)

On the other end, "strong states provide a relatively clear referent object for national security". The authority derives its legitimacy from the population and "because state and society are closely linked together, indigenous domestic issues play a relatively minor role in national security concerns". This means that they should always "guard against subversive penetration of political and military fabric by foreign agents and interest, but for a strong state the concept of national security is primarily about protecting its independence, political identity and way of life from eternal threats, rather than from threats arising within its own fabric" (Buzan, 2016: 97).

This, however, rises concerns on how to measure and evaluate state strength or weaknesses, or how to interpret correctly their desire to intervene. When we pass from the theory to the empirical ground, the most widespread idea of spatial representation is a scale between *laisser-faire* on the one hand and *interventionism* on the other hand. However, this reveals itself to be too simplistic and should be abandoned. In fact, "states that adopt divergent solutions may in a similar fashion be fundamentally different from one another, not just stronger or weaker versions of an abstract ideal of public authority" (Baldwin, 2005: 12). A bi-dimensional representation between strong and weak states could be certainly relevant from a descriptive point of view, according to how active they reveal themselves to be. Following Buzan's classification, while a strong state would be more likely to protect components of the state from outside interference, in the case of weak states, the concept of security is prone to ambiguity and sometimes reveals itself to be the expression of contending groups, organizations or leaders. However, this appears quite inadequate to understand a wider range of possibilities. States might be equally interventionist, but in different ways. If we make a policy distinction between a preventive and curative approach, for example, we could have the possibility of a different risk approach to address the same problem. Along this path, the administration of risk traditionally involves four types of activities "risk avoidance, risk prevention, risk shifting and risk distribution" (Douglas, 1929: 588). Risk could imply a negative connotation, that of threat or hazard, and consequently require an active role of protection, safety and security from external threats, but could also imply a positive connotation, being the necessary component of social or economic mobilisation (Giddens, 1998:63). The main reason "states differ from one another in their approaches is that they interact variously with civil society" (Baldwin, 2005: 12). In some cases, in democratic systems, control might not only be imposed from an outside authority in a top-down approach, but could also emerge "within civil society" and the state could limit its action to a formal external control, in a less intrusive way, a reflection of what has been called "prudentialism" (Rose, 1996: 58). Moreover, as pointed out by Baldwin, "such a distinction might also shed light on a fundamental statist conundrum: whether a strong state can intervene to reduce its own role" (Baldwin, 2005: 12).

In conclusion, moving from the premise of a context of anarchy, the state clearly emerges as the main object of security as long as it provides the framework of order and represents the basic source of governing. However, in the international context, as states are not single outstanding units but highly interdependent, external threats, more than domestic issues, are perceived as major elements of national security concern and interpreted in terms of their impact on socio-political cohesion. This turns out to be the most important factor in the analysis of national security. Moreover, according to Buzan, the concept of security itself reveals the strength and weakness of a state. However, when we shift from a purely theoretical analysis to the empirical ground, states are not merely a "stronger or weaker version of an abstract ideal of public authority", but "qualitatively different" (Baldwin, 2005: 12). In security studies, such as in defence, where collective action is inherently required, the wider range of possibilities of statutory activities should be considered in order to grasp the possibility of various kind of states. The dichotomy action vs non-action should also include a more comprehensive risk approach, according to which a risk can be dealt with also by avoiding or preventing it.

2.4 Economic security

Economy enters in the security debate at both the micro-economic and macro-economic levels. In fact, tensions between vulnerability and efficiency can occur at every level of economic security: individuals, firms, class and the system as a whole. At the lowest level, economic security is built up from the individuals, where, according to Buzan, "a basic definition of economic security is in terms of ready access to the means necessary to meet basic human needs (food, water, shelter, education)". However, "beyond that minimum" [..] it "becomes awkwardly entangled with a range of highly politicised debates about employment, income distribution and welfare" (Buzan, 2016: 194). Individuals can be seen both as consumers and as producers. In the first case, as consumers, they should favour the market, which usually represents the best way to obtain the best choice and availability in terms of both products and price. In the second case, as producers, individuals "may well oppose the market if its operation threatens their income and employment" (Buzan, 2016: 194). In this case, governments may be pressured to exercise control. Even rich countries are not steadily secure because they have to maintain their wealth and competitive position. Moreover, the more the individuals try to reduce their economic vulnerability and obtain income protection insurances and employment, the more this will impair the market efficiencies and potentially the economic performance of their country.

If the referent object is the business firm, it is relevant to remember that perfect competition is only theoretical and that firms lso trya to escape from the market, aiming atmonopoly and oligopoly. Along this path, any attempt to elevate a security concern from a firm level to the national security level should be analysed carefully or even "treated with suspicion" (Buzan, 2016: 195). In fact, according to Buzan, "firms pursuing security in this way may claim that their own survival is a national security issue because otherwise areas of strategically significant productive capacity (such as steel, shipbuilding, food, aircraft, energy) might be lost to the national economy. This case has to be weighed against the higher costs and often inferior products, that result when firms are shielded from the pressures of market competition" (Buzan, 2016: 195).

If the referent object is the class, it is "exceedingly difficult to apply a concept like security" (Buzan, 2016: 195). The class is an "amorphous group of entities", it does not have "physical boundaries" nor "behavioural unity". In fact, it often does not even have organizational coherence, and "intra-class conflicts" of interests are common. Moreover, conflicts between domestic elites and masses are factors which enables the assessment of the strength or weakness of a state, and "when added to the nationality factor, class division suggests the kind of political threat" (Buzan, 2016: 196).

At a macro-economic level, it regards states as a referent object of security and becomes part of a national economy, built on supply, income and demand as system-wide aggregates in an interconnected international system. Having in mind the conceptual map of security outlined above, to analyse economic security as a specific object it is necessary to locate squarely the debates about "international political economy concerning the nature of the relationship between the political structure of anarchy and the economic structure of the market" (Buzan et al., 1998: 95). The main literature positions are: mercantilists and neo-mercantilists, liberals and socialists. They mainly differ on the priority position of states or societies or markets.

The mercantilist approach puts politics first. The *Raîson d'état* is the basic assumption of their considerations. "The Mercantilist were concerned with the underlying power capabilities of states" […] "They brought Machiavelli from the political to the economic area" (Krasner, 1978: 38). "Economic security for them is" simply part of a wider priority given to state or "national" security, and economic success tend to be seen as a zero sum" (Buzan et al., 1998: 95).

The liberal approach puts economics first, in the sense that "economy should be at the root of the social fabric and that the market should be left to operate as freely as possible without interference by the state" (Buzan et al., 1998: 95). Analytically, they start with the society. The group is the basic unit of analysis. Politics is a competition between different groups of interest. This interest-group theory is particularly interesting when applied to the economic field, as in fact commercial agreements or foreign investments regulation have a salient impact on particular actors, and as a consequence it is very likely that governmental activity would reflect the activity of particular social groups. Scholars who adopt a liberal or pluralist perspective are very critical of the concept of national interest as transcendent from the individual interest of members of the society. In fact, from a liberal prospective the only possible national interest is the sum of private interests. Robert Dahl argued that "if one rejects the notion that public interest is some amalgamation of private interests, there is little philosophical mileage to be gained from using the concept at all" (quoted in Krasner, 1978: 28). Economic security from this perspective is the developing of "rules that create factor mobility among national economies" (Buzan, 1998: 95). The liberal agenda puts attention on concerns about instability and inequality.

The socialist approach can be seen as intermediate between the two. As for the liberals, their starting point is the society. State actions mirror the preferences of the capitalist class. The state itself does not have any fundamentally autonomous agency (more for the structural Marxists, less for the instrumental Marxists), so that it "cannot be understood outside its societal context. The state has peculiar tasks within the structure of a capitalist system, but they are ultimately associated with the interests of a particular class" (Krasner, 1978: 26). Socialists put a lot of attention to the analysis of foreign economic policy, in fact business seeks to maximize control over the potential sources of raw materials or over foreign markets and foreign investments are particularly effective device for guaranteeing such control" […] "if control is lost either competitors or to socialist regimes, the oligopoly can be destroyed" (Krasner, 1978: 23).

With the victory of the West in the Cold War, the socialist element weakened, leaving more space to the liberal concerns. With globalization, production, finance and technological innovation have attained a more global character. From a liberal perspective, governments should not try to control prices, wages, and so on but leave them open to competition, with free movement of goods, capital, services and people. At this point, the problem is how maintain stability, both economic and political, between rich countries and poor ones. The role of the state is to redistribute wealth through taxes and social welfare programs to address social inequalities. Economic security is then focused on instability and inequality. In the post-Soviet countries and in Russia, after the economic crisis of the 90s, academic debate sought a more comprehensive and accurate approach to economic security. The macroeconomic conditions of the country and the economic transformation greatly affected the genesis of the category content in modern literature and expanded it in a "broader sense" then elsewhere (Yakovlevich, 2015: 59). In 1994, the Russian professor Tambovtsev, starting from the interactions between economic security of individuals and that of state, showed a representation of the state through a matrix of interactions between them (Tambovtsev, 1994).

Tambovtsev's Matrix	**Individual economic security**	
State Economic Security	***High***	***Low***
High	Industrialized	Authoritarian regime or dictatorship
Low	Criminal economy	Poor state or underdeveloped

Figure 2.2. State Security and Individual economic security (Tambovtsev, 1994)

In the first case, the economic security of the state is high, as it is that of its citizens (High / High). This typology is the one experienced by industrialized countries (such as the United States, Japan or Great Britain). However, despite the idealistic nature of this scenario, there is always a certain segment of the population in conditions of poverty. In the second case, the state has a high level of economic security while that of individuals is low (High/Low). This type of situation can be present in a dictatorship or in some authoritarian regimes. In this case, the state, while committed to maintaining a certain level of internal economic security, focuses only on certain aspects (for example, the military aspects) that allows it to secure a desired international status or to maintain the current structure of government. In these states, military budgets and arms expenditure gain priority over individuals' economic wellbeing, undermining their economic security. Individual economic security is reduced not (or not only) by the repressive characteristics of a regime or by the direct effects of a conflict, but also by measures of political and economic oppression (for example, sanctions or an embargo), taken internationally and nationally. In the third case, even if the economic security of the state is low, its citizens get a certain (even high) level of economic security (Low/High). In this case, despite the context of a state's depression, there is a social group of people whose economic security is safeguarded. This can happen when there is a significant black economy, with a high crime rate, which allows some people to get rich with the proceeds from illegal activities. In the fourth case, the economic security of both the state and of individuals are low (Low/Low). This situation typically distinguishes a poor and underdeveloped state where neither individuals nor the state have ensured the desired level of economic security.

An evidence of the importance given to this type of research in Russia is the table of definitions provided by Metelev in 2015, which summarized 21 definitions of "economic security" provided by Russian scholars (Metelev, 2015: 86-88). For Abalkin, economic security is "the set of conditions and factors providing independence of national economy, its stability, ability to renewal and self-improvement" (Abalkin, 2002, cited in Metelev, 2015: 87). For Tsukanov, it is the "opportunity and readiness of economy to provide worthy living conditions and developments of the personality, social and economic and military-political stability of society and the state, to resist the influence of internal and external threats" (Tsukanov, 2008: 31, cited in Metelev, 2015: 86). For Latypov, "the characteristic of a national economic complex and its components from the point of view of its ability to progressing development on the way of the steady growth of welfare of all segments of the population, in the condition of social and economic stability and the effective international cooperation directed on the positive solution of internal and external problems, creating threats to vital interests of society (Latypov, 2012, cited in Metelev, 2015: 86)[15]. Despite the lack of a uniform

[15] Despite the "endless "game of definition juggling", typical for a scholarly discourse in the field" (Yakovlevich, 2015: 63), economic security definitions encompass concepts of socioeconomic growth, stability and vulnerability, economic pressure (coercion or aggression) and economic sovereignty. This in particular has recently gained special attention due to the rising antagonism from the West after the application of punitive economic sanctions (i.e. Malle, 2016) and has been highlighted by Vladimir Putin several times, including the most recent *Executive Order On the Russian Federation Economic Security Strategy until 2030* (http://en.kremlin.ru/acts/news/copy/54497).

standard to the definition, economic security as a category in Russian academia is, from a methodological and a more practical standpoint, well structured and often includes a system of indicators, such as the "proportion of territorial space and natural resource potential", "financial potential, gross domestic product, foreign trade and above all, the level and quality of the population life" (Grigoreva and Garifova, 2015: 267). The approach is usually affected by a multilevel system of interactions, but in general it is meant to "ensure the vital interests of the society, balanced condition of economy, dynamic socio-economic development" (Radyukova and Shamayev, 2011, cited in Metelev, 2015). The category can be examined according two main directions: spatial and social. The spatial dimension identifies: 1) "international economic security" at world level, "national economic security" at state level, "regional economic security"[16] at regional level and "economic security of enterprises"[17] at local level. The social dimension identifies "state economic security", "social economic security" and "personal economic security" (Metelev, 2015: 85). However, the multidimensionality adds complexity to a concept that is by nature dynamic. It is the result of factors which are continuously changing, as they reflect the transformation of the economy. Economic threats, in Buzan's analysis, are difficult to demine. In fact, "the normal condition of actors in a market economy is one of risk, aggressive competition and uncertainty" (Buzan, 2016: 112). The ontologically insecure nature of the market economy makes economic security hard to disentangle. "A vast range of economic threats fall within the rules of the market game, and therefore cannot, in logic, be seen as exceptional enough to warrant invoking national security" (Buzan, 2016: 112). Therefore, where an economic threat become a national security issue, it is something exceptional and a "highly political question" (Buzan, 2016: 112). For Buzan, when economic threats fall out the boundaries of normal conduct into the military capability and power on the one hand and the socio-political sphere on the other hand, then three national security routes could emerge. The first one, emerges from the link between the "economic and military capability". The second one, is just a "broader interpretation of the first" and emerges from the link between economy and the more general "overall power of the state within the international system". The third one, is instead, connected with the "domestic stability" (Buzan, 2016: 114).

The first economic security issue relates to the state's military capability. "Military strength requires economic underpinning", so economic security means "the maintenance of the industrial capability to design and to produce successive generations of technologically sophisticated weapons" (Neu

[16] For further research on the meso-economic level see Kozachenko and Bukolova, 2017; Lysenko and Zelenskaya (2017); Artyushok, 2016; Bagaryakov, 2012; Chistnikova, Antonova, Yakimchuk, Glotova and Dynnikov, 2017, Chichkanov and Belyaevskaya-Plotnick, 2016; Onyshchenko and Bondarevska (2018).

[17] For further research on the micro-economic level i.e. see: Yefimova and Maruschak, 2013; Ianioglo and Polajeva (2016) and Sosnovska and Zhytar, 2018, where the economic security of an enterprise is considered a main condition of achieving economic security at higher levels of the hierarchy.

and Wolf, 1994: xiv). Here, it is the reliability of the entire supply-chain that is relevant, not only to assure the necessary procurement of basic raw materials, but also to support an independent military production. On the one hand, this leads to the *gun and butter dilemma,* the macroeconomic balance between a nation's investment in defence and civilian goods, given that the nation has finite resources for spending[18]. On the other hand, it opens up the debate on economic interdependence. Interdependence, in common usage, happens when a state is significantly affected by external forces[19], and it is always asymmetric. "For some military needs, of course, it will never be wise to rely on foreign sourcing" (Neu and Wolf, 1994: xv). The threatened state tends to worry about being cut off or blackmailed, especially in time of war or crises. It is thus easy to understand why states care about physical infrastructure and safe transportation corridors, which guarantee reliable access to vital resources. More generally, dependence on external supplies not only could negatively affect the military industry itself, but also undermine the evolution of the civil economy[20].

On this reading, it is also clear how relevant is energy security[21]. According to the International Energy Agency, energy security can be defined as "the uninterrupted availability of energy sources at an affordable price". This inevitably has two main implications, which reflect a temporal dimension. The first one, is the long-term energy security-issue, which mainly "deals with timely investments to supply energy in line with economic developments and environmental needs". The second one, is a short-term energy security-issue, which "focuses on the ability of the energy system to react promptly to sudden changes in the supply-demand balance"[22]. Literature debates on the definition of energy security recognise it as a multidimensional phenomenon (Baumann, 2008; Chester, 2010). Sovacool, for example, has identified nine categories: climate change, sustainable development, maritime, public policy, diversification, environmental, energy poverty, social development and energy services and industrial which reflect a scientific, economic, ecological, social welfare or geopolitical perspective to energy security (Sovacool, 2011 and 2016). An attempt to put order to this multidimensional approach in terms of security is that of Elkind, which promoted a categorization in four dimensions: availability, accessibility, affordability and acceptability (Elkind, 2010). However, these attempts of categorization appear more a "technical exercise of taxonomy" and do not have a clear utility on theoretical grounds (Dannreuther, 2017: 10). International markets dictate production levels, transit routes and prices and the energy security of each state cannot be

[18] See i.e. Russett (1969 e 1982), Mintz and Huang (1991) and Mintz and Stevenson (1995), Powell (1993), Heo and Eger III (2005), Aizenman and Glick (2006) or Augier, McNab, Guo and Karber (2017).
[19] See Keohane and Nye, 2011.
[20] See Buzan and Sen, 1990.
[21] See i.e. Deese (1980), Deese and Nye (1981), and more recently Yergin (2006), Mitrova (2008), Kalicki (2005), Chester (2010), Winzer (2012).
[22] https://www.iea.org/topics/energysecurity/

separated from that of others. For the liberals, the interconnected nature of energy supplies means that core powers have the same interest in maintaining the condition under which markets operate, and consequently, conflict over energy reserves is highly unlikely. Moreover, security is higher if all terms of the chain, from upstream to downstream, are parts of a whole process. As a consequence, the liberal prescription is the need to promote both regional and international institutions, in order to support international coordination and cooperation in energy sector (Dannreuther, 2017). An example of this is offered by the shared US-Sino interest in guaranteeing the stability of Iraq in 2003, where both US and the Chinese SOE China National Petroleum Corp signed very large oil deals with Baghdad[23]. On the opposite side, realists speak about "resource wars" as a clear possibility of conflicts due to the competition for obtaining control over major resources[24]. The realist school explains the recent moves of powers outside the liberal order – such as China or Russia – as an attempt to circumvent the international energy market. A third approach is the Marxist approach, which offers a critique of both realist and liberal approaches, claiming they only perpetuate the unjust structures of power and domination.

According to Buzan, the second economic security issue concerns "the overall power of the state within the international system". "If the economy declines, then so, inevitably, must the states's power" (Buzan, 2016: 114). In fact, "the economic capability is the crucial foundation on which the relative status of great powers in the system rests" (Buzan, 2016: 115). As a consequence, "the economic expansion of a rival power", because of its direct implications on both political and military side, "might have to be seen as a threat to the whole national security position" (Buzan, 2016: 115). History provides some example of this kind[25], such as the French and British attempts to minimize German economic penetration before the outbreak of World War I, as well as the role of US protectionism with the Smoot-Hawley tariffs of 1930 which blocked German exports and impeded Germany's ability to raise money to pay for imports of raw materials. More recently, Copeland, in his book Economic interdependence and war, lays out a dynamic theory of expectations, which moves beyond the increasingly stale liberal-realist debate. It links the liberal optimism about trade with the realist concern of vulnerabilities to becoming dependent on such commerce. For example, "the very origins of the Cold War can be traced back to US fears of a loss of access to trade and investments in Western Europe, the Middle East and East Asia – fears that began to take hold as early as 1943-44" (Copeland, 2015: 5). According to Copeland, "if the state remains

[23] About the Chinese interest in Iraq, I will just recall that before the 2003 Iraq-war, through the oil production of al-Ahdab and Halfayah fields in Iraq, China National Petrolium Corp. might have been able to "deliver quantities equivalent to 13% of China's domestic production" (Collins et. al, 2012: 172).
[24] See Klare, 2008.
[25] See Brown, 1998.

optimistic about the economic environment, it will not only want the trade to continue, but also will be aware of the opportunity costs of disrupting it through overly hard-line behaviour. If the state's evaluations of the trading environment turn pessimistic, however, vulnerability to the costs of adjustment will kick in, causing leaders to fear long-term decline unless more assertive policies are undertaken" (Copeland, 2015: 429). This leads to the trade-security dilemma. "Dependent states that seek to protect their access to raw materials, investments and markets can inadvertently hurt this access if they cause less-dependent states to impose economic restrictions and carve out spheres for themselves" (Copeland, 2015: 430). When actors are aware of this, they will try to avoid a "trade-security spiral that might lead to crisis and war", projecting a "character of reasonableness and moderation in order to solidify positive expectation in the adversary" (Copeland, 2015: 430). What often undermines this "reasonableness" are "exogenous factors" that lay outside the main two-actors relationship, such as third party-actors which threaten the ability to access to raw materials, investments and markets or the level of growth of the dependent state.

The third economic security issue, according to Buzan, involves "economic threats to domestic stability". This has recently become a greater concern and is strictly connected to the high level of dependence on other countries which, over the time, "sustain the social structure that have grown up with increasing prosperity" (Buzan, 2016: 115)[26]. Here, it is possible to detect two main patterns of interdependence under which states will be vulnerable: trade and finance. According to Bracken, if "the economic system deals with the hard and soft outputs of the economy—that is, goods and services. The financial system deals with money and credit" (Bracken, 2007)[27]. In a globalized world, the financial system is "an inescapable component of global trade" (Katz, 2013: 80).

In the first case, threats to the economic system can occur when a state is heavily exposed to extensive trade, which results in high levels of dependence on other countries to sustain its social structures and its prosperity. Using Baldwin's conceptualization of interdependence, this is represented by the high "opportunity costs of severance" for at least one of the actors involved. Thus, the main emphasis should be put on an evaluation of benefits versus costs. Both liberals and realists have addressed the problem of asymmetric interdependence, however with different predictions. For the liberals, the more dependent a state is, the less likely it is to start a conflict, because it has more to lose, endangering its economic ties[28]. In fact, trade can sometimes provide an important constraint

[26] Buzan, in 1984, pointed out that both liberals and mercantilists, over the time, have overestimated the influence of the mere economic structure on the use of force. The economic factors, only when complemented with non-economic factors, such as political or military factors, contribute to the propensity of state on the use of force (Buzan, 1984). However, according to Mearsheimer, interdependence "will probably lead to greater security competition" (Mearsheimer, 1992: 223).
[27] https://www.fpri.org/article/2007/09/financial-warfare/
[28] See Copeland (1996).

on actors which might otherwise be more aggressive and competitive in their actions. “Economic interdependence for liberals is not a force for action, only a restraint on the black horse of domestic politics and leader pathology” (Copeland, 2015: 428). For realists, instead, trade and commerce can be seen as “forces for conflict, as dependent actors, worried that others might cut them off from access to vital raw materials, investments and markets, seek to reduce their vulnerability through the extension of military power abroad and direct occupation of crucial trading partners” (Copeland, 2015: 428). Realists believe that if trade is more important to one state than for the other, the dependent state would be more prone to start a conflict in order to escape its vulnerable condition. The opportunity costs are not the same for importers and exporters. Dorussen suggested, for example, that oil trade made exporters more hostile and importers friendlier in their foreign policy[29]. However, these vulnerabilities “create a national security rationale for avoiding excessive or asymmetrical dependences that might offer political opportunities for the use of economic pressure” (Buzan, 2016: 116).

The second case is finance. Here, patterns of economic threats occur along three distinct dimensions which represent the three functions of finance: capital formation, capital liquidity and risk management. The first dimension, capital formation, occurs when there is a “real capital surplus through public or private saving and borrowings to create or expand economic activity” (Katz, 2013: 80). Drawing an analogy with military, it is possible to imagine a “capital formation strike” through “inflating or deflating an adversary’s currency or any medium used to store real capital surpluses” (Katz, 2013: 82). Of course, this threat is not self-standing, but is linked with other dimensions of security, such as physical attacks, as in the case of selective strikes on telecommunication infrastructure to alter financial information flows or cyber security strikes, such as attacks on ATM systems to alter interbank retail payment systems.

The second dimension, capital liquidity, refers to “the transaction of capital assets at volume, rapidly without loss of value, between buyers and sellers and among its forms, e.g. commodities to currencies, dollars to yen, stocks to bonds, etc”. (Katz, 2013: 80). Drawing an analogy with military, also in this case, the economic threat here is a “capital liquidity strike” with the intent to alter market efficiencies, speed, volume and scale. This feature has two dimensions: micro capital liquidity and macro capital liquidity. In the first case, the attack is directed at a specific transaction, in the second case it aims at systemic market capabilities. At the micro level, it could happen to preclude the meeting of buyers and sellers, to alter prices, preventing title transfers, etc. At the macro level, it is aimed “to erode trust in the market’s fairness” through misinformation attacks impacting market

[29] See Dorussen (2006).

transparency or the diffusion of data. The third dimension is risk management, the process of optimizing exposure to financial volatility (Jorion, 2006), and could involve different actors such as "insurance companies, audit and accounting firms, rating agencies, and underwriters of collateral, warranties and hedges" (Katz, 2013: 83). The economic threat here is represented by actions put in place in order to erode or interdict specific risk management mechanisms of other countries. The financial dimension of economic security has recently gained more attention, especially during the 2009 Greek financial crisis, pointing out the exposure of public debt to the actions of external actors[30]. However, this is not a new concept. A famous historical example is represented by the "three financial strikes" that the United States put in place in 1956 under Eisenhower in order to force Britain and France to withdraw from the Suez Canal. The United States, not willing to intervene with military force against NATO allies, firstly, operated by blocking the IMF from providing Britain with the necessary credit, secondly, it blocked the US-Export-Import Bank from extending credit to Britain, and thirdly, it threatened to dump America's holding of pound-sterling bonds[31].

In conclusion, even if economic threats for their nature can be considered endemic, the extreme consequences of some actions on both domestic policy and social stability, reveal that economic security cannot be escalated in the planetary terms of common security[32] and it is much more reasonable to consider these issues a security problem at a national level. Moreover, broadly speaking, it is the link between economy on the one hand and military and socio-political stability on the other hand, that generates questions that can be seen as national secugrity issues. Following Buzan's distinction between strong and weak states, vulnerabilities for developed and less developed states open up "a set of wide-ranging questions" (Buzan, 2016: 116). In fact, on the one hand, developed states are aware that their socio-political structures depend on "sustained growth rates and functional specialization" (Buzan, 2016: 116). For them, "domestic political stability may be undermined by disturbances in the economic system as a whole" (Buzan, 2016: 116). On the other hand, for less developed countries, economic threats can lead to extreme "intolerable domestic pressures" with governments divided between the pressure of meeting debt repayments and the decision of lowering the already low living standards of their population. Moreover, in weak states, "domestic political fragmentation makes the state exceptionally vulnerable to penetration by external political interests" (Buzan, 2016: 99), so that domestic security problems become difficult to entangle with their foreign affairs.

[30] i.e. see http://gnosis.aisi.gov.it/Gnosis/Rivista23.nsf/ServNavig/16

[31] i.e. see http://www.imf.org/external/pubs/ft/fandd/2001/09/boughton.htm

[32] See Palm Brandt Commission.

However, even if a high level of volatility is endemic in economic affairs and the risk of an unexpected outcome affects the value of assets, equity or earnings, when an aggressive behaviour has strong military and socio-political consequences, economic threats escalate at a national security level. Even if some attempts to elevate some economic issues into national security claims should be treated with caution (representing, for example, vested interests of uncompetitive industries unable to adapt to the changing condition in a competitive markets), economic threats can resemble an attack on the state when "conscious external actions by others result in material loss, strain on various institution of the state, and even substantial damage to the health and longevity of the population" (Buzan, 2016: 116-117).

2.5 Economic security concerns of inward FDIs

Foreign direct investments (FDIs) are, like trade, a different manifestation of global production. If trade is the cross-border flow of goods and services, FDIs are the cross-border flow of the ability to produce them. An FDI is defined by UNCTAD as an "investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor"[33]. The first one is defined as foreign direct investor or parent enterprise and could be an individual as well as a business entity, the second one is an FDI enterprise or affiliate enterprise or foreign affiliate. "FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy" (UNCTAD, 2007).

Inward foreign direct investments (IFDIs) occur attracting value-adding activities within the boundaries of a firm, while outward direct investments (ODIs or OFDIs) operate a value-adding activity outside the country of origin through arms-length transactions, licensing or outsourcing.

An FDI has three components: equity capital, reinvested earnings, and intra-company loans. The first aspect, the equity capital, is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. The second aspect, the reinvested earnings, "comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested". The third aspect, intra-company loans or intra-company debt transactions,

[33] This general definition of FDI is based on OECD, Detailed Benchmark Definition of Foreign Direct Investment, third edition (OECD, 1996), and International Monetary Fund, Balance of Payments Manual, fifth edition (IMF, 1993). With FDIs, the owner of a foreign business holds a substantial share of the business, while with a portfolio investment the owner of a foreign business detains only a small share and cannot exert a meaningful managerial control.

refers to "short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises".

If the aim of a foreign direct investor is to obtain an effective voice in the management of another business, it can be possible to act through other means rather than acquiring an equity stake. For example, non-equity form of investment may include subcontracting, management contracts, turnkey arrangements, franchising, licensing and product-sharing, etc. For Rivoli and Salorio (Rivoli and Salorio, 1996), the decision between FDI and contractual agreements should evaluate not only the direct benefits of FDI, but also the option value of deferring an FDI commitment under conditions of high uncertainty.

The first critical strategic issue for investors is whether to enter a foreign market by building a new subsidiary (greenfield) or buying an established domestic business in part or whole (acquisition). The first case, a greenfield investment, "is a start-up investment in a new facility". The parent company builds its operations in a foreign country from ground zero. This can be wholly owned or a joint venture. "A joint venture is the pooling of assets in a common and separate organization by two or more firms who share joint ownership and control over the use and fruits of these assets". The second case, an acquisition, refers "to the purchase of stock in an already existing company in an amount sufficient to confer control" (Kogut and Singh, 1988: 412). This implies different scenarios, such as the change in business orientation in an enterprise invested by a foreign entity, or changes in the relevance of product and services, or changes in strategic orientations. "Since greenfield FDI have an additional effect on the host-economy, it is more likely that they cause pro-competitive effects and technological spillovers within the host-country than cross-border M&A. For instance, by opening new productive plants (or research centres) in the domestic countries, or by expanding existing ones, a foreign enterprise will compete more strongly with domestic firms and might give a boost to their productivity improvements" (Antonietti, Bronzini, Cainelli, 2015: 96). It is more likely that greenfield investments have more pro-competitive effects on the host economy, by opening new productive plants or research centres in the domestic countries. Since greenfield investments hasecurity issues.

Within the literature on international business behaviour, Vernon's product cycle hypothesis[34] (Vernon, 1966) and the internationalisation theory of Buckley and Casson (Buckley and Casson, 1976)

[34] According to this theory, "as the skill intensity of a product falls over time, the more capital-abundant North tends to export `new' goods and the less developed South exports "old" goods. The trade pattern remains invariant over time although the product mix changes as the `new' goods become old, and this exhibits the product-cycle type phenomenon" (Vernon, 1966, cited in Marjit, S., 1989).

can be considered the seminal ones. In particular, they demonstrated how unrelated aspects of multinational operations could be understood under the same conceptual framework: the internalisation of imperfect market. From this derives a twofold principle. First, "firms internalise missing or imperfect external markets until the costs of further internalisation outweigh the benefits". Second, "firms choose locations for their constituent activities that minimise the overall costs of their operations" (Buckley et al., 2010: 83). The eclectic paradigm elaborated by Dunning (Dunning, 1977, 1993) underlines three primary motivations, known as OLI theory. The first one is the ownership specific advantages (O), the second one, location advantages (L), the third one internalization advantages (I). In other words, the main hypothesis of the eclectic theory is that foreign direct investment will take place for "foreign-market-seeking, efficiency seeking or resource seeking". In the first case, FDIs occur in order to gain access to distribution networks and to increase exports for domestic products. The second factor, "efficiency (cost reduction)-seeking", occurs when outward investors seek lower-cost locations for operations, in particular lower-cost labour, in order to obtain economies of scale[35]. The third motivation is "resource-seeking". In this case, FDIs occur in order to acquire and secure the supply of raw materials and energy sources not available in the investor's domestic market, or to do so at lower prices[36]. This category also includes "strategic-asset seeking" FDIs, R&D investments and output, design facilities and brand names (Dunning and Wymbs, 2001)[37]. Several scholars have also addressed the process of firm internationalism linked to geographic and cultural proximity (see Johanson and Vahlne, 1977) or ethnic (or family) ties with a specific minority population (Lecraw, 1977; Wells, 1983; Lau, 2003).

Many political economy scholars point out to that a more favourable environment for multinationals, especially export-oriented investments, raise labour demand and create high-skilled jobs and technological spill-overs in home countries. On the opposite side, Gilpin has stressed that heavy foreign investment policies never produce a net-return for the industry of the home country. According to him, investing abroad, in the long run, does not pay. In fact, the home country is somehow "exporting or trading away its comparative advantage (technology, technical know-how, and management) and potential productivity gains in exchange for future foreign earnings" (Gilpin, 1975: 198).

However, since the cold war, globalization has been the most outstanding characteristic of both international economic affairs and of political affairs. Over time, more and more countries have

[35] Given Italy vs China's comparatively low labour cost levels this motivation is unlikely.
[36] This may involve Chinese ODI in Australia and Canada, countries with energy reserves and significant raw materials.
[37] For futher understanding of the eclectic evolving paradigm see Dunning, 1977; 1988; 1993 a) and 1993 b), Dunning and Narula, 1995; Dunning, 2000; Dunning et al., 2001, Dunning, 2003a) and 2003b), Dunning and Narula, 2004; Dunning, 2004; 2006a) and 2006b); Dunning and Lundan 2008a) and 2008b).

opened up their economies to FDI inflows. When policy restrictions were foreseen, they both tend to limit entry and operations. Some formal restrictions required that foreign investors operate in the form of joint ventures a local firm, which had to retain majority control. Other restrictions included local requirements, export minimums or local representation on the board of directors. On the one hand, these forced joint ventures facilitated the transfer of multinational's technologies and revenues to their local partners. On the other hand, ownership restrictions of the host country deterred FDIs, because foreign companies lost their exclusive control over their proprietary technologies and their associated revenues. A vast bulk of literature investigates the reasons why some countries adopted policies to encourage inward FDI flows—like providing tax holidays, incentives, etc.—or policies to restrict inward FDI flows. In this case, the main set of explanations for foreign ownership regulation are built on FDI's potential distributive effects. Pandya, in a study of 2014, attributes FDI liberalisation to democratization, especially in developing countries. In her study of FDIs from 1970 to 2000, democratization coincides with the dismantling of ownership restrictions. According to Pandya, in democracies, heightened electoral accountability makes policy makers more attentive to labour's economic policy preferences. Autocratic regimes, instead, are less willing to liberalize, because they are more responsive to the preferences of local firms and want to prevent competitors from entering their market. An opposite opinion is that of Owen, who, analysing US data from 1981 to 2000, argued that inward foreign direct investments are also a source of competition for producers in the host country, with concomitant effects on labour markets. Unionized workers, at all skill levels, have incentives to support restrictions on inward FDI because rising elasticity of demand restricts bargaining power. Consequently, higher levels of unionization lead to greater restrictions on inward FDIs (Owen, 2013).

Alternatively, other scholars attribute the regulation on FDIs to the institutional structure for policy making of the host country. For Crystal, in the US case, there was an absence of a coherent FDI policy making structure (Crystal, 1998)[38]. Another swathe of the literature investigated these restrictions in terms of security considerations. For Kang (Kang, 1997), the US shift in regulation, which led to the creation of CFIUS (Committee on Foreign Investments in United States), can be explained by the fact that elected policymakers tried to follow the wave of anti-foreign sentiment associated with the surge of inward foreign direct investments, modifying both the perception of the national interest and their own political objectives. According to the United Nations, over the past decades security-related issues have become prominent in the investment policies of numerous countries. The advent of globalization and the unification of communication and transport have created a global and

[38] i.e. see Li and Resnick, 2003, Jensen, 2003 and Ahlquist, 2006.

integrated system. FDI policy controversies surrounded a growing number of foreign acquisitions by multinationals based in emerging markets, especially Chinese companies. This phenomenon, anyway, is not new. Already in the 80s and 90s, despite the historical US commitment to the principle of neutrality on FDIs[39], the scholarly debate over inward FDIs often cited national security concerns, spurred on by numerous Japanese takeovers of US technological firms[40]. FDI restrictions were institutionalised with the famous "Exon-Florio" amendment which gives the U.S. president the power to suspend or ban inward FDIs (specifically mergers or takeovers) if it can be demonstrated, after a review made by a special committee (CFIUS), that U.S. national security is threatened. However, the Japanese ODIs of the 1980s did not continue throughout the 1990s, and the US reactions to inward foreign direct investment lulled. The continuous flow of human and capital however has several security implications, increasing "opportunities" also for international criminal organizations and facilitating unethical and illegal practices. Along this path, for example, the US government, in the post 9/11 era, found itself at a crossroads, looking for a liberal order on the one hand and preserving its own national security against terrorism on the other hand (see: Larson and Marchick, 2006). On the economic front, the United States has always adopted a liberal policy toward foreign investment. However, the increasing number of inward FDIs have posed security questions regarding the transfer of an increasing number of assets that "answer to a foreign government" and "entice foreign governments to use political influence to their advantage, weakening U.S. economic and social structure" (Travalini, 2009: 781, 782). Since its creation in 1975, many scholars have argued about the role of CFIUS and its review procedures. This debate has become extremely relevant in recent years, when important M&A transactions have featured politicization and media sensationalism, and this national security pre-screening system has added to politicization concerns[41]. Moreover, the economic security scrutiny procedures have been severely criticized for being particularly vulnerable to abuse as a protectionist instrument. Among economic scholars there is an overall agreement in considering protectionism inefficient. In fact, raising the costs of entry in a domestic market for foreign firms puts them at a comparative disadvantage. As a consequence, foreign firms could steer away and look for possible substitute host countries. At the same time, protectionist measures could lonvevityl to high-cost and inefficient domestic players in the market. The main question that some scholars (i.e. see Travalini, 2009) have asked is "how it is possible to achieve a balance between economic benefit and security?" The lack of transparency in the decision-

[39] The principle of neutrality has been affirmed several times in US history. It consists on the one hand in freedom to enter and expand and on the other hand in "level playing field" for established FDIs. This principle has most notably expressed in 1977 by Carter and in 1982 by Regan administrations. See. Graham and Krugman (1995).

[40] i.e. see. Tolchin and Tolchin, 1992 or Thurow, 1992.

[41] i.e. see https://www.csis.org/analysis/global-economics-monthly-china-challenge-and-cfius-reform

making process and the perception of a fundamental lack of "reciprocity" is becoming common in conversation with China across many EU member states, as well as in the U.S..

International Political Economy public opinion researchers have also studied the determinants of public support for inward FDIs, basically examining how economic and socio-cultural factors shape individual attitudes towards global economic integration [42]. Chilton, Milner, and Tingley, investigating individual attitudes toward foreign acquisitions of domestic companies, found that reciprocity is an important determinant which influences public support for restrictions of FDIs flows. This suggests the need to consider the policies that other foreign countries adopt when trying to explain the public views on flows of goods, people and capital (Chilton, A., Milner, H., & Tingley, D., 2017).

From the host country point of view, the scholarly debate basically is twofold and reflects political economy currents. On the one hand, there are two streams of work which analyse the impact of inward FDIs on the host country's growth and competitiveness. The first one assesses whether inward FDIs boost the productivity of the incumbent firms in the same territorial area based on theories of agglomeration economies[43]. The second one investigates the impact of inward FDI on incumbent firms' innovation capabilities due to the entry of a multinational company into the domestic country. Most of these papers focus on the mechanism of increased competition due to the entry of MNEs into the domestic market, concluding that in most cases it increased the presence of foreign firms in the same industry, introducing product and process innovation[44].

As an analytical tool, in order to figure the current debate on economic security over FDIs, I will use the following matrix, taking the extremes of the conceptual debates which frame FDIs policy discussions, both economic and political. Combining them orthogonally, it is possible to describe four ideal-types of narratives that clarify the capabilities and motivations shaping behaviour on FDIs, from the host country perspective. Each category in the typology makes different assumptions about what is possible and probable, economically and politically. On the vertical axis, there is the political environment regarding security analysis, where in Buzan's words, the main patterns are the "amity and enmity among states", or, in other words, cooperative versus competitive environment, where the "security complex" can group states with shared security priorities. The amity and enmity

[42] Linsi, 2016; Jensen and Lindstädt, 2013; Pandya, 2014, 2010; Kaya and Walker, 2012; Scheve and Slaughter 2004.
[43] According to Greenstone (Greenstone et al., 2010) inward direct investments are more likely to affect positively the economy if there is a geographical proximity between the local and foreign firms since geographical proximity encourages the diffusion of ideas and technology.
[44] See: Bertschek, 1995; Blind and Jungmittag, 2004; Aghion et al., 2009; Brambilla et al., 2009; Haskel et al., 2007.

patterns are factors that partially explain certain approaches towards ODIs which are politicized and/or securitized, while others are not. FDIs dependency can be perceived in varying degree as mutually beneficial, in the case of positive dependency, or unequal and threatening, in the case of negative dependency.

On the horizontal axis, there is the FDI environment. Here the main patterns are FDIs in the liberal order, where ODIs are seen as an instrument for allocating production to the most efficient locations and welcomed by the host state without restrictions, or FDIs with protectionism, where ODIs have both benefits and costs and for the host state it is a question of restricting FDIs where costs outweigh benefits.

		FDIs' economic environment	
		FDI in a liberal order	*FDI with protectionism*
Political environment	*Cooperative Political environment*	**Open market**	**FDI regulations**
	Competitive Political environment	**Contested environment**	**Economic warfare**

Figure 2.3: National Security debate on FDI - matrix

Following this matrix, four configurations characterize the security debate on FDIs[45]. Each scenario is represented in a three levels approach: an assumption, a threat and a counterargument. The assumption describes the scenario. The threat reveals the vulnerability of the system through an explicit forewarning. The counterargument rises and refuses the threat, providing additional arguments.

The first quadrant is an **Open market scenario**, with FDIs in a liberal order and a cooperative political environment.

Assumption: It is a scenario of free market and free trade. It will produce increased economic growth, lower government spending, job opportunities, dynamic business environment, etc.

[45] A similar tool of analysis has been applied by Lindsay (Lindsay, 2014/2015) to describe Chinese Cyber threat narratives in US.

Threat: FDIs regulatory framework violates freedom of movement of capitals and goods.

Counterargument: There are asymmetries that undermine these promises: frauds and "authoritarian censorship/authorisation" hinder free movement.

The second quadrant is a scenario of **FDI regulations** in aprotectionist economic environment and cooperative political environment.

Assumption: States, also in collaboration with others - in a "regional security complex"- must adopt norms to protect their national interest.

Threat: Authoritarian countries' norms imperil the liberal multi-stakeholder-system. ODIs from authoritarian countries, lacking both transparency and reciprocity, exploit the host country's economy.

Counterargument: The institutional *status quo* is durable. An authoritarian country cannot commit its own proposed rules, even if a country, such as China, fosters international parallel structures in different areas - such as financial and currency policy, trade and investment, transregional infrastructure projects, security policy, technology (in particular ICT standards and internet regulation), or informal diplomatic forums.

The third quadrant is a scenario of **Contested environment,** with a liberal order in the economic environment and competition in the political environment.

Assumption: FDIs improve connections, growth and opportunities. In an amity contest between states, fair and equitable treatment, full protection and non-discrimination of foreign investors provisions are guaranteed.

Threat: Some multinationals, answering to other governments, may decide investments not for economic reasons, but for political and military ones[46]. Foreign country espionage erodes domestic competitiveness (i.e. China vs Western firms) and several threats, such as technology transfer, surveillance, undermine not only the domestic economic growth and power, but also domestic social and political stability. In this quadrant, discourses on threats narratives however are not like a

[46] Through "state-owned investment vehicles for deploying reserve assets, sovereign wealth funds, state-owned banks and state-owned enterprises, to name a few" (Blackwill and Harris, 2016: 88).

surprise attack, such as in a "Pearl Harbour scenario", but more gradual, such as in a 凌遲 (*Língchí*) one[47].

Counterargument: The absorption of firms of the host country is a non-trivial obstacle. It is a question of striking a bargain of greater benefits and fewer costs, if the same can be done in the opposite direction. It is a question of reciprocity. Benefits vs costs evaluation, could also mean aggressively courting FDIs by offering incentives.

The fourth quadrant is the **Economic warfare scenario** with a protectionist environment on the economic side and competition on the political one.

Assumption: FDIs come from asymmetries in an offensive dominant warfighting environment.

Threat: Investors can paralyse the host country. Discourses here are at the culmination of the most pessimistic point of view. Threats could come from ODIs' overall size; degree of control over domestic market, also controlling import and export level from a given sector or country; downgraded perceptions of future growth of the host country, which undermine its role as an international power; enhanced asymmetries in economic relationship with other countries; military threats; control over strategic infrastructure at low cost; threats to socio-political domestic stability, etc.

Counterargument: Authoritarian capitalist capabilities do not live up to their own rhetoric. Strengthening host countries' national interest and geo-economic priorities shape the behaviour of states, as dominant actors within the institutional international order. For every type of purported threat, there are also the other countries' vulnerabilities and host country's strengths that reinforce the political *status quo*. In this vein, a state's pursuit of security is the cause for another's insecurity and could equally expose them to attack.

2.6 Policy implications of different approaches

From a normative perspective, it is since the 2000s that policy making activity on FDIs has received increasing attention, especially with the end of State monopolies in infrastructure, energy and

[47] 凌遲 (*Língchí*) means "Death by thousands of cuts".

telecommunications. This is surely driven from a re-evaluation of national security due to an ongoing opening up for private investors of sectors which before were under state control. According to the OECD, so long as "the strategic industries were under State control, governments did not have to worry that they fall under a foreign control" (OECD, 2016: 10). As a result, many countries over the last two decades have adopted new measures to restrict FDIs on national security concerns. Policy approaches of each countries differ quite a lot and governments find themselves in front of a need to balance national security regulations and the interests of investors for transparency and predictability. The first difference that is possible to detect is on the definition of national security relative to foreign investments, which ranges from a narrow definition and security-related industries to a broader interpretation, which includes infrastructure and strategic industries. The second difference is about the screening processes, which differ a lot both in terms of time frames and the detailed information required. The third one regards the possible consequences of investments judged to be sensitive from a national security perspective[48].

Policy approaches adopted to address national security concerns over FDIs have been recently analysed by OECD in a working paper of 2016.

Based on a survey of 17 countries, there are three main groups of policy questions: a) "to what extent the rules restrict foreign investments in a generalised – rather than individualised manner; b) whether the policy relates to ownership or to acquisitions; c) what categories of assets are addressed by the foreign investment policies" (OECD, 2016: 11).

In the first case, the national legislator can set "generalized limits to ownership or acquisitions by foreigners or it can delegate the assessment of risks stemming from individual investments to the administration" (OECD, 2016: 11). OECD defines a three levels approach: 1) prohibition, which is the more general decision on foreign ownership and acquisition; 2) reviews, which permit a foreign investment under an "explicit prior approval", often a case-by-case decision; or 3) scrutiny system, which "entrust the administration with the identification and, subsequently, evaluation of potentially sensitive transactions" (OECD, 2016: 12) if the operation imperils national security, without a prior notification or authorisation by the investor or the target company, as in the case of reviews.

According to the OECD's survey of 17 countries, prohibition, total or partial, often occurs "in the production of war weapons and armaments or other defence material" (i.e. Argentina, Columbia, Egypt and Lithuania); "land in border areas or areas near strategically important sites" (i.e.

[48] See: World investment report 2016, United Nations Conference on Trade and Development, 95.

Columbia and Russia); "production of chemicals or radioactive materials" (i.e. China, Columbia, Egypt and United States); "broadcasting and media" (i.e. Japan and Russia); "airports" (Poland). Prohibition, however, could occur "under certain equity caps" (i.e. in Mexico foreign ownership in explosive, firearms, ammunitions production companies is limited to 49%) or some countries could allow investors from certain countries and not from others (i.e. in Lithuania, investments in armaments are not allowed for countries outside EU, EEA, OECD and NATO).

Among the 17 countries recently surveyed by OECD, most of them have introduced investment reviews which require a prior authorization for and disclosure of the planned investment, only in defence industries, such as in Chile, or on the transport of classified military-sensitive goods such as Norway, or real estate in border areas or areas near important facilities such as in Argentina, Brazil and Turkey. Other countries, such as China, France, Italy, Lithuania and Russia, apply this review system to a larger set of sectors which goes beyond the traditional national sensitive sectors. This review can be conducted by inter-agency review committee or, as in the case of France, the Ministry of Economy itself. Some other countries such as Australia, Austria and New Zealand apply the review to all sectors of economy. Countries with investment reviews, in the case of a transaction that is not notified or reviewed, include criminal and administrative sanctions or divestment orders; in some cases (Austria, China and Lithuania) legislation allows the special Committee in charge to act *ex officio*.

Finally, among the 17 countries surveyed by OECD, Canada, Germany, Finland, the United Kingdom and the United States have introduced investment scrutiny procedures across sectors. Germany and Finland, for example, operate both with a sector specific review process which requires notification and authorization and a cross-sectoral one which does not.

According to the OECD none of these three distinct approaches are more or less restrictive but they represent "different means to pre-select and filter" (OECD, 2016: 16). In fact, the filter for the selection of cases is necessary on the one hand to satisfy the need to keep the economy open to foreign capitals and on the other hand, to reduce the administrative burden, both for the public administration and for the investors. Moreover, the period of scrutiny, during which state agencies gather information and initiate the assessment review, could be limited in time, such as in the case of Germany (only three months) or be indefinite, such as in the case of Finland and United States. It is easy to understand how this could generate a period of uncertainty, which could also affect the market[49]. However, it is how the filter is applied – only to selected sectors – that ends up as

[49] According to OECD, it is precisely the intention to limit this period of uncertainty that "creates an incentive for investors to inform governments of their intentions" (OECD, 2016: 16, 17).

particularly salient for national security. Sector-specific prohibition implies that foreign investment may be acceptable in case by case conditions and equity limits or nationality can be a way to influence the assessments. The cross-sectoral approach implies that national security concerns are not limited to specific sectors, and thus that sector-based reviews on their own are an "inadequate criterion to determine the likelihood of a threat" (OECD, 2016: 16). The cross-sectoral approach rather focuses on "the absolute value of the transaction, or the relative influence in a given target company resulting from the transaction" (OECD, 2016: 16). Here, it is relevant to highlight that differences in ownership might not mean a big change at the time of acquisition or investment, but could generate a change in business orientation of the invested company in the medium term. An example of this is the case of software or mobile phones which, at the time of investment, did not represent an issue of security relevance, but later revealed to determine a quick market penetration with an acquisition of a significant market share or the development of mobile infrastructure, with an evident increased sensitivity to national security.

The application of investment policies generally runs along two dimensions: the characteristics of the assets and/or the characteristics of the investor.

The first dimension is classified by OECD in two distinct approaches. The first one is represented by a set of specific rules in certain sensitive sectors, selected as relevant for their national security. The second one is based on an assessment of threats to national security. In this case, it is from the country's definition of national security that an individual transaction could raise a threat and so could be subject to these policies. In the first case, however some countries do not provide a definition of the concept of national security and it remains implicit from the list of sectors defined in the legislation. This sector list, as already seen before, could encompass defence and related fields, real estate, land near border areas or strategically significant facilities or a list of strategic activities (i.e. France and Italy). This list could encompass "public security, public policy or crisis prevention such as energy or water supply, telecommunications, transport but also infrastructure for education and health services", such as in the case of Austria (OECD, 2016: 22), or even protection of media (Russia) or food supply activities (such as in the case of China, France and New Zealand). This list-based approach has strength and weaknesses at the same time. The advantage is represented by clarity and predictability for the foreign investors. The disadvantage is represented by the fact that it does not offer the necessary flexibility to adapt to different scenarios, such as technological evolution, especially in case of a change of risk analysis. In fact, it seems to move from the old premise that sectors move into the traditional areas of national security concern with a relative slowness. In the second case, there are some countries which define "national security" or give a list of national security sectors, as is the case of Lithuania, Finland and the United States. Some countries

- such as Italy, Korea, Lithuania and the United States - invoke international peace and security as a justification for national security scrutiny. Other countries, such as Korea, invoke the efforts of international organizations to maintain peace and security. Others, such as Germany and New Zealand, invoke the "peaceful coexistence between nations or the foreign relations of the country" (OECD: 2016, 21). In the second case, some countries have adopted an approach based on threats. OECD in its 2016 report categorized this approach in seven features. The first one relates to "investments threatening the independence and sovereignty of the State" as in the case of Lithuania. The second one relates to the "possible obstruction to manufacturing of defence materials", as in the case of Korea. The third one relates to "the continuity of operations of certain grids and plants" (such as in the case of Italy and Korea); "espionage, as in the case of Korea; or "the continuity of public procurement", as with France and Italy. The fourth one relates to "investments from foreign countries that do not respect democracy and the rule of law or have held conducts at risk towards the international community" such as in the case of Italy or "to foreign-government controlled investment from countries that do not adhere to non-proliferation control regimes or do not have a record of cooperating with the host country's counterterrorism efforts", as in the case of United States. The fifth one relates to "investments by person linked to organised crime, terrorism or other criminal activities", such as in the cases of France, Italy, Lithuania and New Zealand. The sixth concerns investments "in relation to the impact of the investment on the economy" (such as Australia, China, Japan and New Zealand) or on "domestic R&D capabilities" (such as China, France and New Zealand); or on "international competitiveness", such as in the case of United States' technological leadership in national security areas, or those that might impinge on "the need to exercise control over certain natural resources" (such as in the case of Australia, New Zealand and United States) (OECD: 2017, 21- 22).

The second dimension regards the characteristics of the investor. Most countries surveyed by the OECD have defined their policies among two dimensions: the nationality and the degree of government control. Another feature can be detected, whichis the legal nature of the investor, but this feature has not used as a discriminatory factor in any case surveyed by OECD. In the first case, foreignness has revealed to be a "key criterion for the application of the most countries' investment policies related to national security (OECD, 2016: 25). Some EU Member States adopted the criterion of nationality for countries of a given list; Austria and Lithuania exclude from the application of their policies EU Member states, EFTA members and Switzerland. Finland, France, Germany and Italy apply a differentiated approach, with some policies to all foreigners and other policies to countries outside EU Member states, EFTA members and Switzerland. However, there are differences between the legal constructions of the nationality of the legal person. It can be the nationality of the legal person itself or the ownership of the legal person, such as in the cases of Austria, Germany and Italy, or the nationality of the persons that control the legal entity, such as in the case of Canada, or a combination of both criteria such as in the case of Finland. In the second case, foreign government-controlled investors (GCIs) are treated differently from private investors. This is the case of Australia, Russia and the United States, while Canada applies special rules for GCIs only to the "net benefit test" and does not explicitly identify GCIs.

2.7 An analytical approach: From sectorial analysis to a threat assessment tool

Determining whether international economic integration in advanced economies increases national security concerns is critical, and claims that no such link exists undermine an objective analysis of what can be really harmful, which instead should be open to empirical enquiry. Globalization has significantly strengthened the importance that governments place on foreign investments and the recognition of their economic benefits. If leaving the market open is deemed to be more important to the government than guaranteeing national security standards, this could be very harmful. The presumed maximization of domestic economic benefits, through the minimization of national security risks, might in fact expose host countries to attack. It is important that the review process to detect real threats should not be discretional and up to the government's political goals. It is necessary to "establish transparency without threatening the confidentiality of corporate information or the politicizing of the […] review process" (Travalini, 2009: 797).

The development of analytical tools for understanding economic security risks, vulnerabilities and threats over IFDIs constitutes an "insurance policy" or a "preventative medicinal approach". The development of these capabilities to safeguard "structural integrity" [50], should also be linked to "welfare maximisation – both localised and global – and the externalisation of FEP (foreign economic policy) interests". From the comparison of these two aspects it is clear that the former, i.e. safeguarding "structural integrity", is more defensive in connotative action, whereas safeguarding "prosperity-generating capabilities and interests" suggests more promotional or enhancing actions. Dent shares Lubbe's (Lubbe, 1997) distinction between short-term and long-term security objectives. Short-term objectives refer to specific threats (such as the unilateral commercial policy threat), while

[50] "Structural integrity" is meant here as the maintenance of "the internal construction of the economy during its interactions in the global economy, and its ability to meet the basic demands of economic agents located therein" (Dent, 2001: 6, 7).

long-term objectives are the preservation of economic potential and the capacity to counteract structural destabilising challenges.

According to Dent, there are eight economic security typologies regarding FDIs:

1) Supply security;
2) Market access security;
3) Finance-credit security;
4) Techno-industrial capability security;
5) Socio-economic paradigm of security;
6) Trans-border community security;
7) Systematic security;
8) Alliance security.

The first one – supply security – concerns securing of supply chains involving foreign sources. It is relevant for import-dependent or foreign technology-dependent economies. But it applies also to the supply of international credit and finance or human resources. The supply diversification is a vulnerability. The second one – market access security – deals with securing access to key foreign markets. It is relevant for export-oriented economies. The third one - finance-credit security – deals with securing the financial solvency and the maintenance of access and control of sources of international credit. The fourth – the techno-industrial capability – concerns securing the economic position close to the technological frontier. The fifth – the socio-economic paradigm – concerns the defence of welfare goals. This often entails the resistance of foreign pressure to adapt to new international norms. The sixth – trans-border community security – concerns localised interdependence issues that originate from regionalised market failures and a shared trans-border economic space. For Dent, "regional architectures for economic security (e.g. ASEAN) provide a fall-back position if the liberal world economic order is jeopardised". The seventh aspect is systemic security. "It concerns the integrity of the international economic system, entailing co-operative and concessionary acts to uphold multilateral regimes of systemic governance, facilitate inter-state bargaining and maintain overall systemic stability" (Dent, 2001: 8). This, though, has limited relevance for our debate on FDIs, and we shall therefore omit an applied analysis of this economic security typology to it. The eight aspect is alliance security. It concerns the maintenance of economic partnership between state and non-state actors.

With this multi-dimensional approach, it is natural to have overlaps between these eight different typologies. A possible overlap can be noted between supply security and finance security, with the aim to undermine an alliance security threat. A techno-industrial capability security may be a supply security issue, but it can also pose a threat to socio-economic paradigm security interests. Although this approach finds an easily application on normative basis, a sector base analysis of economic security highlights weaknesses when we look at the emergence of new technologies and of new goods and services. As Louise Amoore noted, in response to the events of 9/11 there was a wide deployment of technologies of surveillance, designed to classify population (Amoore, 2006: 337). Even if this idea of espionage[51], surveillance and security is not new[52], the value of information has become a key element in global economy. Big data are already considered the "backbone for successful and prosperous economies" enhancing competitiveness and benefits for businesses and citizens (EPSC Strategic Notes, 2017). If this threat could at first seem a cyber-security threat, this has recently become also an economic threat[53]. Individual surveillance, both active and passive, has become a crucial component of ICT and personal data are sought, stored and trade as a valuable commodity (Lyon, 2009). The context of (big) data is becoming more ubiquitous than in traditional online environments, and the control over personal information flows have become harder to maintain. For decades the theft of private individuals' data has been treated as a simple matter of privacy and privacy protection has had a piecemeal law enforcement, distributed over financial protection, healthcare protection, video privacy, safeguards of children or genetic protection. However, "sometimes protecting private information from disclosure is important for reasons that lie well beyond an individual's right to privacy" (Landau, 2018)[54]. All this wealth of data collected from users, through Artificial Intelligence applications – capable of undertaking tasks and missions on their own which normally required human intelligence - could evolve not only revolutionizing aspects of everyday life, but building capabilities of future "intelligentised" warfare. Here the distinction between R&D expenditure for commercial settings or military ones is problematic, and so is the inability to disambiguate economic threats from military ones[55]. The rapid developments in the sphere of financial innovation is posing new challenges. The development of blockchain is revolutionizing, through a rapid and inexorable disintermediation process, the financial services industry. This is happening mainly involving non-state actors and mostly in an unregulated environment[56]. In particular, the power of deploying virtual currency (VC) for use in regular

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[51] For a further comprehension of leaking, legal approaches and harm to national security interests see Pozen, 2014.
[52] Jeremy Bentham's idea of the panopticon dates back to 1785.
[53] See Singer and Friedman, 2014.
[54] See for example the "lack of general privacy protections in light of Russian efforts to influence the 2016 presidential election" (Landau, 2018), https://www.nytimes.com/2018/02/16/us/politics/richard-pinedo-russia-bank-accounts-guilty-plea-mueller.html.
[55] Cummings, 2017 and Kania, 2018.
[56] For example, on February 1st, 2018, the European Commission launched the EU Blockchain Observatory and Forum, with the support of the European Parliament, for promoting technologies like blockchain, which can help to reduce costs, while increasing trust, traceability and security. It represents a first step toward an action plan with specific measures.

economic transaction, neither issued by a central bank or public authority nor linked to a fiat currency (dollars, euros, etc.), is actively discussed globally and is posing new economic security threats. However, beyond doubts, "the deployment of a VC by non-state actor is most feasible when supported by a nation-state with advanced cyber expertise" (Baron et al., 2015: 86)[57]. ICO (Initial Coin Offering), the release of new cryptocurrencies, is particularly used to finance new companies and also to foster and attract foreign direct investments[58]. These new economic security threats are not only strictly linked to the threat of information dissemination and storage, but also to broader issues, such as the capacity of influencing the ability of a country to raise and mobilize capital or influencing policy choices or creating asymmetric dependences, such as banking exposures[59]. The lack of transparency and the limits of the consent management approach could expose both national economies and individuals to a new security threat that goes beyond the traditional supply-chain[60]: "State actors, who create vulnerabilities, through an active program to "influence" commercial products and services during design, development, or manufacturing, or with the ability to impact products while in the supply chain to enable exploitation of networks and systems of interest" (Baron et al., 2015: 71). Given the above sectorial-based framework, sometimes overlapping and sometimes piecemeal, the research for an operational definition broad enough to do justice to the richness of the concept with which we are dealing with, has become essential. Otherwise, it would be impossible to discover when national attempts to block foreign capital acquisitions are part of a "protectionist drift" and when they are plausible national security issues. The analysis of a foreign direct investment should be tested through a balanced inquiry, in order to be able to separate genuine threats versus politicized ones[61]. According to Moran, there are three different types of national security threats regarding IFDIs, that must be seen as "conditions under which each threat becomes plausible and can be distinguished from situations in which the harm envisioned is not credible" (Moran, 2017: 5). The first category regards a proposed acquisition that would allow transfer of technology or expertise to a foreign-controlled entity that might be deployed against the host country national interest. The second category regards a proposed acquisition that make the country dependent on a foreign-controlled supplier crucial for the functioning of the host country-

[57] In fact, "This nation-state could enable the non-state actors to overcome the considerable technical hurdles associated with deploying a VC. Included here is the ability of a nation-state to defend a non-state actor by a sophisticated cyber-attack from another nation-state opponent, such as the United States" (Baron et al., 2015: 86).

[58] i.e. see the Burgerking's whoppercoin in Russia: http://fortune.com/2017/08/25/burger-king-russia-cryptocurrency-whoppercoin/

[59] On the centrality to global financial system as a geo-economy instrument see Blackwill and Harris, 2016: 90.

[60] i.e. see "Ant veto signals US qualms on personal data Foreign investment regulator's move to block Chinese takeover of MoneyGram broadens range of national security fears" – Financial Times January 4th, 2018.

[61] Once applied the threat assessment tool, for the end of this research the classification of the political reactions regarding IFDIs, I will use the FDI matrix on the security debate.

economy. The third one regards a proposed acquisition that would allow potential capabilities of surveillance or infiltration or sabotage.

Threat I

The "first threat derives from the possible leakage of sensitive technology to a foreign company or government that might deploy or sell such technology so as to be harmful" (Moran, 2017: 5).

Empirically, Moran defines a two-step process. The first step is the calculation of the damage that could be done if the technology were deployed against domestic interests. The second step is the calculation of "how readily available such technology is in international markets to see if it made sense to refuse the transfer to foreign hands", meaning essentially that, if the technology is easily available in international market, "national security will not be served by blocking the transaction".

This threat assessment tool works both for identifying a plausible threat and for distinguishing an unwarranted concern.

In the US experience a prototype of Threat I could be found in the "proposed acquisition of the LTV missile business by Thomson-CSF of France in 1992". If for the most of the LTV's missile division products it could have been possible to detect multiple alternative suppliers, for three product lines there were no comparable substitutes. Moreover, a product, ERINT, an anti-tactical missile interceptor, was highly classified technology. Thomson-CSF was owned for 58% by the French government and had a long history of sales in Libya and Iraq, carrying on conflicting national interests with US (Moran, 2009: 7). The case of 2005 Lenovo's acquisition of IBM's PC business, instead is an opposite example. The acquisition of a PC assembler is not a security issue because basic production technology is "commoditized" ("more than a dozen producers compete for 50% of the PC market") and there were no cases of sensitive technology or military application or dual-use capabilities (Moran, 2009: 8).

Threat II

The second threat derives "from the ability of the foreign acquisition, acting independently or under instructions from the home government, to delay, deny, or place conditions upon provision of output from the newly acquired producer" (Moran, 2017: 5).

Here again Moran defines a two-step process. The first step is the calculation of "how crucial" or "critical" the process or product is. The second step is a "calculation of how concentrated the international industry is". This means that two elements should be considered: 1) "how abundant are near-substitutes to the processes or products of the company that is being acquired", and 2) "how high switching costs are" (Moran, 2017: 5). In fact, if the goods and services are widespread in the international market the switching costs are low, there is no threat to the host country's domestic security. Further, this threat assessment tool works both for identifying a plausible threat and for distinguishing an unwarranted concern.

A case study represented by Moran from the US experience, was the attempt prompted when the Russian firm Evraz, controlled by Roman Abramovich, whose close ties to the Kremlin are well-known, proposed to acquire Oregon steel. It is obvious how steel is crucial for the US national economy. It is so, not only if we consider that it is the major component of more than 4000 pieces of military equipment, but also as a vital component of the civilian economy. The analysis of the international steel industry however revels that it is relatively un-concentrated and, giventhe consideration of low switching costs for non-specialized steel products, US users could have anyway taken "advantage of the most efficient and lowest cost sources of supply without a nagging worry that somehow the United State is becoming "too dependent" on foreigners" (Moran, 2009: 4).

A scholarly case of this kind of threat, which derives from a concentrated structure of the market and from the un-fungible qualities of the international industry, is represented by Nikon's 1989 proposal of acquiring Perkin Elmer's stepper division. At the time, Nikon controlled half of the market and Canon the other half. "If the acquisition were allowed to proceed, US producers would be highly constrained in where they could purchase machinery to etch micro-circuits on semiconductors" (Moran, 2009: 6). The sale would have created a quasi-monopoly power in the hands of the Japanese electronics corporation and it would have left the United States "dependent on Japan for the equipment needed to produce future generations of semiconductors"[62] .

Looking at the CNOOC's proposed acquisition of Unocal in 2005, it is clear how a sectorial analysis could have led to misjudgement. Of course, access to oil is critical to US, and not only for the US defence industry. However, the application of Moran's proposed framework shows that if we look at concentration of alternative suppliers and potential switching costs "US buyers would simply replace Unocal's miniscule production (three tenths of one percent of US use) with extra imports, leaving net imports and the US balance of payment in energy unchanged" (Moran, 2009: 5).

[62] http://www.nytimes.com/1990/05/16/business/perkin-unit-to-remain-us-owned.html

<u>*Threat III*</u>

The third threat derives from the potential acquisition of a company that might allow a foreign company or its government to penetrate the domestic system "to monitor, conduct surveillance or place destructive malware within those systems". In fact, if alternative suppliers are readily available, companies which fear penetration of their system could simply switch to another provider. This is a prominent feature in a globalized supply chain.

The Dubai Ports scandal, which occurred in February 2006, when DP World attempted to purchase Peninsular and Oriental Steam Navigation Company (P&O), a British company that operated five U.S. ports., is perhaps the most famous case of this kind. DP World voluntarily approached the CFIUS about a review to approve the buyout, and easily obtained an approval, but, "when the story reached the headlines, the American public and many members of Congress were openly critical of what they considered a "rubber-stamping". Critics believed DP World created a national security risk because of ―the UAE's history as an operational and financial base for the hijackers who carried out the Sept. 11, 2001, attacks" (Cox, 2008: 300). This was a case of a proposed acquisition that might "allow insertion of some potential capability for infiltration, surveillance or sabotage – via human or non-human agent – into the provision of goods and services crucial to the functioning of that economy" (Moran, 2009: 8). Another case study of this kind of threat figured prominently in the Bain's Capital proposed technology deal to acquire 3Com, a leading provider of secure, converged voice and data networking solutions for enterprises of all sizes, a field in which it was also a supplier to the US military. The plan would have given Chinese networking equipment company Huawei Technologies, acting as a minority investment partner alongside Boston-based private equity firm Bain Capital, a 16.5% per cent stake and board representation at US rival 3Com. Huawei's close ties with the Chinese government and PLA are notorious[63]. If we consider the first threat it is not plausible that a minority stake would allow a leakage of sensitive technology. If we consider the second type of threat it seems not plausible that a minority stake would allow Chinese "to dictate how 3Com goods and services were offered for sale in the market" (Moran, 2009: 8). The third type of threat highlights a vulnerability: "the proposed acquisition might provide insight into weak points of a system that even purchasers and users might not be fully aware of" (Moran, 2009: 8). It would have been dangerous in the case of US government, US military, but also of common users who have been adopted integrated security and intrusion-protection system. In light of Moran's threats approach, it is possible to operationalize the definition of economic security forIFDIs: "If 1) the domestic firm to be acquired controls access to a *sensitive semi-unique technology, critical good or*

[63] See, Medeiros et al., 2005.

service that does not have substitutes in the international market, that can be deployed or sell against the host country, or if 2) the domestic firm to be acquired under the instruction of the foreign acquirer may delay, deny, or place conditions upon provision of output that could be deployed *against* the interest of the host country, or if 3) the domestic firm to be acquired could be *used for penetration or surveillance damaging the host country, without the ability of the users to switch to other secure alternatives*" there is a national security threat wherever they take place and national security authorities might rightly be concerned.

This operational definition of national security provides a framework that helps to understand the gradient of objective or subjective hostility of the investor's action. This also could help to outline possible divergences between the target company's management and the governmental goals of protection of the host country's national interest. According to the agency theory, "if both parties to the relationship are utility maximisers there is a good reason to believe the agent will not always act in the best interest of the principal" (Jensen and Meckling, 1976: 308). In reality, "many declarations from the management side entail elements of financial deception, that can be oriented to prevent that other counterparts (such as government, regulator and investors) can deduct the "inside value" of the firm" (Cunctator, 2012: XIII).

2.8 Conclusions

This chapter addresses the question of national security concerns on inward foreign direct investments. The concept of national security itself has been fluid and diverse as plotted over the time, describing an historical trajectory which reflects the international order. The long journey across this historical evolution of the concept has highlighted Buzan's constructivist approach as the most important to describe the Post-Cold war debate. On the one hand, it explicates the concept of security broadly enough for use at every level, from the military to the economic or the environmental. On the other hand, it encompasses a variety of actors, however with a special reference to the nation-state. Moreover, it is understood as a process and not a fixed, predetermined end-point.

The qualification of a certain issue as a security issue is however highly political. Buzan's classification of weak and strong states as "ideal types", even if it is useful from a descriptive point of view, seems too simplistic when applied to empirical cases. On the one hand, it could lead to the mistaken conclusion of increasing state capacity in order to yield security dividends from outsider threats. On the other hand, states might be equally interventionist, but in different ways. Policies reoriented toward prevention, through intelligence, monitoring strategies and international cooperation equally describes states' willingness to deal with security threats more preventing them, rather than countering them.

Economic security and more in particular, economic security regarding inward direct investments are amplytreated in the theoretical literature of both security studies, or more broadly of international relations, and the international political economy. From the argument of a strong linkage between the economic environment and the international political order, four scenarios are outlined: open market, FDI regulations, contested environment and economic warfare. From the analysis of the normative approach, it clearly emerges that policy making activity became robust from the 2000s. This was not only driven by a re-evaluation of national security priorities post 9/11, but also by the increased privatization of strategic industries (infrastructure, energy and telecommunications) which used to be under state control.

While military or energy security threats are more immediate to grasp as they are more clearly identifiable, the identification of inward FDI's potential threats has needed a deeper contextualisation of international business strategy to be graspable. This chapter on the one hand, provides a useful matrix to map the political and economic debate over IFDIs and, on the other, outlines a tool of analysis, which goes beyond the classical sector-based approach but provides a framework of three types of threats that can be used to assess investments.

Chapter 3. Chinese authoritarian capitalism and outward investment behaviour

借船出海

Jiè chuán chūhǎi

Borrowing a ship to go through the sea[64]

3.1 Introduction

Since the end of Cold war and the breakup of the Soviet Union, democratization has been the major theme of comparative politics research in political science. China, however, has been absent from the growing list of new democracies[65]. However, China's sustained economic growth, occurring on the heels of decades of Maoist misrule, has been the most remarkable feature over the past quarter century. As a consequence, the Chinese leadership enjoyed legitimacy based on prosperity and national dignity, gaining significant influence within the global arena (Diamond, Plattner and Walker, 2016).

In international relations, a dominant division has been presented as the "return of authoritarian great powers" as a potential challenge to the "Western liberal order" (e.g., Gat 2007), or "the West" (Hellman et al., 2014). Critical security studies are interested in those social interactions which produce the perception of a threat and in those measures that can be considered appropriate to provide security (Weldes et al. 1999; Buzan and Hansen 2009). Securitization theory focuses on the modes in which political agency can use extraordinary measures which can create a state of emergency. A scenario of upcoming great power competition is the dichotomy between "authoritarian great powers" and "the West", where the world's democracies would take measures to "protect their interests and defend their principles in a world in which these are once again powerfully challenged" (Kagan, 2008: 53–59, 105, 97).

This chapter will investigate the Chinese authoritarian capitalist model by exploring the characteristic of China's outward foreign investments behaviour, the independent variable of my research. I argue that the aggressiveness of the state intervention is well captured by Carney who

[64] The image is commonly used in China with the meaning of cooperate with others and borrow others' resources to accomplish own businesses.

[65] The contemporary disappointment is clear in Puddington's words: "perhaps the most disappointing development" in Asia in 2008 was "the failure of China to enact significant democratic reforms during its year as host of the Olympic Games" (Puddington, 2009: 103).

identified two variables: a) "state capacity to intervene" and b) "state motivation to intervene". The first one, which generally refers to the "degree of control that state agents exercise over persons, activities and resources within their government's territorial jurisdiction" (McAdam, Tarrow and Tilly, 2001: 78), here reflects the capacity of the government to support markets and investments in the outward expansion. The second dimension is strictly connected with regime stability. With "economic liberalizations private capital could produce more powerful business owners who will seek more political representation to voice their preference for a reduced role for the state" (Carney, 2018: 19). This threat to the ruling party could be managed by both strengthening control over resources and information or "aggressively pursue higher investment returns in foreign markets to maintain the support of over-investors and to alleviate crowding-out effects to placate domestic business" (Carney, 2018: 19).

The Chinese outward expansion is analysed through an extensive review of the major international business literature debate over the past 10 years. More in detail, it explores four major sectors of scholarly research: 1) "latecomer disadvantages" perspective, 2) the role played by the government and State, 3) the dynamics between firms and institutions and 4) the "liability of foreignness". If certain behaviours can reasonably be attributed to the normal game of a regular economic environment (i.e. resource seeking, market seeking, diversification, strategic assets determinants), analysis of the Chinese case has led some scholars to look for a "special theory nested within the general theory" (Buckley, 2010: 83). In fact, if at first the "China model" was considered a transitional phenomenon, the Chinese OFDI's "catch up model" is not ending by converging with that of other developed countries, revealing itself to be "an open one" (Liu, 2005).

Following Carney's theoretical approach, this argument is better understood testing and "measuring" China's state capacity. I argue that it can be done by analysing the state's ability to dominate and operationalize the outward expansion through foreign direct investments during its economic transition and identify the main patterns of the 宏观调控 *(hóngguān tiáokòng)* - the "macro-economic management"- of the Chinese economy[66]. To borrow from Raymond Vernon, this part seeks to understand "Where are they coming from? Where are they headed for?" (Vernon, 1992). While, as can be expected, at the beginning, Chinese OFDIs were marginal and initially directed by the state, both targeting certain industries or sectors and involving primarily state-owned enterprises, the last 10 years witnessed a skyrocketing expansion and in 2016 China was transformed from a net inward to a net outward investing economy (UNCTAD, 2017). The "open door" policy initiated in 1978 was

[66] See also Zhang, 2003: 77.

a key defining event in the contemporary Chinese economic history. The change in FDI policy which followed the economic reform programs greatly altered the global economic scene. During the 1980s the OFDI activity was quite minimal, between 1991 and 1997, a flux of OFDIs started especially to Hong Kong. In 2002, the Chinese authorities pushed the "going global" or "stepping out" strategy in order to sustain the economic reform process in the wake of the WTO accession. This strategy affected Africa and South America countries and, in the aftermath of the 2007 economic crisis, it extended to Europe and Asian neighbour countries. A central role in Chinese international investment policy is played by the China Investment Corporation which was created in 2011. In 2013, the government launched a new development strategy called 一带一路 (*Yīdài yīlù*) the "One Belt, One Road" (OBOR)[67] , with the idea of building a large infrastructure network connecting markets and enable trade and tourism. Moreover, to finance this project, the government launched two funding schemes, the Asian Infrastructure Investment Bank (AIIB) and the Bank of Development, as an alternative to the U.S.-led Asia Development Bank. As a consequence, during the last decade, the nature and magnitude of investments has become fundamentally different and broader.

Following Carney's framework, studying the second dimension – state motivation to intervene – it becomes evident that what is relevant for an authoritarian country, such as China, is the perception of the fate of its regime and its vulnerability to "Western leverage"[68]. In fact, "authoritarian states feel vulnerable to Western hostility and seek influence in liberal democracies in part to stave off the West's attempts to delegitimize them and to safeguard their survival" (Benner, 2017). Over the past decades, Chinese history can be seen as an attempt to pursue a twofold objective: firstly, the need to prevent Western liberal democratic incursions and to enhance the regime's domestic position; secondly, the opportunity to expand abroad its influence, affecting many Western democracies. A stream of literature on authoritarianism is detecting different ways and channels for influencing democratic countries. While "soft power" [69] has become a catch-all term for forms of influence that

[67] The project is based on the development of two different trade routes: The New Silk Road Economic Belt, connecting China to Europe by train, through Central and Western Asia and the Maritime Silk Road, connecting China to Europe by boat, through Southeast Asia and the Middle East.

[68] Levitsky and Way used two dimensions to divide the post–Cold War international environment. The first one is the "Western *leverage*" which is the "governments' vulnerability to external pressure", such as "political conditionality and punitive sanctions, diplomatic pressure, and military intervention". The second one is the "*linkage* to the West", which is the density of a country's ties to the United States, the European Union, and Western-led multilateral institutions". There are at "least five at least five dimensions of such ties: 1) economic linkage, which includes credit, investment, and assistance, 2) geopolitical linkage, which includes ties to Western governments and Western-led alliances and organizations; 3) social linkage, which includes tourism, migration, diaspora communities, and elite education in the West; 4) communication linkage, which includes cross-border telecommunications, Internet connections, and Western-media penetration; and 5) transnational civil society linkage, which includes ties to international NGOs, churches, party organizations, and other networks" (Levitsky and Way, 2005: 21-23).

[69] On Chinese soft power see for example Suzuki (2009), Nye (2013), Shambaugh (2015) or Albert (2017).

are not "hard" in the sense of "military force", a new term has been adopted by those scholars who try to unmask authoritarian influences. The new expression "sharp power"[70] describes the way in which they "pierce, penetrate, or perforate the information environments in the targeted countries" (Walker and Ludvig, 2017).
"These regimes are not necessarily seeking to "win hearts and minds"-the common frame of reference for "soft power" efforts - but they are surely seeking to manage their target audiences by manipulating or poisoning the information that reaches them". [...] "Sharp power" likewise enables the authoritarians to cut, razor-like, into the fabric of a society, stoking and amplifying existing divisions" (Walker and Ludvig, 2017). A way China could do so is by spreading "authoritarian norms in international institutions"[71] or acquiring western firms to "transform ill-gotten wealth into legal assets" (Benner, 2017)[72].

In this chapter I try to outline "the extent of control over information and resources" of outward investments, because "growth is a "life or death" issue for the CCP" (Carney, 2018: 136). I argue that the peculiar characteristics of Chinese overseas expansion requires an integrated approach which encompasses both economic reasoning and Chinese grand strategy - 大战略 (*Dà zhànlüè*) to serve China's domestic priorities and regime survival. Since 2005, this topic became subject to an intense debate among Chinese scholars[73]. Even if the Chinese government has not produced any document to define it, scholars largely agree that China needs an "organizing principle[74] to guide Chinese foreign policy" (Wang, 2011: 71). Policy circles and the university community widely recognize "a grand strategy that binds its strategic interests in the economy, domestic politics and foreign policy" (Stanzel et al., 2017: 2). In 2011, Wang Jisi, Dean of School of International Studies in Peking University, identified four changes in Chinese strategic thinking. The first one regards the understanding of some strategic and security challenges, "which incorporates economic and non-traditional concerns with traditional military and political interests" (Wang, 2011: 74). The security challenges have been stretched between two popular proposals: the identification of the U.S. as the

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[70] in Chinese 锐实力 (*ruì shíli*).
[71] A relevant example is "the use of bodies such as the International Telecommunication Union to give cover to its crackdown on Internet freedoms" (Benner, 2017).
[72] See also Cooley and Heathershaw, 2017.
[73] See Cai Tuo (蔡拓), (2006). "中国大战略刍议" (About China's grand strategy), *载《国际观察》*, (International Observations), 2006 年第 2 期, cited also in Stanzel, et al., 2017.
[74] "the principle's principle" (Wang, 2011).

main adversary on the one hand and Deng's 韬光养晦 "*Tāo guāng yang huì*" concept[75], on the other hand. Looking at recent chapters such as the BRICs initiatives, the Asian Infrastructure Investment Bank (AIIB), or the Bank of Development and more recently, under Xi Jinping role, "Beijing's foreign policy is more assertive than it ever used to be, implying that the times of keeping a low profile seem to be over" (Stanzel et al., 2017: 3). The second transformation regards Chinese diplomacy, which I could summarize with the expression ""象棋 (*Xiàngqí*) diplomacy", in fact it "is becoming less country-oriented and more multilateral and issue oriented" (Wang, 2011: 75). The third change regards China's economic development which not only is represented by "the preoccupation of GDP growth", but also to "economic efficiency, product quality, environment protection, the creation of a social safety net and technological innovation" (Wang, 2011: 75). Since Xi came to power, a more balanced economic growth has been promoted with a special focus on long-marginalized regions in western and central China. It has been pursued by strengthening innovation as the main driving force, for the development of domestic capabilities in digital, engineering, genetic, aerospace, cyberspace, and smart technologies. The fourth change "has to do with China's values" (Wang, 2011: 75) enhancing "the cultural soft power of the nation" and improving "China's international image" (Wang, 2011: 75).

To conclude, this chapter aims to offer some thoughts for further research. In fact, the study of outward investments' behaviour today poses questions about the nature of state investments, hiding motivations different from simple market determinants. The perception of national security threats in the host country becomes evident when the subsidiary's expertise is transferred to foreign non-transparent markets such as authoritarian capitalist countries, for reasons which include regime survival.

3.2 Chinese authoritarian capitalism

3.2.1 Authoritarian capitalism vs democratic capitalism narrative

This title represents the first challenge faced when addressing the problem of Chinese OFDIs within a systemic framework. Authoritarian capitalism is often presented as opposed to democratic capitalism (Gat, 2007). Still, "democratic capitalism is a complex concept […] many who cherish it

[75] The most widely accepted translation is to "hide one's capacity and bide one's time", however for Zaibang, the Vice-President of the CICIR, *China Institutes of Contemporary International Relations,* it should be expressed as "hide one's advantage and to improve one's disadvantage" (see Zaibang, 2010).

sense but cannot state the source of its originality" (Novack, 1982: 16). Starting from definitions, authoritarianism is generally used as a residual category for "non-democratic regimes" (see Gills, 2000; Vesta, 1999).

I prefer to refer to the most widely used definition provided by Juan Linz (Linz, 1975: 255), according to whom "authoritarian regimes are political systems with limited, not responsible political pluralism, without intensive nor extensive political mobilization, and in which a leader or a small group exercises power within formally ill-defined limits but actually quite predictable ones". This definition let Linz draw a distinguishing line between authoritarian and totalitarian regimes, with the degree of social pluralism and levels of political mobilization as distinctive elements.

The term capitalism derives from capital, an accumulation of wealth, in terms of money or other assets. As pointed out by the economist Sowell, "since capitalism was named by its enemies, it is perhaps not surprising that the name is completely misleading. Despite the name, capitalism is not an 'ism.' It is not a philosophy, but an economy. Ultimately, it is nothing more and nothing less than an economy not run by political authorities" (Sowell, 1995: 207). Capitalism can also be "a determinate historical phenomenon" (Landes, 1966: 1, cited in Bealey, 1993), whose *Begriffsgeschichte* [76] is tied with the Industrial revolution and ensuing the social-economic transformation of society. However, the most familiar conception of capitalism is that of "an economic system", which "relies on prices, competition, and profits to direct resources to where they are most needed and to reward those who can best satisfy the wants of others" (Walberg and Blast, 2013: 100). As a consequence, economic liberalization or marketization refers to the process by which a national economy becomes more market oriented, profit driven and with reduced state intervention in the economy. Traditionally marketisation has been linked as a required condition for a democratic transition, and in the more recent scholarly debate it is possible to see the parallelism according to which if globalization[77] spreads, so will democracies. This discourse owes much to Schumpeter, who wrote that "historically modern democracy rose along with capitalism, and in casual connection with it" and that "modern democracy is a product of the capitalist process" (Schumpeter, 1941: 286-7). Taking into account the meaning of capitalism as the *laissez faire* model delineated by Adam Smith, some common features can be detected between capitalism and democracy. They "both can be reduced to the lowest common factor of freedom of individual choice in decision making" (Bealey, 1993: 219). Moreover, "consumer sovereignty is similar to "voter sovereignty" insofar as they both imply "an expression of individual preferences" (Bealey, 1993: 219).

[76] Koselleck, 2004.

[77] Globalization, is depicted as "a process (or sort of processes) that embodies a transformation in the spatial organization of social relations and transactions, generating transcontinental or interregional flows and networks of activity, interaction and power" (Held et al., 1999: 483).

Following this analogy, it was Jeremy Bentham who drew a strict linkage between capitalism and democracy. The "interest of the community was the sum of the several members who compose it" (Bentham 1781: 15). Bealey, interpreting Bentham, sees that. for him. "political relations were between individual rulers and individual subjects, which could be an analogy with Smith's view of the market relationship between buyers and sellers" (Bealey, 1993: 209). James and John Stuart Mill then interpreted Bentham's ideas not only in terms of "material benefits", but rather as "an instrument "for the development of the human personality" and recast his ideas "in terms of representative institutions" (Bealey, 1993: 210-11, 219).

Historically, a correlation has been detected between economic growth and democratic values. For Lipset, "democracy is related to the state of economic development. The more well-to-do a nation, the greater the chances that it will sustain democracy" (Lipset, 1960:31). Huntington, from the observation that "most wealthy countries are democratic, and most democratic countries--India is the most dramatic exception--are wealthy" argued that "transitions to democracy should occur primarily in countries at the mid-level of economic development" (Huntington, 1991: 31). Diamond, reinterpreting Lipset' s analysis, asserted a broad relationship between economic development levels and democracy. Moreover, "it is not economic development per se and certainly not mere economic growth that is the most important developmental factor in promoting democracy. Rather, it is the dense cluster of social changes and improvements, broadly distributed among the population, that are vaguely summarized in the term of "*socio*-economic development". Most important here are improvements in the physical quality and dignity of people's lives" (Diamond, 1992: 486)[78].

For Dahl, market capitalism and democracy are like "two persons bound in a tempestuous marriage that is driven by conflict and yet endures because neither partner wishes to separate from the other" (Dahl, 1998: 166)[79]. From a sociological standpoint, market capitalism leading to economic growth enables the reduction of social and political conflicts through the financing of government policies, such as education[80]. Capitalist development has been associated with the rise of democracy due to

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[78] "If authoritarian regimes do not perform, they lose legitimacy because performance is their only justification for holding power. However, ... if they do perform in delivering socioeconomic progress, they tend to refocus popular aspirations around political goals for voice and participation that they cannot satisfy without terminating their existence (Diamond, 1992: 486)".

[79] From the observation that democracy only endured in those countries with a market economy and has never done in a country with a non-market economy, Dahl concluded that certain features of market capitalism are however favourable with democratic institutions (Dahl, 1989).

[80] For Lipset,"from Aristotle down to the present, men have argued that only in a wealthy society in which the mass of the population could intelligently participate in politics could develop the self-restraint necessary to avoid succumbing to the appeals of irresponsible demagogues" (Lipset, 1959: 75) […] "The higher one's education, the more likely one is to believe in democratic-values and support democratic practices" (Lipset, 1959: 79). For the rise of the working class, particularly in western Europe, which wanted for the expansion of the suffrage and the rights for parties see Rueschemeyer, Stephens and Stephens, 1992.

the transformation of the class structure reinforcing the working class. According to Moore, "we may simply register strong agreement with the Marxist thesis that a vigorous and independent class of town dwellers has been an indispensable element in the growth of parliamentary democracy. No bourgeois, no democracy" (Moore, 1966: 418)[81]. For Reuschemeyer, the urban-working class has even more interest in democracy than the middle class (Reuschemeyer et al., 1992)[82]. The right to private property and private initiatives is the epitome of personal liberty. Democracy and capitalism stress the same concepts of realization of individual capacities, individual preferences and individual participation. As famously exposed by Milton Friedman economic freedom is a precondition for political freedom. The era of globalization seemed to lead to the triumph of the liberal democratic states which combine both economic and political freedom (Deudney and Ikenberry, 2009). As summarized by Bloom, this dominant perspective has been firstly challenged by Marxian scholars, who "have emphasized "the strong function of the state maintaining capitalist, and often, oligarchic relations" [83] (Bloom, 2016). More recently scholars' debate on economic development and democracy has confirmed that economic wealth, in terms of GDP per capital, has helped to maintain both democratic and authoritarian regimes.[84] Of course, these findings are no comfort for those countries undergoing a transition to democracy. "Economic success and prosperity are unlikely to cause a crisis in an authoritarian regime. On the contrary they tend to reinforce the regime and the coalition baking it". However, "this affirmation presupposes a consolidated authoritarian regime" (Morlino, 2011: 95).

In the post-cold war era however, the discussion on globalization as a catalyst for democratization revivified. The optimism of the triumph of democracy over political authoritarianism was well expressed by Fukuyama with his "end of history" theory, according to which after the defeat of Communism and National Socialism, no other serious ideological competitor to western-style liberal democracy was likely to emerge in the future. After the September 11 attacks, Fukuyama published an article on the Wall Street Journal, reaffirmed that his "end of history" theory was still valid, as "radical Islam" and "Asian values" have little appeal outside their cultural areas, and these areas are themselves vulnerable to penetration by Western democratic ideas (Fukuyama, 2001).

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[81] For democratic political institutions with a causal link with economic growth see Acemoglu, et al., 2001; Acemoglu, et al., 2002; Easterly and Levine, 2003.

[82] "At the same time, it erodes the size and the power of the most anti-democratic force-the large landowning classes, especially those that rely on coercive state power for the control of their labor force" (Rueschemeyer et al., 1992: 76).

[83] As suggested by Bloom in his 2016 book for further research see Jessop, 1990; Plamenatz, 1992, Poulantzas, 1978, and Canak, 1984, Robinson, 1988, Serra, 1979.

[84] See Przeworski et al., 2000. For them there is not a linear relationship between economic development and transitions to democracy, while there is a strong relationship with the survival/ consolidation of democracy.

A critique of Fukuyama's hypothesis came from Azar Gat. In his article "The return of Authoritarian Great Powers", he hypothesized that the major challenge to liberal democracies would come from China and Russia, since they pose viable rival models which could inspire other states. Azar Gat states that the success of these two countries could mark the end of "the end of History" (Gat, 2007). Gat's theory has been then complemented by Larry Diamond in the Democratic Rollback (Diamond, 2008) which valuably offers further reasons for the rise of authoritarian systems with corrupt governments, security forces, strong ruling elites and demagogic leaders. Gat's view was then echoed by Kagan in his book, the *Return of History and the End of Dreams* (Kagan, 2008). Stressing the continuing importance of ideology, he claims that Western liberal democracies are challenged by sustainable alternatives: the authoritarian states. In fact, both China and Russia pursue modernization their economies and seek a greater role in the international arena without opening their political spaces, and in fact even tightening their domestic political grip. This discourse also has a cultural bedrock, wherein Asian values[85],[86] such as those of traditional Chinese culture, prize stability and harmony 和谐 (*héxié*), and favour hierarchy and social roles, in opposition to the conflictual individualism and inequalities of Western values. Looking at China's rise in the past decade, which Chinese prefer to call 复兴 (*fùxīng*)[87] rejuvenation, it is easy to convey that "globalization has produced in its wake not only concrete authoritarian regimes, but also a new authoritarian myth of capitalist development and socio-economic prosperity" (Bloom, 2016: 5). For Alesina and Perotti, "what influences growth is not so much the type of regime (dictatorship or democracy) but regime instability, that is, the propensity to coups and major changes of government" (Alesina and Perotti, 1997: 21).

The current widespread misunderstanding of stability stems from the idea that democracy is "inherently unstable" due to the alternation in office of legitimate elected governments or the manifestation of popular discontent through strikes and anti-government demonstrations, which

[85] The promotion of "Asian values" projects a postcolonial view of international relations that would mean a more decentralised global order and not necessary a substitution of the hegemon. Premier Wen Jiaobao made a clear statement in February 2009 at Cambridge University "The argument that big power is bound to seek hegemony does not apply to China. Seeking hegemony goes against China's cultural tradition, as well as the will of Chinese people. China's development harms no one and threatens no one. We shall be a peace-loving country, a country that is eager to learn from and cooperate with others. We are committed to building a harmonious world" (cited in Wang, 2012: 239).

[86] For the pressure of conformity with Western values – i.e. "Christendom" or "European culture" - and the cultural challenge on China see Gong, 1984.

[87] The expression is used in the sense of regaining a previous loss, of curing past wonders. Professors Yan Xuetong at Tsingua University, considers the rise of China a "restoration of fairness rather than gaining advantage over the others" (Yan, 2001). The expression has a psychological eco of a collective memory of poverty and starvation. From a post-colonialist perspective, it is the counterbalance of Chinese historical memory - 勿忘國耻 - *Wù wàng guó chǐ,* which means "Never forget the national humiliation", which refers to a century which China was "attacked, bullied and torn asunder under imperialists" (Wang, 2012: 8).

often have an economic impact on the price of related securities. However, while a change under democracies is possible and manageable - and I argue that being institutionally foreseen such changes are healthy – under authoritarian regimes changes happen through "specific "accelerating events" which act as the final "push" to bring down an already tottering edifice" (Morlino, 2011: 95).[88] As sharply expressed by Abrams in his 2017 book, some countries could start to look to China - the guarantor of harmony - as a source of assistance as well as an alternative model for governance (Abrams, 2017). Under Xi Jinping, China has openly started an ideological competition offering a model of market-driven economy and authoritarian politics to those countries which want "to speed up their development while preserving their independence" (Buckley and Bradsher, 2017).

However, the contraposition between authoritarian countries and the West is not only a western narrative. For Chinese scholars, globalisation is a threefold story: 1) economically speaking, it represents the expansion of Western multinationals and American dominance, expressed also by the World Bank and IMF; 2) politically speaking, it is the spread of democracy and human rights; 3) culturally, it is the spread of western values, English language and Hollywood films (Dan, 2006)[89]. Conflicts and contradictions emerging from the post-cold war world have led some Marxist Chinese scholars to highlight that while China and Russia are formally integrated in the capitalist world, there is a clear distinction in terms of culture, economy, politics between China and Russia on the one hand and the USA and its allies on the other hand. China could pose a "potent challenge to the Western capitalist model of economic development epitomized by the Washington Consensus" (Wang and Blyth, 2018: 1279). A Beijing Consensus might be perpetuated thanks to the "strong and autonomous state insulated from both social forces and the pressure of international capital" (Wang, H., 2010) and the international flexibility of maintaining market access and technology in the West and good relationship in third world countries (Wang, H., 2010). China for Li (Li, 1993 and Li, 2000) could form an "anti-systemic alliance to challenge the Western dominance in the world capitalist system" (Wang and Blinth, 2013: 1278). For Wang Zhengyi this could happen either by exploiting advantages from the fact of being be integrated in the world economic system or by minimizing such dependence (Wang, 2006). From another point of view, Chinese liberal scholars, surely influenced by the international academic political liberalism and neoliberal institutionalism, have an alternative way of looking at Chinese IR and IPE in opposition to the more broadly-held Marxist ideas. Chinese

[88] In fact, "a change of chief executives in democracies occurs as a consequence of elections or other regularized procedures, while under most dictatorships the only way rulers can change is by a coup" (Przeworski et al., 2000: 18).

[89] A conspiracy mentality regarding Washington policies has been clearly expressed by Shambaugh, who noticed that for many Chinese people the US pursue a strategy to "divide China territorially, subvert it politically, contain it strategically and frustrate it economically" (Shambaugh, 1995: 241). A jewel for researcher on the Sino-U.S. rivalries is the Haired Zong's translation of CCP archives – "Zhu Rongji in 1999" – which unveiled the Chinese foreign and security policy thoughts during the bombing of China's Embassy in Yugoslavia by the U.S.A..

liberals support the international order, basing their considerations on the collective interests and the belief that the Chinese economic model is transitory, as the East Asian model of development was, and that China in the medium-term should encourage a free-market economy and the implementation of the rule of law. However, as summarized by Wang and Blyth, Chinese neoliberals share with Marxists a similar understanding of the weaknesses of the existing international order and the positioning of China. Firstly, they share the belief that the West operates with a double standard approach both with its allies and with the rest of the world[90] and secondly, that the US-dollar-centric international financial order is unfair[91] (Wang and Blyth, 2018).

3.2.2 The Chinese case: From "authoritarian resilience" to "authoritarian advance"

After thirty years of economic reforms China's rise represents the most remarkable economic event in recent history. However, this transition failed to materialize in a democratic transition, and, far from what many democracy-theorists expected, China did not fall in the "third wave of democratization". Political theorists traditionally understood authoritarian regimes to be "terminally weak at their core, due to the absence of any of the checks on power that the rule of law, the separation of powers, or popular contestability would afford" (Gilley, 2003: 13).

The Chinese case has highlighted several contradictions between economic liberalization on the one hand and political authoritarianism on the other hand. Studies on the country's newly emerging middle class have shown that the entrepreneurial class, despite three decades of reforms, is much weaker than expected and that China did not take any significant step toward democratization. What has characterized Chinese authoritarian resilience has been clearly outlined by Nathan in his 2003 article "authoritarian resilience" which used Huntington's concept of institutionalization, which can be summarized as the "adaptability, complexity, autonomy and coherence of state organizations" (Huntington, 1968: 12 - 24). For Nathan, the institutionalization of the CCP regime was enabled by: 1) "the increasingly norm-bound nature of its succession politics", as long as it "managed to conduct orderly, peaceful, timely, and stable succession" (Nathan, 2003: 7); 2) "the increase in meritocratic as opposed to factional considerations in the promotion of political elites", such as promoting professional expertise in all relevant areas; and 3) "the differentiation and functional specialization of institutions within the regime". The regime in fact is pragmatic, but amid this pragmatism "lie increased institutional complexity, autonomy, and coherence—attributes that

[90] See Yang, X., 2006.
[91] See Liu, J., 2008.

according to Huntington's theory should equip the regime to adapt more successfully to the challenges it faces" (Nathan, 2003: 13); Furthermore, there has been "the establishment of institutions for political participation and appeal that strengthen the CCP's legitimacy among the public at large". Nathan, writing in 2003, concluded that "While these developments do not guarantee that the regime will be able to solve all the challenges that it faces, they do caution against too-hasty arguments that it cannot adapt and survive" (Nathan, 2003: 6-7).

Under President Xi Jinping, China "has begun to flex its muscles as a major power" (Nathan, 2015: 156). The new "China challenge" has been summarized by Nathan in six points:

1) "Encouraging authoritarian regimes by the power of its example". In fact, "Beijing created a large middle class and then succeeded in co-opting it politically; established a rule-of-law framework and then used those institutions to outlaw authentic civil society, political dissent, and independent religious activity; developed a diversified professional media and then maintained effective political censorship over it; and accepted aid from international foundations, governments, and civil society organizations while delegitimizing and making illegal international support for domestic civil society actors and organizations that the regime regards as dangerous". (Nathan, 2015: 158-159).

2) "Attempting to burnish its national prestige abroad, partly through international promotion of authoritarian values"; promoting a "large soft-power offensive around the world", through the global expansion of Xinhua News Agency, CCTV, Xinhua TV and China Radio International and the establishment of nearly five hundred Confucius Institutes in foreign universities".

3) "Playing a key role in a circle of authoritarian states that pick-up techniques of rule from one another", such as counterterrorism exercises in Shanghai Cooperation Organization (SCO) countries, or repression techniques.

4) "Seeking to roll back existing democratic institutions or to stifle sprouts of democratic change in territories where it enjoys special influence". In Hong Kong, Macau and Taiwan for example, the opposition to democracy is aimed at protecting the regime from challenges that can derive from the inspirations on opponents in the mainland and it needs suppression by force. "Although the damage done to democratic institutions is incidental to Beijing's drive to exercise control over territories where it claims sovereignty, it is damage nonetheless".

5) "Helping to ensure the survival of authoritarian regimes that are key economic and strategic partners", such as North Korea, Cambodia, Burma, the SCO states, Pakistan, and Nepal" (Nathan, 2015: 165).

6) "Working to shape international institutions to make them "regime-type-neutral" instead of "weighted in favour of democracy". For example, "China has cooperated with like-minded states to promote the principle of "universality," which reduces the degree to which individual countries are

singled out for attention" (Nathan, 2015: 165). Moreover, China has sought to establish as a norm that complaints about human right issues be conducted at a government-to-government level (Nathan, 2015: 166), while on the "UN Security Council, China has sometimes allowed interventionist resolutions to be adopted (either by abstaining or by voting in favour of them), but it has often delayed, modified, or blocked such resolutions on the grounds that states should settle their internal problems by themselves. When China has allowed such resolutions to go forward, it has usually done so in order to maintain solidarity with Russia and with states in the affected region (for example, the African Union on Sudan, and the Arab League on Libya), to protect Chinese economic interests (for example, Sudan and Libya), and with the proviso that the intervention should not be used to overthrow a regime" (Nathan, 2015: 166).

As long as China's economy grew faster than Western economies, the influence it projects to the rest of the world has naturally increased and is succeeding in creating an alternative vision to global leadership and in particular represents a challenge to American dominance. It is a fact that, since2007, the absolute number of democracies declined. The graph below, elaborated by Freedom House, shows that "for the 12th consecutive year, countries that suffered democratic setbacks outnumbered those that registered gains".

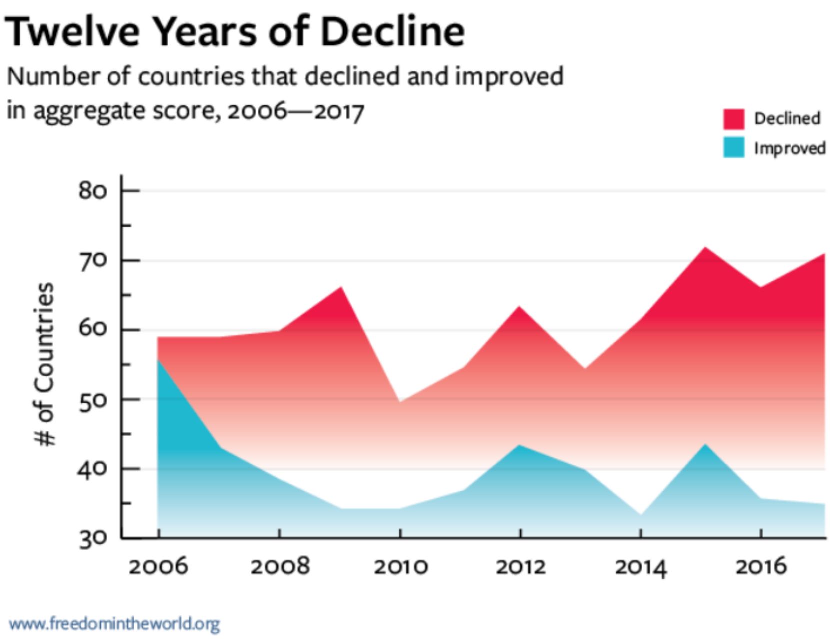

Figure 3.1 - Democracy in Crises – Source: Freedom House, 2018

Xi Jinping, who became general secretary of CCP in November 2012, has concentrated his personal power in a way that Jiang and Hu never held. He is "a product of the frustrations and stagnation of policy-making in the second term of Hu Jintao's leadership [...] as long as Hu "seemed unable to address several critical issues facing the country, while several long-debated reform initiatives appeared stalled" (Miller, 2018: 8)[92]. The abolition of the two five-year term limits on the posts of PRC president and vice President have had a great echo, as now there is "no rule blocking Xi Jinping's obvious ambition to rule for life" (Shirk, 2018: 29). The abolition of term limits is "conducive to maintaining the stability" of China's unitary leadership system, by which the party general secretary serves concurrently as top military leader and head of state", and the entire "institutional reforms mandated by the Third Plenum and the NPC session are the most extensive in scope, if not in depth, of the entire post-Mao era"(Miller, 2018: 6). More broadly speaking, having refused Montesquieu's idea of the separation of powers[93], the only institution outside the CCP able to check the behaviours of the top leaders lies in the "collective institution of the Party, in particular the Central Committee" in a relationship called "reciprocal accountability" (Shirk, 2018 and 1993). However, this is just the tip of the iceberg. Under Xi's rule, China's authoritarian regime conducted unprecedented anti-corruption campaigns targeting both "tigers" and "flies" (senior political officials and low raking officials) both in the Party and SOEs[94]. Xi has tightened control over the media, internet religious groups, civil society associations, including foreign NGOs. Censorship and surveillance have recently reached the highest level with the new Cybersecurity Law, which went into effect during June 2017. Arrests and criminal prosecutions of bloggers, activists, human rights lawyers, and religious believers have reached a peak with the incrimination of the Noble Laureate Liu Xiaobo, the most prominent political dissident.

Ten years after 2008 Buzan's famous article about "China's peaceful rise", offered in contraposition to Halliday's statement according to which "there is no such thing, in any country or in international relations, as a peaceful road to modernity" (Halliday, 1999: 2), the needle is now dangerously swinging towards the latter view. If one assumes the continuation of economic growth as a given, China's gaining a more relevant status position in relation to other powers in the international system seems difficult to obtain without threatening neighbouring countries and/or major powers. While the realists tend to give a picture based on power politics the Marxists one on class conflict and the liberals stress the role of secondary institutions and economic interdependence, the English school constructivist approach used by Buzan in his 2008 article still seems a more balanced approach. In fact, it provides better insights on the influence of cultural and historical social structures. Following his 2008 final considerations on a possible peaceful rise, skipping the

[92] He has been perceived as a "a weak figure who never fully escaped Jiang Zemin's continuing interference. Certainly, Hu's modest personality inclined him more to collective leadership than to taking charge. But he also was sincerely committed to improving Chinese governance and making collective leadership work" (Shirk, 2018: 32).
[93] The party in fact has a tripartite power: power of decision-making; power of administration and power of monitoring.

"assessment of the proper reconciliation with Japan at levels of people and not just governments", today it is possible to draw these remarks about the clear vision of China's national identity in terms of what kind of society it wants to be and what kind of international society it wants to promote. The rise of a Chinese national identity has been studied for in terms of how the country's historical memory and identity is relevant in shaping national interests, expressed also in terms of policies and state actions. The Chinese case is deeply rooted in its ancient civilization, but the collective memory is shaped by "chosen traumas and glories"[95] as defined by the CCP.
One must note that in traditional Chinese thought there was nothing resmbling the modern concept of nation-state 国家(*guójiā*), but only of 王朝 (*wángcháo*) dynasty and 天下 (*tiānxià*), "all-under-heaven", the whole world known to the emperors. The sense of chosenness is well represented by the name given to their country - 中国 (*Zhōngguó*) – central – middle kingdom or nation, in a 天下为公 (*tiānxià wèi gong*) "a peaceful life for all". Even if the Chinese worldwide view has been influenced by its natural geographical barriers[96], for Chiang Kai-shek the term 天下 (*tiānxià)* was not only a geographical or cultural concept, but "was also loaded with political meaning" (Wang, 2012: 42). That said, many scholars note that this meaning periodically xpands and contracts. While for Tatlow, "its meaning is defined by the Party (Tatlow, 2018: 5), Xu Guoqi asserts that the basic unit of *tiānxià* is "civilization, rather than nation-state" (Guoqi, cited in Wang, 2012: 72). This Chinese culturalism it is better interpreted following 华夏 (*Huá xià*) or 中华 (*Zhōnghuá)*[97], where 华 (*Huá*) refers not only to "splendid" or "prosperous", but also to "civilization" in opposition to 夷 "*yí*" (barbarians), 用夏变夷 (*yòng xià biàn yí*) "using civilization to transform barbarism"[98]. Thus "CCP rejects universalism as a Western concept but is substituting its own counter-universal values based on empire and party that Westerners have trouble understanding. These include *tiānxià*, and the concept of a "commonwealth of human destiny" (人类命运共同体)" (*rénlèi mìngyùn gòngtóngtǐ*) (Tatlow, 2018: 2). Following the 新天下主义 *(xīn tiānxià zhǔyì)* "new Tianxia'ism", some Chinese scholars see the

[95] For further information on the Chosenness-Myths-Trauma (CMT) see Galtung, 1996.
[96] See Kim, 2008.
[97] This is the old name for China, *Huá xià* (the civilized Xia people). It identifies Han people as the blood-line descended from the first dynasty - the Xia dynasty (1994-1523 a.C.) - as recorded in the 竹書紀年, (*Zhúshū Jìnián*) Bamboo Annals.
[98] See also Dikötter, 1992. In the 2015 interview of Professors Xu Jilin, Liu Qing, Bai Yidong, it is also stated that 这是华夏影响蛮夷最好的办法 (*zhè shì huáxià yǐngxiǎng mányí zuì hǎo de bànfǎ*), 只是在极端的情况下，才可以用战争的手法 (*zhǐshì zài jíduān dì qíngkuàng xià, cái kěyǐ yòng zhànzhēng de shǒufǎ*) "This is the best way for China to influence barbarians […] It is only in extreme cases that the method of war can be used". Available on-line at: https://www.thepaper.cn/newsDetail_forward_1313275.

boundlessness of the concept where the "outsider could be absorbed and become Chinese by adopting Chinese culture and customs" (Wang, 2012: 72). Professor Zhao Tingyang of the Chinese Academy of Social Sciences, has argued that 天下 "can deliver security, contrasting it to a democratic order that has produced chaos" (Zhao, 2016). For Tatlow, Xi Jinping in his speeches[99] has strongly appealed to the loyalty of ethnic Han Chinese everywhere in the world. "With this elastic, yet unstoppable, state definition of belonging, the meaning of being "Chinese" is both expanded, and constantly bent back to the centre. In theory, China is wherever ethnic Han or Chinese citizens are" (Tatlow, 2018: 5).

Along with a debate about fundamentals and semantics, China's historical memory is also strongly characterized by "selective remembering" and "selecting forgetting" (Wang, 2012: 46). The collective memory of the 灿烂文明 *(cànlàn wénmíng)* "splendid civilisation" is shaped by emphasizing the "chosen myths and glories", such as "at the opening ceremony of the Beijing Olympic Games in 2008" (Wang, 2012: 44). The chosen traumas, derived from the "century of humiliation" are instead the "master narrative of modern Chinese history" (Wang, 2012: 47). They are characterized by foreign invasions, lost wars and 不平等条约 *(bù píngděng tiáoyuē)* the unequal treaties[100]. "While the ancient Chinese referred to cultural or ethnic outsiders as Yi (barbarians), during the century of humiliation foreigners were given a more negative term – 鬼子 (*guǐzi*) - meaning "devils"" (Wang, 2012: 68). The idiom 勿忘国耻 *(wù wàng guóchǐ)* "never forget the national humiliation" was for William Callahan "part of the construction of citizenship and national identity in the Republic of China" (Callahan, cited in Wang, 2012: 83)[101]. Today this discourse has been reinforced in education through patriotic campaigns and it is commonly embedded in political discourses and in media (Wang, 2012). The Chinese national identity, as manufactured by the Party, stretches from the glorious past to the technological future, but it is also constantly pulled back to the centre in order to make a push for further expansion. Following its recent rapid economic growth, technological advancement, military modernisation, but also amid growing nationalism and social structural instability, China has not only sought its rightful place in the current international order but also tried to shape and contribute to to a new international order. This is well expressed by the "creative rise" concept which is an improvement and enrichment of the principle of non-interference that China has always insisted on,

[99] And through the use of the United Front.

[100] They encompass the First Opium war, the second, the Sino-Japanese war, the invasion of the allied forces of eight countries (1900), the Japanese invasion of Manchuria (1931) and the Anti-Japanese War (1937-1945).
[101] See also Matten, 2016.

and indicates "better respect for national sovereignty and independence" (Wang, 2017: 47). In the case of China-Africa relations, the new role played by China in the global climate change debates as a new ground for global negotiation, and the renewed activism of Xi Jinping for "cyber sovereignty"[102], all open questions about how the world can cope with China's authoritarian advance.

3.3 The theoretical framework for China's investment behaviour

This chapter seeks to underline the basic characteristics of Chinese authoritarian capitalist investment behaviour when it engages in outward investment strategies. From a theoretical standpoint, this chapter will follow Carney's approach on state intervention in foreign countries toward foreign direct investments performed by authoritarian capitalist actors. His analysis focuses on State owned enterprises (SOEs) and Sovereign Wealth Funds (SWFs) performing aggressive investment behaviours in acquiring foreign listed companies. I argue that the theoretical model is also valid for the private sectors, as any stark distinction between private and public enterprises misrepresents the reality of China's state capitalism. I will follow Milhaupt and Zheng's challenge to the "ownership bias", exploring instead the "mechanism of capture", which is the ability for the State "to exert control over the deployment of financial and regulatory resources" (Milhaupt and Zheng, 2015). China, in fact, "has only attenuated control over state-owned enterprises, yet it exerts significant control rights over private firms in which it holds no ownership interests" (Milhaupt and Zheng, 2015: 688). If in the case of SOEs the proximity to the state is more obvious, "because at one point in their corporate history they were part of the state itself" (Milhaupt and Zheng, 2016: 14), in the case of private firms it is "growth potential" that determines the firm-state relationship. Examples of SOEs which were spinoffs from Ministries' operating assets are abundant. Each of the "big three" national oil companies (China National Petroleum Corporation (CNPC), Sinopec and *China National Offshore Oil Corporation* (CNOOC) were part of the former Ministry of Petroleum Industry. Such is also the case of State Grid Corporation of China (SGCC), commonly known as State Grid, which was founded after the 2002 reform through which the State Council restructured the electric power system dividing the former State Power Corporation of China, which in turn had previously received the assets from the Ministry of Electricity, into two grid companies (SGCC and the smaller China Southern Power Grid Company), five generation groups and four business companies. China Telecom, China Unicom and China mobile were part of the Ministry of Posts and

[102] i.e. see: Schia and Gjesvik, 2017.

Telecommunications. The most remarkable example of a private company which benefitted of government support is Huawei, the Chinese multinational networking, telecommunication equipment company. It was founded in 1987 by Ren Zhengfei as a private company and it is now wholly owned by its employees. Ren Zhengfei however "was a director of the People's Liberation Army (PLA) Information Engineering Academy, an organization that they believe is associated with 3PLA, China's signals intelligence division, and that his connections to the military continue" (Rogers and Ruppersberger, 2012: 14). After having overtaken Ericsson in 2012, it is the largest telecommunications equipment manufacturer in the world and as of 2018, Huawei has become the second largest smartphone manufacturer in the world behind Samsung. It is after the breakthrough of its growth potential that it benefitted from the Chinese government's help in intellectual property, antitrust law, and foreign investments.

To delve deeper into the details of State Ownership, Milhaupt and Zheng have highlighted four aspects.

1) "The State Collects Little or No Dividends from SOEs", especially in comparison with other countries and also in comparison with those paid to private shareholders by Chinese SOEs listed in Hong Kong. This has big consequences. First of all, it becomes "difficult to justify maintaining a large SOE sector on behalf of the citizens—the ultimate principals—if profits from the enterprises are not remitted to the state. Second, low dividend payouts to the government and heavy recycling of profits back to the SOEs in the form of subsidies increase free cash flow, which generates additional agency slack between SOE managers and the government in its role as owner–investor" […] facilitating "managerial misbehaviour in the form of perk consumption and empire building (Millaupt and Zheng, 2015: 679-680).

2) "Executive Compensation Practices at SOEs suggests limited state control over managers". Given the big disparities that appeared in the first period of market-oriented reforms, the "State Council in 2009 introduced a scheme that capped executive compensation at the central SOEs overseen by SASAC at twenty times average employee compensation". This scheme however can be overtaken thanks to "on-duty consumption," a "catch-all category of perquisites, expense accounts, and side payments" (Millaupt and Zheng, 2015: 679-680).

3) "The State often fails to implement major operational and policy decisions at SOEs", such as actually preventing SOEs from investing in the real estate sector, which has witnessed "skyrocketing housing prices" or in the case of restructuring the SOE sectors through market segmentation in order to promote "national champions" because it met resistance particularly from those that "had acquired monopoly status in niche industries" (Millaupt and Zheng, 2015: 684);

4) “The State Influences SOE behaviour principally in its role as a regulator, not as a controlling shareholder”. The case of Maotai and Wuliangye liquor industry under the Xi Jinping anti-corruption campaign is emblematic[103].

Looking at the private sector, Milhaupt and Zheng have demonstrated that “private ownership does not mean autonomy from the state. In fact, POEs bear striking resemblance to SOEs along the dimensions typically thought to distinguish state-owned firms from the private sector: ready access to state power and largesse, proximity to the regulatory process, and little autonomy from discretionary state intervention in business judgment” (Milhaupt and Zheng, 2015: 683). On this point, three aspects have been examined. 1) “Politically connected entrepreneurs”. Here “institutional bridges”[104] are examined. “These bridges consist of dense, stable networks of relationships fostered through rotations of managers, personnel exchanges, and the wearing of multiple hats (on behalf of SOEs, the government, and the Party) by managerial elites in China” (Millaupt and Zheng, 2015: 683). These bridges are prevalent also between State, Party organs and senior executives of large private enterprises. 2) “Government support for private firms”, especially for “National Champions”, both through subsidies, or special access to capitals and favourable interest rates. 3) “Extralegal control of private firms”. The extra-legal control is conducted through industrial associations, or in some sectors chambers of commerce[105], or by controlling prices through NDRC[106], or by conducting regular “interviews” with private firms’ managers to “encourage or compel compliance with policies favoured by the government” (Milhaupt and Zheng, 2015: 687). Further to Milhaupt and Zheng’s “capture”[107] mechanism, the discourse cannot be done without taking into account what is stated under China’s State-Security Law of the People’s Republic of China, Article 11: “第十一条 国家安全机关为维护国家安全的需要，可以查验组织和个人的电子通信工具、器材等设备、设施”[108] (“*Where State security requires, a State security organ may inspect the electronic communication instruments and appliances and other similar equipment and installations belonging to any organization or individual*”.) According to this legal provision, under any requests from the Chinese government, any company, organization or individual is obligated to let the government employ their own systems for potentially improper purposes under the guise of

[103] i.e. See: Heng Shao, *Tumbling Stock of Luxury Chinese Liquor Company Reflects Strength of Corruption Clamp-Down*, FORBES (Sept. 3, 2013, 6:26 PM), https://www.forbes.com/sites/hengshao/2013/09/03/tumbling-stock-of-luxury-chinese-liquor-company-reflects-strength-of-corruption-clamp-down/#9fbad7856e05

[104] For further research materials on “institutional bridges” see Lin and Milhaupt, 2013.

[105] In China, industry associations have been established for those industries which were supervised by ministries that have been disbanded and as a consequence they are staffed by former government officials of those no more existing ministries. For further research on industrial association in China see Zheng, 2010.

[106] Such as in the case of price regulation for the cooking oil producers in 2010.

[107] through “which firms obtain special advantages from the national or local governments by aligning themselves with the political leadership’s interests, goals, and priorities” (Milhaupt and Zheng, 2015: 688).

[108] http://www.npc.gov.cn/wxzl/gongbao/1993-02/22/content_1481246.htm

national security. Hence, given that Milhaupt and Zheng's mechanism of "capture" has been confirmed, if not reinforced, by Xi Jinping's latest policies (in particular by Xi's "patriotic call"[109]), I argue that Carney's state authoritarian model can be applied also to Chinese private companies. The independent variable of my research is ***Chinese state investment behaviour***. For Carney, a state investment behaviour "is composed of two parts- shareholder activism and extra-shareholder tactics" (Carney, 2018: 24). The first manifestation – the *shareholder activism* – "specifically refers to actions that the co-owner of a firm, alongside other shareholders, can deploy to alter a firm's governance and/or behaviour" (Carney, 2018: 24). Shareholders' behaviour can have various degree of activism. Passive shareholders limit their activities to buying and selling its investments gaining profits over the time. Active shareholders involve activities which cannot be implemented without having an ownership stake, such as many corporate governance activities. For example, this include "discussion with company management or directors, submitting shareholder proposals for the proxy statement (ballot), and voting on the proxy statement" (Carney, 2018: 25). They can both choose board candidates and determine compensation of the Board of Directors; but "shareholder proposal may also concern social/ environmental issues". The second manifestation - *extra shareholder tactics*- includes other activities that cannot be done without being hosted in a foreign country such as "industry regulations, tariffs, government procurement initiatives and development programs" (Carney, 2018: 24). Moreover, within extra-shareholder tactics, two categories can be outlined: network transactions and government influence. The first one – network transactions – "involve the target firm engaging in some business-related contact with the SWF's or SOE's network of businesses" (Carney, 2018: 24). The second one – government influence – "includes efforts to alter the policies of the target firm's home government or to influence the target firm itself" (Carney, 2018: 24). Dewenter et. al, analysing SWFs, "group the instances of possible influence into three broad categories: monitoring, government actions, and network transactions" (Dewenter et al., 2010: 24). "The monitoring category includes events that are commonly associated with block holders" (Dewenter et al., 2010: 24). This happens when the parent company has one or more board seats and where the "target firm board member was employed by the wealth fund", or parent company itself. This type of influence regards events like decisions on "personnel training, product pricing, and dividend policy" (Dewenter et al., 2010: 24). The government influence category includes those decisions which effect policies or regulations that may be modified by the host country government in order to create a favourable effect to the target firm or unfavourable for other firms. They can

[109] On September, 2017 the Communist Party's Central Committee and the State Council, called for a stronger party guidance to let entrepreneurs advance patriotism and professionalism, with the spirit of craftsmen. The official announcement is available on-line in Chinese language at: http://www.gov.cn/zhengce/2017-09/25/content_5227473.htm.

include "awarding government contracts, adopting favourable tariffs, and blocking or limiting the size of other investments" (Dewenter et al., 2010: 24). The network transaction category includes those cases where "the target firm had some business-related contact with the SWF's network of investments" or with the parent company. It is the case of target firms that enter in major business agreements; for example, the Ferrari-based theme park in Abu Dhabi was announced just five months after the Mubadala acquisition of 5% of Ferrari and developed with another Mubadala-related company (Dewenter et al., 2010: 24). According to Carney, state intervention varies according to regime characteristics, expressed in terms of "political competition" and "institutions to reduce investment risk"[110]. In fact, "as these institutions become stronger, the control of resources will tilt away from the state and toward private capital" (Carney, 2018: 31). "Regime characteristics determine the control of information and resources". (Carney, 2018: 29). As a consequence, he classifies political regimes in four categories "(1) narrow authoritarian regimes (NARs), (2) single-party authoritarian regimes (SPARs), (3) dominant-party authoritarian regimes (DPARs), and (4) democracies" (Carney, 2018: 8).

NARs are characterized by "no meaningful competition for political office", such as in the case of a monarchy or military rule, like "Brunei and Myanmar until 2012" (Carney, 2018: 8). They do not have a legislature to reduce investment risk and have full control of information and resources.

SPARs are those regimes with a ruling party "occupying all seats of the national legislature and proscribing political opposition (e.g., China, Vietnam and Laos)" (Carney, 2018: 8). Here, political competition occurs "within the party and not between parties" (Carney, 2018: 8), institutions to reduce the investments risk "are populated by ruling party members" and the control of information and resources is managed by the ruling party (Carney, 2018: 29).

DPARs are characterized by a limited restricted competition (e.g. Malaysia and Singapore). "The ruling party dominated the control of politically sensitive information and resources, though opposition parties also gain limited access, which corresponds to an increased reliance on partially state-owned enterprises" (Carney, 2018: 8). Democracies are characterized by the fact that "political competition is relatively unrestricted and characterized by a high degree of institutionalized rules governing political competition. Heterogeneous interests gain representation in the legislature and checks and balances ensure that no single actor or party monopolizes control over politically

[110] For Carney "there are two types of investment risk that must be addressed in order for private investment to occur and enable public-private co-investment – expropriation risk and contracting risk. These risks are associated with the protection of vertical and horizontal property rights, respectively. Expropriation risk arises from the fact that any government strong enough to protect and adjudicate property rights is also strong enough to abrogate them. […] Contracting risk regard the protection of property right form other non-state actors" (Carney, 2018: 31).

sensitive information and resources (Carney, 2018: 29-30). Looking at foreign direct investments, the investment behaviour of a state can be sketched considering both "the *capacity* of the state that owns them to engage in aggressive corporate interventions and whether the state possesses the *motivation* to do so" (Carney, 2018: 5). The first explanation – the *state capacity* - depends on three factors. The first one is the fact that the "state must have a vehicle capable of initiating large ownership stakes that are held over an extended period of time, thereby enabling the implementation of major changes to target firms". The second one "the state must provide adequate transparency about vehicle initiating the investment so that private investors can properly value the risk associated with co-investing with it and so that host country official can decide whether to permit the investment" (Carney, 2018: 5). The third one, is the fact that "the state investment vehicle must be capable of and willing to manage its ownership stake alongside other private investors". (Carney,2018: 6). The second explanation – the state motivation – "regards leaders' desire to remine in power" (Carney, 2018: 6)[111]. Putting these variables orthogonally, Carney creates a table for mapping the regime types and state capacity in terms of control of information and resources.

	Regime characteristics		State capacity for corporate intervention: control of information and resources
Regime type	Institutions that promote political competition	Institutions to reduce investment risk	
NAR	None: no competition	None: no legislature	Tight controls by a narrow group of political elites
SPAR	Modest: highly restricted competition (intraparty only)	Weak: populated by ruling-party members	Controls widened to elites within the ruling party
DPAR	Limited: restricted competition (intra- and interparty)	Moderate: legislatures with modest party heterogeneity	Controls widened relative to SPARs, but ruling-party elites retain residual rights of control
Democracy	Extensive: competitive	Strong: legislatures can effectively constrain the executive	The monopolized control of information and resources is prevented by the institutionalized separation of powers within different branches of government

Figure 3.2 – State capacity to intervene – Source: Carney, 2018: 29

[111] i.e. see Tullock, 1987; Wintrobe, 1998 and Haber, 2006.

The manifestation of the state capacity in terms of control of information and resources for Carney occurs through State owned enterprises (SOEs) and Sovereign Wealth Funds (SWFs).

	Regime characteristics		State capacity to intervene: control of information and resources as manifested by SOE and SWF characteristics		
Regime type	Institutions that promote political competition	Institutions that reduce investment risk	SOE and SWF transparency	Public-private ownership: prevailing type of SOE	Prevailing type of SWF
NAR	None: no competition	None: no legislature	Low	Public dominance: dominant state ownership, often unlisted	Savings
SPAR	Modest: highly restricted competition (intraparty only)	Weak: populated by ruling-party members	Moderately low	Public oriented: state ownership dominates for strategically important firms	Savings
DPAR	Limited: restricted competition (intra- and interparty)	Moderate: legislatures with modest party heterogeneity	Moderate	Public-private balance: hybrid SOEs	Savings
Democracy	Effective: competitive	Strong: legislatures can effectively constrain the executive	High	Private dominance: relatively few SOEs	Mostly specific purpose (macro-stability, foreign exchange reserve, pension)

Figure 3.3 – State capacity to intervene manifested by SOE and SWF characteristics – Source: Carney, 2018: 35

Following my assumption that the same conceptual map could be applied for private companies, the degree of the state capacity could vary from low transparency and public dominance, either in ownership and in access to credit (where money comes from) in the case of NAR and to full transparency and private dominance in the case of democracies.

The second dimension – *State motivation to intervention* – represents the motivation for a state to initiate an aggressive behaviour. For Carney, "the strongest motivation for a state to intervene comes from threats to incumbent rulers' hold on power" (Carney, 2018: 40). He basically outlines two sources of threats: 1) the risk "due to crowding-out effects"; 2) the risk "due to economic liberalization". The first risk occurs when "government involvement in a sector of the market economy substantially affects the remainder of the market". That's because "private business gains economic and political influence yet crowding-out effects remain substantial". Also: "Risks to regime stability are greatest for authoritarian regimes because ruling elites are unwilling to hand over power to a political opponent or duly privatize because the control of information and resources via the state sector is crucial to the regime stability" (Carney, 2018: 40).

The second risk – the risk due to economic liberalisation - magnifies the first one. Carney identifies that the risk to regime stability arises "from two sources – trade and finance" (Carney, 2018: 42). Trade liberalisation strengthens "asset owners who are not allied with the ruling party in authoritarian settings" and as a consequence, makes competitive firms "not necessarily depend on government support and may be independent of the ruling party" (Carney, 2018: 42). Financial liberalisation creates the same effect of trade liberalisation. However, for Carney, "the implementation of liberalizing financial reforms can generate three additional risks to regime stability": 1) heightened exposure to exogenous financial shock (or crisis), 2) an elevated threat of exit by capital owners, and 3) easier access to external finance for elite opponents. If these risks exist also for democratic regimes, they are more robust for authoritarian regimes because while in democratic countries this may cause "a change in the ruling party", here the threat is actual "regime change" (Carney, 2018: 43). With respect to the first element, authoritarian regimes are more vulnerable although the magnitude of threat depends on their level of integration with the global financial system. The threat of exit by capital owners however should be assessed by considering the vulnerability of capital structure given the importance of both mobile and immobile capital. "Authoritarian regimes have more immobile capital because the regime controls more of the economy's major assets" (Carney, 2018: 43). "DPARs, which tend to have a greater mix of private and state ownership, are more vulnerable" (Carney, 2018: 44). With respect to the third element, "access to foreign capital primarily threatens authoritarian regimes, though DPARs more than NARs or SPARs" (Carney, 2018: 44).

3.4 Existing literature on Chinese outward investments behaviour

During the last two decades, many international business scholars have focused their attention on the internationalisation of Chinese multinational corporations, as outward foreign direct investment has grown exponentially. Despite the rapid development and the relevance of China as the one of the world's largest investors, the literature on internationalization of Chinese firms has been highly fragmented and, when used to test existing theories about FDIs, results have been conflicting. The debate has focused on four primary research themes (Deng, 2013). The first is the latecomer perspective; the second is that of Chinese governmental influences; the third is the dynamics of firms and institutions; the fourth is the liability of foreignness. This chapter section goes through these four sectors of literature and concludes that general theories on internationalisation need a more cross-disciplinary approach. For example, an integration between international business literature and political economy is needed in order to interpret correctly the role of the Chinese government and central planning in the development of the external activities. According to Buckley, the analysis of the Chinese case requires a "special theory nested within the general theory" (Buckley, 2010: 83).

This Chinese "exceptionalism'' – that certain parameters only apply in China – in explaining the distinctiveness of Chinese FDI, is "far better interpreted as the concatenation of a special set of circumstances, at a particular point in time" (Buckley, 2017: 9) due to the role of Chinese government in exercising the authoritarian leadership. The relationships between SOEs, private firms and government are a clear example of this distinctiveness and have proven to be preeminent in the analysis of the ongoing development of Chinese OFDIs. More recently, "the shifts in Chinese governmental policies are attempts to align Chinese OFDI with central government objectives and to restrain 'illicit' export of capital from China, some of which was the result of the pursuit of personal and family interests" (Buckley et al., 2017; Pei, 2016).

3.4.1 The "latecomer disadvantages" prospective

The process through which a developing country may accelerate its development and reduce the gap between itself and the technologically and economically advanced countries ("catch-up"), has found two main theoretical explanations. The first one is an application of neoclassical growth models[112] in which technology freely spills across country borders and this drives convergence. The second one starts from the opposite assumption that technology and innovations are not seen as flowing freely across countries, and instead the developing process is closely related to specific firms, networks and economic institutions[113]. Central to the catching-up process are technology, innovation and country institutions. This view is built on three assumptions. The first assumption is that there are advantages to late development[114]. The second one is that the institutional context is central to take advantage of the "window of opportunity" that may arise. The third assumption is based on the Vernon's product-cycle theory (1966). When developed countries start to shift production to developing countries, this can create an opportunity for those firms and countries which have the capacity to catch up. This means not only importation of new technology, but also imitation and innovation. This "late development" thesis has been confirmed by several studies on the US experience and on East Asia countries, initially Japan and subsequently Taiwan, South Korea, Hong Kong and Singapore. The Chinese model in several studies as revealed to be much different from the East Asia's catch up model. If the catch-up model of Japan and Korea has been defined as a "closed one", that of "China is an open one" (Liu, 2005) with three distinctive features. The first characteristic is that Chinese firms takes "advantage of network externalities that seem to supersede

112 See Solow, 1956.
113 See Freeman, 1987 and Nelson, 1993.
114 See the pioneer study of Gerschenkron (1962).

the closed networking system of the Japanese keiretsu and Korean chaebol" (Liu, 2005: 11). The second one, is that industries are disintegrated with modularization, enabling low cost and high product variety, instead of being characterized by integration of R&D, manufacturing and marketing. The third feature is a "market-oriented innovation supported by technology outsourcing and alliances" (Liu, 2005: 12). Even if this cannot be considered a Chinese invention, as many US firms such as Cisco and Dell have used this strategy in order to respond to market needs more rapidly, in the Chinese case the "make or buy dilemma"[115] is surely resolved with a modular outsourcing. Recalling the international business theory studies on Chinese OFDIs, the first strand of the literature starts from resource-based theory (RBT)[116]. Chinese outward investments are aimed to overcome their "latecomer disadvantages" via a series of aggressive, risk-taking measures by aggressively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses (Luo and Tung, 2007). The recent model proposed by Luo and Tung (Luo and Tung, 2007) - the springboard theory – explains Chinese acquisitions of strategic assets in developed countries, not only to attain competitiveness in developed markets, but mainly for exploiting these assets in their home markets[117]. To overcome their weaknesses, Chinese firms have invested heavily abroad in R&D and innovation both for process and product upgrading. For example, Haier, the consumer electronics and home appliances company headquartered in Qingdao, set up product-development teams both in Tokyo and the United States (Bonaglia, Goldstein, A., and Mathews, J. A., 2007: 26). Particularly interesting is the paper written by Di Minin, Zhang and Gammeltoft who, analysing the cases ofZTE Corporation, JAC Motors, Chang'an Motors, Hisense Group, and Hisun Group, outlined a key difference between Chinese R&D units' internationalization and the conventional R&D internationalization process of developed-country multinationals. The Chinese R&D internationalization process was mainly driven by a "learning by doing" ("*aprendizaje en acción*") strategy rather than one of technological innovation, as the extant literature tends to assume. "Chinese R&D units appear to evolve often from a strategy of pure technology exploration, over fusion of foreign technologies with R&D activities back home, into one of technology exploitation in foreign locations" (Di Minin, Zhang and Gammeltoft, 2012: 189). This represent a key difference between China and Japan in the 1960s and 1970s. Japan at the time not

[115] See Pisano, 1990 and Veugelers and Cassiman, 1999.
[116] RBT is a dominant paradigm in strategic planning theories. It is characterized for the fact that it looks for the source of competitive advantage within the resource system governed by the company. It emphasizes the importance of the internal variables of an organization compared to the external ones. Moreover, it is based on an assessment of the company based on what it is able to do, rather than the needs it seeks to satisfy. Barney's 1991 article "Firm Resources and Sustained Competitive Advantage", is widely considered a pivotal work. Other key theorists include George S. Day, Gary Hamel, Shelby D. Hunt, G. Hooley and C.K. Prahalad.
[117] See also Paul and Benito, 2017.

only did not exploit foreign technologies for their domestic advantage but also "pioneered some important business process innovations", such as "TQM" and begun to set "top global quality and technology standards for a host of industries: firms like Toyota, Sony, Panasonic, Nikon, Canon and Seiko" (Kroeber, 2016: 64). Moreover, "such strategic asset-seeking FDI is orchestrated mostly through large state-controlled business groups" (Deng, 2013: 517). Li and Kozhikode have studied the TCL case, explaining how late-moving in Chinese technology-deficient firms is a way to catch up in technology intensive industries such as the mobile phone industry (Li and Kozhikode, 2011). This study has developed a model of this "catching-up process", showing how the Chinese model is different from traditional "learning modes such as licensing agreements, alliances, joint ventures and their associations with firm performance". Chinese firms in fact, aspire to be "late entrants". It is in their best interest to "gain access to the most readily available technology to get the business rolling, rather than to look for the most advanced technology to compete head on with the incumbents" (Li and Kozhikode, 2011: 220). The TLC case have demonstrated the need to initial market share quickly thanks to the "speed of knowledge transfer", allowing "immediate access to the core technologies, thereby shortening the catching up process" (Li and Kozhikode, 2011: 220). The TCL-Thomson M&A case have been demonstrated to be relevant also to test the effect of absorptive capacity on the strategic and performance dimensions. In fact, unlike the Lenovo-IBM PC unit deal, the TCL - Thomson TV acquisition lacked an appropriate financial and competitive justification. Not only did it lack "prior knowledge related to Thomson's business operations, but it also lacked combinative capabilities to integrate and assimilate the acquired knowledge" (Deng, 2010: 520). Moreover, it lacked "face-to-face social interactions" due to cultural weaknesses, but also TCL wanted greater management and hierarchical cultural control of its European operations (Deng, 2010: 520). If theory suggests that multinationals succeed when they develop firm-specific advantages (FSAs), Chinese companies, at least in the first measure, built their scale economies based on country-specific advantages (CSAs) such as cheap labour and natural resources. According to Rugman and Li, if western multinationals going abroad transfer both knowledge and technology through their FSAs, Chinese firms built their specific FSAs by seeking brands, distribution networks, technology, management – all elements they were missing (Rugman and Li, 2007). Several empirical studies have found evidence of for asset-seeking motivations for ownership advantages. By reviewing industry distributions of OFDIs data for 2003–2009, Huang and Wang found that the main purpose of the China model of OFDIs has been neither to expand production overseas, nor to directly expand overseas markets. The main purpose of Chinese OFDIs is to strengthen their industries at home through the acquisition of management skills, technology, brands or raw material supply (Huang and Wang, 2011: 19). The study of Zou and Ghuari tested the concept of organizational knowledge in the internationalization process as developed by the "Uppsala school"[118] to China's HTNVs (high tech new ventures). Their finding is that Chinese HTNVs "are likely to acquire a variety of knowledge bases, including technological information, networking skills, industrial skills and advanced managerial and marketing skills" (Zou and Ghuari, 2009: 237). However, "cultural differences between domestic and international markets, between local employees and headquarters, can influence the effectiveness of knowledge learning of high-tech new ventures in international markets" (Zou and Ghuari, 2009: 238). This catch up strategy finds validation in those studies which apply the absorptive capacity theory[119], which refers to the "ability of a country to recognize, assimilate and utilize new external knowledge" (Cheung, 2014). Deng, for example, in a comparative case study on execution of the successful Lenovo-IBM's PC division acquisition and the failed TLC- Thomson TV acquisition, emphasizes the importance of a strong absorptive capacity of the domestic firm, as a key element able to influence performances and the capacity of fostering Chinese domestic firms (Deng, 2010).

3.4.2 The Role of Government and State

The mainstream perspective in international business theory generally finds five motivations for multinationals to invest abroad: to gain resources, technology, markets, diversification, and/or strategic assets. Dunning (1988; 2001) drawing together elements of previous theories identified ownership, location and internalization (OLI) advantages that motivate internationalization. Chinese firms investing abroad are not efficiency seeking, mainly because China itself has an ample supply of low-cost labour and inexpensive land. Most of the articles published over the last two decades in the Chinese case have regarded governmental support as the main driver of Chinese OFDIs. In fact, "the government has, to a great extent, played a crucial role in shaping the structure of China's approved outward investment" (Deng, 2004: 14). As a result, "FDI outflows from Chinese companies can be regarded as part of the government's development scenario, and their investment strategies largely reflect governmental priorities" (Deng, 2004: 14). From the political economy perspective, Luo, Xue and Han examined how Chinese government have stimulated OFDIs,

[118] The "Uppsala school" perspective implies that knowledge about foreign markets and operations, together with market commitment, affects both commitment decisions and the way current decisions are performed – and these, in turn, change market knowledge and commitment (Johanson and Vahlne, 1977). In this sense, the incremental character of internationalization is subject to the degree of market commitment and the scope of market-specific knowledge. According to this perspective, new ventures with better market knowledge are likely to make additional commitment into the market (Johanson and Vahlne, 1990)" (cited in Zou and Ghuari, 2009: 225).

[119] Absorptive capacity is widely defined as "the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends" (Cohen and Levinthal, 1990: 128).

describing their promotion sa "economically imperative and institutionally complementary to offsetting competitive disadvantages of emerging market enterprises in global competition" (Luo, Xue, Han, 2010: 68). Given China's big current account surplus, huge foreign reserves, and a high level of domestic savings, outward FDIs were primarily a function of macroeconomic factors and the stage of economic development. However, the influence of the state is evident by simply looking at the amount of Chinese OFDIs conducted by SOEs, which "allows the government a degree of direct influence, impossible for most other national policy makers". However, "despite the highly structured process and policies in place in China, this remains a "trial and error path" (Sauvant, McAllisteer and Maschek, 2010: 18). Furthermore, Yeung and Liu, two economic geographers, argue "for a political-economy approach to understanding "globalizing China". Chinese economic planning agency and its centralized political bureaucracy have been able to establish, govern and direct the state's strategic orientation and trajectories of national economic development" (Yeung and Liu, 2008: 58). They use the term "economic diplomacy" to refer to "interstate economic relations transpiring in the form of firm-specific activities". In fact, "although such economic activities are conducted through national firms, they also have distinctive political and diplomatic overtones and thus cannot be viewed as pure market-based transactions of the kind often described in prevailing economic theories of FDI and transnationals" (Yeung and Liu, 2008: 58). In China, the state is "strategically and intricately enmeshed with the corporate interests of its leading business firms" […] calling into question the nature and purpose of such state-driven form of economic relations, particularly when the outward investments emanate from a socialist economy" (Yeung and Liu, 2008: 57). For Song, Yang and Zhang, since China's accession to the WTO, in 2001, SOEs have played a predominant role in engaging in outward direct investments. "Most of the large SOEs are administered by the central government, which allows these firms to continue to enjoy certain privileges, especially in terms of government supported finance, subsidies, procurements and regulations" (Song, Yang and Zhang, 2011: 39). When SOEs have become profitable it was "a result of monopoly positions, rather than efficiency gains". At the firm level, if economically SOEs are motivated to invest abroad as private enterprises, politically, "managers of SOEs can use overseas investment to demonstrate their ability to manage international business and claim credit for themselves and the organization for undertaking activities that serve the national interests" (Song, Yang and Zhang, 2011: 39). The Chinese government, once recognized outward investments as necessary for the growth of domestic firms and competition in global markets, has been played a more and more crucial role in shaping the structure of Chinese OFDIs and "has therefore become more strategic in thinking about OFDI as part of its integration with the global economy and a way of securing supplies of resources for its long-term development" (Song, Yang and Zhang, 2011: 39).

Other empirical studies have investigated overseas investments as the main channel to build "diplomatic bridges across countries and secure goodwill for other projects that might be in China's national interest" (Deng, 2013: 519). Brautigam and Tang, for example, analysed Chinese efforts to construct a series of official economic cooperation zones in Africa. Special economic zones (SEZs) have played a central role in African outward investment strategy, working as a platform for the Chinese strategy of engagement as "mutual benefit". It is worth recalling that the creation of SEZs played a crucial role in China's own early economic reforms since 1979, working as incubators for more structural reform. Since 2006, as part of the Going Global strategy, the Chinese government indicated that it would establish "up to fifty overseas economic and trade cooperation zones worldwide, without giving a timeframe" (Brautigam and Tang, 2011: 30). "It is clear that these zones were in part intended to fulfil 'soft power' political goals, in particular demonstrating the efficacy of some aspects of China's development model and sharing it with friendly countries" (Brautigam and Tang, 2011: 30). Along this path, Jiang investigated China–Africa relations, in the energy and resource sectors, basing on the "linkages of Chinese domestic development and its foreign policy behaviour". Jiang argues that "much of what the Chinese government, Chinese companies and individual entrepreneurs are doing today in Africa is an externalization of China's own modernization experiences in the past three decades" (Jiang, 2009: 587). Moreover, he "demonstrated that changing priorities, debates and constraints of the domestic political economy has a direct impact on China's foreign policy and corporate behaviours in Africa by both the government and energy companies" (Jiang, 2009: 607). Recent studies have been conducted on how Chinese state rescales to implement this going-out strategy and produce new spaces of development. Su, by analysing FDIs in the Great Mekong Subregion (GMS) and the interlocked Yunnan province, demonstrated that the "Chinese state deploys two spatial strategies – upward coordination with international organizations and GMS national governments, and downward implementation throughout Yunnan Province – to establish an inter-scalar regulatory regime" (Su, 2012: 501). Much research concentrates on Chinese OFDIs as a complex phenomenon which combines both economic and political dimensions. Kang and Jiang in 2012 addressed the issue of FDI location choice of Chinese firms and found out that institutional factors demonstrate a higher level of significance, complexity and diversity in determining FDI location choice in comparison with economic factors.

The study of Ramasamy, Yeung and Laforet, evaluating the international location decisions made by public listed Chinese firms during the period 2006–2008, found that "the location determinants of Chinese companies generally do not follow mainstream literature" (Ramasamy, Yeung, Laforet, 2012: 25). OFDIs seem to be motivated mainly by technology and innovations. However, State Owned companied were attracted to risky countries to tap on their natural resources. Alon, Chang, Fetscherin, Lattemann, and McIntyre, studied Chinese OFDIs to Africa. Bearing in mind that the majority of surplus in natural resources and oil are located in high political risk areas, they demonstrated that China needs those resources for maintaining its high growth rate economy and "investment in a politically risky country is a growing reality out of necessity not a choice" (Alon et al., 2009: 9). Moreover, as long as global competition will sharpen, "Chinese policymakers will encourage greater OFDI to African economies to secure a constant flow of those resources to China" (Alon et al., 2009: 9). Moreover, Voss, Buckley[120] and Cross in 2010 looking at the determinants of investments, demonstrated that Chinese SOEs were less concerned about political risk (Voss, Buckley and Cross, 2010). This thesis is confirmed by the study of Quer, Claver and Rienda on how political risk and cultural distance affect location choice of Chinese multinationals. Their result is twofold. On the one hand, the conventional logic of the presence of overseas Chinese in the host country as a factor which helps Chinese companies to overcome the possible cultural barrier seems to be confirmed[121]. On the other hand, against conventional logic, particularly that of Western countries, "a high political risk in the host country does not necessary not act as a particular disincentive for Chinese multinationals" (Quer, Claver and Rienda, 2012). Same results were provided by the study of Amighini, Rabellotti and Sanfilippo, who explored Chinese OFDIs since 2003 up to 2008. Their findings showed a difference between SOEs and private firms, with the latter more consistently associated with the theory of foreign location choices "being attracted by large markets and host-country strategic assets and averse to economically and politically unstable countries", while State Owned Enterprises followed "the strategic needs of their home country and invest more in natural resource sectors, while being indifferent to the political and economic conditions in the host countries" (Amighini, Rabellotti and Sanfilippo, 2013: 1). More recently, Li, Meyer, Zhang and Ding, exploring the interactions between business networks and diplomatic relationships and how they can impact firms' foreign location choice, analysed Chinese overseas investment location decisions. The theory of the network perspective foresees that diplomatic relations between countries matter for the choice of foreign investment location. Their "investigation of Chinese firms' foreign investment location choice shows that good diplomatic relations do not induce all firms to invest in friendly countries; rather, diplomatic relations have a positive effect on firms' location choice only when they have strong ties to the home government. Thus, good diplomatic relations can be exploited for corporate benefits primarily by firms that are politically

[120] However, Buckley, et al. (2007) found a positive correlation between political risk and China's ODIs. Cheung and Qian (2009) also found that for developed countries political risk is linked to China's ODIs.

[121] Recent studies on cultural distance have investigated for example the role of Confucius Institutes in Africa, showing that they can help to predict next-year FDIs from China, as s sign not only of bridging cultural gaps and promoting Chinese language, but also of Chinese soft power (Akhtaruzzaman, Berg and Lien, 2017).

connected to their home government and thus to the intergovernmental diplomatic networks" (Li, Meyer, Zhang and Ding, 2017: 18). At the conclusion of the analysis of Chinese investment location decision, we cannot omit observing that in 2015 more than 80% OFDIs[122] were directed towards a small number of tax havens and offshore financial centres. Chinese firms started investing in these countries in order to transform themselves into "foreign domiciled" companies and, once they become a foreign investor, to take advantage of tax and other concessions back home[123]. In the wake of the global financial crisis, the impact of "financialisation" to be better incorporated has become a point of major attention for economic geographers. In the first place, it has become paramount to take advantage of, among other things, access to international capital markets. Along this path, studies on the use of OFDIs to cover capital flight is growing (Buckley, Sutherland, Voss, and El-Gohari, 2015), also as a consequence of the new Chinese governmental policies to fight transnational bribery and restrain illicit export sof capital from China for personal and family interests (Pei, 2016 and Lang, 2017). In conclusion, the current theorization of the role of the government in internationalization of Chinese firms has mainly been based on institutional theory. For a more comprehensive understanding of the role of the state in an authoritarian capitalist power such as China a multi-theoretic approach might be consider in order to encompass the resource dependence theory (RDT) and political economy.

3.4.3. Dynamics between firms and institutions

Another bulk of literature focus on the interactions between firms and institutions in shaping behaviour, organization and strategies of Chinese companies. Many scholars have investigated Chinese OFDIs for strategic option at the "micro-firm level" (Deng, 2013) both adopting resource-based theory (RBT) and institutional theory. In the first case a "firm's strategic assets determine its competitive advantage and performance, while in the second, "organizations sharing the same environment will choose the same practices or strategies and become isomorphic with one another over time due to an overall pressure to conform to the institutional norms within the environment" (DiMaggio and Powell, 1983). The Chinese cases have shown that "institutional support therefore has to be counted as a factor that can help lay the foundations for the internationalization of Chinese firms, so long as at the same time those firms retain their freedom to pursue their own strategies" (Child and Rodrigues, 2005: 400). The dynamics between firms and institutions have been examined through "the strategy tripod framework" - integrating resource-based, industry-based, and

[122] See: Buckley, Sutherland, Voss, and El-Gohari, 2015: 11.
[123] See: Peng, 2012 and Witt and Lewin, 2007.

institutional-based views[124]. Chinese firms are "characterized by three relatively unique aspects: (1) the previously underappreciated role played by the home country governments of MNEs as an institutional force, (2) the challenge of going abroad in the absence of significantly superior technological and managerial resources, and (3) the rapid adoption of (often high-profile) acquisitions as a primary mode of entry" (Peng, 2012: 97). This tripod approach of firm -resources, industry dynamics, and government policies - has featured "both change and continuity in the global strategy literature" (Peng, 2012: 105) and has found support in several empirical studies. Lu, Liu and Wang applied the strategy tripod approach to OFDIs from China, using a systematically collected firm-level data set. They found out empirical confirmation that Chinese OFDIs were driven "by both the push factors of extremely competitive and unfavourable domestic conditions and the pull factor of favourable government policies" (Lu, Liu, Wang, 2010: 244). Looking for determinacies of outward investments, a route of literature focuses on domestic market failures. According to this bulk of literature, investments abroad are more a strategic exit from the home country, rather than strategic entry into foreign markets. Several scholars have addressed, at micro-firm level, institutional constraints or institutional fragmentation of the domestic economy as a motivation to look for outward investments. Peng, in 2009, for example, looking for Chinese formal institutional constraints found that both "inefficient legal frameworks and weak intellectual property rights" discouraged "the pursuit of innovations, making it tough for businesses to invest in R&D or to build global brands"[125] in China (Peng, 2009: 77). Boisot and Meyer instead identified domestic constraints in the excessive fragmentation of Chinese economy. "Administrative decentralization has led to a feudalization of China's industrial structure and an economic fragmentation of the national economic space" (Boisot and Meyer, 2008: 353). This "vassal economy"[126] dominated by local protectionism impacted Chinese firms generating four classes of costs: 1) "capacity costs", due to the "miniaturization of Chinese firms, even in those industries where size constitutes a major source of competitive advantage"; 2) "operating costs", especially due to "overland costs of transports consummating transactions costs"; 3) "transaction costs" of "writing and executing contracts", and 4) "administrative costs" (Boisot and Meyer, 2008: 353). Chinese firms would internationalize "in order to escape the competitive disadvantages that they confront in the domestic market and that outweigh the competitive advantages of a large market size" (Boisot and Meyer, 2008: 361). On a similar path of domestic constrains, Gao, Liu and Zou, found that domestic characteristics such as human mobility, both through knowledge and network spillovers, were a significant factor which

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[124] The integrated "strategy tripod" framework is considered an appropriate approach to examining the internationalization strategies of emerging economies multinational enterprises (Yamakawa et al., 2008).
[125] See also Khanna and Palepu, 2006.
[126] See Wu, 2005.

boosted OFDIs. "The "brain drain" which concerned the Chinese government has turned into brain circulation or "brain gain" via two-way human mobility". Ethnic and familial links worked as a way to minimise "psychic distance" and, working as a "precious global intelligence network", accelerated "internationalisation and engagement in the global market" (Gao, Liu and Zou, 2013: 446). As long as the "existing individual theories for internationalisation for developed countries can only provide a partial explanation of the internationalisation process of indigenous Chinese private firms", Liu, Wen and Huang argued that the "bounded entrepreneurship" [127] argument better explains the unique patterns of these firms, as "their owners are bounded both by their limited education and international experience and by China's unique institutional barriers" (Liu, Wen and Huang, 2008: 506-7). Several researchers have addressed institutional constraints by looking at the differences between state owned companies and privately-owned enterprises. The latter have been less investigated, being relatively invisible not only due to their small side but also to their low-profile strategy in internationalization after years of severe institutional scrutiny. According to Lin, the internationalization of Chinese MNCs, state or privately owned, "should be viewed as an interplay between economic rationality and other factors due to government embeddedness" (Lin, 2010: 370). As regards internationalization motives "compared to private MNCs, Chinese state MNCs are more likely to be driven by motives beyond economic rationality in their internationalization process" (Lin, 2010: 370). By looking at entry strategies, "Chinese state MNCs are more likely to "leap frog" into an integrated entry strategy, whereas private MNCs are more likely take an incremental approach when expanding overseas". Looking at the managerial implications of ensuring overseas operations in a way consistent with their strategic interests, such as parent company's various control mechanisms, "Chinese state MNCs, compared with private MNCs, are less likely to contain the dynamic capability necessary for competing internationally". In terms of firm efficiency [128], "Chinese state MNCs are less profitable than private MNCs in the short-term but are not necessarily less able to survive in the long run" (Lin, 2010: 373). In conclusion, for smaller firms, due to the differential resource constraints that government and other agencies impose on their business actions, the success of international development initiatives "is, ironically, contingent on whether the company can overcome the institutional constraints it continues to face in China" (Lin, 2010: 374). Another strand in the literature concentrates on the study of corporate co-evolution, the ways in which firms and

[127] Bounded entrepreneurship occurs "when an individual becomes an entrepreneur less by choice than by life circumstances, and when core entrepreneurial decisions are circumscribed by family, government or other environmental factors. Bounded entrepreneurs are unlikely to exhibit the creativity, innovation and enthusiasm that entrepreneurs typically possess. What distinguishes bounded entrepreneurship is the loss of control which leads to limited strategic options" (Ray, D., 1993: 91).
[128] Efficiency here, refers to profitability in the short-term and survival in the long-term (Porter, 1980).

their environments develop interactively over time, in a context such as that of China, characterized by both a fast-evolving economic environment and a high level of government intervention. Co-evolution is the result of a process which involves different actors. It originates from the notion of power[129] and looks at how institutional environment impacts on the non-institutional environment of the firm through laws, regulations, policies and compliance mechanisms. Those who focus on the market assume a role of institutions external to the firm, more like "passive guardians of the rules of market game rather than active player in that game" (Child, Rodrigues and Tse, 2012: 3). This assumption, however, might not even be realized in the USA. The analysis of co-evolution dynamics, on the one hand implies the study of the political action and on the other hand the study of corporations' initiatives through a variety of channels in order to influence government policy and political opinion (Barley, 2010). A stream of research on Chinese companies looks at how this co-evolution affects the growth and overseas expansion. The Child, Rodrigues and Tse's empirical case study shows how a firm in a highly politicized environment, acting proactively and using its "valued specialized competencies, can potentially contribute to the evolution of government policies and practices" (Child, Rodrigues and Tse, 2012: 23). This research stream however lacks comparisons and micro-level analyses, considering individuals and group of interests, as it is difficult to obtain sufficient and valid information regarding key actors both within the firm and outside it.

3.4.4. Liability of foreignness

A classical theory in international business studies is the liability of foreignness (LOF)[130], which refers to "the all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995: 343). Researchers in international business have long theorized that these costs can arise from four different type of costs. The first typology is associated with spatial distance, such as the costs of travel, transportation, and coordination over distance, across time zones, etc. The second is associated with costs based on "lack of roots in a local environment". The third is associated with "costs resulting from the host country environment, such as the lack of legitimacy of foreign firms and economic nationalism". The fourth is associated with costs from the "home

[129] The notion of power here is developed from Dahl's definition (Dahl, 1957) with the assumption of exercise of that capacity (Lukes, 2005). It is usually identified in three features: "power over", "power to", "power with" (Göhler, 2009). The first one refers to "material and coercive resources", the second on "legitimacy and expertise", the last one on "identification".

[130] When a firm internationalises faces several risks both operational and political. These risks were already defined by Stephen Hymer (1960/1976) as the "liability of being foreign", including: 1) lack of information about the foreign market; 2) discriminatory treatment from the host country government, buyers and suppliers; 3) differential treatment from firm's home government and, 4) exchange risks (Hymer, 1960/1976).

country environment", such as the restrictions on sales to certain countries, for example due to economic sanctions, embargos, etc. (Zaheer, 1995: 343)[131]. Costs of doing business abroad in fact, include both economic and social costs. While economic costs are well understood and more predictable, costs related to the liability of foreignness refer to social costs of doing business abroad, which arise from an unfamiliar environment, relational and discriminatory hazards, in the sense that it focuses on the "social costs of access and acceptance" (Zaheer, 2002: 352). For Eden and Miller (Eden and Miller, 2004) the key-driver behind LOF is the institutional distance (cognitive, normative, and regulatory) between the home and host countries. To overcome this liability and compete with local firms, a company which invests overseas should be able to provide its overseas unit with specific resources and capabilities (firm-specific advantages), usually organizational and managerial capabilities. The intention of mitigating LOF costs provide an alternative explanation for understanding companies' ownership strategy when going abroad (Eden and Miller, 2004). For researchers who adopt resource-based views (RBT), the specific advantage to overcome this liability derives from firm-specific resources and capabilities[132]. According to this theory, overseas units will tend to mitigate these liability costs by "importing capabilities embodied in the organizational practices of their parent enterprise". This would be relevant especially if they compete "in an undifferentiated product market", where "brand name, superior technology or factor-costs advantages have little role to play" (Zaheer, 1995: 341). For researchers who adopt institutional theory, overseas sub-units tend to attend to the demands of their local, host country environments. Consequently "their organizational practices will tend to become similar, or isomorphic, to the practices of local firms" (Zaheer, 1995: 342)[133]. As long as more firms adopt the same practices, competition intensifies and it does not without consequences. The more competition increases the more the chances of failure. For OFDIs while local isomorphism legitimizes them, it leads to greater competition with local rivals (Miller and Eden, 2006 and Salomon and Wu, 2012). The case of Chinese investments has been addressed by many scholars which generally agree that Chinese multinationals face a "heavy liability of foreignness" (Deng, 2013: 522). The empirical question which has been started to be investigated is if Chinese overseas sub-units operate importing home country firm-specific organizational practices, or they imitate local organizational practice in order to overcome this liability of foreignness and compete successfully with local firms. A number of scholars observe that this usually happened through the establishment of strategic alliances with

[131] For the classic theory of liability of foreignness see Hymer (Hymer, 1976) and Kindleberger (Kindleberger, 1969). This theory has been adopted as an assumption of the most cited theories of multinational enterprises (see: Buckley and Casson, 1976; Caves, 1982; Dunning, 1977; Hennart, 1982).
[132] See: Barney, 1991; Lippman and Rumelt, 1982; Winter, 2003.
[133] Powell and DiMaggio, 1991; Rosenzweig and Nohria, 1994; Rosenzweig and Singh, 1991.

local firms (Child and Rodrigues, 2005; Li, 2007). The establishment of international links originally started through joint venture contracts, which enabled Chinese firms to become familiar with international practices (Child and Rodrigues, 2005). Other scholars such as Morck, Cai, Wang, pointed out that personal ties and networking reduced the risk connected with the lack of knowledge of the foreign environment (Morck et. al., 2008; Cai, 1999; Wang, 2002). Zaheer stressed the importance of considering "a foreign firm's network position in the host country and its linkages to important actors" (Zaheer, 2002: 351). Contemporary research on Chinese management and organization highlights that "Chinese firms are shaped by an institutional environment a centralized, authoritarian culture and relation-based management" (Deng, 2013: 522). If, from an institution-based view, Chinese companies investing abroad are affected by the market's "rules of the game", the role of the home country government obviously cannot be ignored (Peng, 2012). Among business scholars, it is commonly recognized that it is difficult to define the "depth of firm institutionalization" in China. The most cited indicator is the degree of separation of the firms from the state. In fact, "unlike the former Soviet Union and Eastern Europe, China has never had mass privatization of state assets" and "separating the firm from the state remain blurred" (Tsui et al., 2004: 135). "In China the state may simultaneously play the roles of shareholder, investor, fund manager and auditor of venture capital firms" (Tsui et al., 2004: 138). This weak institutionalisation of the firm is also confirmed by the "degree to which strategic decision are governed by a mix of political and economic motives, what Wittfogel (1957) called bureaucratic capitalism, rather than economic motives alone" (Tsui et al., 2004: 135). In order to overcome the liability of foreignness, China's weakly institutionalized firms have stressed the importance of *guanxi*,[134] instead of formal organization, in a way that research on organization without looking at personal networks fails to grasp (Gold et al., 2003). It originated "as a cultural phenomenon referring to personal relationships at the individual level" (Chai and Rhee, 2010; Yang, 1994), but turned out to be extremely relevant at the organizational level, both with business and government stakeholders (Luo et al., 2011). In fact, "in many cases it is the only insurance that transactions will go through. Absent *guanxi*, there is little basis for trust: contracts are regarded as backward rather than forward looking; the creditworthiness of counterparties is difficult to ascertain, and the judicial system rarely grants relief to outsiders". […] "Trust arising from *guanxi* connections is qualitatively different from trust arising from impersonal law and institutions". [...] As a consequence, it is not clear that Chinese management can be understood apart from the networks of key managers" (Tsui et al., 2004: 136). In the Chinese context, the boundaries among ownership, governance and regulations create weakly

[134] literally relationship (Luo, Y., 2000; Tsui and Farh, 1997).

institutionalized firms. In this environment deeply institutionalized personal networks play a significant role. "Government ties [...] function as a substitute for formal institutional support (Xin and Pearce, 1996) because social capital engendered from ties with government officials can compensate for lack of market supporting institutions such as transparent laws and regulations. Managerial ties with government officials are formed in order to access scarce resources, to obtain information about policies, and to reduce uncertainty (Podolny and Page, 1998)" (Luo et al., 2011: 147). This context of weakly institutionalized firms and the role of *guanxi,* both with business and government, posed enormous challenges to researchers and practitioners at managerial and organizational level and it still represents an empirical ground where testing the existing knowledge on business and organizational theory. Finally, using the LLL model[135] (linkage, leverage and learning framework), "business groups could help Chinese firms develop multinational advantages that yield either asset exploitation (explicit existing capabilities) in developing countries or asset augmentation (in the pursuit of new capabilities) in developed countries" (Yiu, 2011).

In conclusion, this paragraph retraced the findings, theories and debates of Chinese OFDIs over the last two decades, by exploring the most renowned scholarly and peer-reviewed articles. Chinese OFDIs, both conceptually and empirically, have opened up many theoretical enquiries, as the Chinese case reveals itself to be a "unique model". Some scholars, such as Huang and Wang in 2011, suggested "there probably is a "China model" for ODI, where for China, the motivation for and determinants of ODI differ significantly from those of developed countries" (Huang and Wang, 2011: 19).[136] According to the institutional theory, the internationalization of a firm derives from the home country encouraging the institutional environment[137] which can influence the entry mode choice and direction and might increase or limit the speed of internationalization. If governmental interference is a common feature of multinationals from emerging economies (Paul and Benito, 2017), the Chinese case shows that the international business theory surely needs to take into account domestic institutional factors (Child and Rodrigues, 2005). Moreover, it has been demonstrated that "the direct objective of Chinese overseas investment is to strengthen the competitiveness and the sustainability of domestic production" (Huang and Wang, 2011, but also Child and Rodrigues, 2005). Resource dependence theory is still valid to understand the basis for achieving a competitive advantage, but in the Chinese case understanding the role of the government might also help (Hillman, Withers, and Collins, 2009). The "spring-board" perspective explained how Chinese firms

[135] See Mathews, 2002 and 2006.
[136] However, not all scholars agree on a special framework for emerging multinationals being the standard categorization of market-seeking, resource seeking efficiency-seeking and asset seeking still valid (Benito, 2015). Narula also argued that conventional theories such as OLI theory, remain valid (Narula, 2012).
[137] See Scott, 1987 and 2002.

have tried to overcome the latecomer disadvantages through aggressive, pro-active and risk - taking acquisitions "to minimize institutional and market constraints at home" (Paul and Benito, 2017: 8). If the "China model" is a transitional phenomenon, then as the Chinese economy develops further its behaviour should converge with that of other developed countries (Huang and Wang, 2011: 3). However, in recent years Chinese OFDIs' catch up model, unlike those of other East Asia's countries, has emerged an open one (Liu, 2005). What is relevant to highlight here is that the hike of Chinese outward direct investments had an impact on the host country's economy. This happened not only at a macro-level on productivity and growth (Zhao, Liu, and Zhao, 2010), but also at firm level. The exploitation of domestic assets and technological capabilities or the unfair competition with other host countries firms, increased sinophobia and concern about national security risks for host countries. In further research on Chinese state and government influences at firm-based level analysis, it would be useful to understand the macro-economic management of China's economy. As long as the Chinese economic expansion continues, it would be interesting to cross-fertilize this area of research, with a multi-disciplinary approach, in order to understand if it has capitalized its economic strength to enhance its economic and political influence in the host country.

3.5 Chinese state capacity: Policy development of OFDIs

The evaluation of China's state capacity could raise important analytical and methodological debates[138]. Here the concept is salient to determine its presence or absence in association with the outward successful expansion[139]. Usually in studies of economic development, countries with low state capabilities have difficulties in implementing economic policies and they are more vulnerable to both internal and external shocks. On the contrary, countries with strong state capabilities are able to choose from a bouquet of different policies and choose the better one. In this part I argue that the strategic planning capabilities have led to the rise of China as economic power at apace and level unprecedented in economic history. With "vigorous investment demand, massive capital inflow and rapid export expansion" (OECD, 2008: 4), China demonstrated a relative stability in face of the 2008 financial crisis and its fuller integration in the international political order has been raising numerous challenges for the rest of the world. In comparison with international political economy in the Anglosphere, the ideational patterns behind Chinese international political economy are strictly connected with the role of the political power[140]. CCP has a strong role in determining the

[138] i.e. see Cingolani, 2013

[139] In Carney's view in fact it should be associated with the State Motivation to intervene which instead is strictly connected with the regime survival and the perception of crowding-out and liberalization risks.

[140] For further understanding of Chinese IPE see Chin, Pearson and Yong, 2013.

parameters of economic policy discussion. It is the main source "where the correct ideas come from" (Fewsmith, 2003). The proper implementation of industrial, financial, fiscal, labour-market policies demands important government and bureaucratic capabilities, good coordination and coherence among state organizations (Rueschemeyer and Evans, 1995). The scholarly debate on state capacity agree that it is "a multidimensional object that accumulates slowly over time" (Scartascini, Stein, Tommasi, 2008). China's state capacity is here explored through an extensive analysis of policy evolution on OFDIs, which hides skills in government machinery and strategic planning capabilities, so that it can be considered a proxy of the government capacity to implement the industrial development strategy. Each policy stage is then matched with OFDIs data to provide a dimension of the effectiveness, the "evidence of delivery". In the evolution of China's trade and investments it is possible to detect four landmark events: the "Open door" policy in 1979, Deng's South Journey in 1992, the 2001 WTO accession and the "Made in China 2025", initially approved by China's State Council in 2015. China's evolving regulatory framework, "from restricting, to facilitating, to supporting, to encouraging OFDIs", reflected two main objectives: "to help Chinese firms become more competitive internationally and to assist the country in its development effort" (Sauvant and Chen, 2013: 1).

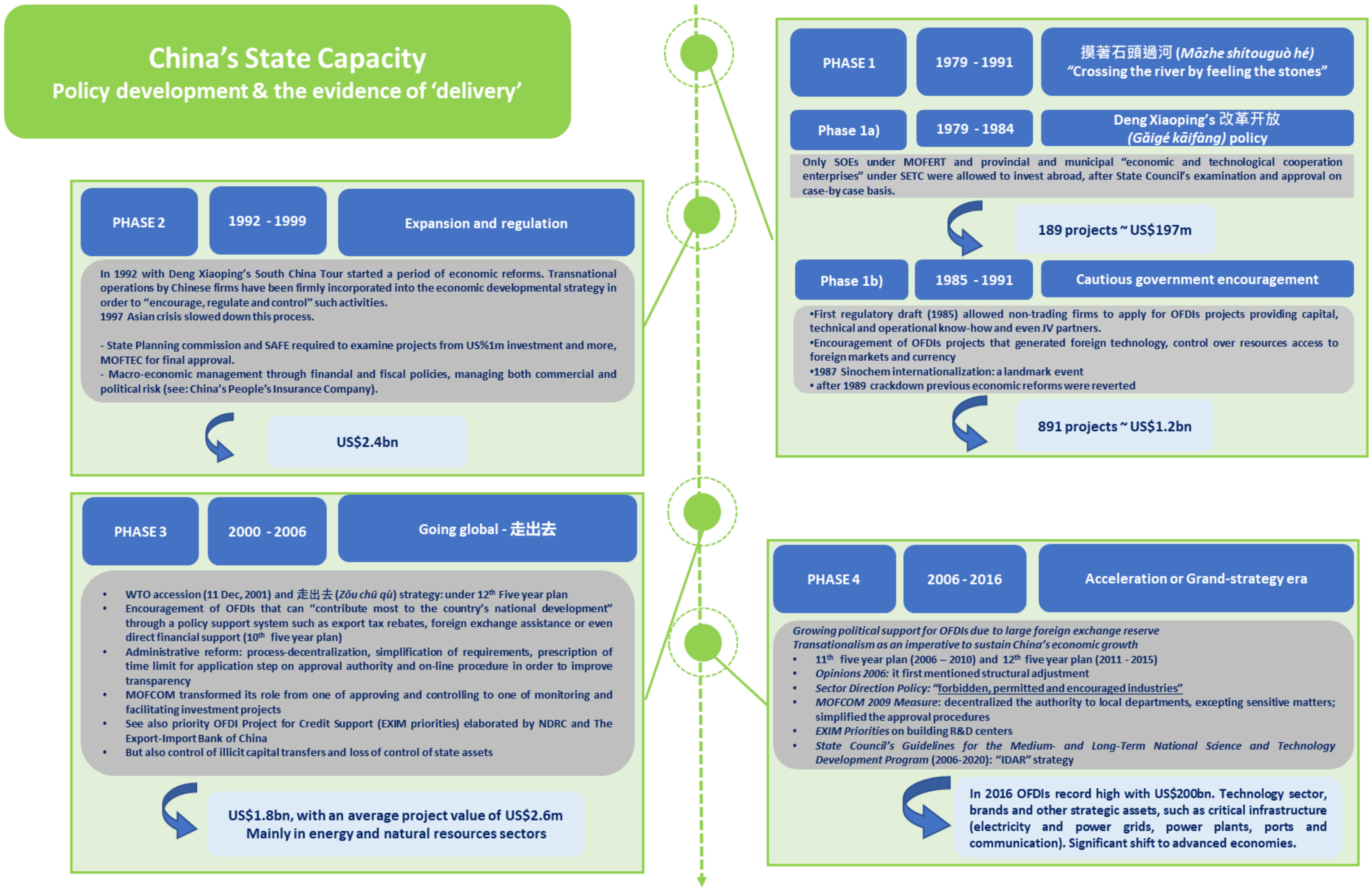

Figure 3.4. China's State Capacity: policy development and the evidence of "delivery"

3.5.1 The first stage: 摸著石頭過河 (*Mōzhe shítouguò hé*) "Crossing the river by feeling the stones"[141] (from 1979 to 1991)

Given China's isolation from the international economic system up to the 1970s, the first stage of policy development towards OFDIs is usually considered as starting in 1979. In fact, China at the time was regarded as a model of autarky, whose exclusion from the world economy was considered absolute, since mainland China was excluded from all international organisations and not being allowed to use US dollars in settling its international accounts. ″No foreign capital was allowed to participate in the Chinese economy, and information of the international market was prevented from interacting with Chinese production. While foreign investment was strictly forbidden and foreign borrowing kept at a minimum, China's limited imports and exports were the only tenuous link between China and the world economy" (Zhang, 2003: 16). However, this was not uncompromising and further studies revealed to be a simplification of a more complex reality. In fact, even before 1978, some Chinese companies had been involved in transnational business and operations. "From the 1950s to the 1970s, China had set up some joint ventures or wholly-owned firms engaged in ocean shipping, financial service and trading in foreign countries" (Shi et al. 1989: 450, cited in Zhang, 2003: 83), such as the Chinese-Polish Stock Shipping Company known as CHIPOLBROK, or China Resources Co. Ltd in 1950, the Hua Chiao Commercial Bank and the Po Sang Bank Ltd. Moreover, the Chinese government "ran extensive foreign aid programmes in Third World and socialist countries, particularly in Asia and Africa. More than seventy countries received Chinese aid" (Zhang, 2003: 83). Even if these projects are usually considered international cooperation projects under aid programs and not transnational commercial operations, they are important to mention because, especially in engineering and construction services, they created an "ownership advantage", that would prove to be important in their "transnationalisation later" (Zhang, 2003: 84). Nonetheless, accepting this simplification, it is commonly considered that policy innovation promoting OFDIs started in 1979. This first stage, which lasted until 1991, can be better explained if it is divided in two sub-periods: 1979-1984 and 1985 to 1991.

- ***<u>From 1979 to 1984</u>***

After three decades of ideological and political isolation and economic insulation, the attitude towards outward direct investments started to change with the Deng Xiaoping's 改革开放 *(Gǎigé*

[141] The expression 摸著石頭過河 (*Mōzhe shítouguò hé)* was frequently used by both Deng and his rival Chen Yun throughout the 1980s.

kāifâng) policy in 1979, when Chinese state-owned enterprises started to set up their first international operations. **"**On 13 August 1979, the State Council issued a circular on fifteen measures of economic reform, the thirteenth of which specifically and explicitly stated that Chinese firms should be encouraged 'to set up Chinese enterprises overseas' (*chuguo ban qiye*)" (Zhang, 2003: 90). While the political debate was mainly concentrated on the inward attraction of investments, what is important to note is that "the government already considered outward investment as part of its economic reform package and that this announcement laid down an important principle from which a series of government policies were to evolve" (Zhang, 2003: 90). An important policy measure introduced in this period which indirectly promoted transnational operations of firms beyond the Chinese borders, was the establishment of special economic zones (SEZs). "SEZs were perceived as 'windows and radiators' (Ge, 1999) of economic reforms of China. As 'window' to the outside world, they were expected to disseminate the dimensions of world market and to promote technology transfer whereas as 'radiators' they were aimed at establishing linkages between SEZs and other sectors in the country" (Tantri, 2012: 233). This unusual decentralisation of economic-decision making facilitated the early expansion of firms located in SEZs beyond Chinese borders, taking advantage of geographic or historical connections.

From a regulatory standpoint, the "State Council was the only authority to examine and approve overseas investments, irrespective of investment size" (Buckley et al., 2018: 723). At the time, OFDI projects were restricted to specially designated trade corporations. In fact, only two kinds of companies were allowed to invest abroad: the state-owned trading corporations under MOFERT (later MOFCOM or the Ministry of Commerce) and provincial and municipal "economic and technological cooperation enterprises" under the State Economic and Trade Commission (now part of the National Development and Reform Commission [NDRC]). Outbound investments were mostly one-off, and relatively small, being the government more disposed on attracting inward FDIs. Guo reported that such projects had to fall into one of the following four categories: "(i) securing access to domestically scarce natural resources", (ii)" accessing and transferring technology to China", (iii) "enhancing export possibilities for Chinese companies", and (iv) "augmenting managerial skills through 'on-the-job training'" (Guo, 1984). They mostly were investments in kind (know-how and physical assets) to avoid excessive capital outflows" (Buckley, et al., 2008: 723). During this period, "189 projects were approved, amounting to around US$197m in value" (Buckley, 2010: 89). "Most of these investments were in forms of joint ventures and were located in developing countries. Few of the Chinese overseas enterprises were concerned with manufacturing activities. They were mainly in catering, engineering, finance and insurance and consultancy" (Tseng and Mak, 1996: 145- 146 cited in Tan, 1999: 18).

- ***<u>From 1985 to 1991</u>***

The second sub-period of policy development towards OFDIs, from 1985 to 1991, has been called a phase of cautious "government encouragement", due to the mixed policy *milieu* set up by the Chinese government to respond to changes and transformations both in domestic economic conditions and in the international context. In this period, the approved foreign investment projects increased and the approval was granted to "891 projects, totalling some US$1.2bn" (Buckley, 2010: 89). To understand the internationalisation of Chinese firms in this period, it is important to recall both international constraints and opportunities. On the one hand, the government policy was affected by international economic sanctions imposed on China after the happenings of 1989. On the other hand, it was affected by the acceleration of economic globalisation starting at that time and largel due to the technological revolution. The first regulatory framework for OFDIs was drafted in 1984-85, allowing companies other than trading firms to apply for OFDI projects (Garcia-Herrero, Xia and Casanova, 2015). The government liberalised restrictive policies, allowing more enterprises to establish foreign affiliates. These were projects that generated foreign technology or control over primary resources, or access to foreign markets and foreign currency. The government promoted OFDIs providing "capital, technical and operational know-how and a suitable joint venture partner" (Buckley, 2010: 89).

"Approval by the State Council in December 1987 of Sinochem's application to internationalise its operations is symbolically the starting point of the second decade of the transnationalisation of Chinese firms" (Zhang, 2003: 95). The beginning of this period was characterized by twelve months (mid-1987 to mid-1988) of hyperinflation, which reached 30 per cent. This required a rectification program to control it and to stabilise the economy. The political repercussions of the austerity are well known and after the 1989 crackdown, the government tightening political control and recentralising part of its economic functions. "Internationally, because of the sanctions imposed on China in the wake of June 1989, China suddenly disappeared from the global bond market" (Zhang, 2003: 95). Previous economic reforms were reverted and the governments cost-cut many transnational operations, suspending approval of investments overseas and restructuring some investment companies "as it believed that credit creation by some irresponsible ITICs was partly responsible for the rising inflation" (Zhang, 2003: 95).

In the aftermath of Tienanmen massacre, "China's real GDP growth rate fell from 11.3% in 1988 to 4.1% in 1989 and declined to 3.8% in 1990" (Morrison, 2018: 5). As pointed out by Lardy in 1992, trade reforms "by no means floundered" after 1989 (Lardy, 1992). Nonetheless, "a new way of lively

and vigorous discussions and debates" on overseas investments, involving "high-ranking government officials, top management of Chinese firms and senior economists" took place from late 1989 to 1992, just when economic and political sanctions imposed by the West affected China mostly (Zhang, 2003: 67). When these discussions took places out of Beijing, "participants could speak more freely, and the political atmosphere was less restrictive for discussions and debates on issues for which the government was yet to pronounce clear policies" (Zhang, 2003: 67). From these discussion papers it clearly emerged that in this first decade, "local authorities had already built up a substantial stake in overseas investments". Shandong Province, for example, invested $17 million to establish 47 trade- and non-trade-related ventures and subsidiaries overseas; Shanghai 201 overseas ventures and subsidiaries with a total contract investment from Shanghai standing at $41.36 million by the end of 1991, while "Guangzhou accumulated a total of over $30 million in overseas investment" (Zhang, 2003: 67).
To conclude, "the 1985 directive resulted in enhanced Chinese investments overseas so that by the end of 1990, there were a total of 801 Chinese - invested enterprises in the world, involving about US$ 1.2 billion of Chinese capital. This meant an additional 616 enterprises in 1986 - 1990, more than 3 times the number in 1979-1985" (Tan, 1999: 19). However rudimental the policies introduced in the 1980s were, they played an important role in promoting the growth of Chinese multinationals.

3.5.2 Second stage: Expansion and regulation (from 1992 to 1998)

In 1992 with Deng Xiaoping's South China Tour, a period of "expansion and regulation" started (Buckley, 2010: 504). Deng visited several zones which were booming: Wuchang, Shenzhen, Zhuhai and Shanghai, and in a way, this signalled a change of policy. Asking why the rest of China should not emulate this success by ending many of the restrictions that foreign investors faced, Deng delivered a series of speeches which played a crucial role in guiding and accelerating China's reform and opening-up as well as the socialist modernization process. "The Fourteenth CCP Congress in 1992 gave further momentum to these discussions and debates by explicitly affirming an official policy of encouraging Chinese firms to invest abroad as part of China's overall strategy of opening itself up to the world economy. Transnational operations by Chinese firms have since been firmly incorporated into the economic developmental strategy" (Zhang, 2003: 66, 67). This new wind behind the transnationalisation of Chinese firms, brought by Deng's relaunch of economic reform of 1992, was characterised by the reduction of import tariffs accompanied by a strong devaluation of Renminbi (RMB), the foreign exchange retention system and the start of financial reforms (Lardy 1992, 1998). Chen Yangyong pointed out this transnationalism, which can be considered the earliest indication of the forecoming going global strategy, was expressed in a speech formulated to the 14th

Party Congress by Jiang Zemin, who proposed to "积极开拓国际市场" *(Jījí kāità guójì shìchǎng)* "actively promote the international market", "促进对外贸易多元化" (*cùjìn duìwài màoyì duōyuán huà)* "promote the diversification of foreign trade", "发展外向型经济", (*fāzhǎn wàixiàng xíng jīngjì*), "develop an export-oriented economy", "积极扩大我国企业的对外投资和跨国经营" *(Jījí kuòdà wǒguó qǐyè de duìwài tóuzī hé kuàguó jīngyíng)* "proactively expand the Chinese enterprises' outward investments and transnational operations" and "更多地利用国外资源和引进先进技术" *(Gèng duō dì lìyòng guówài zīyuán hé yǐnjìn xiānjìn jìshù"*) "use more foreign resources and import advanced technology". Moreover, some of the core concepts of the going global strategy are already expressed: "对外贸易多元" (*duìwài màoyì duōyuán huà*) "diversification of foreign trade", "跨国经营" (*Kuàguó jīngyíng*) "transnational operations", "开拓国际市场" (*Kāità guójì shìchǎng*) "exploiting international markets" and "利用国外资源" (*Lìyòng guówài zīyuán*) "use of foreign resources"[142],[143].

From a regulatory standpoint, as noted by Zhang, "it is clear that the principal purposes for the regulatory framework for China's outward investment in the 1990s remain little changed. They are to encourage, regulate and control such activities. Appreciable changes in the regulatory framework itself are best seen in terms of its formalisation and institutionalisation. Even towards the end of the 1990s, the Chinese government did not seem to have a "well-coordinated policy package" (Zhang, 2003: 75). Modifications of China's policy can be found in several documents released by the State Council and MOFTEC. For example, State Council document n. 13 of 1991 provided that MOFERT and the State Planning Commission could approve projects up to $30 million, up from $10million, and established a new threshold for borrowings from state-owned banks for outward investment projects; or the Regulations for approval and control of Non-Trade Related Overseas Investment by Chinese Enterprise, promulgated by MOFERT. Another important document is State Council document no. 33 of 1992 on Chinese firms investing in neighbouring countries and providing that in case of investments in kind such as capital equipment they would not need any approval by the government. Other sets of policies were pronounced by SAFE, which was in charge not only for making policies but also for implementing them. On this regard, it is important to cite two documents: "境外投资外汇管理办法" *(Jìngwài tóuzī wàihuì guǎnlǐ bànfǎ) - "Regulations on Foreign*

[142] See: Chen Yangyong, "The Forming of Jiang Zemin's 'Going Out' Strategy and Its Importance", [江泽民"走出去"战略的形成及其重要意义], Website of People's Daily, November 10, 2008, http://theory.people.com.cn/GB/40557/138172/138202/8311431.html, cited in Shambaugh, 2013: 138.

[143] The instrumental role played by Jian Zemin was also clear the later speech in 2002 to the 16th Party Congress where he coupled it with a call to 引进来, 走出去 (*Yǐnjìn lái, zǒu chūqù* - bring [investment] in and go out") and "鼓励能够发挥我国比较优势的对外投资。更好地利用国内国外两个市场、两种资源"(*Gǔlì nénggòu fāhuī wǒguó bǐjiào yōushì de duìwài tóuzī. Gèng hǎo dì lìyòng guónèi guówài liǎng gè shìchǎng, liǎng zhǒng zīyuán*) "Encourage outward investments that can leverage China's comparative advantages. Make better use of both domestic and foreign markets and two kinds of resources. (domestic and foreign)". Moreover, on the transnationalisation of Chinese companies Jian briefly alluded: "We should form large internationally competitive companies and enterprise groups through market forces and policy guidance".

Exchange for Overseas Investments" - and the "境外投资外汇管理办法实施细则" *(Jìng wài tóuzī wàihuì guǎnlǐ bànfǎ shíshī xìzé) – "Implementation of regulations on the Foreign Exchange for Overseas Investment – Administrative Procedures".* These regulations were firstly aimed to control the export of capital and profits earned by foreign subsidiaries through the approval of SAFE and foreign exchange control authorities and secondly to control the "remission back to China of profits made by foreign subsidiaries"[144]. Moreover, from a regulatory standpoint, OFDIs were not regulated through a formal law, but with "about ten provisional regulations and administrative procedures" […] However, "no systemic efforts have been made by Chinese government to construct new policy regimes for outward investment in the 1990s in its bid for WTO membership" (Zhang, 2003: 75).

In the view of the forthcoming accession to the WTO, which anyway had demanded a policy convergence with other advanced economies, the Chinese national government sought to "supply the preconditions for successful outward FDI and the concomitant globalisation process". It did so "through government macroeconomic policies and initiatives", through "financial and fiscal policies and managing both commercial and political risk" (Taylor, 2002: 222). In fact, in order to support this process of internationalisation, the Chinese government signed a number of bilateral and multilateral treaties both on investor protection and on double taxation[145]. While it is clear that they were signed to promote China as a host country, the scholarly debate has not looked much into how these agreements have been beneficial for China's ODIs. At the same time, "China's People's Insurance Company, subject to official guidance", was responsible "for matters arising from commercial or capital hazard while government organs evaluate political risk" (Taylor, 2002: 222). Moreover, "the role of government is paramount in the gathering of intelligence concerning commercial investment opportunities" (Taylor, 2002: 222). Along this process, national and "subnational-level authorities actively promoted the international business activities of enterprises under their supervision, especially in Hong Kong to engage in real estate and stock market speculation" (Buckley, 2007: 504). According to Cheung and Qian, outward investments reported substantial losses, because of the lack of "investment know-how, ignorance about the rule of law in overseas markets, and corruption" (Cheung and Qian, 2009: 314). At the end of 1997, the stock of OFDI amounted to US$2.4bn" (Cheung and Qian, 2009: 314). As a consequence of the liberalization reform, this period witnessed an upsurge of OFDI activity, which was suddenly slowed down by the Asian financial crisis in 1997, with the collapse of many enterprises. This increased concerns

[144] As Zhang noted "To guarantee this, 5 per cent of the original investment from the parent company is to be held by the bank until profit remission from the overseas subsidiary is fulfilled. A heavy penalty is also stipulated for the parent company in China if its subsidiaries do not remit their profits in violation of the regulations above" (Zhang, 2003: 74).

[145] "From 1982 to 1992, bilateral investment protections agreements with 54 countries were signed, and agreements on double taxation with 35" (Yueshang et al., 1993: 30, cited in Zhang, 2003: 75).

about "loss of control over state assets, capital flight and 'leakage' of foreign exchange" (Buckley, 2007: 504). Therefore, the government backtracked, binding approval procedures. "Alarmed by the haemorrhage of precious foreign exchange assets, China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) tightened approval procedures, setting up rigorous screening and monitoring processes for any overseas venture of over $1 million" (Wong and Chan, 2003:5). In spite of this stepping back strategy, which provided the recentralization of foreign exchange acquisition, because of the heavy losses in speculative transactions, OFDI activities "still increased $1.2 billion in total investment" (Wong and Chan, 2003: 5).

3.5.3 Third stage: Going global - 走出去 (*Zǒu chū qù*) (from 1999 to 2006)

The third stage, 1999-2006, was characterized by the implementation of the 10th Five-Year plan, which outlined the "going global strategy" or 走出去 (*Zǒu chū qù*) directive.

This period however started with "contradictory policies". On the one hand, it was characterized by measures to control illicit capital transfers and control over OFDIs towards productive purposes (Buckley et al., 2008: 273). On the other, it actively encouraged OFDIs in specific industries with export tax rebates, foreign exchange assistance or even direct financial support. According to Cheung and Qian, with the 1999 directive China adjusted its OFDI strategy, encouraging direct investments which promoted "China's exports via 'processing trade' investment" […] "the directive signified an important shift of China's policy: from promoting overseas investment to directing ODIs" (Cheung and Qian, 2009: 314). From 1999 to 2001, "ODIs approved rose by US$1.8bn, with an average project value of US$2.6m" (Buckley, 2007: 504). The implementation of the going global strategy became preeminent in 2001, after the WTO accession. "The 10th Five Year Plan (2001-2005) listed ODIs by Chinese enterprises as one of the four key thrusts to enable the Chinese economy to "adjust itself to the globalisation trend"" (OECD, 2008: 83). From the economic standpoint, "heightened domestic competitive pressures, owing to the opening of once protected industries and markets to foreign and domestic competitors, forced some Chinese firms to seek new markets abroad" (Buckley, 2007: 504). The Chinese government in the 11th five-year plan stressed again the importance of 走出去 directive, not only sustaining the on-going economic reform process, but also promoting Chinese global industry champions. The overall Chinese regulatory framework for OFDIs during this period was clearly twofold: To "nurture globally competitive Chinese firms", and to "encourage OFDI that can contribute most to the country's national development" (Sauvant and Chen, 2013: 2). The first objective is the "result of an interplay of two factors". The first factor "is the government's desire to have internationally competitive firms whose portfolio of locational assets provide better access to markets and resources (natural, strategic and other resources) and which itself becomes a source of corporate competitiveness". The second one, "is the pressure on government by firms that seek to internationalize in response to domestic and international competition" (Sauvant and Chen, 2013: 2). The second objective is the fact that "the institutional framework for OFDI especially seeks to encourage OFDI that can contribute most to the country's national development […] selectively supporting particular industries and activities in their internationalization through FDI" (Sauvant and Chen, 2013: 3)[146]. This consolidated strategy was also clear in many high-level diplomatic missions abroad, as diplomats started to accompany Chinese business delegations and assist them in procurement contracts, construction deals or natural resources exploration rights[147]. "On July 16, 2004, the authorities made another change in their ODI policy stance: in addition to processing applications, they supervise and provide services" (Cheung and Qian, 2009: 314). MOFCOM, jointly with the Ministry of Foreign Affairs, released the first *Guidelines for Investments in Overseas Countries' Industries*: A catalogue list of recommended industry sectors for China's OFDI for each of 68 host destinations. MOFCOM presented this list as a way to assist Chinese enterprises in identifying promising industry sectors in each host country, and not as an imposition of sectoral allocation on outward investments. Even if the government intention was "to transform its role from one of approving and controlling to one of monitoring and facilitating investment projects", this list was used as a basis for MOFCOM to approve and administer outward projects (OECD, 2008: 85). An important document that elaborates the direction of Chinese OFDIs

[146] These two main objectives were clearly formulated in the *10th Five Year Plan on Inward and Outward FDI* and articulated in four thrusts of new levels of openings, one of which is the promotion of investments beyond Chinese borders.

"一要抓紧做好加入世贸组织的准备和过渡期的各项工作。"*(Yī yào zhuājǐn zuò hǎo jiārù shìmào zǔzhī de zhǔnbèi hé guòdù qí de gè xiàng gōngzuò).* "First, we must pay close attention to the preparations for the WTO and various tasks in the transitional period".

"二要进一步发展进出口贸易。" *(Èr yào jìnyībù fāzhǎn jìn chūkǒu màoyì).* "Second, we must further develop import and export trade".

"三要努力提高利用外资水平。" *(Sān yào nǔlì tígāo lìyòng wàizī shuǐpíng).* "Third, we must strive to improve the use of foreign capital".

"四要实施"走出去"战略。鼓励有比较优势的企业到境外投资，开展加工贸易，合作开发资源，发展国际工程承包，扩大劳务出口等。建立和完善政策支持体系，为企业到境外投资兴业创造条件。同时要加强监管，防止国有资产流失。"*(Sì yào shíshī "zǒu chūqù" zhànlüè. Gǔlì yǒu bǐjiào yōushì de qǐyè dào jìngwài tóuzī, kāizhǎn jiāgōng màoyì, hézuò kāifā zīyuán, fāzhǎn guójì gōngchéng chéngbāo, kuòdà láowù chūkǒu děng. Jiànlì hé wánshàn zhèngcè zhīchí tǐxì, wèi qǐyè dào jìngwài tóuzī xìngyè chuàngzào tiáojiàn. Tóngshí yào jiāqiáng jiānguǎn, fángzhǐ guóyǒu zīchǎn liúshī.)* "Fourth, we must implement the "go global" strategy. Encourage enterprises with comparative advantages to invest overseas, carry out processing trade, develop resources cooperatively, develop international project contracts, and expand labour exports. Establish and improve a policy support system to create conditions for companies to invest and start businesses overseas. At the same time, we must strengthen supervision to prevent the loss of state-owned assets. (See: http://www.npc.gov.cn/wxzl/wxzl/2001-03/19/content_134506.htm).

[147] i.e. President Hu Jintao in his tour in November 2004 in Latin America signed 400 agreements and promised investment plan totalling USD 100 billion for the following 10 years (OECD, 2008: 84).

enhancing specific support activities is the *Priority OFDI Project for Credit Support* (*EXIM priorities*) elaborated by NDRC and The Export-Import Bank of China (2003, 2004)[148].

"国家发展改革委和中国进出口银行共同建立境外投资信贷支持机制。根据国家境外投资发展规划，中国进出口银行在每年的出口信贷计划中，专门安排一定规模的信贷资金 (以下称 "境外投资专项贷款") 用于支持国家鼓励的境外投资重点项目。境外投资专项贷款享受中国进出口银行出口信贷优惠利率。" *(Guójiā fāzhǎn gǎigé wěi hé zhōngguó jìn chūkǒu yínháng gòngtóng jiànlì jìngwài tóuzī xìndài zhīchí jīzhì. Gēnjù guójiā jìngwài tóuzī fāzhǎn guīhuà, zhōngguó jìn chūkǒu yínháng zài měinián de chūkǒu xìndài jìhuà zhōng, zhuānmén ānpái yīdìng guīmó de xìndài zījīn (yǐxià chēng "jìngwài tóuzī zhuānxiàng dàikuǎn") yòng yú zhīchí guójiā gǔlì de jìngwài tóuzī zhòngdiǎn xiàngmù. Jìngwài tóuzī zhuānxiàng dàikuǎn xiǎngshòu zhōngguó jìn chūkǒu yínháng chūkǒu xìndài yōuhuì lìlǜ).* "The National Development and Reform Commission and the China Export-Import Bank jointly established a foreign investment credit support mechanism. According to the overseas investment development plan of the country, China Export-Import Bank specifically arranges a certain amount of credit funds (hereinafter referred to as "special loans for overseas investment") in the annual export credit plan to support the key overseas investment projects encouraged by the state. The overseas investment special loan enjoys China Export-Import Bank's export credit preferential interest rate"[149].

Data on the average annual growth rate of China's OFDIs registered 116% for the period from 2000 to 2006 - particularly impressive compared with the average growth of 6% for the whole world for the same period. The graph below provided by OECD shows the Chinese outward direct investments flow from 1982 to 2006 (OECD, 2008: 69).

[148] Source: 关于对国家鼓励的境外投资重点项目给予信贷支持政策的通知 (发改外资[2004]2345 号）(Circular on Granting Credit Support Policies to Key Foreign Investment Projects Encouraged by the State (No. 2345 of Foreign Investment Development [2004]) Available on-line at: http://wzs.ndrc.gov.cn/zcfg/200804/t20080411_670936.html.

[149] More in particular, these special loans were mainly used to support the following overseas investment key projects:

"(一) 能弥补国内资源相对不足的境外资源开发类项目" (*yī - néng míbǔ guónèi zīyuán xiāngduì bùzú de jìngwài zīyuán kāifā lèi xiàngmù*) - (1) Offshore resource development projects that can make up for relatively insufficient domestic resources";

"(二) 能带动国内技术、产品、设备等出口和劳务输出的境外生产型项目和基础设施项目" *(èr - néng dàidòng guónèi jìshù, chǎnpǐn, shèbèi děng chūkǒu hé láowù shūchū de jìngwài shēngchǎn xíng xiàngmù hé jīchǔ shèshī xiàngmù)* - (2) Overseas production projects and infrastructure projects that can stimulate the export of domestic technology, products, equipment, and labor services";

"(三) 能利用国际先进技术、管理经验和专业人才的境外研发中心项目" *(sān - néng lìyòng guójì xiānjìn jìshù, guǎnlǐ jīngyàn hé zhuānyè réncái de jìngwài yánfā zhōngxīn xiàngmù)* - (3) Overseas R&D center projects that can use international advanced technology, management experience and professional talents";

"(四) 能提高企业国际竞争力、加快开拓国际市场的境外企业收购和兼并项目。" *(sì - néng tígāo qǐyè guójì jìngzhēng lì, jiākuài kāità guójì shìchǎng de jìngwài qǐyè shōugòu hé jiānbìng xiàngmù)* - (4) improve companies' international competitiveness and accelerate the development of overseas market acquisitions and mergers and acquisitions of foreign companies).

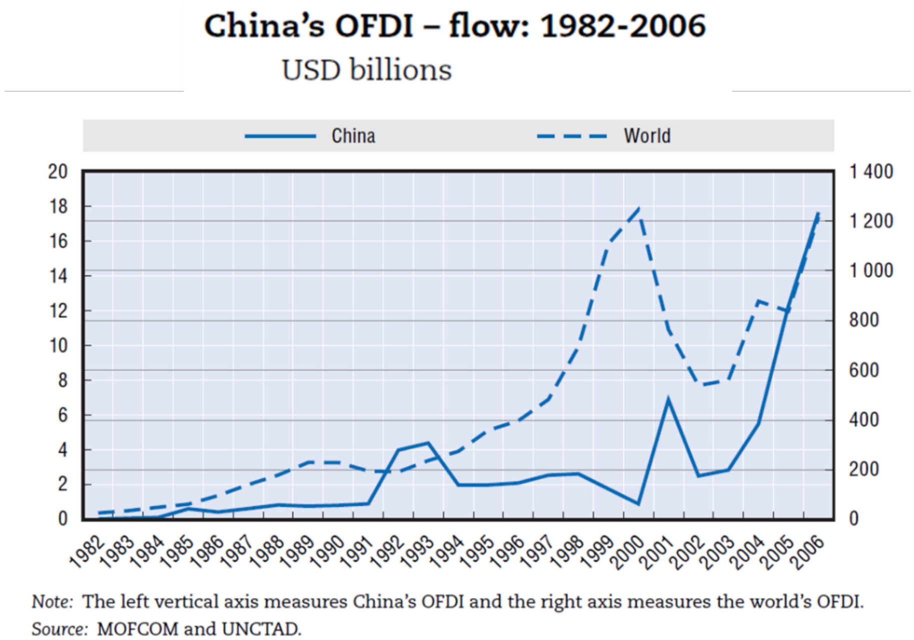

Figure 3.5 – China's OFDIs – flow 1982-2006 - Source: OECD, 2008

The increased impetus on OFDIs occurred thanks to two main government policy actions: on the one hand, streamlining approval procedures, on the other hand, relaxing foreign exchange controls in case of OFDIs. The administrative reform, aimed to promote OFDIs, foresaw the decentralisation of process, the simplification of requirements, the prescription of time limit for application step on approval authority and on-line procedure in order to improve transparency. Moreover, the government set a "step-by-step liberalisation" of the restrictions on the use of foreign exchange for OFDI purposes. In this way, according to the OECD, the government tried to "circumvent trade frictions as well as to mitigate revaluation pressure", which came from many foreign countries (OECD, 2008: 84).

3.5.4 Fourth stage: Acceleration or Grand-strategy era (from 2006 to 2016)

The fourth stage, started with the 11^{th} five-years plan (2006-2010) and accelerated the "go global" strategy. Despite the global financial crisis, a new regulatory framework was implemented in May 2009 in order to ease and decentralize approval procedures to support OFDIs. Under the 12^{th} five years plan (2011-2015) the government sped up the outbound expansion. In early 2011, new rules prompted both FDI outflows and RMB settlements. This period is characterized by new outbound policies inspired by a global strategy such as the "Belt and Road initiatives" with the specific aim to strengthen and sustain domestic national industry. Moreover, many SOEs suffering from domestic overcapacity were prodded to invest abroad and the government provided instrument for privileging access to foreign markets.

More in particular, from a regulatory standpoint, this period started with the "*Opinions on encouraging and Guiding Foreign Investment and Cooperation by Chinese Enterprises"* set out by the State Council (State Council, 2006). The "*2006 Opinions*" are considered "the most general and authoritative guiding policy on OFDIs" (Sauvant and Chen, 2013: 3) and basically elaborated once again the two objectives explicitly formulated in the "go out" strategy. It mainly outlined the China's OFDI strategy to "更好地利用国际国内两种资源、两个市场" *(Gèng hǎo dì lìyòng guójì guónèi liǎng zhǒng zīyuán, liǎng gè shìchǎng)* "more effectively utilize two type of resources and two markets (i.e., domestic and international)"; "推进经济结构"*(Tuījìn jīngjì jiégòu tiáozhěng)* "facilitate the structural adjustment of the economy"; "增强企业国际竞争力" *(Zēngqiáng qǐyè guójì jìngzhēng lì)* "enhance the international competitiveness of Chinese firms"; 促进国际交流合作、共同发展" *(Cùjìn guójì jiāoliú hézuò, gòngtóng fāzhǎn)* "promote cooperation with OFDI partner countries and promote the development of China and that of the partner countries" (Sauvant and Chen, 2013: 4 and State Council, 2006) .

Among the numerous subsequent policy documents, which were elaborated on OFDIs after the formulation going global strategy, the *2006 Opinions* are considered a milestone because this document firstly "mentioned structural adjustment, which is an extension of domestic economic development *via* OFDIs" (Sauvant and Chen, 2013: 4). Another key document, promulgated earlier in the same year, is the *Outward Investment Sector Direction Policy* – hereafter *Sector Direction Policy*, was formulated based on China's national economic and social development plan and according to the requirements of investment system reform and industry policy, in order to accelerate the implementation of the "Going Global" strategy, to "推动境外投资有效、有序、协调、健康发展"*(tuīdòng jìngwài tóuzī yǒuxiào, yǒu xù, xiétiáo, jiànkāng fāzhǎn)* - promote effective, orderly, coordinated and healthy development of outward investment, "指导境外投资方向" *(zhǐdǎo jìngwài tóuzī fāngxiàng)* to provide guidance on the direction of outward investment "根据我国国民经济和社会发展规划" *(gēnjù wǒguó guómín jīngjì hé shèhuì fāzhǎn guīhuà)* according to China's national economic and social development plan, "按照投资体制改革和产业政策的要求" (*ànzhào tóuzī tǐzhì gǎigé hé chǎnyè zhèngcè de yāoqiú)* in accordance with the requirements of investment system reform and industrial policy, "特制定境外投资产业指导政策" *(tè zhìdìng jìngwài tóuzī chǎnyè zhǐdǎo zhèngcè*) "formulate overseas investment industry guidance policies" (NDRC et al., 2006: article 1). The norm divided industries in three categories: Forbidden, permitted and encouraged[150] (NDRC et al., 2006: article 6[151] and 7)[152]. For the encouraged outward investment projects, the "state shall provide policy support in macroeconomic control, multilateral and bilateral economic and trade policy, diplomacy, finance, taxation and foreign exchange, customs, resources and information, credit and loan, insurance, and bilateral and multilateral cooperation and foreign affairs, etc".

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150 For the full catalogue of Encouraged and Prohibited Outward Investments see the Appendix of the *Sector Direction Policy*, available in Mandarin Chinese at: http://www.zjkjt.gov.cn/news/node03/detail0303/2007/0303_10785.htm

151 ***Article 6***: 属于下列情形之一的，列为鼓励类境外投资项目 *(Shǔyú xiàliè qíngxíng zhī yī de, liè wèi gǔlì lèi jìngwài tóuzī xiàngmù)*：An outward investment project that meets one of the following is encouraged:

(I) 能够获得国内短缺以及国民经济发展所急需的资源或原材料 *(nénggòu huòdé guónèi duǎnquē yǐjí guómín jīngjì fāzhǎn suǒ jíxū de zīyuán huò yuáncáiliào)* Can acquire resources or raw materials for which there is a domestic shortage and an urgent need for the national economic development;

(II) 能够带动国内具有比较优势的产品、设备和技术等出口和劳务输出 *(nénggòu dàidòng guónèi jùyǒu bǐjiào yōushì de chǎnpǐn, shèbèi hé jìshù děng chūkǒu hé láowù shūchū)*; Can promote the export of domestic products, equipment and technologies with competitive advantages, as well as the export of labour service.

(III) 能够明显提高我国技术研究开发能力，以及能够利用国际领先技术、先进管理经验和专业人才 。*(Nénggòu míngxiǎn tígāo wǒguójìshù yánjiū kāifā nénglì, yǐjí nénggòu lìyòng guó jì lǐngxiān jìshù, xiānjìn guǎnlǐ jīngyàn hé zhuānyè réncái)* Can significantly improve China's capacity in technology, research, and development, and can utilize global cutting-edge technologies, advanced management expertise, and professionals.

152 ***Article 7*** 属于下列情形之一的，列为禁止类境外投资项目 *(Shǔyú xiàliè qíngxíng zhī yī de, liè wèi jìnzhǐ lèi jìngwài tóuzī xiàngmù)* An outward investment project that meets one of the following is prohibited:

(I) 危害国家安全和损害社会公共利益的 (*Wéihài guójiā ānquán hé sǔnhài shèhuì gōnggòng lìyì de)* Endangers national security and hurts public interests;

(II) 运用我国禁止出口的特有工艺或者技术的 *(Yùnyòng wǒguó jìnzhǐ chūkǒu de tèyǒu gōngyì huòzhě jìshù de)* Utilizes techniques or technologies that are prohibited by China from exportation;

(III) 我国法律禁止经营的领域 *(Wǒguó fǎlǜ jìnzhǐ jīngyíng de lǐngyù)* Areas of operation prohibited by Chinese law;

(IV) 投资对象国或地区法律禁止投资地产业，我国缔结或参加的国际条约规定禁止投资的其他产业 *(tóuzī duìxiàng guó huò dìqū fǎlǜ jìnzhǐ tóuzī dì chǎnyè, wǒguó dìjié huò cānjiā de guójì tiáoyuē guīdìng jìnzhǐ tóuzī de qítā chǎnyè)*; Industries that are prohibited from receiving investment by the law of the hosting country, other industries prohibited by the international treaties that China has concluded or taken part in;

(V) 法律、行政法规规定的其他情形 *(Fǎlǜ, xíngzhèng fǎguī guīdìng de qítā qíngxíng)* "Other circumstances prohibited by law, administrative law, or regulation".

(NDRC et al., 2006: article 8), while for prohibited investment the state will prevent and stop such projects (NDRC et al., 2006: article 8) [153, 154].

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153 ***Article 8*** 对鼓励类境外投资项目，国家在宏观调控、多双边经贸政策、外交、财政、税收外汇、海关、资源信息、信贷、保险，以及双多边合作和外事工作等方面，给予相应政策支持。具体的支持政策措施细则由各相关部门根据职能制定和实施 *(Duì gǔlì lèi jìngwài tóuzī xiàngmù, guójiā zài hóngguān tiáokòng, duō shuāngbiān jīngmào zhèngcè, wàijiāo, cáizhèng, shuìshōu wàihuì, hǎiguān, zīyuán xìnxī, xìndài, bǎoxiǎn, yǐjí shuāng duōbiān hézuò hé wàishì gōngzuò děng fāngmiàn, jǐyǔ xiāngyìng zhèngcè zhīchí. Jùtǐ de zhīchí zhèngcè cuòshī xìzé yóu gè xiāngguān bùmén gēnjù zhínéng zhìdìng hé shíshī)* "For encouraged outward investment projects, the state shall provide policy support in macroeconomic control, multilateral and bilateral economic and trade policy, diplomacy, finance, taxation and foreign exchange, customs, resources and information, credit and loan, insurance, and bilateral and multilateral cooperation and foreign affairs, etc. Details of specific rules and regulations of supportive policy measures should be formulated and implemented by relevant agencies according to their functions".

(I) 在宏观调控、制订国内行业规划和产业政策、进行国内产业重组合和结构调整，以及国内配餐项目立项等方面给予优先考虑。*(Zài hóngguān tiáokòng, zhìdìng guónèi hángyè guīhuà hé chǎnyè zhèngcè, jìnxíng guónèi chǎnyè chóng zǔhé hé jiégòu tiáozhěng, yǐjí guónèi pèicān xiàngmù lìxiàng děng fāngmiàn jǐyǔ yōuxiān kǎolǜ)* "Priority should be given to encouraged outward investment projects in macroeconomic control, domestic industry plan and policy formulation, domestic industry reorganization and structural adjustment, and the initiation of relevant domestic projects".

(II) 在坚持市场经济原则和遵守WTO规划的前提下，对符合条件的项目，给予必要的费用补助，以及银行贷款财政贴息支持。*(Zài jiānchí shìchǎng jīngjì yuánzé hé zūnshǒu WTO guīhuà de qiántí xià, duì fúhé tiáojiàn de xiàngmù, jǐyǔ bìyào de fèiyòng bǔzhù, yǐjí yínháng dàikuǎn cáizhèng tiēxī zhīchí.)* "Under the condition of upholding market economy principles and conforming to WTO plans, necessary financial subsidies, as well as interest subsidies from the treasury on bank loans, shall be provided to projects that meet certain conditions".

(III) 在符合贷款条件的前提下，给予政策性银行的贷款支持。*(Zài fúhé dàikuǎn tiáojiàn de qiántí xià, jǐyǔ zhèngcè xìng yínháng de dàikuǎn zhīchí.)* "Loans from policy banks should be provided to support encouraged outward investment projects under the condition that such projects meet the requirements for loans".

(IV) 在境外投资项目核准和境外投资设立企业核准时予以优先支持。(*zài jìngwài tóuzī xiàngmù hézhǔn hé jìngwài tóuzī shèlì qǐyè hézhǔn shí yǔyǐ yōuxiān zhīchí*) "Priority should be given to encouraged outward investment projects in the examination and approval of outward investment projects and establishment of overseas enterprises with outward investment".

(V) 在用汇上给予重点支持。 (*zài yòng huì shàng jǐyǔ zhòngdiǎn zhīchí*). "Priority and support should be given to encouraged outward investment projects in the use of foreign exchange".

(VI) 以设备及零配件等实物投资出口的，按全国统一的出口退税政策给予退（免）税。*(yǐ shèbèi jí líng pèijiàn děng shíwù tóuzī chūkǒu de, àn quánguó tǒngyī de chūkǒu tuìshuì zhèngcè jǐyǔ tuì (miǎn) shuì)* For those who export equipment and parts etc. as physical goods investment, tax rebates (waivers) should be given according to the national universal export rebate policy.

(VII) 在境外融资、投资咨询、风险评估、风险控制和投资保险等方面优先提供服务 *(zài jìngwài róngzī, tóuzī zīxún, fēngxiǎn pínggū, fēngxiǎn kòngzhì hé tóuzī bǎoxiǎn děng fāngmiàn yōuxiān tígōng fúwù)*. "Priority should be given to encouraged outward investment projects in providing services in overseas financing, investment consulting, risk assessment, risk control, and investment insurance, etc".

(VIII) 在信息交流、领事保护、人员出入境、外派人员审批、进出口经营权登记服务和国内协调、对外联系等方面提供便利和协助。在政府及政府部门间的双多边合作机制下，予以重点推动和支持。(*zài xìnxī jiāoliú, lǐngshì bǎohù, rényuán chū rùjìng, wài pài rényuán shěnpī, jìn chūkǒu jīngyíng quán dēngjì fúwù hé guónèi xiétiáo, duìwài liánxì děng fāngmiàn tígōng biànlì hé xiézhù. Zài zhèngfǔ jí zhèngfǔ bùmén jiān de shuāng duōbiān hézuò jīzhì xià, yǔyǐ zhòngdiǎn tuīdòng hé zhīchí*) "Convenience and assistance should be provided to encouraged outward investment projects in information exchange, consular protection, customs exit and entry of personnel, expatriate personnel approval, registration and domestic coordination of import–export operation rights, international communication, etc. Priority should be given to encouraged outward investment projects to promote and support such projects under bilateral and multilateral cooperation mechanisms between governments and government agencies".

154 ***Article 9*** 对禁止类境外投资项目，国家不予核准并将采取措施予以制止；对允许类境外投资项目，国家原则上不给予第八条中所列前五项优惠政策支持。(*Duì jìnzhǐ lèi jìngwài tóuzī xiàngmù, guójiā bù yǔ hézhǔn bìng jiāng cǎiqǔ cuòshī yǔyǐ zhìzhǐ; duì yǔnxǔ lèi jìngwài tóuzī xiàngmù, guójiā yuánzé shàng bù jǐyǔ dì bā tiáo zhōng suǒ liè qián wǔ xiàng yōuhuì zhèngcè zhīchí.*) "For prohibited outward investment projects, the state does not grant approval and will take measures to prevent and stop such projects; for allowed outward investment projects, the state in principle does not grant the first five favourable policy support measures under Article 8".

From a regulatory side, another document defining the OFDI regulatory framework was the *Administrative Measure for Overseas Investments* (hereafter, *MOFCOM 2009 Measure*). It focused on core areas: It decentralized the authority to approve proposed foreign investments to local departments, excepting sensitive matters; simplified the approval procedure using only one application form and no-more than three days for approval; allowed investors to verify the feasibility of the projects and it gave the MOFCOM the role of negotiating bilateral and multilateral investment agreements. Moreover, it issued regulations in which Chinese investors operate in the host countries, providing companies investing overseas not only to comply with domestic and foreign laws, regulations and policies, or emergency procedures but also providing that "企业应当要求境外企业中方负责人当面或以信函、传真、电子邮件等书面方式及时向驻外使（领）馆（经商处室）报到登记"(*qǐyè yìng dāng yāoqiú jìngwài qǐyè zhōngfāng fùzé rén dāngmiàn huò yǐ xìnhán, chuánzhēn, diànzǐ yóujiàn děng shūmiàn fāngshì jíshí xiàng zhù wài shǐ (lǐng) guǎn (jīngshāng chù shì) bàodào dēngjì)* "the person-in-charge of the overseas Chinese company have to report in a timely manner to the embassy (consulate) (business office) in the form of letter, fax, email, etc. in writing" (MOFCOM 2009 Measure, 第二十四条 (Article 24)).

The 12th Five-Year Plan was important due to the 2012 political succession at the 18th Party Congress. It suggested the directions for OFDI support through two documents: the 12th Five-year Plan on Industrial Reform and Upgrading – hereafter the *12th Industrial Five-Year Plan* - (State Council, 2011) and the *12th Five-Year Plan on Inward and Outward FDI,* the *12th FDI Five-Year Plan* (NDRC, 2012).

The 12th Industrial Five-Year Plan laid out five priorities for industrial sectors with implications for OFDIs: (1) "鼓励国内技术成熟、国际市场需求大的行业，向境外转移部分生产能力"*(Gǔlì guónèi jìshù chéngshú, guójì shìchǎng xūqiú dà de hángyè, xiàng jìngwài zhuǎnyí bùfen shēngchǎn nénglì)* "the outsourcing of production to locations where domestic technologies are established and global demand is high"; (2) […] "支持国内优势企业开展国际化经营。完善工业园区管理体制，促进工业企业和项目向工业园区和产业集聚区集中" (*Zhīchí guónèi yōushì qǐyè kāizhǎn guójì huà jīngyíng. Wánshàn gōngyè yuánqū guǎnlǐ tǐzhì, cùjìn gōngyè qǐyè hé xiàngmù xiàng gōngyè yuánqū hé chǎnyè jíjù qū jízhōng*) "support domestic enterprises to carry out international operations. Improve the industrial park management system and promote the concentration of industrial enterprises and projects to industrial parks and industrial agglomerations"; (3) "鼓励有实力企业开展境外油气、铁矿、铀矿、铜矿、铝土矿等重要能源资源的开发与合作，建立长期稳定的多元化、多渠道资源安全供应体系。" *(Gǔlì yǒu shílì qǐyè kāizhǎn jìngwài yóuqì, tiě kuàng, yóu kuàng, tóng kuàng, lǚ tǔ kuàng děng zhòngyào néngyuán zīyuán de kāifā yǔ hézuò, jiànlì chángqí wěndìng de duōyuán huà, duō qúdào zīyuán ānquán gōngyìng tǐxì)* "Encourage powerful companies to develop international exploration and cooperation projects in important energy and natural resources such as oil and gas, iron ore, uranium, copper and aluminium, and the building of long-term, stable, safe, and diversified multi-channel supply systems for natural resources"; (4) "鼓励骨干企业建立海外研发基地，收购兼并海外科技企业和研发机构" *(Gǔlì gǔgàn qǐyè jiànlì hǎiwài yánfā jīdì, shōugòu jiānbìng hǎiwài kējì qǐyè hé yánfā jīgòu)* "the construction of R&D centers in technology-intense overseas locations and merger and acquisitions of foreign R&D institutions and innovative enterprises" and (5) "鼓励实力强、资本雄厚的大型企业开展成套工程项目承包、跨国并购、绿地投资和知识产权国际申请注册，建立境外营销网络和区域营销中心，在全球范围开展资源配置和价值链整合。" *(Gǔlì shílì qiáng, zīběn xiónghòu de dàxíng qǐyè kāizhǎn chéngtào gōngchéng xiàngmù chéngbāo, kuàguó bìnggòu, lǜdì tóuzī hé zhīshì chǎnquán guójì shēnqǐng zhùcè, jiànlì jìngwài yíngxiāo wǎngluò hé qūyù yíngxiāo zhōngxīn, zài quánqiú fànwéi kāizhǎn zīyuán pèizhì hé jiàzhí liàn zhěnghé)* "encouraging comprehensive engineering projects by capable and capital-rich big corporations; M&As and greenfield investments; the international registration of intellectual property rights; the establishment of global marketing and sales networks and regional sales centers; and global resource configuration and value-chain integration"[155].

The Five-Year Plan can be considered "a strategic blueprint issued by the Chinese government providing a closely followed framework of economic policies and priorities" and their implementation has proven "to be watershed events which have significantly altered the direction of China's economy" (Gang and Liping, 2013). The resulting OFDIs policy framework has been consistent with these five priorities and have emphasized the government's role in promoting OFDIs in three priority areas: "1) 投资境外能源和矿产资源开发项目，为国民经济发展提供长期、稳定、经济、安全的能源资源供给 *(Tóuzī jìngwài néngyuán hé kuàngchǎn zīyuán kāifā xiàngmù, wèi guómín jīngjì fāzhǎn tígōng cháng qī, wěndìng, jīngjì, ānquán de néngyuán zīyuán gōngjǐ)* "supporting the active participation of Chinese firms in natural resource projects overseas in order to secure the sustainable, stable, economic and safe supply of energy and natural resources"; 2) 加快实施境外技术提升战略 (*Jiākuài shíshī jìngwài jìshù tíshēng zhànlüè)* "accelerating the implementation of the strategy of technological upgrading overseas"; and 3) 大力实施境外市场开拓战略 *(Dàlì shíshī jìngwài shìchǎng kāità zhànlüè)* "effectively implementing the strategy of expansion onto foreign markets" (NDRC, 2012).

The document is particularly interesting because it "explicitly states the government's objective of enhancing the competitiveness and independence of Chinese outward investors, where "competitiveness encompasses the development of capabilities in R&D, marketing, logistics, brand

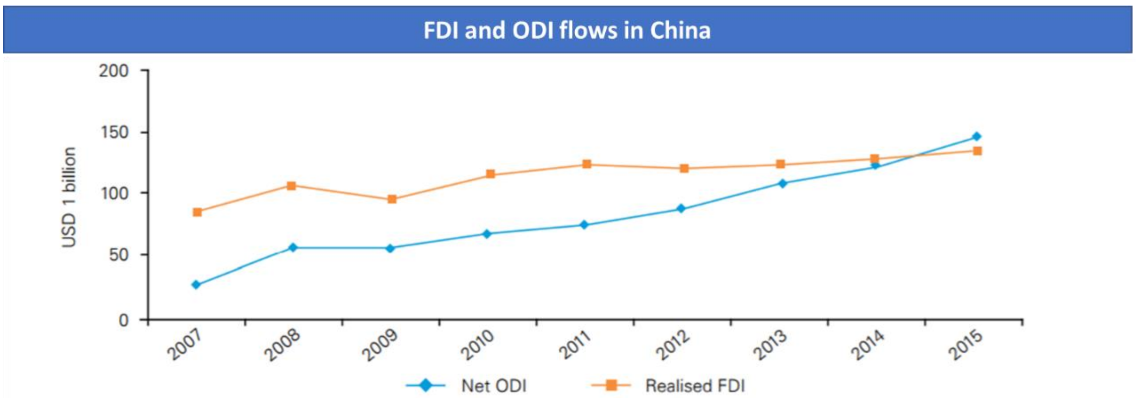
[155] For the full text in Mandarin Chinese see: www.gov.cn/zwgk/2012-01/18/content_2047619.htm

names, corporate social responsibility as well as governance and managerial know-how" (Sauvant and Chen, 2013: 4). Consistent with these documents are the policy that set priorities to specific industries and activities and simplify administrative burdens, such as EXIM Priorities on building R&D centres, on joint ventures with local partners such as 12th Industrial FY Plan and Sector Direction Policy. In practical terms, the government supports OFDIs through policy documents which change periodically, but basically refer to two types of financial support: "Support for costs", both in terms of "pre-investment expenses" or "operating costs", depending on the type of investment and "interest subsidies" on loans for enterprises (Freeman, 2008: 8). While a key incentive to attract inward investments have been tax incentives "this is not the case with outward investments" […] "in fact the Chinese tax authorities are more concerned about tax evasion by enterprises investing overseas than they are with providing incentives" (Freeman, 2008: 6).

Moreover, in the People's Republic of China State Council's Guidelines for the Medium- and Long-Term National Science and Technology Development Program (2006-2020) the Chinese leadership promotes the concept of "indigenous innovation". However, looking at the Chinese technological development strategy 引进 (*Yǐnjìn*)、消化 (*Xiāohuà*) 、吸收 (*Xīshōu*)、再创新 (*Zài chuàngxīn*) or "IDAR" (which stands for "introduce, digest, absorb and re-innovate") it is easy to understand how much of this strategy is made relying on foreign sources of technology and knowledge. Four steps compose the "absorptive capacity model": 1) "Acquisition, Introduction and Pre-Concept"; 2) "Assimilation, digestion, concept refinement"; 3) "Transformation-Absorption-Technology Development/Engineering and Manufacturing Development" and 4) "Exploitation/Ee-innovation/Production and Development"[156]. The first step – "acquisition and technology transfer" materializes in: "1) arms and technology imports; 2) foreign direct investment and direct (explicit technology transfer agreements) and indirect (transfer of governance and other types of less-tangible, soft skill sets) spillover effects; 3) espionage through traditional industrial and information era cyber operations; 4) open source information collection and analysis; 5) establishment of foreign R&D centers; and 6) human capital transfers and exchanges" (Cheung, 2014: 3). The "assimilation" materialized through the "S&T information analysis and dissemination apparatus", made of IAD systems which consists in "400 analysis and diffusion centres with around 50,000 personnel, according to a 2006 assessment" and it "belongs to the Ministry of Science and Technology, and the Electronics Science and Technology Intelligence Research Institute that is affiliated with the Ministry of Industry and Information Technology (MIIT) (Cheung, 2014: 3), but these centres belong both to central and local level (Lindsay et al., 2015: 72). Information that IAD

[156] http://www.most.gov.cn/ztzl/gjzctx/ptzcyjxh/200802/t20080225_59303.htm

organization analyze comes from media, social media, academia etc (Cheung, 2014: 3). The "digestion" then materializes in R&D centres, key state laboratories and high technology service centres to combine digested foreign and local technologies, also thanks to "the recruitment of foreign technical experts "through organizations such as the State Administration of Freign Expert Affairs" (Lindsay et al., 2015: 72). The "absorption" step is the mechanism of getting an "actual output", while the "re-innovation"refers more to "secondary innovation based on the introduction and absorption of technologies," which is an oblique reference to the strategy of combining and integrating advanced foreign technology with domestic capabilities" (Cheung, 2014: 4). From an institutional standpoint, a primary role in this stage is also played by China's Development Bank. In fact, not only does it operate domestically but it is also responsible for operations such as the "China-Africa Development Fund which was announced by the Chinese government in 2006 at the summit with Africa leaders in Beijing" (Freeman, 2008: 10). It also provides supports to major Chinese companies such as Petrochina, Sinopec, China Minmetals and CITIC Group outside China" (Freeman, 2008: 10). Like other actors (such as EXIM, China Development Bank) a key role for the implementation of the going global strategy is also played by the China Export and Credit Insurance Corporation (Sinosure), which not only provided short, medium and long-term export credit insurance but also an increasing amount of investment insurance. "While the leading four countries for short-term insurance were the United States, Hong Kong, Japan and Germany, those for medium and long-term insurance were Sudan, Pakistan, Iran and the Philippines" (Freeman, 2008: 10). The impact of this complete change in policy innovation over the last decades was remarkable. The graph below shows the dynamics of inbound and outbound investments flow from 2007 to 2015, when for the first time the latter outdid the first one.



Source: 2007-2014 data from the '2014 Statistical Bulletin of China's Outward Foreign Direct Investment' and CEIC Data; 2015 data from 'The press conference by the State Council Information Office to release "2015 Statistical Bulletin of China's Outward Foreign Direct Investment"', State Council Information Office, 22 September 2016, http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/33978/35181/wz35183/Document/1492016/1492016.htm

Figure 3.6 – China's inbound and outbound investments flow 2007-2015

China’s global outbound foreign direct investment (OFDI) soared to record levels in 2016, jumping to almost 200 billion US dollars [157].

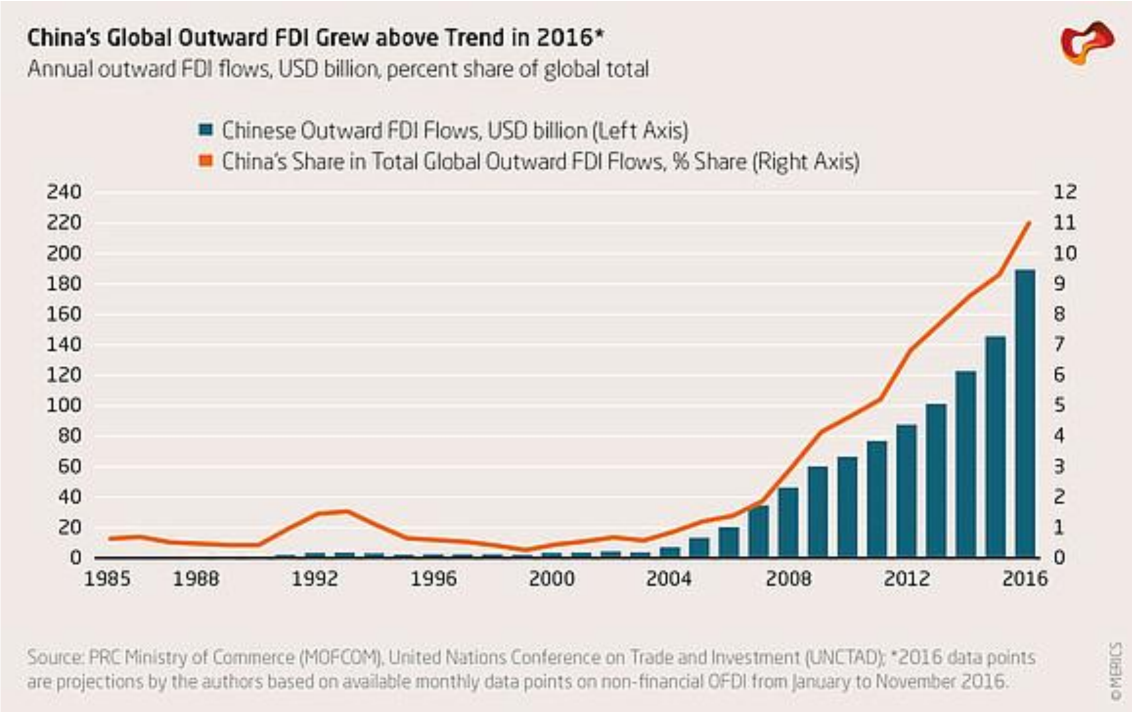


Figure 3.7 - Chinese global OFDIs’ growth – Source: Hanemann and Huotari, 2017

In the early 2000s, Chinese cross-border M&As were mainly focused on energy and natural resources, often involving Chinese SOEs investing in upstream oil fields, iron ore mines and copper mines. From 2000 to 2013, this kind of investments represented 67% of global M&A value. After 2014, though, the industry mix became more diversified. Outbound investments were focused on investments to optimize global value chains, upgrade of technology, innovation capacities, and consumer brands, following the Chinese government guidelines for encouraging the global competitiveness of Chinese firms and national development goals.

[157] According to the Chinese Department of Outward Investment and Economic Cooperation, Chinese investors in 2016 made OFDIs for US$170.11 billion, with an impressive increase of 44,1% in comparison with the previous year, for a total of 7,961 enterprises overseas over 164 countries. According to MOFCOM “The revenue of contracted projects overseas in 2016 totalled RMB1.05892 trillion (equivalent to US$159.42 billion, up 3.5% year on year) and the newly-signed contract value reached RMB1.62079 trillion (equivalent to US$244.01 billion, up 16.2% year on year). By the end of 2016, the number of laborers dispatched overseas amounted to 970,000, down 5.6% year on year”.

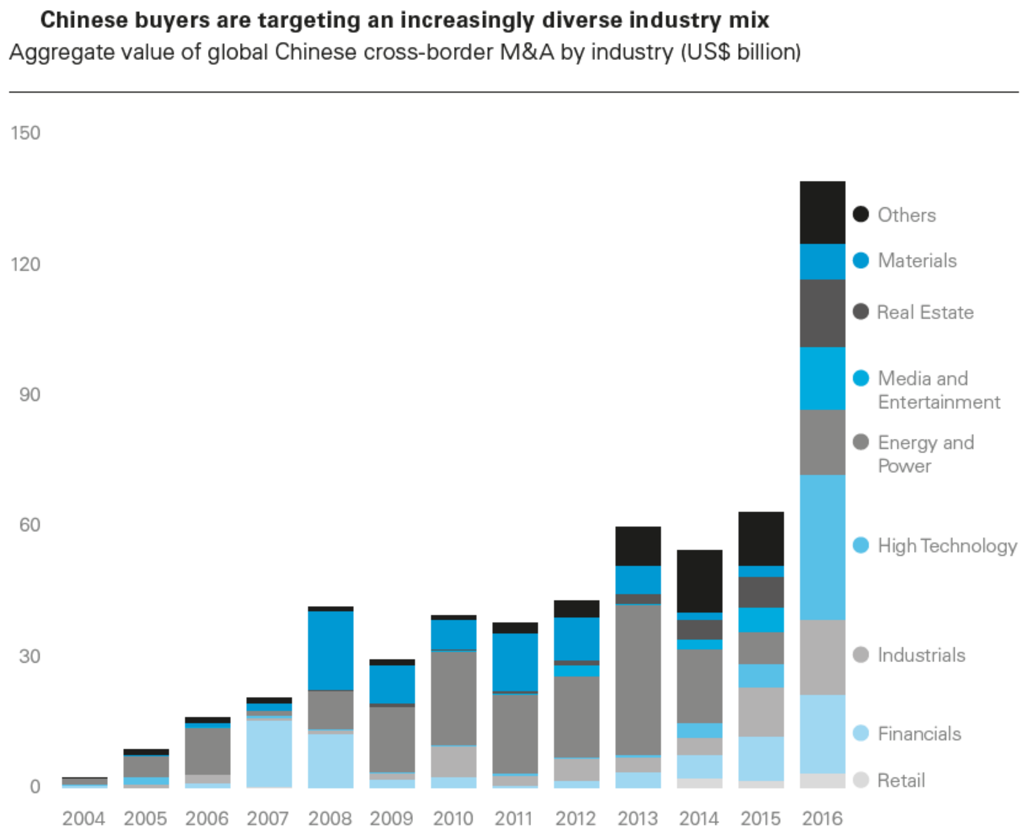


Figure 3.8 - Chinese global M&As evolution by sector – Source: Rhodium Group

If in the early 2000s, resource-rich economies in the Middle-East, Central Asia, Africa and Latin America, were the first recipient countries of Chinese OFDI, while from 2008 to 2014 investments shifted to high-income countries such as Canada, Australia and the US, which accounted for almost half of total Chinese outbound M&As, rising to two-thirds of all Chinese investments by value in 2015 (Reiss et al., 2017: 5).

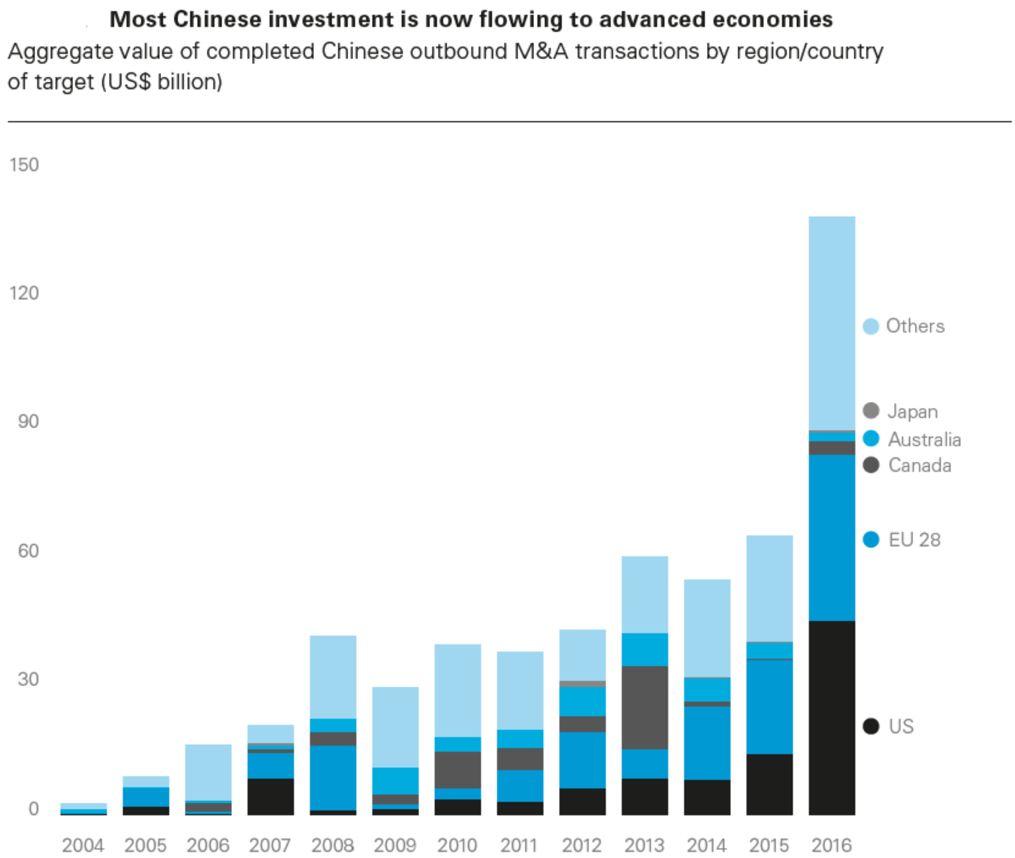


Figure 3.9 - Chinese global M&As evolution by geography - Source: Rhodium Group

The following map shows the geographical distribution of top destinations for Chinese outward investments and construction from 2005 to 2016.

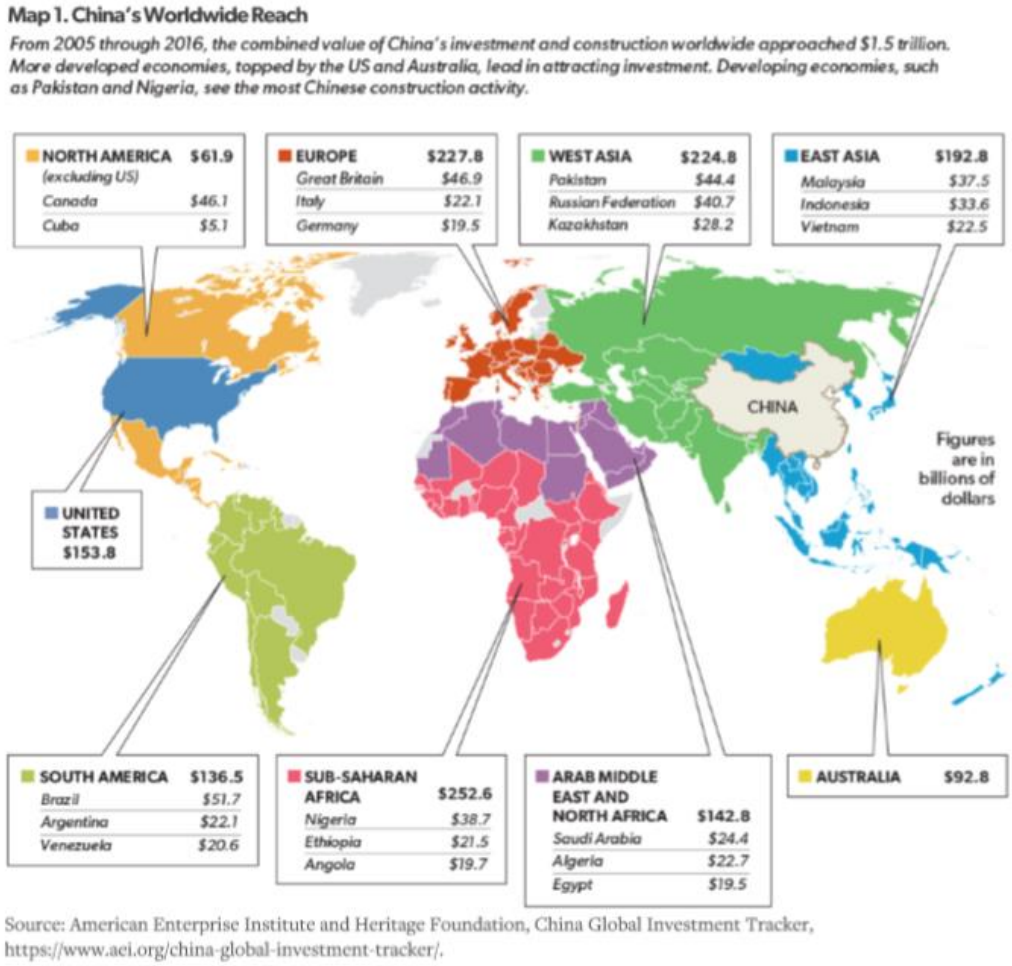


Figure 3.10 – Chinese OFDIs and Construction contracts: Top destination from 2005 to 2017 – Source: American Enterprise Institute and Heritage Foundation

Europe in the last decades has become a key destination for Chinese ODIs, while European companies have become more hesitant to invest in China. Europe has emerged as a key destination for Chinese ODIs.

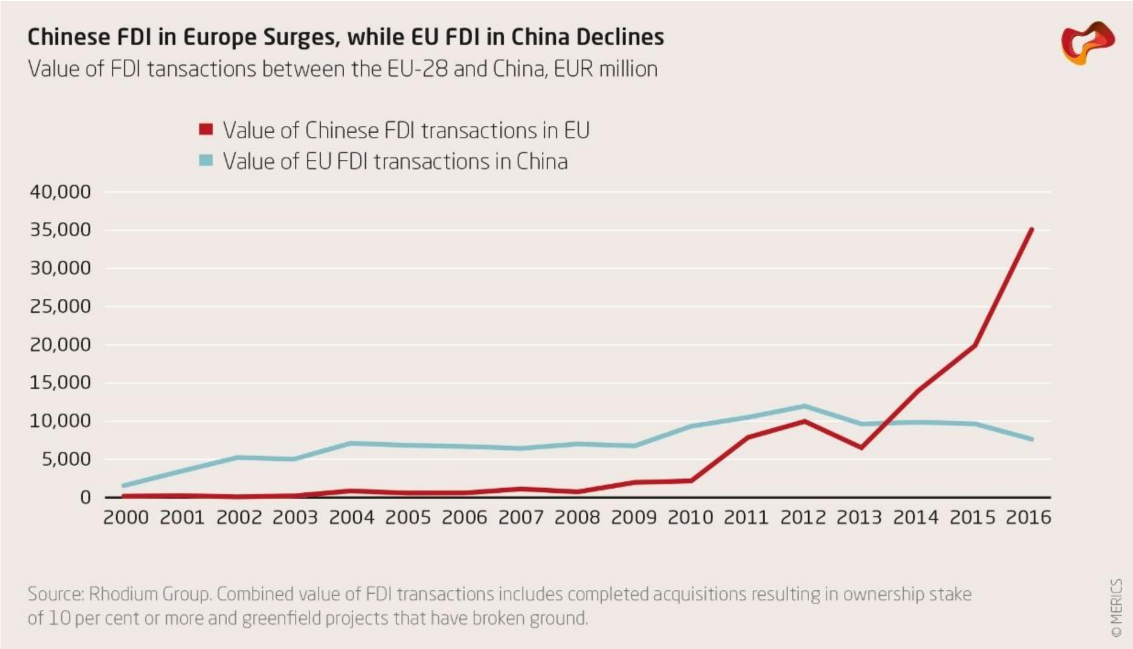


Figure 3.11 - Chinese FDIs in Europe from 2000 to 2016 – Source: Hanemann and Huotari, 2017

In 2016, Chinese companies invested EUR 35 billion in the European Union (EU), with an even more impressive increase of 77% in comparison with 2015 (Hanemann and Huotari, 2017: 4). If 2015 was characterized by the ChemChina's 7.1 billion euros acquisition of Italian tire producer Pirelli, in 2016 the deal mix was more widely dispersed and mostly characterized by medium-sized deals. A sector-based analysis confirms Chinese policy objectives in economic terms. The figure in the next page shows that Chinese investors were driven by pressure to upgrade their technology, brands and other strategic assets[158]. Growing interest for critical infrastructure, as Chinese investors continued to acquire stakes in energy and electricity grids, power plants, ports and other transportation and communication infrastructure[159] and of investments characterized by dual-use technologies, has increased the security debate within the EU.

[158] As an example, the 2016's biggest transactions were: "Tencent's EUR 6.7 billion acquisition of Finish gaming firm Supercell; Midea's acquisition of German robotics company Kuka for EUR 4.4 billion; HNA's acquisition of Irish aircraft leasing firm Avolon for EUR 2.3 billion; Beijing Enterprises' purchase of Germany's EEW Energy for EUR 1.4 billion; Ctrip's EUR 1.6 billion acquisition of British travel platform Skyscanner; Shandong Ruyi Technology's EUR 1.3 billion investment in French fashion company SMCP Group; and Wanda AMC's acquisition of U.K Odeon & UCI cinema group for EUR 1.1 billion". (Hanemann and Huotari, 2017).

[159] See, for example the Greek investment in the Port of Piraeus and electricity operator ADMIE, China General Nuclear Company's investment in the Hinkley Point nuclear power plant, the sale of a stake in British data center operator Global Switch to a Chinese consortium or State Grid's failed investment plans in Belgium (Hanemann and Huotari, 2017: 6).

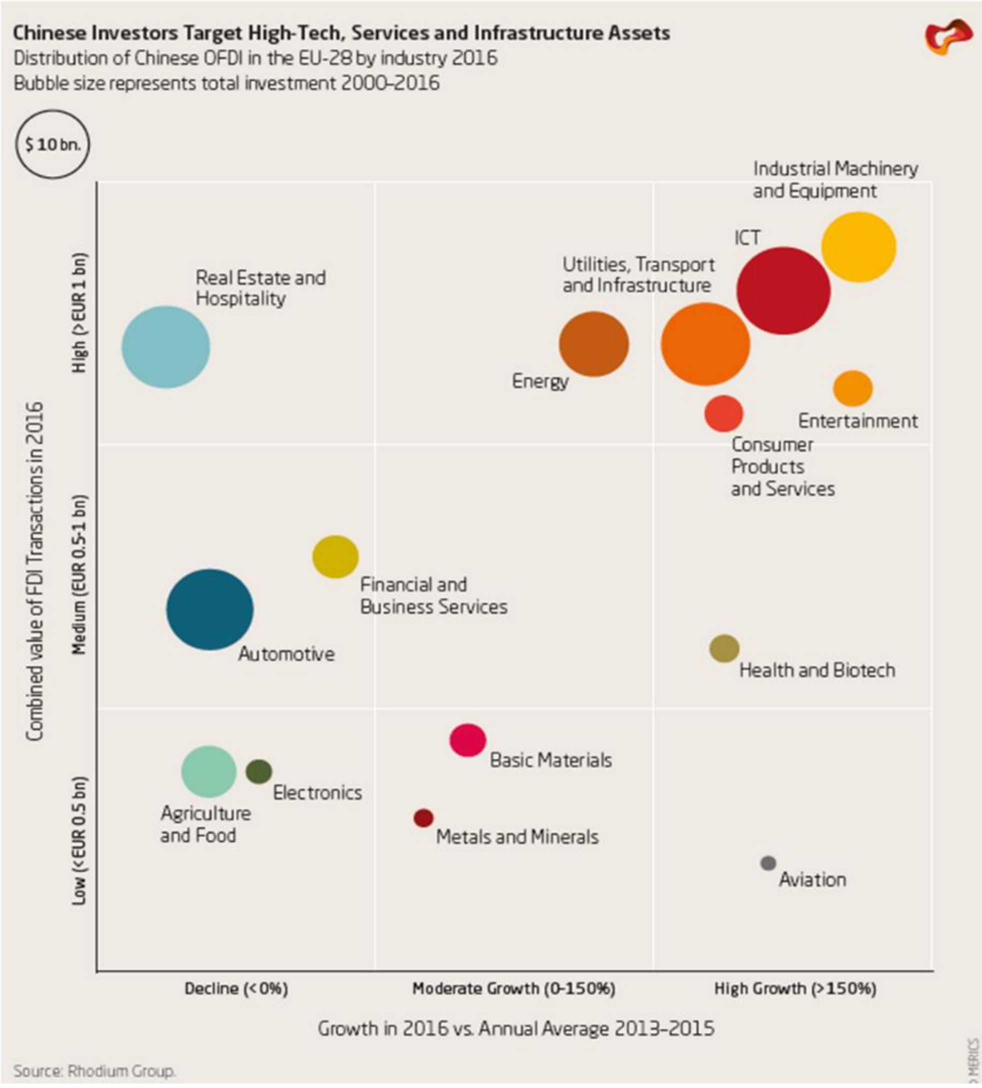


Figure 3.12 - Chinese FDIs in Europe by sector – Source: Hanemann and Huotari, 2017

The following map shows the geographic distribution of Chinese ODIs in Europe in the last decade (Hanemann and Huotari, 2017).

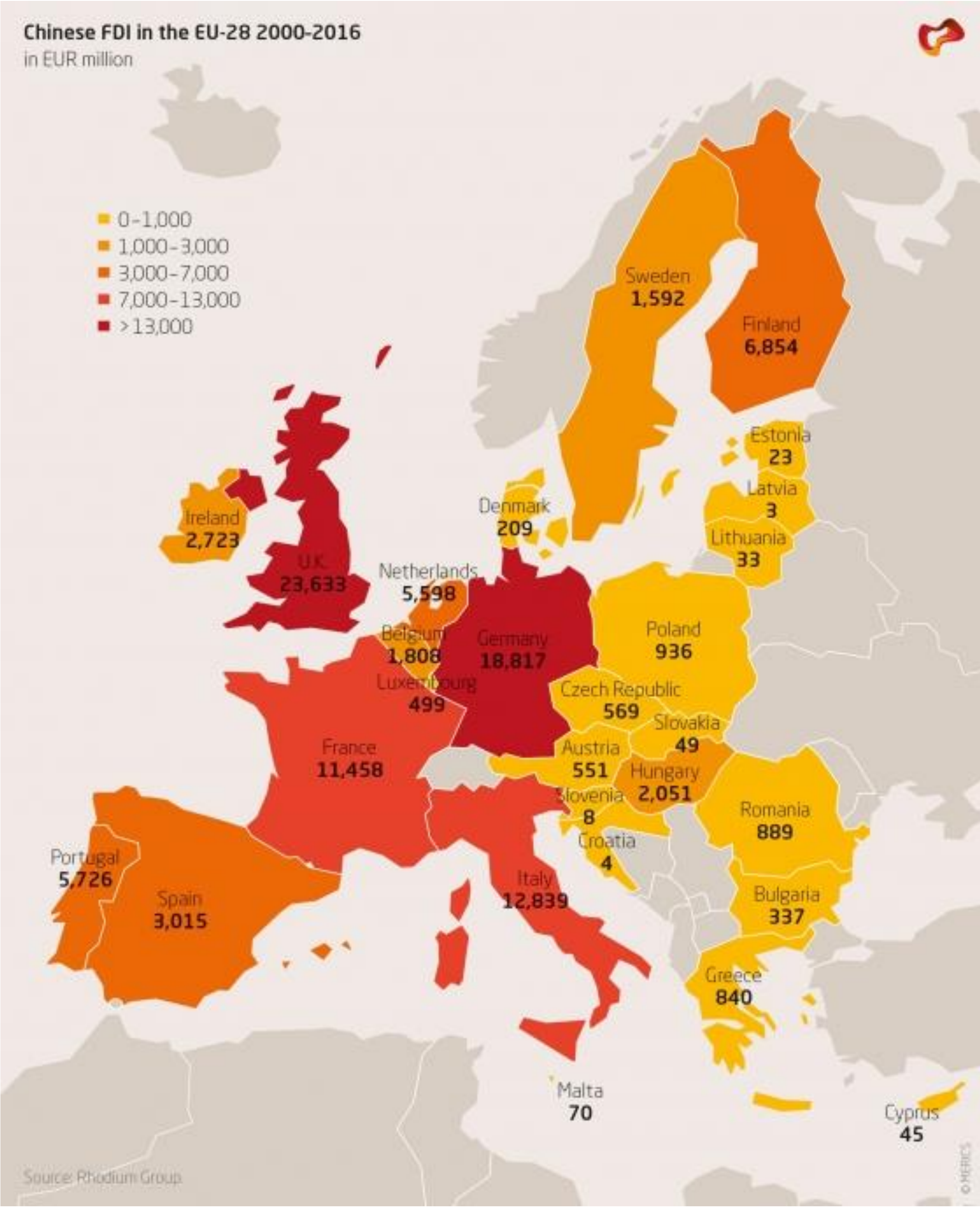


Figure 3.13 - Chinese ODIs in Europe from 2000 to 2016 – Source: Hanemann and Huotari, 2017

Notwithstanding, the impressive expansion of Chinese ODIs, China in 2016 still came in fourth after Philippines, South Arabia and Myanmar in terms of the restrictiveness of a country's foreign direct investment (FDI) rules. The following graph elaborated from the OECD's database shows FDI restrictiveness index. Four main types of restrictions have been considered foreign equity restrictions; discriminatory screening or approval mechanisms; restrictions on key foreign personnel and operational restrictions.

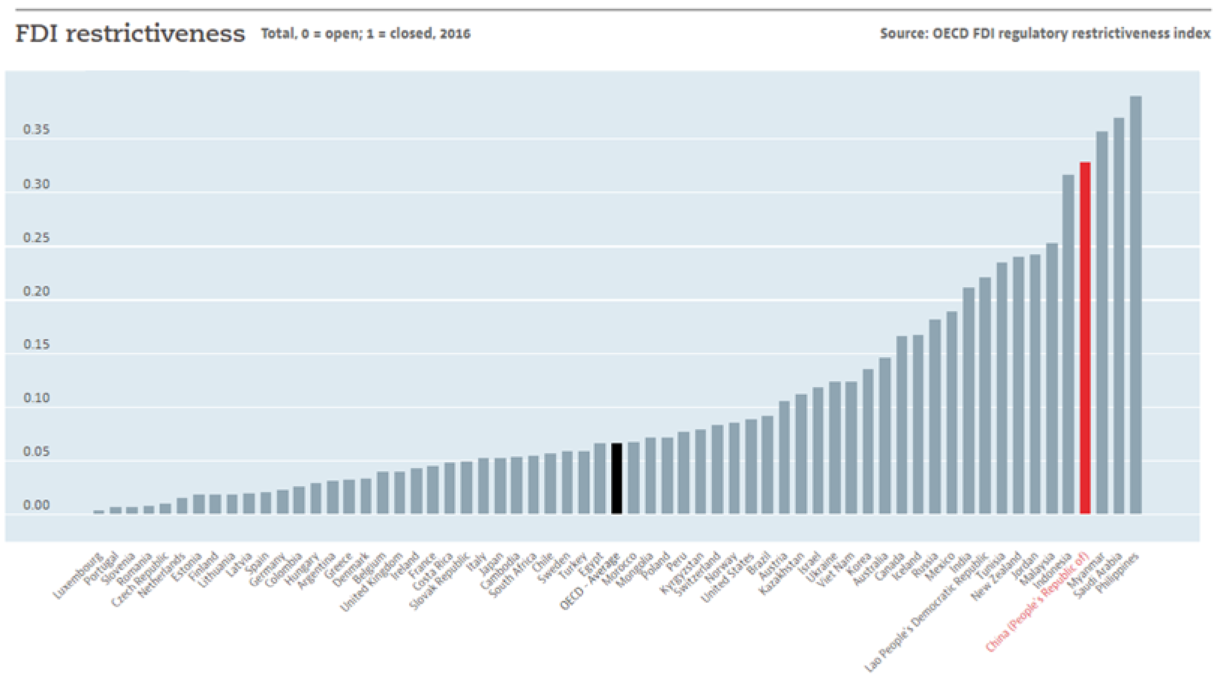


Figure 3.14 - FDI's regulatory restrictiveness index – Source: OECD, 2017

The growing imbalance in two-way FDI flows, the persisting asymmetries in market access, and the special target of advanced technology and infrastructure assets have catalyzed heated debates in many host countries about related risks and national security concerns of not having a level playing field.

3.5.5 Conclusion and a look forward – the Made in China 2025 era (from 2016)

The preceding chapter portrays the long journey made by Chinese policy development of outward direct investments. It has been demonstrated that, given the specific characteristics derived from being a central planned economy, market dynamics followed government policy statements. As a consequence, a periodization of Chinese outward direct investments' expansion has been possible[160] just by looking at the government policy development. Moreover, the Chinese "macro-economic management" of international business strategy of domestic firms is also confirmed when looking at the current decade. Made in China 2025, originally approved by China's State Council in 2015, is a blueprint for this new stage.

[160] And it is commonly used by international business theorists, i.e. see Buckley, 2010.

The aim is to transform the country into a high-tech powerhouse in advanced industries such as robotics, advanced information technology, aviation, and new energy vehicles. The inspiration for Chinese policymakers was the German concept of "Industry 4.0," which "shows how advanced technology like wireless sensors and robotics, when combined with the internet, can yield significant gains in productivity, efficiency, and precision"[161]. Beijing's plan is to foster the transition from labour-intensive industries and climb the value-added chain to secure higher wages. China's development trajectory, aming to avoid the "middle income trap", has suddenly emphasized the achievement of "self-sufficiency". The objective is not so much "to join the ranks of high-tech economies like Germany, the United States, South Korea, and Japan, as much as replace them altogether […] That could be a problem for countries that rely on exporting high-tech products or the global supply chain for high-tech components" (Segal, 2018). As pointed out by Deng back in 2004, during the time, "Chinese companies have established overseas subsidiaries in order to gain access to foreign capital markets, either to finance expansion abroad or to help finance domestic market expansion by repatriating the foreign exchange capital they raise at "arm's length"". Another motive has been linked to non-economic factors. "In many countries, foreign investors are granted residency rights, even citizenship. Chinese firms may therefore engage in FDI simply to obtain such benefits as the right of abode, tax advantages, legal protection, education, social security, and health services" (Deng, 2004: 15). Such non-economic motivations have surely influenced the Chinese government decision at the end of 2016 to tighten its control and supervision over outbound investment by Chinese companies, especially in certain industries. For example, in September 2016, the Standing Committee of the People's Congress made decisions to make revisions to the relevant provisions (i.e. Wholly Foreign Owned Enterprises Law, Sino-Foreign Equity Joint Ventures Law, Sino-Foreign Cooperative Joint Venture Law, the Law on Protection of Investment from Taiwan Enterprises and Individuals), and SAFE has adopted certain internal rules cutting the maximum amount of overseas repatriation by companies established in China. In August 18, 2017, China's State Council released a set of new rules directing Chinese companies' overseas investment, dividing them in three categories: encouraged, restricted and banned. The first class, prioritized those investments which are related to infrastructure projects relevant to the "One Belt, One Road" initiative. The last class, instead, punishes those Chinese companies which are thought to have invested "irrationally" in the past[162], or in countries or regions without diplomatic relations with

[161] https://www.mckinsey.com/global-themes/china/a-digital-upgrade-for-chinese-manufacturing

[162] The key agencies involved in order to crack down on illegitimate transaction, in early 2016, both banks and bureaucrats where asked to increase their scrutiny on outbound investments which are draining China's foreign currency reserves and putting increasing downward pressure on the Chinese currency. See: **国家**发改委有关负责人就《关于进一步引导和规范境外投资方向的指导意见》答记者问 - *Guójiā fāgǎiwěi yǒuguān fùzé rén jiù "guānyú jìnyībù yǐndǎo hé guīfàn jìngwài tóuzī*

China or war areas or overseas investments without underlying business operations. As a result of this shift of policy regime, it is possible to imagine the beginning of a new stage starting from 2017, which aims to focus on China's grand strategy following President Xi Jinping's priorities[163]. Made in China 2025 and the strengthened dominance of the state is bound to reinforce political interest governing Chinese investments decision, "thus fuelling concern about national security risks for host countries" (Deng, 2013: 519).

3.6 Motivation to intervene and "Sharp power". Mapping the influence

Government intervention in China plays an important role in outward both investment allocations and efficiency. State motivation to intervene regards regime stability and CCP legitimacy, which depends on growth and stability. Developing Carney's theoretical framework on state motivation to intervene, I argue that an intervening variable, which lies between the independent variable – China's investment behaviour - and the dependent variable –national security in the host country, and which may modify the relationship between them, is *sharp power.* In the case of outward direct investments performed by an authoritarian state, I refer to sharp power as the state's non-market motivation to engage in an investment decision for non-market reasons, but instead for political reasons such as regime stability or regime advance. Investment motivations are instead directly given by home-government strategic choices. The more the distance between the state motivation, the more the natural market forces determine the environment of investment. The core of the theoretical framework I expound is that, given the same amount of state capacity and state motivation (risk of due-to crowding effect and risk of liberalisation), countries across the spectrum of authoritarian regimes may differ due to an additional explanatory element: the intention to project their influence abroad. The motivation to go engage in international operations can be seen as a specific counter-risk solution, but it gains different colours if it is part of a grand strategy project of a new creative international order. The host-country reactions may be influenced by the perception of the intention of the agent – the authoritarian country – which may want to influence the host countries from within in order to modify international political settings.

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fāngxiàng de zhǐdǎo yìjiàn" dá jìzhě wèn. Available on-line at: http://www.gov.cn/zhengce/2017-08/18/content_5218794.htm

[163] On the political side, just consider that this new era started with the National People's Congress which in 2018 scrapped the limitation that presidents can serve only two consecutive terms, opening up the possibility for President Xi Jinping of ruling for life.

International strategy is composed by both market and nonmarket strategy, and this is usually personalized basing on the characteristics of the target country. However, there is a pattern of actions that can be taken in the nonmarket environment which can either create value by improving overall performances of the investment, or be seen as a threat by the host state because they shape the firm's market environment (i.e. lobbying in support of particular legislation). Here I will try to shed light on this influence hypothesis, in order to tease out a less "holistic" touch to this threat. In a market economy, the market strategy is characterized by voluntary interactions. This is the case of managers who choose to engage in political activity (CPA) to improve overall performance and thusnot merely enhance the economic value of the firm, but also satisfy stakeholders, employees and the like. This could not be the case in a state-market economy, where the investing company manages its investment strategy on behalf of the home state, which could have different motivations to intervene. Foreign ownership per se is an important differentiator in terms of political activities[164], in the case of a non-market parent company the target company could become a "black-box" and "automatically" engage in non-market strategies, such as following Party guidelines.

Speaking about China and Russia, a report written in 2017 by the National Endowment for Democracy argues that "we need to re-think soft power", because "the conceptual vocabulary that has been used since the Cold War's end no longer seems adequate to the contemporary situation" (Cardenal et al., 2017: 7). Joseph Nye in early 2018 felt the need to better explain the evolution of the concept of soft power, which he coined in 1990 and was characterized by "voluntarism and indirection" in contraposition to "hard power" which rested on "threats and inducements". Nye brilliantly synthetizes "if someone aims a gun at you, demands your money, and takes your wallet, what you think and want is irrelevant. That is hard power. If he persuades you to you to give him your money, he has changed what you think and want. That is soft power". When we speak about today Chinese and Russia authoritarian influence "it is not principally about attraction or even persuasion" (Cardenal et al., 2017: 6). It is not a "charm offensive" which helps authoritarian regimes "compel behaviour at home and manipulate opinion abroad" (Nye, 2018). "It involves efforts at censorship, or the use of manipulation to sap the integrity of independent institutions. Sharp power has the effect of limiting free expression and distorting the political environment" (Walker, 2018: 11-12). It is sharp because it "pierces, penetrates or perforates the political and information environment in the targeted countries" (Cardenal et al., 2017: 6). The dividing line between soft and sharp power according to Nye is "truth and openness". "When China's official news agency, *Xinhua*, broadcasts openly in other countries, it is employing soft-power techniques, and we should accept that. When

[164] See Getz, 1996; Hansen and Mitchell, 2000; Hansen and Mitchell, 2001.

China Radio International covertly backs 33 radio stations in 14 countries, the boundary of sharp power has been crossed, and we should expose the breach of voluntarism" (Nye, 2018). As pointed out by Walker "Sharp power takes advantage of the asymmetry between free and unfree systems. Open, democratic systems are rich targets for authoritarian regimes whose commercial activities and political initiatives are now regular features of life in democracies. It is within this context that sharp power, neither really soft nor hard, is able to flourish" (Walker, 2018: 17). The identification of the dividing line between soft and sharp power is essential also to determine countermeasures that democracies could adopt. "As democracies respond to China's sharp power and information warfare, they have to be careful not to overreact" […] According to Nye, "democracies should avoid the temptation to imitate these authoritarian sharp-power tools". […] Moreover, "while it would be a mistake to prohibit Chinese soft-power efforts just because they sometimes shade into sharp power, it is also important to monitor the dividing line carefully". However, in 2018 the Chinese influence operations has scaled up to an unprecedented level their political influence both in Australia and New Zealand, leading to a prompt response to secure democratic norms and processes. In the US the FBI director has recently referred to CCP's influence as a "whole-of-society threat"[165], and Senator Marco Rubio has been clear about the need to counter CCP interference which "undermine the liberal international order" and that poses "serious challenges in the United States and our like-minded allies"[166].

While the state-market economy allowed unprecedented economic development, Chinese leadership seems to be focused on the maintenance of political order, in other words, to sustain the Party rule. In particular, two main objectives can be detected. The first one is "to make the CCP's world safe" which is the need to prevent Western liberal democratic incursions and the enhancement of the regime's domestic position; the second one is the opportunity to expand its influence abroad.

On the one hand, as long as standards of living grew, the CCP prioritized stability with the motto 稳定压倒一切 (*Wěndìng yādǎo yīqiè)* "the stability overrides everything"[167] and by reinforcing the zero-tolerance policy toward dissent. Yet the urgency of compliance could lead to bitter fruit. "These policy priorities actually create systematic imperatives for the state bureaucracy, local governments and security apparatuses, in particular, to fulfil their responsibilities at any costs, resulting in

[165] See: Gehrke, J. (February 13, 2018).
[166] See: Cameron Stewart, C. (February 22, 2018). "Rubio Calls for U.S.-Australian Plan to Fight Chinese Political Influence," *The Australian*, https://www.theaustralian.com.au/national-affairs/foreign-affairs/rubio-calls-for-usaustralian-plan-to-fight-chinese-political-influence/news-story/3df54aef3cf3392ea357b902c92186ac
[167] On 4 June 1990, the headline of the People's Daily was 稳定压倒一切 in occasion of the one-year anniversary of Tiananmen massacre. The expression was than echoed by Jian Zemin in the 15th CCP National Congress in September 1997 "without stability nothing can be achieved". For further understanding of stability constructed on "truth", "benevolence" and "glory" involving moral, ideological and nationalistic aspects see Shue, 2004.

rampant corruption, manipulation of information, seizures of village land and urban housing for development projects, damage to the environment, abuse of the law, violation of the law, harassment of rights activists, suppression of local discontent, and the use of violence within certain limits" (Chongyi, 2013: 7). As Dahl (Dahl, 1989: 52) stated, a "perennial alternative to democracy is government by guardians". The promotion of the guardianship discourse is conducted by indoctrinating its people, by reviving Confucian and Leninist traditions with CCP's official ideologies and through regulated education[168] and media systems, and pursuing zero-tolerance towards political dissidents. "The goal of this policy is an authoritarian feedback cycle which combines both political and cultural controls from the top with rapid economic growth from below that theoretically produces bottom-up support for the party-state" […] "This drive for stability has become a cult itself, one backed by the state: a totalitarian form of belief that refuses all counterevidence or opposition and that must be embraced regardless of consequences" (Carrico, 2017).

On the other hand, in international relations China's rapid economic development and its integration into the international system has posed important implications since the early 1990s. China's foreign policy debate has polarized around status quo or revisionism perspectives. For many Western observers, the rise of a superpower such as China has been posing important questions about the possible challenges for peace and stability of the entire international system. For those theorists who adopt a realist perspective, the state is concerned with its own power and prestige in an anarchy environment which makes states preoccupied for their own survival, power and security. As a consequence, Mearsheimer, in accordance with balance of power logic, has foreseen a trajectory inclined to competition and conflict (Mearsheimer, 2010). Along this path, scholarly debates on "power transition" or "hegemonic transition", challenging the US at the global level and Japan at the regional level, highlight that China is taking up the great power role that it believes to be its historic legacy, after years of geopolitical isolation. As a consequence, China's integration into the international system is considered a threat which would lead to an inevitable conflict, and it is one proven by China's assertiveness towards its neighbours and the rise of military expenditure[169].

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[168] See for example how the education system has been replaced in Hong Kong with the 国家民族教育 (*Guójiā mínzú jiàoyù*) "nationalistic education" or 爱国教育 (*àiguó jiàoyù*) "patriotic education" centred on the Chinese race and nationality (see: Tse, 2014).

[169] However, the realist school is not monolithic. Mearsheimer's approach of offensive realism according to which he expects China's "bid for hegemony" should be addressed letting the USA "do whatever it can to slow China's rise" has been criticized for example by Kirshner. He embraces a Classical Realist perspective and argues that "Mearsheimer's approach […] is wrong, and dangerous" and that even if he "expects a rising China to be more ambitious, assertive, and, often, difficult to deal with" […] "classical realists nevertheless place their (always) hedged bets on those policies that have

On the opposite side, those scholars which advocate neoliberal institutionalism, have suggested that authority in the international system is increasingly decentralised, with states in a "complex interdependence". In order to achieve mutual gains China will tend to adopt a cooperative approach which complies with and absorbs the international norms (Keohane and Nye 1989: 24). China's rise for liberals means a "peaceful rise" with economic and diplomatic engagement and "normative obligations" (Xie and Page, 2010: 481). "Interdependence engineers China's rise" (Deng and Wang, 2005: 12). While this can highlight "vulnerabilities in foreign relations" (Deng and Wang, 2005: 12), these need not necessarily become a threat. Moreover, the more states' expectations of the future trade and investment environment are positive, the more likely they will be committed to mutually cooperative ties (Copeland, 2015). "The dominant interests in Chinese society are increasingly tied with the world market, to international institutions, to the advanced economies" (Deng and Wang, 2005: 12). Some theorists, in fact, in opposition with realist theory on power transitions, argue that China would become more globalized and socialised, not only in the economic sphere, but also in the cultural one, leading to a pragmatic approach in order to take advantage of the opportunities provided by the international order. More recently, professor Shaun Breslin has argued that the dichotomy around either status quo or revisionist predictions is flawed since China is a "dissatisfied responsible great power" (Breslin, 2010), so that "the reality seems to lie somewhere in between" (Breslin, 2018).

During the last two decades, at the international level and from an institutional standpoint, China has used "*an à la carte* approach" toward the existing international institutional system. It did so on the one hand "supporting those international institutions that serve its interests (including the WTO and the UN Security Council)" and "ignoring those that do not (such as International Tribunal for the Law and Sea)", but also "turning others (like INTERPOL) to its own purposes and weakening or subverting those (like the UN Commission on Human Rights) that might otherwise pose a challenge to its legitimacy". Moreover, "in some areas, China has also begun to develop new institutions (like the New Development Bank) and to promote new norms (like international institutional system) like the idea of "internet sovereignty" that aim to circumvent those favoured by the West" (Friedberg, 2018: 24-25). While for much of the past decade it has probably been premature to argue that China was trying to openly promote authoritarianism, this has surely under Xi Jinping been promoted as a model to other countries[170]. Chinese policies "have helped prevent

the best chance of shaping China's domestic political debates and international opportunities so as to encourage and accommodate its peaceful rise to great power status" (Kirshner, 2010: 72).

[170] See Buckley and Bradsher, 2017. Xi Jinping in 2017 proclaimed that China is "blazing a new trail" for developing countries to follow. See: https://www.washingtonpost.com/news/worldviews/wp/2017/10/19/move-over-america-china-now-presents-itself-as-the-model-blazing-a-new-trail-for-the-world/?utm_term=.81d824e4bb43.

the further spread of democracy, especially in nations around its immediate periphery" and in other "fragile democracies" (Friedberg, 2018: 50). Some Chinese scholars, following Wendt's constructivist approach, believe that the Chinese internationalisation process was not only led by material interest but also non-material ones such as the "desire for international recognition and respect" (Kang, 2010). Pang Zhongqi has developed the concept of "world view" for a state's vision of how the world is constructed and "worldview gap" for the gap between the world order and that vision (Pang, 2007). These two concepts for Zhongqi determine the international behaviour; more specifically, if the gap is at minimum the state would become a "order supporter", whereas if the gap is big it is more likely to become a "revisionist state". Since the Hu Jintao era (2002-2012), China has put lots of efforts in supporting 大外宣 *(Dà wài xuān)* foreign influence activities to enhance its soft power in order to portray to the outside world a different image both using "foreign management techniques and propaganda offensive" (Brady, 2017: 5). "China's pervasive (and still expanding) system of domestic propaganda and "patriotic education" emphasises the wrongs done to China by foreign powers during the "century of humiliation" and the essential (and as yet unfinished) role of CCP in righting those wrongs" (Friedberg, 2018: 18).

The importance of changing the image projected by China to the outside world is clear if we look also at the complex set of institutions and organizations set to accelerate the political influence activities worldwide, such as the United Front Work Department, the All-China Federation of Overseas Chinese, and the Chinese People's Association for Friendship with Foreign Countries. Among these agencies, which all play a significant role both in Chinese foreign affairs and defence studies, the most relevant is the United Front 统一战线. For a long time, it has been treated as a "withering relic of China's Communist past" (Parello-Plesner and Li, 2018: 8) and an obsolete "Leninist tactic of strategic alliances" (Brady, 2017: 2) but which strategists suspect "has also frequently been a means of facilitating espionage" (Brady, 2017: 2). In the Mao years and up to the present day, "under the policy known as "using civil actors to promote political ends" (以民促政), CCP United Front officials and their agents try to develop relationships with foreign and overseas Chinese personages (the more influential the better) to influence, subvert, and if necessary, bypass the policies of their governments and promote the interests of the CCP globally" (Brady, 2017: 3). CCP follows this strategy not only through "routine public diplomacy", but also with "a range of unorthodox influence operations" (Fitzgerald, 2018), such as co-optation of political elites, academia, think-tanks and media. Chinese political influence abroad involves different actors, which complement each other, but sometimes they "also generate friction or have different priorities" (Benner et al., 2018: 11).

According to a report written by Benner, Gasper, Ohlberg, Poggetti and Kupfer, five sets of actors are involved in "influencing operations". The first one "consists of party and state organizations focused on winning over political elites", for example the "Ministry of Foreign Affairs" and the "International Liaison Department of the Central Committee of CCP", which has been actively involved "in shaping Beijing's OBOR policy and setting up the 16+1 framework" (Benner et al., 2018: 11). The second one regards "regulatory institutions like National Development and Reform Commission", the "Ministry of Finance", but also "SOEs and private companies" […] "linked to potential political motives" (Benner et al., 2018: 11). The third set of actors involved are associated with the "Central Propaganda Department of the CCP and State Council Information Office", which "are responsible for the implementation of propaganda efforts", including for example "China Global Television Network (CGTN)", which offers ""positive" news on China and its activities abroad" (Benner et al., 2018: 12). The fourth set of actors includes the "Ministry of State Security (MSS)", the "Chinese People's Association for Friendship with Foreign Countries", as well as "state think-tanks like the Chinese Academy of Social Sciences (CASS)" which are "focused on identifying and potentially co-opting scholars and journalists to promote Chinese positions" (Benner et al., 2018: 12). The fifth set of actors includes the "United Front Work Department and the Overseas Chinese Affairs Office of the State Council" which are "concerned with influencing Chinese community overseas" (Benner et al., 2018: 12). The graph below, elaborated by Parello-Plesner and Li, shows how the circles of influence relies on several actors, both inside and outside the Chinese system.

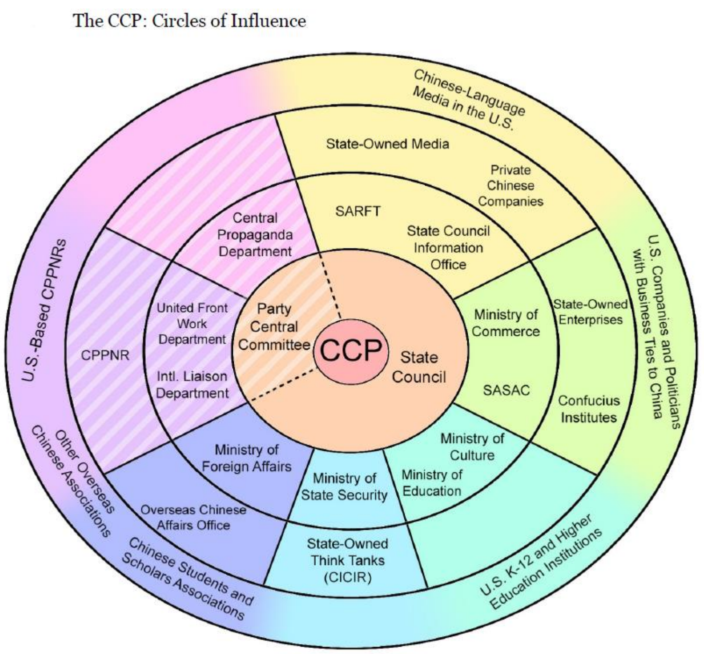

Figure 3.15: CCP Circle of influence – Source: Parello-Plesner and Li, 2018

Under Xi Jinping these efforts have become much more ambitious[171]. "Xi told to the 19th Party Congress, China will "move closer to centre stage", taking on a greater role as a world leader. Senior officials now openly express dissatisfaction with the existing world order which they describe as "built and led by the US", rooted in "American or western values" and operating to Washington's "great benefit" but to the detriment of other nations" (Friedberg, 2018: 24). As Gerry Groot noted, it is under Xi Jingping rule that the United Front has been promoted to a level unseen since Mao's time. Xi's new vision was expressed in a speech he gave in September 2014 celebrating the CPPCC's 65's birthday, where he referred to the United Front Work as a 法宝 (*fǎbǎo*) "magic weapon" for the "实现中华民族伟大复兴的重要" (*shíxiàn zhōnghuá mínzú wěidà fùxīng de zhòngyào*) "Chinese people's great rejuvenation" [172]. This construction includes the 华侨 *huáqiáo*, a category that now includes Chinese citizens living abroad" underscoringhow the party is"keen to prevent them from falling under the influence of what it calls anti-China or anti-Communist groups or elements "(Groot, 2015).

According to Parello-Plesner and Li's analysis, the main objectives of the United Front strategy are 1) strengthening information control and expanding Chinese propaganda. Billions of dollars have been spent to shape public opinion[173] and perceptions around the world and promoting the "China dream" via strategic partnership in media information[174]; 2) developing "people to people relations", which guarantees deniability of corruption and espionage. According to Hamilton and Joske, the objective here is to "infiltrate their inner workings without overly intervening and to influence through guidance, rather than openly leading them" (Hamilton and Joske, 2017); 3) "using economic ties as political leverage", such as co-opting Western political elite. Benner in 2018 has shown how both Hungary and Greece refused to sign EU statements against Human rights (Benner et al., 2018)[175]. 4) "gathering intelligence from non-intelligence sources". If the foreign intelligence service belongs to the Ministry of State Security (MSS) the CCP relies also on no-intelligence sources. For Mattis, "for the Chinese, intelligence services seem to facilitate meeting and contacts rather than handling the dirty work of influencing foreign target themselves" (Mattis, 2018).

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[171] i.e see: https://chinadigitaltimes.net/2017/10/xi-jinping-quietly-ramps-united-front-operations/

[172] See: Xinhua, July 30, 2015. Available on-line at: http://cpc.people.com.cn/xuexi/n/2015/0731/c385474-27391395.html

[173] i.e. see: https://www.economist.com/china/2017/03/23/china-is-spending-billions-to-make-the-world-love-it

[174] i.e. see the China-Central and Eastern Europe (CEE) 16+1 cooperation: https://thediplomat.com/2017/11/growing-tensions-between-china-and-the-eu-over-161-platform/

A classical expression used to describe the provision of Chinese news to foreign language media and in bilateral and mutilateral cooperation agreements to extend its reach abroad is **借船出海** (*Jiè chuán chūhǎi*) "Borrowing a boat to go out on the sea". For further understanding see Geall and Soutar, 2018.

[175] See also: https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP and https://www.washingtonpost.com/news/worldviews/wp/2017/06/19/europe-divided-china-gratified-as-greece-blocks-e-u-statement-over-human-rights/?noredirect=on&utm_term=.22d65116ab50

According to Brady, a fellow at the Wilson Center, Xi's political influence can be summarized "in four key categories: 1) A strengthening of efforts to manage and guide overseas Chinese communities and utilize them as agents of Chinese foreign policy; 2) A re-emphasis on people-to-people, party-to-party, plus PRC enterprise-to-foreign-enterprise relations with the aim of coopting foreigners to support and promote CCP's foreign policy goals; 3) The roll-put of a global, multi-platform, strategic communication strategy; 4) the formation of a China-centred economic and strategic bloc". (Brady, 2017: 7). The last category is extremely relevant looking at the BRI – Belt and Road Initiative, also known through the OBOR acronym– which is PresidentXi's most ambitious foreign policy project, with the aim to "reshape the global order" (Brady, 2017: 10). The 一带一路 (*Yīdài yīlù*) One Belt One Road initiative, often labelled the "New Silk Roads" is much broader than the ancient one dating back to the Han Dynasty (206 BC. 220AD).[176] It originally included land routes and sea-lanes from Xian to Rome, crossing Iran and Turkey. The new one includes two separate routes: The Silk Road Economic Belt (SREB) and the Maritime Silk Road and terminate in Rotterdam. It "encompasses a population of 4.4 billion of people with a collective GDP of $21 trillion (one-third of the world's wealth)" (Rolland, 2015). To sustain this project Li Keqian in 2014 while on an international "railway diplomacy tour" announced the creation of a $3 billion investment fund for Central and Eastern European countries meant to further enhance cooperation" and the creation of "a new corridor of interconnectivity" (Rolland, 2015). The Belt and Road initiative turns out to be not justa development strategy but also a national security strategy. Wang Weixing from China's National Defence University, arguing that Belt and Road projects require military protection, pushes for Chinese military force deployment[177] following the necessity of a more globalized security posture. Zhu Chenghu, from National Defence University, calls for an alternative solution rather than employing the official military force to safeguard Chinese investments abroad due to the international constraints in foreign countries and suggests the use of private security forces.[178] According to Walker, "the influence platforms that the authoritarians have embedded in democratic societies go beyond the educational sphere to embrace the realms of commerce, culture, the media,

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[176] As Amighini noted the term was firstly adopted by a German geologist Baron Ferdinand von Richthofen in the mid-1800s to describe the trading routes activities between China and its economic partners. This was "the unplanned outcome of the trading activities" while today it describes a "comprehensive national development strategy designed by the government, with a potentially strong international development impact. In a similar vein, the "Go Out" policy aimed at increasing and facilitating outward foreign direct investment, in the expectation that host countries would welcome Chinese investors with the hope of benefitting from the country's growth" (Amighini, 2017).

[177] See: http://www.cssn.cn/zzx/gjzzx_zzx/201506/t20150605_2024182.shtml

[178] See: http://news.takungpao.com/mainland/focus/2015-05/2998430.html, in the interview he uses the expression: 一带一路"倡议下，如何去保卫中国的海外利益是一个非常现实的问题，而在目前条件下，利用中国军队去保卫海外利益并不现实 (*Yīdài yīlù" chàngyì xià, rúhé qù bǎowèi zhōngguó dì hǎiwài lìyì shì yīgè fēicháng xiànshí de wèntí, ér zài mùqián tiáojiàn xià, lìyòng zhōngguó jūnduì qù bǎowèi hǎiwài lìyì bìng bù xiànshí*) 中国建立私人安保力量面临一些现实问题 (*Zhōngguó jiànlì sīrén ānbǎo lìliàng miànlín yīxiē xiànshí wèntí*).

technology, and think tanks as well" (Walker, 2018: 17). The state motivation hypothesis may perform different degree of activism, from passive monitoring, to tunnelling or influence. The graph below, elaborated by Parello-Plesner and Li, represents in tones of red the decree of influence and interference.

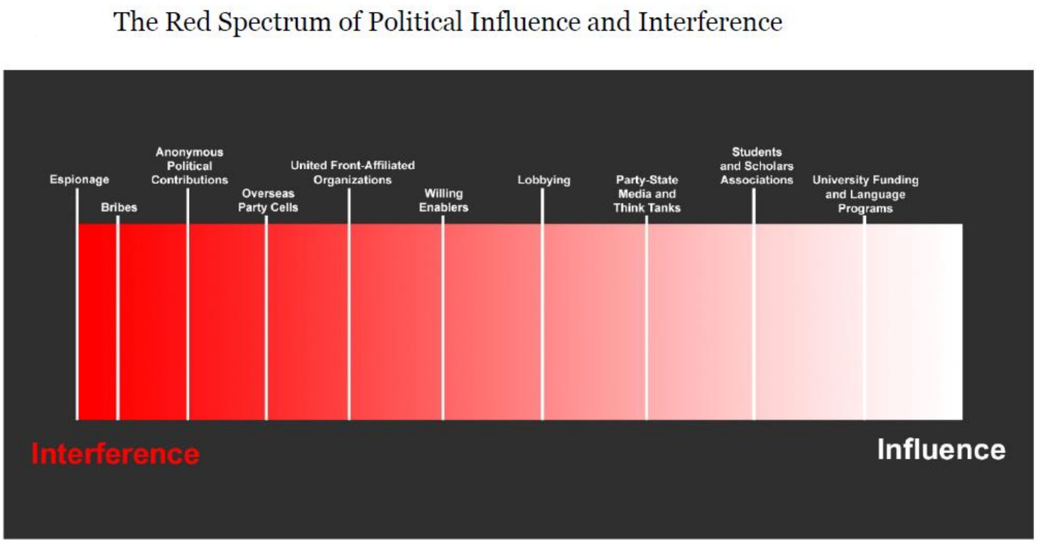

Figure 3.16: The red spectrum between Interference and Influence- Source: Parello-Plesner and Li, 2018 [179]

This red-spectrum could help to detect different level of threats in case of outward investments especially in the case of mergers and acquisitions[180], but also in the case of partnerships with foreign companies, universities[181], research centres and public procurement initiatives. Economic and investment activities could be executed to acquire "local identities" with the end of obtaining access to influence or interference activities (i.e. theft of commercial secrets) or to get access to military technology, infrastructures and other strategic activities. In conclusion, I argue that when sharp power elements can be detected in Chinese outward investment behaviour, the political reaction in the host state sshould be better formulated and understood. For example, considering different degree of risks, from influence to interference, effects on national security could be different. At the "influence" level, it could generate a "need-to know reaction", in order to gain more transparency and publicity. When the threat instead reaches the "interference" level - which in other terms means "coercively obtain a pro-China agenda" (Parton, 2018), - it could have a stronger impact on national

[179] Source: Parello-Plesner and Li, 2018: 27.
[180] For example, an application of this red-spectrum to OFDIs performed in information, media or technology sector could hide "the long arm" efforts of extending CCP's control on the Internet and social media in order to promote of censorship and surveillance, silencing criticism over sensitive topics not only at the domestic level, but also at the international one.
[181] i.e see Lloyd-Damnjanovic, 2018.

security in the host country, being perceived as of potential harm to the core values of other states, or, more in general, of liberal democracies.

3.7 Conclusion

In this chapter I have explored the independent variable of my research - ***Chinese outward investment behaviour.*** I started from the definition of authoritarian capitalism and from the dichotomy between authoritarian capitalism on the one hand and democratic capitalism on the other hand. Then, I explored the Chinese case which, in spite of thirty years of economic reforms, failed to translate into a full democratic transition. Moreover, under President Xi Jinping China "has begun to flex its muscles as a major power" (Nathan, 2015: 156). As well expressed by Nathan, the new "China challenge" is expressed by "encouraging authoritarian regimes by the power of its example", "helping to ensure the survival of authoritarian regimes that are key economic and strategic partners", "attempting to burnish its national prestige abroad promoting authoritarian values and continuously seeking "to roll back existing democratic institutions or to stifle sprouts of democratic change in territories where it enjoys special influence" (Nathan, 2015). This chapter has explored Chinese national identity and its international projection as shaped by the CPC.

From a theoretical standpoint, for the analysis of the investment behaviour, I adopted Carney's approach on authoritarian capitalist intervention in foreign countries toward foreign direct investments. According to Carney, authoritarian capitalism behaviour in the case of outward direct investments can be analysed by studying two main features: State capacity and state motivation. While his theoretical framework has been applied to State owned enterprises (SOEs) and Sovereign Wealth Funds (SWFs) performing aggressive investment behaviours in acquiring foreign listed companies, I argue that this theoretical model is valid also for Chinese private sectors. In the Chinese case, trying to outline a stark distinction between private and public enterprises misrepresents reality. Therefore, following Milhaupt and Zheng's challenge to the "ownership bias", I prefer to explore the "mechanism of capture" (Milhaupt and Zheng, 2015) highlighting how China on the one hand "has only attenuated control over state-owned enterprises", and on the other "exerts significant control rights over private firms in which it holds no ownership interests" (Milhaupt and Zheng, 2015: 688).

Chinese outward investment behaviour cannot be attributed just to the normal game dynamics of a regular economic environment. Scrutinizing the determinants and characteristics of Chinese outward investments is a recurring theme in international business literature. In this chapter, a 10-

year literature review of Chinese OFDI's revealed that, when applied to Chinese firms'investment behaviour, normal theoretical frameworks of international business strategy only partially work. Chinese investments are often not transparent. In fact, real ownership often remains difficult to determine. Subsidies, financial conditions, specific political directives create a market distortion which often affects the investment abroad. Moreover, management ties to government are a common factor, and when dispatched abroad firms have to maintain a report line to the government. The increasing number of investments, especially in key technological sectors, crucial supply-chain conjunctions, energy and military sector (dual-use) are posing a huge challenge to democratic market capitalist powers which try to defend openness and knowledge sharing.

Chinese state capacity is investigated through an analysis of outward investment policies and their results in OFDIs' expansion, so that they can be considered a proxy for government capabilities, strategic planning and skills in government machinery. China's trade and investment historical path is characterized by four stages, which I have named "crossing the river by feeling the stones" from 1979 to 1991; "of expansion and regulation" from 1992 to 1998; of "going global" from 1999 to 2006 and "of acceleration or grand strategy era" (from 2006 to 2016). Despite the global financial crisis, this period was characterized by an astonishing outbound expansion, thanks to policies inspired by a global strategy such as the "Belt and Road Initiative" with the specific aim of reinforcing domestic national industries. In 2015 for the first time the outbound investment flow outdid the inbound investment flow and in 2016 OFDIs reached US$170.11 billion, with a change of portfolio investments from upstream oil fields to technology and innovation capacities and with an increasing presence in advanced economies. This remarkable economic shift happened synchronically with the Chinese government guidelines for encouraging global competitiveness of Chinese firms and national development goals. In fact, all these stages of investments have been connoted by strong state policy support and macroeconomic control of outward foreign direct investments through "vigorous investment demand, massive capital inflow and rapid export expansion" (OECD, 2008: 4). The ideational patterns behind Chinese international political economy are strictly connected with the role of the political power. CCP has a strong role in determining the parameters of economic policy discussion. It is the main source "where the correct ideas come from" (Fewsmith, 2003).

Here comes the second feature: Chinese investing motivations. They are determined by two sources of threats which directly affect the regime stability of an authoritarian country: the risk "due to crowding-out effects" and the "risk due to economic liberalisation" (Carney, 2018). My conclusion of this analysis is that the Chinese state motivation to intervene requires a deep understanding of more political factors, beyond economic factors. I have thus dealt with the resilience and advance of the ruling Party. Looking for an intervening variable which lays down between the Chinese outward investment behaviour and the national security concerns in the host country, I argue that what is being used is *sharp power.* A power that "pierces, penetrates or perforates the political and information environment in the targeted countries" (Cardenal et al., 2017: 6). When a non-market parent company targets a company in a host country, it could become a "black-box" which automatically engages in non-market strategies; moreover, it could put in practice CCP guidelines in a democratic host state. These elements have created national security concerns in many host countries. In order to investigate action and agency, which appeal to ethical concepts such as responsibility, I argue that it could be useful to use, as an intervening variable, the concept of Chinese sharp power. The bigger the investment's distance from the φ-self (China State), the stronger is the market's natural functioning. A map of possible influences can also help the host countries detect when investments are made for non-market reasons and instead follow Chinese domestic political priorities. The state motivation hypothesis encompasses different degrees of activism, from passive monitoring, to tunnelling or influence and outright interference. Transparency and reciprocity are the two main features that, notwithstanding several years of policy development, have been missing in the Chinese policy agenda. This is where sharp power exploits the asymmetries of a non-level playing field.

Chapter 4. National security and political implications of Chinese OFDIs in United Kingdom, Germany, Italy and France

4.1 Introduction

In this part, I investigate the core question of my research project: "Given the Chinese increased level of outward foreign direct investments, why are there economic security concerns for Western democracies? And what are the political implications in United Kingdom, Germany, Italy and France of Chinese direct investments?" The primary purpose of this study is to test these hypotheses:

1) *Null Hypothesis:* there is no correlation between outward direct investments performed by an authoritarian regime and national economic security issues in a democratic host country;
2) *Correlative Hypothesis*: there is an association between the two concepts, but it is not possible to specify the nature of this relationship;
3) *Causal Hypothesis*: OFDIs performed by an authoritarian capitalist actor, such as China, are driven by a "national strategy", which under certain circumstances – such as "sharp power" - can cause a national economic security issue for a democratic host country.

In order to verify the above hypothesis, I am going to apply theory testing process tracing, starting from Moran's operative definition of economic security over IFDIs. Real national security implications must be inferred, since the evaluation is never released to the parties nor to the public. The unit of analysis is the Chinese investment behaviour contained in a single investment.

Following Moran's theory (Moran, 2017: 5), I am going to test the operational definition of Chapter 2. If:

Threat 1) the domestic firm to be acquired controls access to a sensitive semi-unique technology, critical good or service that does not have substitutes in the international market, that can be deployed or sell against the host country, or if

Threat 2) the domestic firm to be acquired under the instruction of the foreign acquirer may delay, deny, or place conditions upon provision of output that could be deployed against the interest of the host country, or if

Threat 3) the domestic firm to be acquired could be used for penetration or surveillance damaging the host country, without the ability of the users to switch to other secure alternatives there is a national security threat wherever they take place and national security authorities might rightly be concerned.

This definition, according to agency theory, helps to tease out the possible divergences between the target company's management and the governmental goals of protection of the host country's national interest. The domestic reaction to a national security issues may vary. Some countries could have adopted preliminary scrutiny, veto or imposition of conditionality, or may even not react. As exposed in Chapter 1 on National Security, in order to detect the political effects of Chinese OFDIs I will use the Economic Security Matrix over FDIs:

		FDIs' economic environment	
		FDI in a liberal order	*FDI with protectionism*
Political environment	*Cooperative Political environment*	**Open market**	**FDI regulations**
	Competitive Political environment	**Contested environment**	**Economic warfare**

Figure. 4.1 – National Security debate on FDI - matrix (see Chapter 1: 43)

In this figure, states can be positioned and ranked in the above matrix at any time. In order to detect what generates a movement from one quadrant to another, I borrow an image from electricity fields. Buzan's regional security clusters vis-à-vis China's OFDIs can be outlined identifying the host country's "electric charges". As charges of the same type repel each other, there are circumstances – such as same political or economic interests - that determine competition among states, each being determined to improve its own situation and trying to be more successful than others. States could show suspicion towards other countries given that the same interests can be hard to be fulfilled simultaneously. Actors tend to display exacerbating action-reaction patterns in a zero-sum game. As charges of opposite types are instead attracted together, states identify their weaknesses and show a mutual interest in supporting each other. This scenario could even have similarities with a value chain, wherein differentiated sets of activities are performed by different states. As the chain of activities gives the product more added value than the sum of added values of all the activities on their own[182], actors share information and resources based on formal agreements or strategic alliances. These circumstances act as a glue reinforcing a common direction.

[182] Porter (1985).

While for the economic environment, a shift from a quadrant to another can be easily identified by looking at the FDI Regulatory Restrictiveness Index of the host country in the period of analysis, the political environment can be outlined by looking at the political debate on major Chinese investments. More in details, it is possible to detect two levels of effects: on domestic policy and on foreign policy. The latter can be split into three levels of investigation: On «China's issues» in International Organizations, on implications on EU institutional process and on Transatlantic relations.

At the domestic level, in the competitive scenario *vis-à-vis* Chinese investments, the political debate could exacerbate "the invasion narrative" and testify to heightening national security concerns, leading to regulatory modifications restricting access to strategic assets. Chinese capital is considered different from that originating elsewhere as it is often anchored toan authoritarian regime thta plays an active role in business both in terms of government regulations and direct financial support. Chinese investments are notably attracted by foreign excellences, while European companies frequently complain of a lack of reciprocity, claiming they are offered only a limited access to the Chinese market. In this scenario, political reaction in the host country would not only highlight risks for domestic employment and environmental standards buto also concerns of a Chinese attempt to interfere in domestic matters, for example the deployment of malware on critical infrastructure, economic espionage or even political interference. Chinese investment behaviour works hard in targeting foreign companies "to digest and absorb" their technologies. In a cooperative scenario *vis-à-vis* Chinese investments, the political debate could have led to strengthen political ties through diplomacy and cooperation initiatives. In a period of economic crisis, deeper trade and investments with China are often prioritised at all costs, in order to boost the host country's economy. R&D bilateral cooperation agreements, infrastructural projectsand university exchanges are increased, even blinding an eye to labour standard requirements or on human rights. A host country's government may not see any difference between investors, nor any sensitivity in links between companies and the Communist Party, as all money is perceived to be equal and equally welcome. As a consequence, national security issues are not in charge of the decision and governments do not oppose further acquisition of critical infrastructure.

Examining the second effect - on foreign policy – it is again possible to identify three levels of analysis. The first one regards the impact on «China's issues» in International Organizations; the second one is the impact on the European Institutional Process; the third one is the impact on Transatlantic relations.

1) *Implication on "China's issues" in international organizations*

At this level of analysis, the host country could adopt a competitive position vis-à-vis China's "core interests" in international politics, or a cooperative one. The analysis could reveal the host country's consolidation of traditional positions safeguarding and protecting human rights and sovereignty, or show a reversal of a policy position on Chinese national sovereignty and territorial disputes, human rights, Communist Party's religious oppression, labour rights and so on. In this case, host countries may welcome Chinese investments and show no interests in antagonizing China at the international level. In a global context it may opt to be not only an economic partner, but also a security partner, even echoing China's position on the South China Sea disputes[183] or weakening its own historical position as a defender of human rights[184].

2) *Implication on European institutional process*

Unlike trade policy, which has been a supranational competence since the European Economic Community took shape in 1957, the European Union did not have competence over negotiation of FDI agreements until the 2009 Lisbon Treaty. Since then, at any rate, its implementation has been very slow. For inbound FDIs, the formal policy until 2009 was entirely at the national level, and member states competed with each other to attract foreign investments through various form of incentives, both financial (tax and other fiscal incentives) and non-financial (education and training, easing bureaucratic procedure, lowering labour and environmental standards). National security issues were entirely national. However, other instruments originally designed for other purposes, such as the European Programme for Critical Infrastructure Protection (EPCIP) or the EU Directive on Cross-border mergers and the Economic Concentration Regulation (EUMR), has long been considered as an "unconscious" attempt at conducting a supranational screening mechanism of OFDIs.[185] With the Lisbon Treaty, foreign direct investment policy has been included in article 207 and its competence has been transferred at EU level. The analysis of the political effects of Chinese OFDIs is particularly interesting in the period of analysis (2006-2016), due to the sovereign debt crisis in much of the Eurozone during this time frame. The external factor (opportunity/threat), derived from the unprecedented influx of Chinese FDIs, could have had a political impact on the process of

[183] i.e. see Hungary: https://www.kormany.hu/en/ministry-of-foreign-affairs-and-trade/news/statement-on-the-situation-in-the-south-china-sea.
[184] https://www.reuters.com/article/us-eu-un-rights-idUSKBN1990FP.
[185] See Meunier, 2014: 999.

European integration. The analysis of political effects could have two different results. On the one hand, in a cooperative environment *vis-à-vis* Chinese OFDIs, investments may have been welcomed and the political debate could highlight the benefits of improving overall competitiveness, bringing new economic opportunities for the host countries, especially welcome in a period of financial crises. Countries may oppose a supranational screening mechanism due to liberal rationales and/or anti-protectionist beliefs. The political debate could exalt theprospective mutual benefits also in terms of social and cultural benefits.
However, a cooperative political environment towards China does not exclude potential conflicts among Member States, with a potential shift of the regional security complex, represented by EU. In this scenario a "regulatory race" among Member States could be exacerbated, in order to attract foreign investments, with national capitals each scrambling for outside fresh capital to alleviate debt crisis and to lower domestic unemployment rates. Each country has its own economic priorities, and would put in place incentives for obtaining more and faster investments than the other countries. China might take advantage of this lack of coordination at the EU level and leverage differences among member states. The invested country in a cooperative scenario would not outline national security issues even in strategic areas, demanding to be able to control the eventual loss of strategic assets and technological edges by itself. This could ultimately lead to catalyzing a shift in the traditional regional security complex represented by a stronger EU - not only acting with a unitary voice but in the actual configuration after the Lisbon Treaty -exacerbating national security concerns in other countries and mining economic openness even in the EU market.

On the other hand, the unprecedented Chinese penetration into European markets could have instilled fears among governments and publics for exploiting national icons, sovereign assets, enabling dual-use technology, andallowing commercial and even state espionage. Chinese investments have shown an active role for the state, triggering claims that intellectual property rights are not respected, of forced technology transfers from the host countries and of currency manipulation.
In a competitive scenario vis-à-vis Chinese OFDIs, the external factor could reinforce EU cohesiveness, in order to find a coordinated response to a common threat. From the political debate in a Member States could emerge the need to bolster a set of investment screening tools at the national level. Countries define national security in different ways and recent policy activity has driven to a re-evaluation of many sensitive sectors and to more "encompassing" concepts of national security in various countries. At the EU level, if some member states exercise more stringent control over inbound investments than others, foreign investors could maximize this fragmentation,

exploiting bilateral agreements, investing in the country offering the best opportunity and then spreading their goods and services across the EU market.
One solution of this conundrum would be the institution of an EU screening mechanism, providing a common set of tools to protect strategic assets. However, the institution of a supranational mechanism for screening OFDIs without finding a common ground for the definition of national security - *European Security* - could not happen without institutional innovation at EU level. In a competitive political environment vis-à-vis China, the failure of a supranational investment regime screening tool could exacerbate the reactions against Chinese OFDIs and lead to demands more severe and protectionist measures.

3) *Implication on Transatlantic relations*

Given the escalating competition between China and the United States, political implications stemming from a reaction to the increasing influx of Chinese investment could also affect transatlantic relationship. Centrifugal pressures that lead to a competitive environment vis-à-vis Chinese OFDIs could put all Western democracies into the same battlefield against the same enemy. Instead, in a cooperative environment, the perception of the U.S.A. as an inhospitable environment for Chinese investments could lead China to choose EU member states and exploit their lack of restrictiveness and investment review process, trying to take advantage for themselves. This could lead to a shift of perceptions of regional securities cluster and the "amity and enmity among states"[186], revealing an unexpected eastward shift by historically democratic countries.

In conclusion, it is possible to compare the assessment of the economic and political environment of the host country vis-à-vis Chinese investment behaviour with China's own assessment of the EU countries from the standpoint of their relationship with China. Based on this comparison, it is possible to ascertain if my results show similarities with the political and economic implications that have emerged from the security debate.

4.2 Selection of cases

[186] Buzan and Weaver, 2004. Regional security clusters regard defence and foreign affairs (i.e. joint military exercises, creation of joint forces, joint border patrols, weapons standardization, and common arms and strategic industries), but also law enforcement and information and intelligence sharing networks.

As noted in the previous chapter, Chinese Outward Investments in Europe reached a record high of 35 billion in 2016, four times higher than European FDIs in China (8 billion euros).[187] The choice of the cases I selected for this research was made by selecting countries based on the amount of investments received from China during the period of analysis. As already discussed in the previous chapter, the research conducted by Merics in 2017 has shown that top five destinations in Europe from 2000 to 2016 have been the UK (23,633 EUR million), Germany (18,817 EUR million), Italy (12,839 EUR million), France (11,458 EUR million), Portugal (5,726 EUR million) (Hanemann and Huotari, 2017: 10).

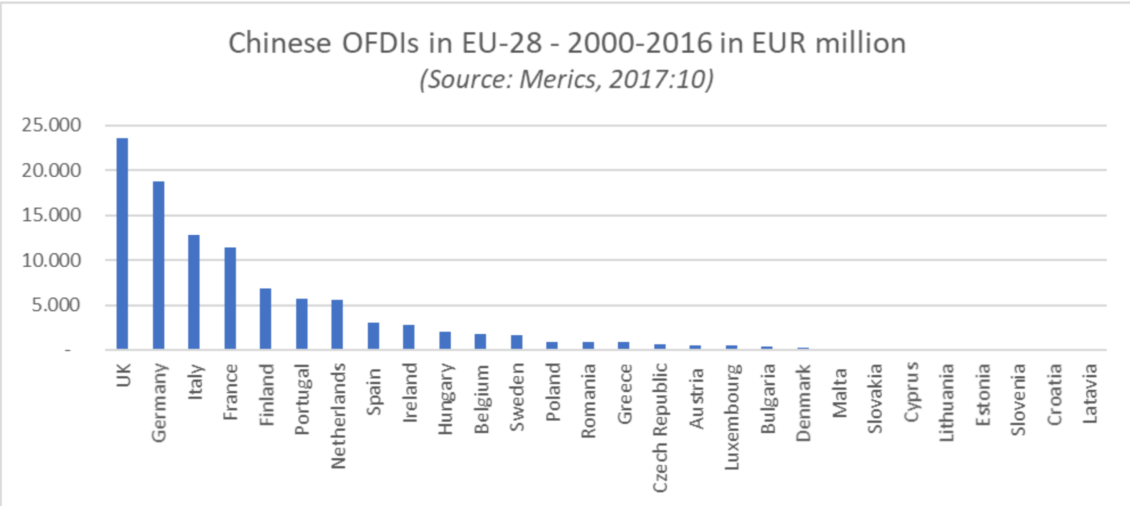

Figure 4.2 – Chinese OFDIs in EU-28 period 2000 - 2016

Since the individual investment is the unit of analysis of my project, this analysis has been primarily based on data about mergers and acquisitions, investments and joint-ventures where the acquirer's country is China and the transaction party are located in the UK, Germany, Italy and France. My analysis of data for single investments has relied on the China Global Investment Tracker's database of the American Enterprise Institute. Deals valuations are based on reported terms and are registered according to their announcement date. The table below shows results of the database consultation.

[187] https://thediplomat.com/2019/03/mapping-chinas-investments-in-europe/

Year	Month	Chinese Entity	Quantity in Millions	Share size	Transaction Party	Sector	Country
2015	**June**	**ChemChina, SAFE**	**$ 7.860**	**100%**	**Pirelli**	**Transport, Autos**	**Italy**
2016	**August**	**Guangdong Midea**	**$ 4.680**	**82%**	**Kuka**	**Technology**	**Germany**
2011	**August**	**CIC**	**$ 3.240**	**30%**	**GDF Suez**	**Energy**	**France**
2007	**July**	**China Development Bank**	**$ 3.040**	**3%**	**Barclays**	**Finance - Banking**	**Britain**
2016	**December**	**Jiangsu Shagang led consortium**	**$ 2.960**	**49%**	**Global Switch**	**Technology - Telecom**	**Britain**
2008	**April**	**SAFE**	**$ 2.800**	**2%**	**Total**	**Energy**	**France**
2014	**November**	**State Grid**	**$ 2.760**	**35%**	**CDP Reti**	**Energy**	**Italy**
2014	March	SAFE	$ 2.760	2%, 3%	Eni, Enel	Energy	Italy
2008	April	SAFE	$ 2.010	1%	BP	Energy	Britain
2012	May	Bright Foods	$ 1.940	60%	Weetabix	Agriculture	Britain
2016	December	CIC	$ 1.780	11%	National Grid	Energy - Gas	Britain
2016	November	Ctrip	$ 1.740	100%	Skyscanner	Tourism	Britain
2016	February	Dalian Wanda	$ 1.730	50%	Auchan	Tourism	France
2016	**February**	**Beijing Enterprises**	**$ 1.590**	**100%**	**EEW**	**Energy - Alternative**	**Germany**
2014	July	Legend	$ 1.540	100%	PizzaExpress	Agriculture	Britain
2016	June	Three Gorges	$ 1.540	80%	WindMW	Energy - Alternative	Germany
2012	July	Sinopec	$ 1.500	49%	Talisman Energy	Energy - Oil	Britain
2014	November	Jin Jiang Hotels	$ 1.490	100%	Louvre Hotels and Starwood Capital	Tourism	France
2016	March	Shandong Ruyi	$ 1.480	70%	SMCP	Other - Textiles	France
2013	April	Huawei	$ 1.300		VimpelCom	Technology	Italy

Figure 4.3: Top Chinese OFDIs in Britain, Germany, Italy and France – 2006-2016

As a caveat, this analysis is based on publicly and verifiable investments, as the Ministry of Commerce (MOFCOM), which is the official source for Chinese OFDIs, provides only aggregate data and does not disclose single deals. Moreover, it does not include troubled, nor blocked/aborted investments. When there is the case of national security implications of a deal that attracted public attention and is relevant for the analysis, it is treated in the domestic political debate.

4.3 United Kingdom

The United Kingdom, from an economic standpoint, is an open market country. The FDI Regulatory Restrictiveness Index in the period of analysis is below the OECD average.

Figure 4.4: United Kingdom's FDI Restrictiveness Index: 2006-2016 – Source: OECD, 2019

4.3.1 Deals description

The United Kingdom has long been one of the top destinations of Chinese investments in Europe. During the period of analysis, the two biggest Chinese deals involved Barclays and Global Switch.

I) Barclays

a) The Chinese acquirer

China Development Bank (CDB) 国家开发银行 (*Guójiā Kāifā Yínháng*) is a primary financial institution in China, being one of the three Chinese policy banks[188]. It was founded in 1994, led by a

[188] Policy banks or institutional banks refer to those banks set up by State Council of China in 1994 (together with The Export–Import Bank of China – Exim - and the Agricultural Development Bank of China -ADBC), responsible for funding projects related to China's economic growth. Today, CDB has a registered capital of RMB 421.248 billion. Its shareholders include the Ministry of Finance of the People's Republic of China (36.54%), Central Huijin Investment Ltd. (34.68%), Buttonwood Investment Holding Co., Ltd. (27.19%) and the National Council for Social Security Fund (1.59%) (Source: http://www.cdb.com.cn/English/gykh_512/khjj/).

cabinet minister at the Governor level, under the direct jurisdiction of the State Council of China in order to finance high-priority government projects. Together with People's Bank of China (PBOC), China's central bank, it has full ministerial rank (Downs, 2011: 6). Its internal organisational structure has long reflected that of a state-linked organization. In fact, the governors of the bank – the executive managers - report to a Board of Supervisors, who are accountable to the central government.

Figure 4.5 – China Development Bank Organizational Structure189: Annual report 2006

From 1998 to April 2013 it was led by Chen Yuan, considered a Princeling as he was the son of Chen Yun, one of the "eight immortals" of the Communist Party[190]. He ran the bank with stellar results, especially delivering a strong reduction in the bank's NPL (non-performing loans) ratio and implementing several risk-management measures, such as separating credit risk assessment and the loans approval (Downs, 2011). Under his guidance CDB played a relevant role in financing huge infrastructure projects in China (motorways, railways, urban infrastructure), being at the heart of the system of the local government financial vehicles (LGFV), created after the recentralization reform of 1994, borrowing loans to local governments using land as a collateral[191]. CDB has been the engine for the main sectors strategic for Chinese national economy, such as mining, petrochemicals, telecoms and high tech. For example, in 2004 it helped Huawei with a US $10 billion credit line[192] to open up to the overseas market, undercutting competitor's bids. Chen Yuan's success on NPLs was, however seen as a challenge to China's big four state banks (Downs, 2011: 17)[193]. Here it's worth

[189] Source: https://web.archive.org/web/20160303182154/http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=1956

[190] The expression is commonly used in English as an allusion to the Taoist deities known as Eight immortals to refer to the Eight Elders 八老 (Bā lǎo) which were: Deng Xiaoping, Chen Yun, Li Xiannian, Peng Zheng, Yang Shangkun, Bo Yibo, Wang Zheng, Song Rengjiong. For futher information on Chen Yun see Vogel, 2005.

[191] See: Forsythe and Sanderson, 2013.

[192] https://www.newsweek.com/huawei-way-108201.

[193] Andrew Yeh, "China Development Bank: Barometer of the communist party's ambitions for the 21st century," Financial Times, December 12, 2006 cited in Downs, 2011: 17.

recalling Wen Jiabao's attempt in January 2007 to transform CDB, together with the Export–Import Bank of China – Exim - and the Agricultural Development Bank of China -ADBC into commercial entities (Downs, 2011: 19). China's Commercial Banking Law forbids banks to engage in both commercial and investment banking, which brought so much profits to CDB. As a consequence, CDB at the end of 2008 "nominally became a commercial bank", but the reform was proactively postponed by CDB, which was able to highlight its indispensable role for the government in the post-financial crisis (Downs, 2011: 20-21). The last decade was then characterized by the stalling of the commercialization process and CDB's increasing involvement in many international projects to demonstrate its fundamental role as a policy bank. CDB supported Chinese pillar industries and top-priority State projects, especially supporting Chinese companies aiming to scale up their investments operations overseas. As we can read on CDB's website: 通过"投棋布子"主动拓展国际业务 (*Tōngguò "tóu qíbù zi" zhǔdòng tàzhǎn guójì yèwù)* "Actively expand international business through "playing chess" and "引导和支持中资企业扩大对外投资合作" (*Yǐndǎo hé zhīchí zhōng zī qǐyè kuòdà duìwài tóuzī hézuò*) "Guide and support Chinese-funded enterprises to expand foreign investment cooperation".[194, 195] CDB extended lines of credit through EBLs (Energy-backed loans) to major energy producer, which were hurt by the collapse of oil prices and the credit crunch of 2009, such as Brazil, Ecuador, Russia, Turkmenistan and Venezuela, loans "secured by revenues for the oil sold to Chinese national oil companies" (Provaggi, 2013: 3-4). This was done following Chen Yuan's believe of "shifting China's foreign exchange reserves away from low-yielding financial instruments into higher-yielding risk assets" […] "investing in energy and minerals is a good way to hedge against a declining dollar and rising commodity prices" (Downs, 2011: 73). CBD also expanded "Sino-foreign funds" such as China- Africa Development Fund, Sino-Belgian Fund, China-Italy Mandarin Fund, ASEAN China Investment Fund L.P. and Infinity Group (Provaggi, 2013: 3-4) and has formed strategic banking alliances within the framework of the Shanghai Cooperation Organization (SCO), China-ASEAN Dialogue and BRICS (Łopacińska, 2015: 156). Another demonstration of its relevant role as an instrument for the government to expand in global agenda is the participation of CDB in the Silk Road Fund, created to foster increased outward investments along the "One Belt and One Road" initiative, in line with the "Made in China 2025" strategy and supporting the successful completion of the 12th "Five-year Plan"[196]. In 2016, China Development Bank won the People's Social Responsibility Award for the 11th consecutive year, and

[194] See: http://www.cdb.com.cn/ywgl/xdyw/gjhzyw/

[195] For example, in 2009 it provided ZTE with US$15 billion credit line (Source: https://www.itweb.co.za/content/Olx4zMkypPkv56km)

[196] For further supporting strategies see: http://www.cdb.com.cn/English/ywgl/xdyw/cpzxsj/

the previous year it earned the 87th rank in the Fortune Global 500 (Fortune) and nomination to The World's 50 Safest Banks[197].

b) *The domestic target*

In 2007 the China Development Bank purchased 3.1% of shares from Barclays PLC ("Barclays") for €2.2bn ($3.1bn), one of the largest banking institutions in United Kingdom. Its history dates back to the 17th century when John Freame and Thomas Gould traded as a goldsmith in Lombard Street in 1690. The name of the bank refers to the James Barclay, who after marrying Johns Freame's daughter joined the partnership.[198] In 2006 Barclays was the second largest bank in Europe with 1,484,162 m€ of assets and 31,771 m€ of revenues and 118,600 employees (Mediobanca, 2007: 125). The banking sector in the period between 1998-2006 was globally characterized by "mega-mergers", which significantly increased the average size of banks, mainly through equity exchanges. Barclays itself in 2005 bought Absa Group in South Africa with 32,800 employees (Mediobanca, 2007: 17). At the time of the acquisition Barclays was the third largest commodities bank in the world[199], engaged in global retail and commercial banking, investment banking, wealth management and investment management (Barclays Annual report, 2007).

On March 19th, 2007 Barclays and ABN AMRO Holding N.V. ("ABN AMRO"), the largest bank in the Netherlands, announced that they "were in exclusive preliminary discussions with regard to a potential combination of the two organisations that would create value for both sets of shareholders"[200]. In order to help finance its bid for ANB AMRO, Barclays decided to sell as much as 19% of itself through a rights issue to the state-controlled China Development Bank and Singapore's Temasek Holdings to fund a fresh 67.5 billion euros ($93.1 billion) bid for ABN Amro. The investment was "equivalent to roughly 19% of the U.K. bank's current market value" and would have left "China Development Bank and Temasek owning as much as 11.5% of a combined Barclays and ABN AMRO"[201].

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197 http://www.cdb.com.cn/English/gykh_512/khry/2011/

198 https://home.barclays/who-we-are/our-strategy/backing-the-uk/london/history/

199 See: Gao Jian, vice-governor of CDB http://en.people.cn/90001/90778/6281018.html

200 https://web.archive.org/web/20090107012336/http://www.newsroom.barclays.co.uk/content/Detail.asp?ReleaseID=985&NewsAreaID=2

201 See: https://www.marketwatch.com/story/barclays-looks-east-to-fund-new-93-billion-abn-amro-offer and https://www.theguardian.com/business/2007/jul/23/china.internationalnews

On July, 2017 China Development Bank paid 2.2 billion euros for a 3.1 percent stake of Barclays to become one of Barclays' largest shareholders, signing a strategic alliance. On the transaction China Development Bank was advised by Blackstone, the US investment bank, whose 9.9 per cent stake was acquired by China Investment Corp. few months earlier, for 3 billion US$[202]. On October 2007, however, Barclays announced that not all of the conditions relating to its offer for ABN AMRO Holding N.V. were fulfilled and, as a result, Barclays withdrew its offer with immediate effect. This left the Royal Bank of Scotland free to proceed with a counter-bid for ABN AMRO, while Barclays announced that "it was restarting the Barclays PLC share buy-back programme to minimise the dilutive effect of the issuance of shares to China Development Bank and Temasek Holdings (Private) Limited on existing Barclays PLC shareholders. This programme was intended to run until 31st December 2007, but was subsequently extended to 31st January 2008" (Barclays Annual Report, 2007: 28). However, a few days after the failure to buy ABN AMRO was announced, China Development Bank "did not feel perturbated"[203] and negotiated with Barclays a Commodity Strategic Alliance (initially in energy, metals and emissions) leveraging Barclays' dominant position in regions rich in raw materials, such as South Africa, Zambia, Zimbabwe and Nigeria. Barclays, in turn, hoped to improve its position on the Chinese market. As reported in *China Daily* "The Chinese policy bank will appoint Barclays as its preferred provider of commodity market risk hedging while the British financial player will help enhance its Chinese partner's commodities execution and risk management infrastructure"[204].

The CDP-Barclays deal can be considered a major example of Chinese M&A strategy in Europe, representing the ambition of a Chinese bank to rapidly transform into a global enterprise, quickly acquiring years of experience of a foreign financial institution involved in highly competitive markets and acquiring skills necessary to operate under different economic systems. The effect of this operation cannot be evaluated merely by looking at the value of the investment project that was considered ill-timed. "Shares of Barclays Bank, for which CDB paid £7.20 ($14.81) per share, closed at £1.54 ($2.24) on December 31, 2008, for a loss of 79 percent". (Downs, 2011: 32). For this reason, financial operations like this were strongly criticized in China. Nevertheless, this acquisition can be considered perfectly aligned with Chen's outward strategy. "In July 2009, Chen made his oft-quoted statement that "everybody is saying that we should go to the international markets to buy up low-price assets. But I don't think we should go to Wall Street. We should think more about making

[202] https://www.ft.com/content/8360e60c-393a-11dc-ab48-0000779fd2ac
[203] https://www.forbes.com/2007/10/10/barclays-china-development-markets-equity-cx_jc_1010markets06.html#448fe5c373ae
[204] http://www.chinadaily.com.cn/business/2007-10/11/content_6335401.htm

acquisitions or partnerships in areas with natural resources" (Rui, "Chen Yuan: Recommending Chinese enterprises make acquisitions" (Downs, 2011: 74). This strategic alliance was not only reiterated but also reinforced. In fact, in 2014 they announced a strategic cooperation in the provision of banking and investment services in African markets with a new Memorandum of Understanding signed in Beijing, which replaced the previous one of 2007. CDB in this way reinforced its corporate and investment banking sector, giving the Chinese state-owned bank access to its retail and business banking platform in 14 African countries[205].

c) Theory testing: national security risk assessment

From the point of view of the host country, national security implications are not detected, since this is not the case of an investment through which CDB wants to get control of access of critical goods and services of the host country, nor this is the case of a target firm that have a semi-unique technology that can be deployed against the domestic interest. CDB therefore does not want to acquire the bank for penetration of surveillance in the host country. Rather, this investment represents a case of a Chinese investor who acquired a bank which had a strong footprint in the African continent since 1925 and that can provide corporate and investments banking capabilities and access to a retail platform in 14 African countries. This is the case of a Chinese state-backed bank extending its strategic tie-up to Africa, leveraging a third country's strategic competitive position.

II) Global Switch

a) The Chinese acquirer

The Jiangsu Shagang led consortium is a Chinese consortium named "Elegant Jubilee Limited ("Elegant Jubilee") that was set up by Li Qiang, a successful Chinese entrepreneur with significant experience in the Chinese telecoms and Internet markets, being the major shareholder of the data-centre company Daily-Tech Beijing Co. Ltd ("Daily-tec"). Daily-Tech Beijing was funded in 2009 and provides data storage services for Chinese and multinational companies and "it is a leading integrated service provider of internet infrastructure solutions, offering a range of services including

[205] https://www.ibtimes.co.uk/barclays-china-development-bank-renew-vows-africa-1441909

consultancy, planning, design, operations, maintenance services, project investment, outsourced design and construction services, and business collaborative operations to carriers and internet companies"[206]. The consortium was mainly funded by Jiangsu Shagang Group[207], China's largest private steelmaker, a "Superking-sized National Industrial Enterprises" and the Largest Private Steel Enterprise in China and a member of the Fortune Global 500 list of the world's biggest companies. Its history dates back to 1975 and the headquarter is located in Zhangjiagang City, Jiangsu Province. Other leading investors in Elegant jubilee consortium are AVIC TRUST, a joint venture asset management company of AVIC capital, a subsidiary of AVIC the largest defence aerospace State Owned Enterprise[208], OCBC of Singapore[209] and Asian Institutional Investors such as Essence Financial and Ping An Group (中国平安), the top Chinese insurance company (Global Switch, 2016). Lin Zuomin, Chairman of AVIC, is a member of the eighteenth Session of the CPC Central Committee. In other words, the heart of China's defence industry just bought a major data centre in the UK and no one seems to have noticed. It is odd that this has not been raised in any British media reports or in government discussions about the purchase.

b) The domestic target

Established in 1998, Global Switch is a "leading owner, operator and developer of large-scale network-dense, carrier and cloud neutral multi-tenanted data centres in Europe and Asia-Pacific". It was owned by the Reuben Brothers[210], named by The Sunday Times two of the richest people in Britain with a net worth of GB £13.1 billion. Global Switch's data centres are located in "Tier 1 cities", "offering a total of 365,000 sq m of world class technical space with further developments underway". Their network is provided to both public and private organisations.

[206] http://www.daily-tech.cn/en/index.php?m=content&c=index&a=lists&catid=31
[207] Also named Jiangsu Shagang Group, Shagang Group or Shasteel.
[208] For Aviation Industry Corporation of China, Ltd. (AVIC) history see: http://www.avic.com/en/aboutus/history/index.shtml. It is important to notice that the Chairman of AVIC was Lin Zuomin, who was also a representative to the National People's Congress and an Alternate member for the Chinese People's Congress Central Committee (https://aviationweek.com/awin/lin-zuoming-named-president-avic-i).
[209] https://www.ocbc.com/group/group-home.html
[210] https://www.reubenbrothers.com/mayfairs-first-family/

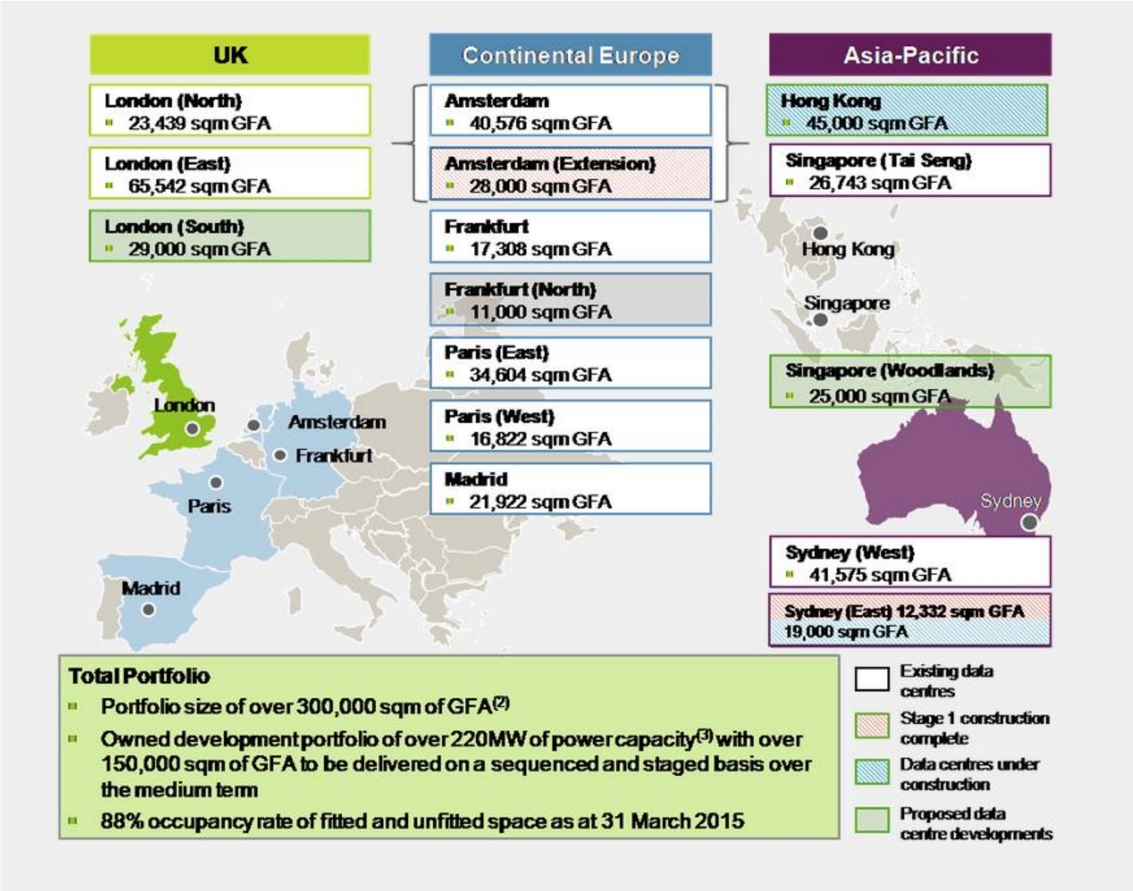

Figure 4.6: Global Switch Strategic Layout and Geographic Diversity[211]

In December 2016, Elegant jubilee, the Chinese consortium led by Jiangsu Shagang, bought a 49 percent stake in Global Switch for 2.5 billion pounds ($3.09 billion), in a strategic move aimed at sharing data centre technology and locations[212]. Daiwa Capital Markets Hong Kong Limited, the second largest Japanese investment bank after Nomura, was the sole financial advisor to the buyer consortium.

The deal was presented to the market as a win-win opportunity for both sides: the Chinese customers had the opportunity to expand internationally and vice versa Global Switch had the capacity to enter into a joint venture to develop a new data centre in the Shanghai Free Trade Zone and major Chinese banks' relationship to broaden the lending support available to Global Switch. (Global Switch, 2016). For the Chinese side, the deal was commented by Mr Li, who said: "We are tremendously excited to be investing in Global Switch, which has grown to become one of the world's leading data centre companies. We believe that bringing together the high-quality data

[211] http://www.daily-tech.cn/en/index.php?m=content&c=index&a=lists&catid=26
[212] http://www.chinadaily.com.cn/business/2016-12/23/content_27750667.htm

centres and operational excellence of Global Switch with the rapidly growing demand from Chinese customers creates a perfect match that will deliver significant future growth opportunities. On behalf of the investing consortium, we are delighted to be partnering with the Reuben Brothers and the Global Switch management team to grow the business strategically and to take it to the next stage of its profitable development". For the British side, he deals was commented by John Corcoran, Chief Executive Officer of Global Switch, who said: "We are delighted to be announcing today the introduction of a new strategic investor into Global Switch alongside Aldersgate Investments, our current shareholder. This investment will continue to open up opportunities for Global Switch to become the data centre provider of choice for new customers from across the globe, and especially Chinese companies growing in Asia and Europe and Western companies growing in China. We will continue to focus on serving all our customers well, delivering the reliability, world class security and flexibility they have come to expect as we enter an exciting new chapter in the Global Switch growth story"[213]. The Global Switch acquisition represents a primary example of a Chinese pull of investors of playing the game of catching up high-tech companies to expand internationally. "Technology is an Inexhaustible Resource"[214]. The consequences of the deal however should be looked in a wider period of time. On April, 2017 Global Switch announced "a game-changing co-operation framework agreement focused on data centre construction" with China Telecom Global (CTG), a wholly-owned subsidiary of China Telecom Corporation Limited, and Daily-Tech, one of China's top three data centre providers. In the Global Switch press release, Deng Xiaofeng, Chief Executive Officer of CTG, said: "We are delighted to enter into this worldwide relationship with two of the data centre industry's leading providers. This pioneering and important agreement will ensure our customers receive quality and secure data centre infrastructure, facilities and services as they expand internationally, as well as boosting CTG's competitiveness in new markets. We are also pleased to be taking another significant step forward in delivering against the objectives of China's Belt and Road initiative". Li Qiang, Chief Executive Officer of Daily-Tech, added: "This is an innovative, enabling and global cooperation agreement between three large-scale businesses with significant experience. It will offer new and secure growth opportunities to our strategic customers, and reaffirms our collaborative approach towards overseas expansion, by finding and sharing opportunities with mutual benefits. Ultimately, we aspire to serve more Chinese and international customers by working together"[215].

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213 https://www.globalswitch.com/growth/press-release/

214 http://www.sha-steel.com/eng/Culture.html

215 https://www.globalswitch.com/about-us/news/250417-china-telecom-global-daily-tech-and-global-switch-sign-game-changing-agreement-for-data-centre-industry/

Finally, looking in a wider range of time, it is important to notice that on December 29, 2018, during the quiet period between Christmas and the New Year, the Chinese investment consortium Elegant Jubilee acquired another two percent on top of the already owned 49 percent of the company, thus gaining the majority stake.

c) Theory testing: national security risk assessment

From the host country' point of view, this investment has national security implications. The object of the deal are data centres, central repository for data storage, which are considered a critical infrastructure, combining both physical data security risks and cyber security risks. In fact, it is not only relevant the geographic location of data centres and the environmental risks of the facility. Data centres are more than a "real-estate facility". It is an ecosystem that encompasses various aspects essential to ensure reliability and availability of an environment much bigger than the facility itself.

Data centres may be exposed to cyberattacks that can have consequences not only on the safety of its physical facility (i.e. turn on sprinklers to destroy thousands of servers, modify energy systems to cause a fire or explosion, or disable locks, alarms, and cameras) but also may be exposed to theft of data, leaving back doors open. They could be used to place malware and clients, both public and private companies, could get hacked. This is why the acquisition of data centres should have strong insurances in case of data breaches and evidence of compliance with standards and regulations. Adversaries could in fact use valuable data and information to circumvent host country's capabilities, leaving the country vulnerable to attacks with defence implications. The acquisition of datacentres is vulnerable to outside "influence" or "interference", and could become a vehicle for some kind of penetration by outside agencies, Chinese in this case. Considering that China at the domestic level is determined to shore up its Great Firewall and at the international level is mentoring other countries (such as Singapore, Malaysia, Pakistan, Egypt, Ethiopia, Saudi Arabia, and the United Arab Emirates) on assistance in creating systems able to identify threats to "public order" or to give "public opinion guidance," which is typically a euphemism for mass censorship[216], Chinese acquisition of data centres can be identified as threat III in Moran's framework. The third threat, in fact, derives from the potential acquisition of a company that "might allow a foreign company or its government to penetrate the domestic system "to monitor, conduct surveillance or place destructive malware within those systems" (Moran, 2017: 5). National security authorities might rightly have

[216] See: https://freedomhouse.org/report/freedom-net/freedom-net-2018/rise-digital-authoritarianism

been concerned about this acquisition, considering the investor and its link to the Chinese state and the damage that could rise from the advantage to use the host country's data against itself. Through a forward looking lens, considering the pervasive nature of data due to the exponential increase of devices interconnected to create "the Internet of things" (IoT) and the convergence of IT (information technology) and OT (operational technology)[217], this deal would show an increasing risk for the domestic country, including risk of espionage for economic, political, military or commercial gains to foreign investor and, in this case, to further China's own agenda and prosperity.

4.3.2 Domestic political implications

From a regulatory perspective, it is important to highlight that United Kingdom addresses national security concerns derived from inward foreign investments through two approaches. Firstly, the government has golden shares in some UK companies active in the defence sector, in order to avoid a foreign investor acquiring more than a certain percentage of a domestic company. Pursuant to the Industry Act 1975 UK government can also prohibit the transfer of important manufacturing businesses. Secondly, pursuant to Enterprise Act of 2002, UK uses antitrust scrutiny mechanism to take determinations if the transaction may pose harm to the public interest and has national security implications (Section 58). However, in the legislation there is no definition of national security and consequently the review may take place if the transaction meets the threshold of UK merger control regime or if it involves government contractors (OECD, 2016: 71). The review is conducted by the Secretary of State for Business, Innovation and Skills, in cooperation with the Competition and Markets Authority (CMA). The Ministry of Defence provides input to CMA in case defence companies are under investigations. The ultimate decision-maker on national security is the Secretary of State. There is no obligation for foreign investors to give notice of transactions, because it is the government that is responsible to identify those transactions to be reviewed (CMA, Mergers Procedural Guidance January 2014, Sector 6.1)[218].

The British government did not raise any concern, neither on the Barclays deal nor on the Global Switch one, the former being a "commercial matter"[219]. In the latter case, it probably evaluated the

[217] Devices that monitor physical effects, control them, or both. See: Shah, 2019.
[218] See: OECD, 2016: 71.
[219] i.e. see spokesman for the Department of Business, Energy & Industrial Strategy on Global Switch deal https://www.dailymail.co.uk/news/article-5242549/Chinas-swoop-data-firm-sparks-fears-UK-security.html

marginal increase in threat of penetration from transferring the ownership of these facilities as insignificant or as encompassed by normal cyber security risk, especially given the fact that the deal did not originally target a majority stake. Ben Harrington and Oliver Shah, in The Times[220], interviewed Sir Malcolm Rifkind[221], the former UK Foreign Secretary (1995–1997) and former head of Parliament's intelligence and security committee with Prime Minister David Cameron (2010-2015). He expressed his concerned about the deal: "The Government needs to be satisfied there are no risks involved. I would assume they will be taking advice as we speak from the intelligence agencies, from GCHQ[222] in particular, and from others with the expertise to know the risk factor". […] "If there is a significant national security dimension then anyone selling a British company would normally listen very carefully to the advice they receive from the British Government". Former first sea lord Admiral and Labour peer Lord West of Spithead[223] raised concerned about the acquisition: "I have a nervousness about the Chinese getting more and more involved in large chunks of our digital infrastructure"[224].

Obviously, after the acquisition, reassurances have been provided by the company even on its website. In fact, it affirms, downplaying the matter, that "operationally, nothing will change and it will be very much business as usual". Moreover, the company added in press release, that "data security is a paramount", being "of the highest importance to all our customers"[225]. Finally, it reiterated more in details that "unlike some data centre providers (such as systems integrators and managed service providers that also offer IT and cloud services), Global Switch has no access to customer data and we cannot access the dedicated areas that house customer servers" […] there "will be no changes to the high level of services our customers receive" and that it operates "in line with the guidance issued by the UK Centre for the Protection of National Infrastructure as part of the UK Government's national security strategy"[226]. As it is possible to see from UK Centre for the

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220 https://www.thetimes.co.uk/article/chinese-poised-for-5bn-swoop-on-cyber-hubs-h38r98dnr (Sept. 4, 2016).

221 On February 2015 he was involved in the "cash for access' scandal", where he offered himself as a politician to lobby on behalf of a Chinese company (PMR) in return for payment of at least £5,000 per day. Later it turned out that the Chinese company was fictitious, and that they were undercover journalists for The Daily Telegraph and Channel 4 News who recorded the conversations. See: https://www.telegraph.co.uk/news/investigations/jack-straw-and-sir-malcolm-rifkind-in-latest/. The Parliamentary Commissioner for Standards and the Standards Committee of Parliament concluded after a seven-month investigation that there were no improprieties by Rifkind. They severely criticised Channel 4 Dispatches and the Daily Telegraph for "distortion", and for "misleading the public".

222 GCHQ stands for Government Communications Headquarters, which is an intelligence and security organisation responsible for providing signals intelligence (SIGINT) and information assurance to the government and armed forces of the United Kingdom.

223 https://www.parliament.uk/biographies/lords/lord-west-of-spithead/3834

224 Cited in Sabah Meddings (Dic 22, 2016). " Now Chinese take £2.2bn stake in vital tech centres", Scottish Daily Mail and https://economictimes.indiatimes.com/news/international/business/indian-origin-brothers-plan-chinese-computer-deal-in-uk/articleshow/54006819.cms?from=mdr

225 https://www.globalswitch.com/growth/faq/

226 Moreover, "on-site security protections include access control systems, CCTV, intercom systems as well as 24/7 manned security guarding. Many customers have added additional security including further biometric access controls. The current Security Control Agreement, which restricts physical access to the data centre sites and ensures that existing high

Protection of National Infrastructure's website: "in UK, there are 13 national infrastructure sectors: Chemicals, Civil Nuclear Communications, Defence, Emergency Services, Energy, Finance, Food, Government, Health, Space, Transport and Water. Several sectors have defined "sub-sectors": Emergency Services, for example, can be split into Police, Ambulance, Fire Services and Coast Guard". Critical national infrastructure are defined as "'Those critical elements of infrastructure (namely assets, facilities, systems, networks or processes and the essential workers that operate and facilitate them), the loss or compromise of which could result in: a) Major detrimental impact on the availability, integrity or delivery of essential services – including those services whose integrity, if compromised, could result in significant loss of life or casualties – taking into account significant economic or social impacts; and/or b) Significant impact on national security, national defence, or the functioning of the state"[227].

When it is the case of IT networks, data and systems, responsibility for the protection from cyber-attacks CPNI sits with the UK's new National Cyber Security Centre (NCSC) in order to account all aspects of protective security. According to CPNI, it is important to ensure infrastructure resilience, which "is the ability of assets and networks to anticipate, absorb, adapt to and recover from disruption"[228]. Resilience is secured through a combination of the principal components: 1) *resistance*, which concerns direct physical protection, e.g. the erection of flood defences; 2) *reliability*, which is the capability of infrastructure to maintain operations under a range of conditions, e.g. electrical cabling is able to operate in extremes of heat and cold; 3) *redundancy*, which is the adaptability of an asset or network, e.g. the installation of back–up data centres, and 4) *response and recovery*, which is an organisation's ability to respond to and recover from disruption" (Cabinet Office, 2014: 6). According to the Cabinet Office Resilience plan, "infrastructure owners should work with Government and regulators to select the blend of these components which will produce the most cost effective and proportionate strategy" (Cabinet Office, 2014: 6). In the case of Global Switch, official information available do not report any specific conditionality asked to Chinese owners, neither after the change of control[229] and it was not considered a deal with national security implications.

levels of security management remain in place at Global Switch, will remain and will be signed by the new investors". See: https://www.globalswitch.com/growth/faq/

227 https://www.cpni.gov.uk/critical-national-infrastructure-0

228 CPNI, 2014: 6. Available on-line at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/370156/20141103_Summary_sector_resilience_plan_2014.pdf.

229 However, after the change of control in December 2017, the political reaction appeared more vocal on media. Labour MP Dan Jarvis, a former paratrooper who sits on the Joint Committee on the National Security Strategy, said: "We would never countenance replacing the Royal Marine Fleet Protection Group that guards our nuclear weapons with a foreign-owned security company. Yet we seem happy to entrust our intellectual property to another country. This is muddled

The domestic political debate on Chinese investments in United Kingdom reached a peak in October 2015, when President Xi Jinping paid a historic state visit, being the first Chinese head of state in a decade. Xi Jinping commented on the trip, saying that China and UK are becoming more interdependent and a "community of shared interest"[230]. During the visit "almost £40 billion worth of deals between the 2 countries were agreed"[231] and, as commented by the Chinese Ambassador to the UK, among the investments deals "the Hinkley Point C nuclear power project was a milestone: Chinese nuclear company made its first ever entry into the market of a developed country".[232] Hinkley Point C project, a key part of Osborne doctrine, is the deal that represents better the "golden era" Chinese-British relations and tested the openness toward the Chinese investments. The expansion of the nuclear plant located in Somerset, South West England, was announced in 2012 by David Cameron and President Nicolas Sarkozy of France. It consists in the creation of two additional European Pressurised Reactor (EPR) power plants by the French state-owned company Electricité de France (EDF). Giving the significant difficulties in financing the project EDF signed a deal in October 2014 to bring in China General Nuclear (CGN) and China National Nuclear Corporation (CNNC). Liberal Democrat former energy secretary Ed Davey argued that a "special share" in the project "would have enabled the government to intervene on certain decisions to protect the national interest"[233]. In August 2016, with the rise of Theresa May the British government's approval was delayed for the need of additional review due to national security concerns. This decision sparked a severe warning from Chinese side, and Liu Xiaoming, the Chinese Ambassador in London, published an article in the Financial Times stating that the China–UK relationship "is at a crucial historical juncture. Mutual trust should be treasured even more", urging to come to a "decision as soon as possible so that the project can proceed smoothly"[234]. The deal was approved with "significant new safeguards", just after six weeks after Theresa May's review. This caused perplexity among labour and environmental groups who said the measures were only "hot air"[235] and "Barry Gardiner, the shadow energy secretary, claimed that the government already had powers to halt the sale of any element of the UK's critical infrastructure and dismissed the new measures as" window dressing".[236]

thinking". (https://www.dailymail.co.uk/news/article-5242549/Chinas-swoop-data-firm-sparks-fears-UK-security.html).

[230] https://www.bbc.com/news/uk-34571436

[231] https://www.gov.uk/government/news/chinese-state-visit-up-to-40-billion-deals-agreed

[232] http://www.chinadaily.com.cn/world/2017-10/10/content_33046072.htm

[233] https://www.theguardian.com/uk-news/2016/aug/01/osborne-rejected-safeguards-over-chinese-role-in-hinkley-point-says-ex-energy-minister

[234] https:// www.ft.com/content/b8bc62dc-5d74-11e6-bb77-a121aa8abd95?mhq5j=e2

[235] https://www.theguardian.com/uk-news/2016/sep/15/hinkley-point-c-nuclear-power-station-gets-go-ahead

[236] https://www.bbc.com/news/business-37369786

The Hinkley Point's deal can be considered a turning point in the domestic political debate after a golden-era of liberal economic policy without conditionalities on national security grounds. In fact, in September 2016, the government of the UK announced its intention to reform its powers to protect national security from hostile actors' intent on harming the country and later, in July 2018, a white paper on foreign investments in the UK was published. Here it is relevant to notice that the main goal of the UK is to remain attractive to foreign investments, providing certainty and transparency to foreign investors, because "open market" plays a key role in creating a strong economy. However, it also shows a growing attention and an increasing awareness of national security implications given the changes that are happening in certain sectors of the economy due to their fast-technological metamorphosis (i.e. dual use and military use, multi-purpose computing hardware or quantum-based technologies)[237].

4.3.3 Foreign political implications

The United Kingdom in the last decade always continued promoting a strong and effective relationship with China. In this paragraph, I am going to analyse if the rapid expansion of Chinese investments has generated foreign political implications. The investigation is conducted at three levels: 1) «China's issues» in international relations; 2) the impact on the European Institutional Process; 3) the impact on Transatlantic relations.

1) Implications on "China's issues"

Given the increased amount of Chinese investments in the United Kingdom, it is relevant to determine whether this can be considered as a force that led to a change of political position in International organizations. The United Kingdom has always been a strong defender of human rights and freedom of religion. However, over the last decades, it seems that politicians have chosen not to stress "China's issues", almost waiving the sense of pride that historically characterized Macartney who refused to kow-tow to the Chinese emperor. This surely characterized Chancellor

[237] For further information on the evolution of the government's review of the Enterprise Act 2002 and its powers in relation to foreign investment and national security see the National Security and Infrastructure Investment Review Green Paper published in October 2017 and the National Security and Investment - A consultation on proposed legislative reforms published in July 2018, available on-line at: https://www.gov.uk/government/consultations/national-security-and-infrastructure-investment-review-

George Osborne's doctrine which promoted "pragmatism" over human rights issues in order to promote UK business and encouraging Chinese investors to consider UK [238]. Perhaps this pragmatism was a consequence of the Chinese animosity expressed by cancelling Wu Bangguo's visit to Britain in 2012 after David Cameron announced a meeting with the Dalai Lama[239]. As a consequence, Cameron, on a visit to China in 2013, distanced the UK from the Dalai Lama[240]. The same effect of China's blackmailing tactic on trade and investments, can be detected in the UK's pallid support for Hong Kong during the Occupy Central protest in 2014[241]. On a side note, however, it is relevant to take note of the figure of Prince Charles who, not being conditioned by the threat of harming trade ties with China, always stood out as a strong supporter of Tibet, both during the 2008 Beijing Olympics and by missing the state banquet during the Xi Jinping's state visit in 2015[242]. The Conservative party, on the other side, after Xi Jinping's visit to the UK in 2015, activated a special Human Rights Commission inquiry to raise awareness within the party. It cannot go unnoticed, the commission observed, that when the UK positioned itself as China's closest "friend" in the West, China's human rights record was the worst since the Tiananmen massacre in 1989, being the period between 2013-2014 characterized by a "crackdown on civil society, human rights defenders, religious minorities, the media and others" (Conservative Party Human Rights Commission, 2016: 6-7)[243].

On China's territorial disputes in the South China Sea, it is relevant to notice that in November 2015 the UK formally requested the status of "neutral observer" in the disputes between the Philippines and China. The case matters as an example of defence of sovereignty and respect of maritime delimitation. Even if the position of the UK was known and both the Minister of State at the Foreign Office, Hugo Swire, and the former Prime Minister David Cameron warned that China must abide by on the rulings of an international arbitration[244], no further pressure was made. "By deliberately

[238] In 2015, during his visit to Shanghai Stock Exchange he even downplayed human rights abuse as a "different political system" but he urged closer business ties, see: https://www.independent.co.uk/news/uk/politics/george-osborne-downplays-chinas-human-rights-abuses-as-a-different-political-system-10512215.html; but see also: https://www.bbc.com/news/world-asia-china-34356097

[239] See: https://www.theguardian.com/world/2012/may/25/china-cancels-uk-visit-dalai-lama. For further info on Dalai Lama's effect on trade see Andreas Fuchs and Nils-Hendrik Klann, 2010.

[240] https://www.theguardian.com/politics/2013/nov/30/david-cameron-distance-britain-dalai-lama-china-visit

[241] https://www.telegraph.co.uk/news/worldnews/asia/hongkong/11224909/Hong-Kong-protesters-to-occupy-British-consulate-over-lack-of-UK-government-support.html

[242] See: https://www.independent.co.uk/news/prince-charles-to-miss-state-banquet-with-chinese-president-xi-jinping-fuelling-speculation-of-a6701001.html and https://www.bbc.com/news/uk-34541357

[243] The report includes an analysis of: 1. Intimidation, abductions, televised confessions, a propaganda war and a climate of fear; 2. The crackdown on lawyers and human rights defenders; 3. Repressive legislation; 4. Freedom of expression; 5. Freedom of religion or belief; 6. Xinjiang; 7. Tibet; 8. Falun Gong; 9. Organ Harvesting; 10. Hong Kong; 11.

[244] https://www.theguardian.com/world/2016/may/25/david-cameron-china-ruling-south-china-sea-the-hague-philippines

choosing not to reiterate that position, the challenge of how to minimise offence transforms into how to maximise a new-found opportunity. In response to the ruling, the UK needs to, and indeed should, do nothing"[245].

2) Implications on European Institutional Process

The analysis of the implications of Chinese direct investments on the EU institutional process, in the case of the UK, is strictly connected with the decision expressed in the referendum of June 23rd, 2016 to leave the European Union. Until now, national security implications of foreign direct investment have been addressed through the golden shares regulatory mechanism and on the surface show some contradiction with the European law of freedom of movement of capitals and freedom of establishment, and as a result have been deemed illegal by the European Court of Justice. Consequently, the use of the golden share to protect national interests in the U.K. was very limited. The United Kingdom's request to leave the European Union reduces the potential strength of veto coalitions in many fields such as economic development, defence, fiscal matters, justice, home affairs and migration. It will certainly change the way European Member States organise their security and defence policies. In fact, from their mutual influence (strategy doctrine of the UK and EU-wide strategic thinking) it is possible to grasp how the two are interdependent in strategic terms and disclose different scenarios. The UK contribution to the European Institutional Process on security, dates back to the St Malo initiative, when an ideational consensus emerged regarding defence cooperation and in particular, between France and the United Kingdom and the emergence of an "EU wide" strategic culture". Geographically speaking, Britain is an island, but economically and politically it is a vital link in the global network. Once upon a time, it was the world's most formidable military force, with the Royal Navy dominating the seas and the British Army present in the vast colonial empire. According to the European Geostrategy, Britain is "a country lacking the heft or comprehensive attributes of a superpower, but still with a wide international footprint and [military] means to reach most geopolitical theatres, particularly the Middle East, South-East Asia, East Asia, Africa and South America" (Rogers et al., 2014). In fact, it is clear that UK vital interests are not confined to Europe. It is the 9th largest economy in the world and its economy is deeply founded on international trade[246]. It has always been a country that has always had both global

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[245] https://globalriskinsights.com/2016/07/china-2/

[246] According to Observatory of Economic Complexity (MIT) "In 2015, the United Kingdom exported $425B and imported $606B, resulting in a negative trade balance of $181B. In 2015 the GDP of the United Kingdom was $2.86T and its GDP per capita was $41.8k. The top export destinations of the United Kingdom are the United States ($54.7B), Germany ($39.5B), Switzerland ($32.5B), China ($27.6B) and the Netherlands ($23.9B). The top import origins are Germany ($93.9B), China ($62.8B), the United States ($44.8B), the Netherlands ($44.4B) and France ($37.6B)".

responsibilities and global ambitions. The literature, with the notable exception of David Blagden's piece in International Affairs, gives prominence to the relative lack of references to the EU as a strategic referent object for the UK. The UK strategic community is itself innovating in response to these themes, particularly since the 2010 Strategic Defence and Security Review. It sets out two clear objectives: first, "to ensure a secure and resilient UK by protecting people, economy, infrastructure, territory and ways of life from all major risks"; and second "to shape a stable world, by acting to reduce the likelihood of risks affecting the UK or our interests overseas, and applying our instruments of power and influence to shape the global environment and tackle potential risks at source" (National Security Strategy, 2010: 9).

From a European point of view, in the last decade, the UK commitment to European values vis-à-vis China has been perceived as weakened under the policy of accommodation favored by David Cameron and George Osbourne, but under Theresa May appeared to be slightly "on guard". The outlines of the departure mainly depend on the regulatory and political settlement – Hard Brexit or Soft Brexit – that is still under discussion. While in the case of technology-seeking investments, Chinese OFDIs would suffer less from Brexit, as the UK domestic capacities are the key opportunity[247], is the picture is different in the case of market seeking investments where often the UK was seen as a gateway for the European market. Here is where it strts the European political discussion on Chinese OFDIs starts, focusing on them moving away from the UK to Europe. Given the Chinese characteristic of "pick and choose" among EU member states, the new settlement could have an impact on the signing of bilateral trade agreements through which other states could have access to the single market. The post-Brexit EU27 could be expected to become more protectionist as it has lost the most free-trade advocating player on economic policy and the most liberal/cooperative voice vis-à-vis China.

3) Implications on Transatlantic relations and allies

Any consideration of UK - US relations requires acknowledging a lot of shared history. Global patterns of power, however, considerably shifted in the last decades given the emergence of countries such as China, India and Brazil. This factor has significantly challenged the long-standing

[247] For further analysis look at: https://medium.com/oxford-university/the-impact-of-brexit-on-europe-china-relations-56b5cf0efda5

role the UK has played both Europe and North America. The UK-USA relationship has its core in the intelligence and defence sectors, such as the shared mission in Afghanistan, cooperation on terrorism, work on Iran, based on a shared set of values about the world and a commitment to engagement and leadership. They are trade are investment partners with profound cultural, societal and educational links. The UK's strategy of constructive engagement with China was outlined in 2009 in the "UK & China: A Framework for Engagement"[248]. This document sets UK policy agenda toward China for the coming four years in three pillars: 1) "getting the best for the UK from China's growth", 2) "fostering China's emergence as a responsible global player"; 3) "promoting sustainable development, modernisation and internal reform in China". UK's "objectives as set out in that strategy align closely with those of the US notably to foster China's emergence as a responsible global player and to promote sustainable development, modernisation and internal reform in China"[249] (House of Commons, 2010: EV72). However, following the "pragmatic" politics, the United Kingdom became supportive of China in various financial affairs and London became a bridge between China and the rest of the world, boosting business, education, scientific and cultural gains. Major concerns of this attitude were expressed by U.S. officials when U.K. became the first major economy to apply for the Chinese-led Asia Infrastructure Investment Bank in 2015. The U.S. in fact, feared that the new bank would interfere with the work of the World Bank and IMF. On that occasion in fact, the US sharply accused UK of "constant accommodation"[250] toward China.

With this background in mind, it is easier to explain the political debate that generated from the Chinese acquisitions, which are "posing serious challenges in the United States and the like-minded allies"[251]. In the case of the deals we previously analysed, if the Global Switch acquisition raised political concerns among senior politicians in UK, the deal also had an international echo. More than implications on transatlantic relation, it was the Australian government that reacted aggressively. The ownership change in fact triggered a Foreign Investment Review Board investigation. The Government then imposed new conditions on the company, including seeking an assurance that its Australian arm would continue to be 100 percent owned and operated by Aldersgate Investments as classified government information, including Defence and intelligence files, were reportedly kept at Global Switch-owned data centre in Sydney.[252] The Australian treasurer Scott Morrison said the Government "acted to ensure the integrity of our foreign investment process when it came to that

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248 https://hansard.parliament.uk/Commons/2009-01-22/debates/09012247000018/TheUKAndChinaAFrameworkForEngagement

249 https://hansard.parliament.uk/Commons/2009-01-22/debates/09012247000018/TheUKAndChinaAFrameworkForEngagement

250 https://www.ft.com/content/31c4880a-c8d2-11e4-bc64-00144feab7de

251 https://www.ft.com/content/d3ac306a-e188-11e7-8f9f-de1c2175f5ce

252 https://www.abc.net.au/news/2017-06-20/security-concerns-over-defence-files-in-data-centres/8632360

data centre". Not receiving back any reassurances, the Australian Department of Defence than questioned the wisdom of outsourcing sensitive data or if it was the case to give them back into government hands once the contract with Global Switch expires in 2020, a plan that could cost up to $200 million[253]. In this case, UK allies mistrusted the government liberal and pragmatic treatment of Chinese investments, on the basis of national security implications even in their home country.

4.4 Germany

Germany, from an economic standpoint is an open market country. The FDI Regulatory Restrictiveness Index in the period of analysis is under the OECD average.

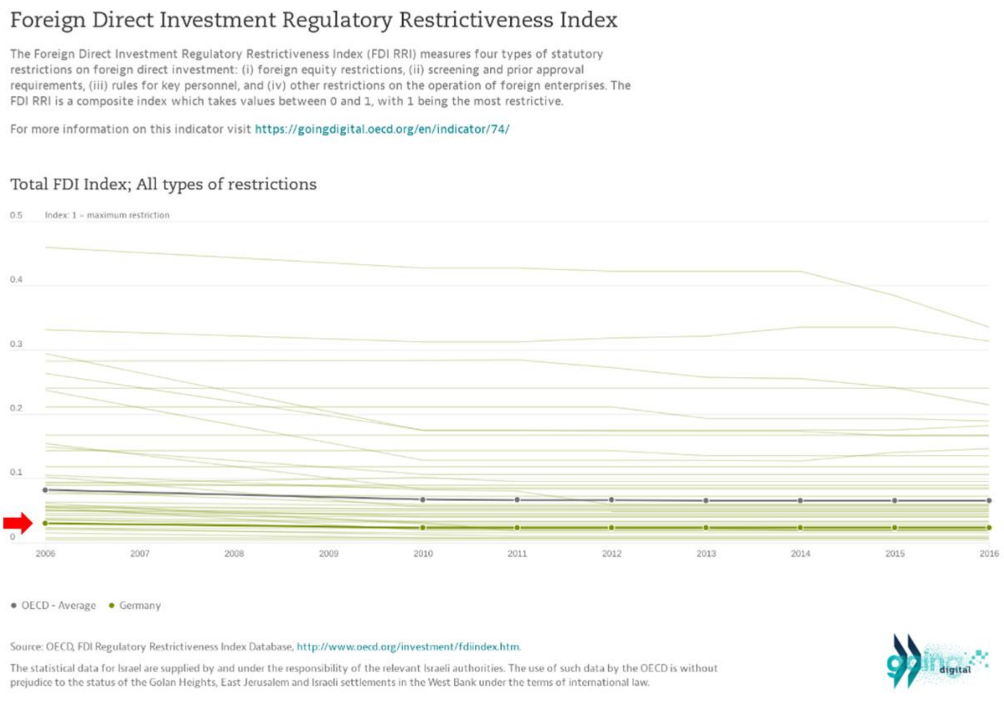

Figure 4.7: Germany's FDI Restrictiveness Index: 2006-2016 – Source: OECD, 2019

4.4.1 Deals description

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[253] https://www.abc.net.au/news/2017-06-20/security-concerns-over-defence-files-in-data-centres/8632360; https://www.news.com.au/national/politics/chinese-link-to-global-switchs-data-centre-sparks-concern-for-classified-australian-government-defence-files/news-story/cadc4e2a83e451231d82e4b93a7ed28f

Germany in the period of analysis was the second top destination of Chinese investments in Europe. During the period of analysis, the two biggest deals were KUKA and EEW.

I) KUKA's acquisition

a) The Chinese acquirer

美的集团股份有限公司 Midea Group Co Ltd (美的集团 "Midea") is a Chinese leading major appliances producer in consumer appliances and HVAC systems[254]. It was founded in 1968 by Mr. He Xiangjian as a bottle lid production workshop in Beijiao in Guandong province, "with a group of 23 local residents"[255] and 5,000 RMB. The company evolved and established a market leadership in the domestic market in various appliances. It remained a domestic company until 2007 when it established its first overseas greenfield manufacturing investment in Vietnam[256]. Since then, in step with China's going global strategy, the internationalization of the company has continued[257], enhancing its brand portfolios in washing machines and refrigerators. Midea's transformation spindle is represented by three words: product leadership "产品领先" (*Chǎnpǐn lǐngxiān)*, efficiency "效率驱动" (Xiàolǜ qūdòng) and global operations - "全球经营" (*Quánqiú jīngyíng*)[258]. The last one is pursued in four steps: global layout "全球布局" (*Quánqiú bùjú*), local operations "本地经营" (*běndì jīngyíng*), M&A "收购兼并" (*shōugòu jianbing*), self-brand-promotion "自主品牌提升" (*zìzhǔ pǐnpái tíshēng*)[259].

In 2010 it acquired a 32.5% share of Egypt-listed air conditioning manufacturer Miraco and in 2011 created a joint venture partnership with Carrier in Latin America. The partnership permitted Midea to increase its market share creating a network of sales offices in Brazil, Argentina and China and creating new manufacturing plants in the region. Later, in 2012, this partnership was also to India, with an initial investment of US$ 33 million. Since September 18th 2013, Midea Group is listed on the Shenzhen Stock Exchange (SZSE), making it a fully public company[260]. However, its overseas

[254] That is residential air-conditioning, commercial air-conditioning, heating and ventilation. Home appliances are air treatment, refrigeration, laundry, large cooking appliances, large and small kitchen appliances, water appliances, floor care and lightning (Source: http://www.midea.com/global/about_midea/overview/)
[255] https://www.forbes.com/profile/he-xiangjian/#6b6ff4df2bfe
[256] http://www.midea.com/global/about_midea/history/
[257] http://www.midea.com/global/about_midea/major_facilities/Overseas_Facilties
[258] http://www.midea.com/midea-page/about-midea.html#transform
[259] http://www.midea.com/midea-page/about-midea.html#transform
[260] http://www.midea.com/global/about_midea/investors/

expansion has been supported by Tianjin Rongrui Investment, controlled by the state-owned Industrial and Commercial Bank of China (ICBC International)[261] which in October 2011[262] bought a 12.2 percent stake in Midea Group, and by China Securities Finance (CSF)[263], with a 3 percent stake.[264] Midea's shareholders as at December 31, 2015[265].

As at 31 December 2015

Shareholdings of the top ten common shareholders			
Name of shareholder	Shareholding percentage (%)	Number of shares held	Number of restricted shares held
Midea Holding Co., Ltd.	35.1	1,496,250,000	1,496,250,000
Rongrui Equity Investment (Zhuhai) Partnership (limited partnership)	7.1	304,500,000	0
China Securities Finance Co., Ltd.	3.0	127,545,960	0
Fang Hongbo	2.1	91,326,995	90,000,000
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	1.8	78,000,000	0
Huang Jian	1.8	75,000,000	75,000,000
Ningbo Maysun Equity Investment Partnership (limited partnership)	1.8	75,000,000	75,000,000
Yuan Liqun	1.4	60,500,000	60,000,000
CDH M-Tech (HK) Co., Ltd.	1.4	60,000,000	0
CDH Spark (HK) Co., Ltd.	1.4	57,500,000	0

Shareholdings of the top ten non-restricted common shareholders			
Name of shareholder	Number of non-restricted common shares held	Type of shares	
		Type	Number
Rongrui Equity Investment (Zhuhai) Partnership (limited partnership)	304,500,000	RMB ordinary shares	304,500,000
China Securities Finance Co., Ltd.	127,545,960	RMB ordinary shares	127,545,960
Tianjin CDH Jiatai Equity Investment Partnership (limited partnership)	78,000,000	RMB ordinary shares	78,000,000
CDH M-Tech (HK) Co., Ltd.	60,000,000	RMB ordinary shares	60,000,000
CDH Spark (HK) Co., Ltd.	57,500,000	RMB ordinary shares	57,500,000
Central Huijin Investment Ltd.	52,316,600	RMB ordinary shares	52,316,600
Fidelity Investments Management (HK) Ltd. - Clients' Capital	37,302,429	RMB ordinary shares	37,302,429
UBS AG	36,196,687	RMB ordinary shares	36,196,687
Merrill Lynch International	33,385,844	RMB ordinary shares	33,385,844
Hillhouse Capital Group	31,263,565	RMB ordinary shares	31,263,565

Figure 4.8: Midea's Shareholders at December, 2015

On May 18, 2016 Midea announced the takeover offer for KUKA at a price in cash of €115.00 per Kuka share. The offer was originally addressed to all shareholders of Kuka[266], but at the end of the year got 82% of KUKA for US $4.680million.

b) The domestic target

KUKA, whose name stands for Keller und Knappich Augsburg, is a company founded in 1898 in Augsburg. It has been manufacturing cutting-edge robotic technology for years with multiple

[261] It is one of the big four Chinese state-owned banking giants, and the largest bank in the world by total assets and by market capitalization.

[262] https://www.reuters.com/article/china-midea-pe/icbc-intl-cdh-to-buy-stake-in-chinas-midea-group-idUSL3E7LJ01V20111019

[263] For further info on state-backed CSF see: https://www.ft.com/content/c1666694-248b-11e5-9c4e-a775

[264] http://www.csf.com.cn/publish/english/1071/1076/index.html, on July 3rd 2015 its registered capital increased from 24 billion RMB to 100 billion RMB to expand its business scale (see: http://english.sse.com.cn/indices/publications/newsletter/c/4011409.pdf)

[265] https://web.archive.org/web/20160403064301/http://www.midea.com/global/investors/financial_statements/shareholder_information/

[266] https://www.kuka.com/-/media/kuka-corporate/documents/press/news/2016/06/press-release-kuka-signs-investor-agreement-with-midea-and-recommends-acceptance-of-the-offer.pdf

applications in automation, smart-production, intelligent machines, human-robot collaborations, 3D Printing, etc. and with clients in different fields, from food to foundry and from highly automated car manufacturing to healthcare. More in details, as reported in official company documents, KUKA's business activities can be divided into three areas: 1) Robotics; 2) Systems and 3) Swisslog (KUKA, 2016: 14). In the first segment, KUKA develops and manufactures high-quality industrial robots as well as controlling and software used in different areas, which can be used for man-machine collaboration. "The segment generated revenues of approx. EUR 910 million in the Financial Year 2015" (KUKA, 2016: 14). In the second segment, "KUKA offers tailor-made solutions relating to automation of production processes" […] "such as welding or forming, in the processing of various materials as well as in the integration of various production steps into one entire production site. This segment generated revenues of approx. EUR 1.47 billion in the Financial Year 2015" (KUKA, 2016: 14). The third segment contains two subsegments: a) "Healthcare Solutions" which realizes "automation solutions for hospitals" and b) "Warehouse & Distribution Solutions" which realizes "automation solutions for warehouse and distribution centers. In the Financial Year 2015, the segment generated revenues of approx. EUR 620 million" (KUKA, 2016: 14).

The amazing trend of growth in terms of revenues of the company in the last years reflects the performances of the entire industry and the ongoing global trend toward automation. According to the International Federation of Robotics "in 2016, robot sales increased by 16% to 294,312 units, a new peak for the fourth year in a row" (IFR, 2017). Global rising costs of labour due to a growing middle class or ageing population encourage the use of machines with investments in advanced technologies such as robotics. "In the race for automation in manufacturing, the European Union is currently one of the global frontrunners: 65 percent of countries with an above-average number of industrial robots per 10,000 employees, are located in the EU" (IFR, 2016). KUKA's technological fame has been quite popular, in facts its robots have made appearance in several Hollywood films such as the James Bond's "Die Another Day"[267], or in Ron Howard's "The Da Vinci Code", a KUKA robot gives the character Robert Langdon, played by Tom Hanks, a container containing an encrypted message[268]. Apart from this popular image, KUKA is also a major participant in Northrop Grumman's F35 Integrated Assembly operations, with an extensive line of robotic arms central in producing the F-35's central fuselage.

[267] https://www.kuka.com/en-de/press/news/2002/10/kuka-robots-in-new-james-bond-film and https://www.youtube.com/watch?v=y2Me95Hki20

[268] https://getlink.pro/youtube/the-davinci-code-kuka-robot-picking-security-deposit-box

On June 28, 2016 KUKA signed an investor agreement until the end of 2023 with Midea, accepting the offer and including commitments that locations and jobs would be retained[269]. Midea in fact, assured that jobs and plants in Germany will be protected until the end of 2023, and agreed not to pursue a domination agreement and to refrain from de-listing the company. Kuka's major shareholders then tendered their shares to Midea. After the shares already owned, the public tender and the shares of the two biggest shareholder Midea got 85.69% ownership of KUKA. On July 21, through August 3, Midea announced another tender offer – with the same valuation and share price – to acquire as many more of the shares as possible. On August 3, it brought its total to 94.55 percent[270], however the offer was subject to regulatory approval. On December 15, to fulfil security-relevant requirements of the U.S. authorities CFIUS, KUKA announced the sale, for an undisclosed price, of its U.S. business KUKA Systems Aerospace North America to U.S. automation company Advanced Integration Technology Inc.[271] and on December 29, 2016 "The United States government authorities Committee on Foreign Investment in the United States and the Directorate of Defence Trade Controls have cleared the takeover of KUKA"[272].

Paul Fang, Chairman and CEO of Midea, commented the deal saying that *"KUKA's global leadership and expertise in the field of robotics and automation, combined with Midea's exponential global growth, industrial base and logistics operations, and understanding of consumer markets, will enable the creation of intelligent machines and smart factories that usher in a new era of robotics-based manufacturing, with unlimited applications across industries such as process manufacturing, healthcare, smart home, security, and education" […] "Rising labor costs and an ageing population not only in China but globally offer vast opportunities for Midea and KUKA to improve factory automation in many countries and strengthen Midea's future manufacturing capabilities"*[273]. According to the 2015 World Robot Statistics, issued by the International Federation of Robotics, China had just 36 robots per 10,000 manufacturing workers in 2014. The front-runner was South Korea with 478 units, followed by Japan with 315 and Germany with 292 units[274]. China was below the average but its robotic sales volume increased for three consecutive years, and its potential remains high. According to Wang Ruixiang, Rresident of the China Machinery Industry Federation, China, in line with the national 10-year plan entitled "Made in China 2025", targets to improve the average of robots per worker seeking for a top-10 ranking in

269 https://www.kuka.com/-/media/kuka-corporate/documents/press/news/2016/06/press-release-kuka-signs-investor-agreement-with-midea-and-recommends-acceptance-of-the-offer.pdf

270 https://www.yahoo.com/news/chinas-midea-grabs-near-95-stake-german-firm-103300622.html

271 https://www.reuters.com/article/us-kuka-m-a-midea-usa/robot-maker-kuka-sells-u-s-unit-to-get-approval-for-deal-with-chinese-buyer-idUSKBN1441S4

272 https://www.reuters.com/article/us-kuka-m-a-mideamidea-group-idUSKBN14J0SP

273 https://www.marketscreener.com/MIDEA-GROUP-CO-LTD-16166364/news/Midea-successfully-acquires-KUKA-AG-23703398/

274 https://ifr.org/ifr-press-releases/news/world-robotics-survey-industrial-robots-are-conquering-the-world-

automation for its industries by 2020, by putting more robots in its factories to 150 per 10,000 workers[275]. Economic analysts evaluate that Midea "overstretched itself with the €4.5 billion ($5.3 billion) purchase" in order to acquire KUKA[276] and therefore it represents a case of a government pushed AI industrial revolution[277].

In January 2019 – after the period of analysis considered for this research – German media argued that the carmakers' industry downturn would result in significant cost-cutting also for KUKA, and that this would inevitably entail layoffs. No figures have been disclosed yet at the time of this writing[278].

c) Theory testing: national security risk assessment

From the host country's point of view, a national security risk can be detected not in the acquisition of advanced robotic technology per se, but insofar as it represents the transfer of sensitive production and know-how. Note that KUKA is a major participant in the production of Northrop Group F-35, not only providing robots to it, but embedded in the "integrated product line" [279], with clearly strong defence implications. Following Moran's theory, the acquisition implies threats that can be detected as *Threat I*: Chinese investor targeted a firm that could give over a sensitive semi-unique technology, which is a strategic integrated application in defence industry that could be even deployed against the domestic interest and of its allies. This acquisition, like other technology transfers involving Artificial Intelligence, Machine Learning, quantum technologies represents a breakthrough in military research. Therefore, they could tilt the technological hegemony balance.

II) EEW's acquisition

[275] https://www.reuters.com/article/us-china-robots-forecast/china-seeks-top-10-automation-ranking-by-2020-robot-industry-group-idUSKCN102104
[276] This caused a downsize in large scale in Germany just a year after the acquisition. https://www.handelsblatt.com/today/companies/takeover-turbulence-robot-maker-kuka-feels-the-squeeze/23573408.html
[277] https://www.ft.com/content/1dbd8c60-0cc6-11e6-ad80-67655613c2d6?siteedition=uk
[278] https://www.spiegel.de/wirtschaft/unternehmen/kuka-roboterbauer-plant-stellenabbau-a-1247639.html
[279] See: Moran, 2017: 7.

a) *The Chinese acquirer*

Beijing Enterprise Holding Limited ("BEHL") - 北京控股有限公司 (*Běijīng kònggǔ yǒuxiàn gōngsī*) - is a Chinese State-owned enterprise, funded by People's Government of Beijing Municipality, directly under the administration of the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality. In 1997, BEHL was formed by combining eight units of premium assets in Beijing (Yanjing Beer, Sanyuan Foods, Beijing Western Style Food, Beijing Airport Expressway, Badaling Tourism, Wangfujing Department Store, Jianguo Hotel, Beijing International Switching System). Leveraging its strength and the strong background, it "made history 20 years ago when it debuted on Hong Kong's stock exchange 1,300 oversubscribed, as the most sought-after initial public offering in the city's history"[280]. Now it is called Red Chip 红筹股 (*hóngchóugǔ*)[281] and this "dual" financial resource advantage, on both Beijing and Hong Kong capital markets, opened up new opportunities of economic development. In 2007, its business acquired the natural gas distribution business which contributed substantially to its business growth. "After listing, reorganization, transition, resources integration, BEHL successfully transformed into an integrated public utilities company with core business covering city gas, water treatment and solid waste treatment"[282]. Starting as one of the ten "window companies" that various levels of mainland government tasked to raise funds overseas to boost economic development at home, it became an active practitioner of China's "going out" strategy. As we can read from its website, its mission is to "利用旗下的海外项目，将先进的管理理念及技术引进中国" (*lìyòng qíxià dì hǎiwài xiàngmù, jiāng xiānjìn de guǎnlǐ lǐniàn jí jìshù yǐnjìn zhōngguó)*[283] - "Bring advanced management concepts and technologies to China through its overseas projects". Its business actually covers public utilities such as city-gas, urban water, solid waste treatment: "city gas business now covers over 30 million users with more than 190,000 kilometres of pipelines in operation; water treatment business has a design capacity of over 34.04 million tons per day and the global capacity of waste incineration and power generation integrated treatment reaches 24,768 tons per day"[284].

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280 https://www.scmp.com/business/companies/article/2102527/beijing-enterprises-makeover-traces-chinas-evolution-capitalism
281 Red Chips are those companies whose business was mainly based in mainland China and controlled, either directly or indirectly, by the central, provincial or municipal governments of the People's Republic of China, but listed in Hong Kong to allow overseas investment in the companies.
282 http://www.behl.com.hk/en/about/profile.php
283 https://www.behl.com.hk/sc/about/vision.php
284 http://www.behl.com.hk/en/about/profile.php

b) The domestic target

In 2016, Beijing Enterprise bought 100% of the German waste management company Energy from Waste (EEW) for 1.4 billion euros ($1.6 billion), representing the largest Chinese foreign investment in Germany to date. EEW was the market leader in Germany and was one of the top 10 companies in the world in its sector. It operates plants that generate thermal recycling of waste materials, in other words, burn waste materials to create steam for heating and electricity production. Its history, as proudly cited on its website[285], dates back to 1873 with a different name: in the form of BKB. At the time, it pioneered opening the first opencast mine, "Trendelbusch", then began to mechanize mining, evolving from a mining to a production company. When electricity generation began it is recalled that a generator is used for the first time in the "Prinz Wilhelm" underground mine. The first decade of the 1900 was characterized by a process of consolidation, systematically buying neighbouring mining companies. Between the two-world wars[286], the underground mining was shut down because unprofitable and the coal was then exclusively produced from opencast mines. During the second world war it was considered as a crucial company, given the political importance of energy. Later, it fell in the British and Russian occupation zones. During the postwar years of the economic miracle, the carbonisation plant was closed down, making more sense at the time, to generate electricity from lignite. In the '70s, as a result of the oil crisis, its activities gained in significance. It is in the '90s that the company entered into the field of waste incineration, and in 2002-2003 BKB transformed itself into a disposal company, becoming the centre of excellence for the incineration of waste in the E.ON Group. In 2008, when the traditional company BKB separated the divisions of power generation from lignite and waste incineration, BKB changed its name in "E.ON Energy from Waste (EEW)" [287]. This successful ability to adapt to the continuously changing market environment was celebrated by renaming the company and taking on the "E.ON brand identity". In 2012 the EEW's shareholder, E.ON SE, signed a Joint Venture agreement with the Swedish financial investor, EQT, which took a majority stake of 51 percent. In 2015, EQT took over the remaining 49% stake from E.ON. From that moment, EEW was wholly owned by EQT. In 2016 Beijing Enterprises Holding Limited took over 100% of shares in EEW Energy from Waste from EQT. In 2016, the company could count 18 plants in Germany and neighbouring countries, around 1,050 employees and thermally recovered around 4.5 million tonnes of waste[288]. EEW, "by utilizing the energy

[285] https://www.eew-energyfromwaste.com/en/about-us/history.html#tab144b
[286] https://www.eew-energyfromwaste.com/en/about-us/history.html#tab145b
[287] https://www.eew-energyfromwaste.com/en/about-us/history.html#tab150b
[288] https://www.eew-energyfromwaste.com/en/home/english/news/eew-platziert-erfolgreich-schuldscheindarlehen.html

contained in the waste, generates process steam for industrial plants, district heat for residential areas and eco-friendly electricity for the equivalent of around 700,000 households. With biogenic substances making up an average of 50 percent of the waste, EEW generates energy from renewable sources in accordance with the German Renewable Energies Act (EEG), and saves 1,000,000 tonnes of CO2 every year"[289]. EQT, when decided to shortlisted three bidders in the auction for the waste-to-energy plants operator: China's Beijing Enterprise Holdings Ltd, the Finnish utility Fortum Oyj and a consortium led by Australia's Macquarie Group and German utility Steag. Matthias Fackler, partner of EQT commented the successful bid performed by BEHL to Handelsblatt saying that: "We are convinced that Beijing Enterprises Holding is the right partner to support the further development of EEW including its continued domestic and international growth"[290]. According to BEHL, one of the main objectives is to "加強境內項目與 EEW GmbH 先進 管理和技術的深度融合，提高固廢 處理板塊的整體競爭力" (*Jiāqiáng jìngnèi xiàngmù yǔ EEW GmbH xiānjìn guǎnlǐ hé jìshù de shēndù rónghé, tígāo gù fèi chǔlǐ bǎnkuài de zhěngtǐ jìngzhēng lì*) "Strengthen the in-depth integration of advanced management and technology concept from EEW GmbH into domestic projects, enhance the overall competitiveness of the solid waste treatment segment[291].EEW's company documents reveal a great potential for the expansion of its business activities thanks to the financial support of a strong shareholder. "As an industry leader, EEW Energy from Waste, along with its new shareholder Beijing Enterprises Holdings Limited, aims to take an active role in this growth market in Europe and other regions" (Müller and Werz, 2016: 25). According to the World Bank report of 2012, the municipal solid waste will nearly double by 2025 to more than 6 million tonnes per day. If the EU wants to achieve the goals set out in the Circular Economy Package, EU will need an "additional thermal treatment capacity for at least 11.5 million tonnes of municipal waste". This represents the capacity of about "35 to 40 medium-sized EfW plants" (Müller and Werz, 2016: 20). "While there are funding programs and assistance available in the EU to help the economically less developed member states gradually approach the living standards in the more affluent countries, outside of the EU the only support comes in the form of traditional development cooperation". EEW management documents revealed also that investments in Europe have been economically more sustainable than elsewhere, because they are not only financed by energy revenues but partially subsidised. As a consequence, there is no chance to realise in most developing countries the same facilities as in Germany without international support and program of financial assistance. Finally,

[289] https://www.eew-energyfromwaste.com/en/news/media/detail/news/muellverbrennungsanlage-danzig-zuschlag-fuer-bau-und-betrieb-an-eew.html

[290] https://www.handelsblatt.com/today/exclusive-beijing-enterprises-buys-utility-eew-for-1-6-billion-biggest-ever-chinese-acquisition-in-germany/23533242.html?ticket=ST-6606512-gfebdC94YJsOTw5qreG0-ap5

[291] http://www.behl.com.hk/en/ir/presentations/pre180329.pdf

EEW management expressed their doubts on international expansion if not in states with a "certain level of state order and good governance", excluding a possible engagement in "failed states and corruption-prone countries" (Müller and Werz, 2016: 25).

c) *Theory testing: national security risk assessment*

The national security assessment of this deal can surely be encompassed in the energy security issue. From the application of an operational and sector-based definition, this deal could easily be a candidate for consideration as component of critical infrastructure, as incapacity or destruction of this system would have a debilitating impact on the national economy, health and safety. From the application of our operational definition, it is opportune to verify whether the deal falls under Threat 1) of Moran's theory, where the domestic firm to be acquired controls access to a sensitive semi-unique technology, critical good or service that does not have substitutes in the international market. The deal could have national security implications only if it threatens the continuity and adequacy of energy supply, from all sources to all users[292]. In 2016, the share of energy sources shows that energy from waste counted just as 1% of the German energy mix.

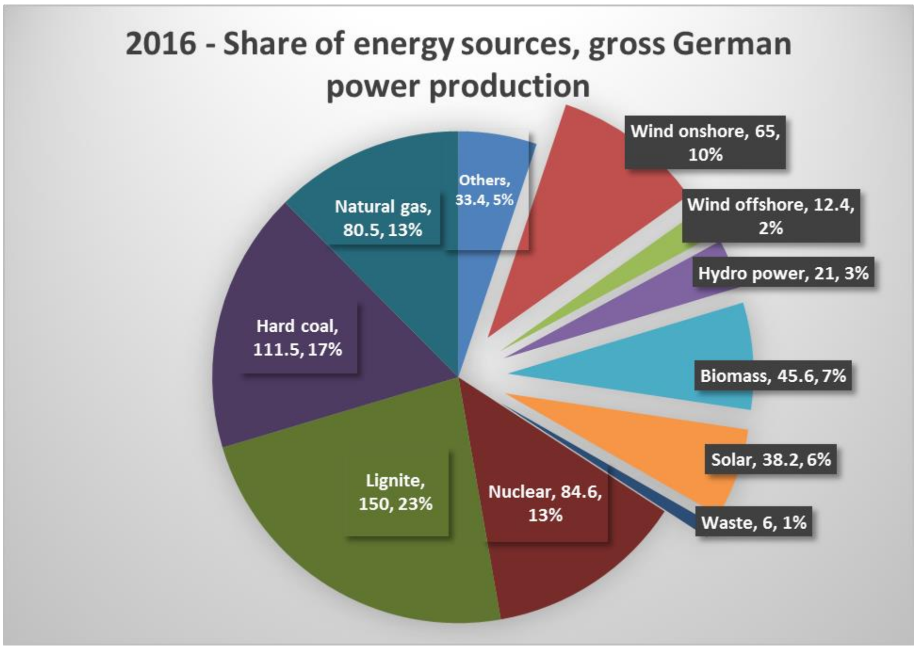

Figure 4.9 Share of energy sources in gross German power production in 2016. Data (preliminary) AG Energiebilanzen 2017. Power production in terawatt-hours (TWh)[293]

[292] See European Commission, COM (2014) 15 final.
[293] https://www.tdworld.com/generation-and-renewables/myth-german-renewable-energy-miracle

Therefore, the EEW deal does not impair national security. Any environmental, safety, labour risk connected with this change of ownership should follow legal and judicial reviews in the same way as other domestic change of ownership, and should not escalate as a national security matter.

Moreover, it is important to consider that municipal solid waste is rapidly increasing together with China's increasing urbanization and improvement of living standards. Pollution and waste recycling problems where even addressed in the "12th five-year plan" (2011-2015) which promoted waste-to-energy technologies for the harmless disposal and recycling of municipal solid waste in China[294]. Given the important role of waste-to-energy plants for China in order to reach China's energy conservation and reduction of emission targets the deal could represent a great opportunity to EEW to expand its business at the international level (EEW in 2019 is supporting two projects in China, one in Beijing's suburb and another in the coastal tourist city of Beihai in China's southern Guangxi Zhuang autonomous region[295]), given its know-how competitive advantage, with a potential positive return in Germany (such as rebuilding a line in Premnitz with 70 million euros and a plant near Hamburg with 115 million euros[296]).

4.4.2 Domestic political implications

At the regulatory olevel, it is important to highlight that Germany had always actively encouraged foreign investments and had not closed any sector to foreign investments on national security grounds. As reported by OECD in 2016, Germany addresses national security concerns derived from inward foreign investments with two mechanisms, which apply if the acquisition assures the investor voting rights of 25% in the target company: a) a sector-specific review process and b) a cross-sectoral scrutiny. The sector-specific review process applies for acquisitions of companies that produce war weapons, tank engines and crypto technology (§ 60, AWV, Foreign Trade and Payment Ordinance) and requires a notification by any foreigner, including EU/EFTA countries. The Ministry of Economic Affairs and Energy, within one month, may prohibit the acquisition if it threatens security interests or issue mitigation instructions. The cross-sectoral scrutiny mechanism for investments by foreigners that threaten "public order or security of Federal Republic" (§ 55 AWV, which entered into effect on 24 April 2009) (OECD, 2016: 56) does not require a notification, but it allows German authorities to review the transaction within three months if it is performed by

[294] See Zhao et al., 2015.
[295] http://www.chinadaily.com.cn/a/201903/15/WS5c8b3322a3106c65c34eed73.html
[296] http://www.chinadaily.com.cn/a/201903/15/WS5c8b3322a3106c65c34eed73.html

foreigners from outside the EU/EFTA, and also if by a EU/EFTA investor when there is ground for suspicion that the acquisition covers a transaction by a non-EU/EFTA investor. In this case, decisions to prohibit an acquisition or to issue instructions can be taken only with the approval of the federal government (OECD, 2016: 56, 57).

The domestic political debate triggered by the two biggest deals in Germany very different. The acquisition of EEW by Beijing Enterprise was celebrated at the highest political level in the occasion of the signing ceremony of cooperation at the presence of the Chinese Prime Minister Li Keqiang and the Chancellor Angela Merkel. The ceremony was held in June 13, 2016 in occasion of the announcement of the Silk Road Fund investing in EEW with the aim not only to expand EEW's activities in Netherland and Poland but also to "introduce its cutting-edge technology and managerial expertise" to China in a bid to help solve its environmental problems (Beijing Enterprise, 2016). KUKA's acquisition instead, raised many political concerns. The "Wandel durch Handel"/Ostpolitik politics which was used to justify doing business with China, appeared in a different light. Rather than Germany cleverly using China, in this case the debate hinted at the alarming prospect that it was China cleverly using Germany. The political effects of KUKA's acquisition have been quite strong, representing the trigger for Germany to change national security priorities. First of all, a key source of irritation in Berlin on the KUKA deal was the lack of reciprocity. In fact, such a deal would not be possible in China, which in many industries restricts foreign companies to joint ventures[297]. Second, the issue of concern here was not the transfer of advanced robotic technology per se, but rather the leakage of sensitive production and system-integration know-how. KUKA in fact was a major participant in Northrop Grumman's F-35 assembly operations. KUKA does not simply sell robots to Northrop Grumman; in addition, engineers from KUKA's design-production-division and robotics-systems-division have been deeply involved in setting up, maintaining, and upgrading what Northrop calls its "integrated production line". These KUKA engineers work alongside counterparts from other companies responsible for advanced propulsion, stealth characteristics, and IT coordination for the F-35, and help weave all such systems together. Moreover, according to the legal firm Freshfields "KUKA had a US subsidiary engaged in highly sensitive US defence-related activities, which was International Traffic in Arms Regulations (ITAR) registered. In fact, pursuant to sanctions imposed on China after the Tiananmen Square incident, there is a prohibition on Chinese ownership of ITAR-registered companies"[298].

[297] https://www.ft.com/content/e0897e24-598e-11e6-8d05-4eaa66292c32

[298] The legal firm advised Midea extensively on CFIUS issues and related approval processes in Washington, https://www.freshfields.com/en-gb/what-we-do/case-studies/midea-kuka-case-study/

At the announcement of the bid, the Vice Chancellor and Minister for Economic Affairs and Energy Sigmar Gabriel (SPD) expressed his concern saying: "if possible, KUKA must remain a European company"[299]. The EU Digital Commissioner, Günther Oettinger, said that "it urges that other major shareholders will consider an alternative offer or a bid by other European companies for KUKA"[300]. He pointed out that KUKA received 15 million euros in funding from the EU budget for robotics. Therefore, "there was an interest in using this money to strengthen European industry and not to sell it out".[301] In June, 2016, Gabriel publicly referred toe "efforts to formulate an alternative offer… Whether it comes to that, we will see"[302]. Alternative solutions with ABB, a big robot manufacturer were explored, but the rescue plan proved too hard to be realized. Trade unions were also concerned about the acquisition. IG Metall, fearing significant job cuts, even "sought to find different buyers for KUKA shares, pushing for a 25.1 percent stake previously owned by technology company Voith to remain in German hands"[303]. The reason finding a counter-offer was so difficult was that the Chinese bid evaluated the company so highly that prospective German companies were unwilling to beat it. KUKA's managers, for example, talked to Joe Kaser, the CEO of Siemens, but the offer was really too expensive to formulate a competing offer for equipment not fitting in its immediate strategy[304].

In the same month[305], Angela Merkel made a state visit trip to China from 11 to 14 June with a large delegation of six ministers, including Foreign Minister Frank-Walter Steinmeier and Finance Minister Wolfgang Schäuble, as well as several State Secretaries and a business delegation[306]. During the 4th German-Chinese intergovernmental consultations' press conference, Li Keqiang pushed for recognition of the market economy status and on more economic cooperation, declaring that "will combine Made in China 2025 and Industry 4.0". "Both sides also agreed that we want to work better together in the field of innovation and business creation, especially in innovation and entrepreneurship. We are building mutual investments and cross-border renminbi business. We also want to expand our cooperation in intelligent manufacturing. We also want to shape the tripartite cooperation. Both sides support companies on both sides in strategic cooperation in third

299 https://www.spiegel.de/wirtschaft/unternehmen/kuka-grossaktionaer-bremst-vorstand-bei-midea-angebot-a-1094935.html
300 https://www.spiegel.de/wirtschaft/unternehmen/kuka-grossaktionaer-bremst-vorstand-bei-midea-angebot-a-1094935.html
301 https://www.handelsblatt.com/today/companies/till-reuter-kuka-boss-is-strategist-of-the-year/23543490.html?ticket=ST-8514240-XR4wQHdTRE59ykF4ninb-ap5
302 https://www.faz.net/aktuell/wirtschaft/unternehmen/sigmar-gabriel-kuendigt-alternativangebot-fuer-kuka-an-14263814.html
303 https://www.dw.com/en/berlin-approves-kuka-sale-to-midea/a-19479483-0
304 https://www.handelsblatt.com/unternehmen/industrie/joe-kaeser-siemens-hat-kein-interesse-an-kuka/13723696.html
305 From 11 to 14 June, 2016.
306 https://www.dw.com/de/merkel-fordert-rechtssicherheit-in-china/a-19325469

countries"[307]. However, more than economic deals, the key request from China side was the German support for obtaining the Market Economy Status from the EU within the WTO framework. Angela Merkel confirmed that both countries were "working on the basis of reciprocity or, one might say, "win-win situations", which include "equal treatment and the topic of legal certainty", the rule of law and reciprocity. Moreover, the market-status was a EU's decision. She expressed concerns over China's overcapacity in steel sector, and on KUKA, she added "now all people in Germany know that we have a good robot manufacturer - and maybe soon all people in China. What they do not know is that Midea already has a certain stake in KUKA today. That said, it's not a completely new engagement, but you want to increase the percentage by getting involved. I still see the possibility that one comes here to a good solution. Incidentally, no one in Germany is banned from joining KUKA. Now you have to look, which solution can be found there"[308].

Comments that came out from Beijing sounded cooperative toward, not only from the political side, but also from the business delegation that was accompanying Chancellor Merkel during the visit. On KUKA's deal, for example, the Siemens boss, who was singled out in Germany as the most plausible potential counter-bidder of Midea, declared instead that history was just running its course. "You have to look sober … Germany, like no other country in the world after the war, benefited from exports and globalization" and "Globalization is not just one-way, it's coming back"[309]. It's not clear whether he was worried about compromising other deals under negotiation.

Meanwhile, during the summer 2016, the domestic political debate overheated. Georg Pazderski, AfD board member declared "With KUKA, another German company from a major technological sector is going to China. Sigmar Gabriel has cleared the way for the emigration of key technologies to China. In doing so, the Minister has violated one of his most important duties and has neither protected nor maintained indispensable core military capabilities in Germany. He endangers the technological independence and competitiveness of Germany and thus above all domestic jobs. China makes it a lot more skillful: The Chinese are buying the technology companies they need worldwide. However, they do not allow foreign companies a majority stake in their national industry. It must not be that Gabriel behaves like a wrecking ball of the German high-tech industry and does not prevent key technology gems like the KUKA Group from being sold off to a dictatorship, with questionable military intentions. Such corporations must remain in German

307 https://www.bundesregierung.de/breg-de/aktuelles/pressekonferenzen/pressekonferenz-von-bundeskanzlerin-merkel-und-dem-chinesischen-ministerpraesidenten-li-keqiang-847556

308 https://www.bundesregierung.de/breg-de/aktuelles/pressekonferenzen/pressekonferenz-von-bundeskanzlerin-merkel-und-dem-chinesischen-ministerpraesidenten-li-keqiang-847556

309 https://www.dw.com/de/chinesischer-investor-glaubt-an-erfolgreiche-kuka-%C3%BCbernahme/a-19325457

hands. Otherwise, we will be in a creeping dependency on other nations that have better understood how to protect their major corporations"[310].

On August, 2016 the German government approved the deal. Andreas Audretsch, a spokesman for the German Ministry of Economics, said to the German regional television station Bayerischer Rundfunk that "the ministry wouldn't launch a formal probe under German export laws into the planned sale. An initial study had produced no evidence the takeover would threaten "the security and the public order of Germany". He added: "The ministry can only launch a formal inquiry against the sale if crucial German interests such as telecommunications or water and power safety are affected"[311].

However, on September 8th, 2016 the Chinese company Fujian Grand Chip Investment Fund LP (FGC), a Chinese investment fund controlled by businessman Zhendong Liu, made a bid to purchase, through its indirect German subsidiary Grand Chip Investment GmbH (GCI), another German company, the chip equipment maker Aixtron for €670 million ($728.89 million). Aixtron is a German based company, but registered in accordance to the European corporate law to reflect its European nature. It is specialized in manufacturing metalorganic chemical vapour deposition (MOCVD) equipment for the semiconductor sector[312]. "Shortly before it staged a public takeover of Aixtron, another Fujian-based company San'an Optoelectronics cancelled a critical order from Aixtron on dubious grounds, sending its stock tumbling and presenting Fujian Grand Chips with an opportunity to swoop in. Both Fujian Grand Chip and San'an Optoelectronics shared a common investor: an important national semiconductor fund controlled by Beijing"[313].

In October, the German government decided to withdraw the deal for the first time in history. According to the Deputy Economy Minister Matthias Machnig, the decision was made basing on "previously unknown security-related information"[314]. Since then, Minister Gabriel declared that it was time to better protect Europe against unwanted Chinese takeovers, and said to the Handelsblatt that "we are at the crossroads for a proposal for an investment audit at the level of the European Union"[315].

Günther Oettinger, who had always expressed his perplexity about these deals asking for a European investor, in a private dinner in front of business leaders in Hamburg, called Chinese

310 https://www.afd.de/pazderski-der-verkauf-von-kuka-an-china-offenbart-das-voellige-versagen-von-sigmar-gabriel/

311 https://www.dw.com/en/berlin-approves-kuka-sale-to-midea/a-19479483-0

312 www.aixtron.com

313 https://www.cfr.org/blog/why-does-everyone-hate-made-china-2025

314 After America had warned the Aixtron chips could be used in nuclear missiles, https://www.thelocal.de/20161027/us-warned-against-chinese-takeover-of-german-firm-report

315 https://www.handelsblatt.com/politik/deutschland/einschnitte-in-investitionsfreiheit-gabriel-will-den-ausverkauf-deutscher-unternehmen-stoppen/14695672.html; https://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/daimler-chef-dieter-zetsche-widerspricht-sigmar-gabriel-14505458.html

people "slit-eyes" and "sly dogs"[316] and referred to Chinese diplomats dressed in "suits, single-breasted jackets, dark blue. All of them had their hair combed from the left to the right with black shoe polish"[317]. The racist remark had a strong international echo and EU-China relations cooled off. Minister Gabriel in the same days declared that "Foul play by trading partners is no longer tolerable"[318], and there would be consequences for the Market Economy status. The Chinese reaction was extreme, just few hours before he flew to Beijing for a state visit, the Chinese government summoned the German ambassador in Beijing and Sigmar Gabriel's was greeted in a very frosty manner[319].

In response to this political lively debate generated by the KUKA deal, the German government tightened the Foreign Trade Ordinance in July 2017. The Minister of Economy, Brigitte Zypries, commented on the reform, saying that "We remain one of the most open economies in the world, but we also need to take fair competitive conditions into consideration"[320]. The new legislative provision introduced a mandatory obligation to notify authorities of company takeovers in certain sector of the economy – including "key technologies" - in the area of critical infrastructure. Moreover, an extension of time for the screening period has been given to the Ministry of Economic affairs to give more time for the analysis of the takeover. The head of Germany's top domestic intelligence agency, Hans-Georg Maassen, later in 2018 declared to Bloomberg that "China's tech takeovers are a security risk" and, the most notable case was indeed KUKA, "we certainly do have to be concerned with this if we have the impression that behind the potential buyer lies a foreign state with interests that go far beyond the acquisitions"[321].

With a more comprehensive analysis, the domestic political debate over Chinese trade and investments in Germany reveals deep roots. After the creation of a single currency in 1999, Germany became increasingly dependent on exports. "Wandel durch Handel" was the way Gerhard Schröder choose to change German's future along this path it deepened trade ties with China, promoting German businesses and signing big contract agreements. Under his government, the motto was "Kooperation statt Konfrontation" (cooperation instead of confrontation)[322]. Since 2004, with the

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316 https://www.nytimes.com/2016/11/01/world/europe/eu-official-insults-chinese.html
317 https://www.dw.com/en/germanys-oettinger-in-hot-water-over-chinese-diplomat-gay-marriage-jokes/a-36199759
318 https://www.welt.de/wirtschaft/article159179085/Ist-Deutschland-noch-eine-freie-Marktwirtschaft.html
319 https://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/china-sigmar-gabriel-wird-in-peking-frostig-empfangen-14506420.html
320 https://www.reuters.com/article/us-germany-m-a/germany-sets-eu-tone-with-tighter-curbs-on-foreign-takeovers-idUSKBN19W2R6
321 https://www.bloomberg.com/news/articles/2018-07-24/german-spy-chief-says-china-s-tech-takeovers-are-security-risk

322 http://www.zeit.de/2008/30/China

visit of Premier Wen Jiabao in Germany, the two countries announced the establishment of a globally responsible partnership within the framework of a broader China-EU comprehensive strategic partnership and the establishment of an annual meeting mechanism between the two prime ministers. In May 2006, the German Prime Minister Merkel visited China for the first time. The two sides expressed the will to further develop bilateral relations and announced the establishment of a Sino-German strategic dialogue mechanism. In September 2006, the visit was reciprocated and Premier Wen Jiabao signed eight agreements, including the Sino-German Youth Exchange Agreement[323].

At the beginning of the Olympic games in 2008, in Germany was commonly believed that "Chinas Aufstieg verändert die Welt" (China's rise was changing the world) and that a "Neuvermessung der Welt" (new-remeasurement of the world) was going on. Steinmeier, the German foreign minister, proposed to include China "in die globale Verantwortungsgemeinschaft"[324] (in a global community of responsibility), in line with the 2005 speech of Robert Zoellick, the US deputy Secretary of State, who invoked China to be a "responsible stakeholder"[325]. Since then, the economic relationship between China and Germany has intensified even further. In fact, the major factor in the rapid recovery of German economy from the economic crisis was its export to China. Chinese macro-economic policy in fact reacted to the global financial crisis with four trillion-yuan ($586 billion) stimulus boosting its domestic demand[326,327]. Bilateral relations between the two country were definitively strengthened on March 2014, when President Xi Jinping visited Germany. In this occasion, in fact their relations were upgraded to a "comprehensive strategic partnership"[328]. This cooperation is the result of a continually deepening relationship "through over 60 permanent dialogue and cooperation formats at government level"[329]. The two countries issued and established a new orientation of strategic cooperation in foreign policy and security, to help for a "solution of regional and global conflicts, bilaterally, multilaterally, and within the framework of relations between China and the European Union". In July 2014 Merkel visited China and signed a series of cooperation agreements. Since then each year regular intergovernmental consultations have been held. It is relevant to notice that in 2014, under the hat of the Sino-German Cooperation Action Plan,

323 In Chinese: http://www.xinhuanet.com//world/2014-10/09/c_1112755691.htm

324 https://www.bundesregierung.de/breg-de/service/bulletin/rede-des-bundesministers-des-auswaertigen-dr-frank-walter-steinmeier--794644

325 https://www.ncuscr.org/content/robert-zoellicks-responsible-stakeholder-speech

326 http://www.gov.cn/english/2008-11/09/content_1143763.htm

327 One need only think that German export to China reached 170.2 billion of its GDP depended on export to China in 2016, see: https://www.reuters.com/article/us-germany-economy-trade/china-remains-germanys-biggest-trading-partner-in-2017-idUSKCN1G5213

328 https://archiv.bundesregierung.de/archiv-de/meta/startseite/joint-declaration-between-germany-and-china-460244

329 https://archiv.bundesregierung.de/archiv-de/meta/startseite/joint-declaration-between-germany-and-china-460244

a plan by the name of "Design Innovation Together" was signed. The plan was designed to facilitate bilateral cooperation improving collaboration in mobile internet, internet of thing, cloud computing and bid data.

After a long period of cooperation, which characterized Merkel's Presidency, the domestic political reaction stirred up by the KUKA acquisition had deep consequences on German politics and attitudes towards China. It awoke a sense of German national pride over its industrial competitiveness and technological leadership. The Aixtron deal was then blocked for security concerns and a new legislative framework was set up at the domestic level. Merkel's (and Social Democrats) cooperative politics toward China stared to stumble, revealing the failure of gaining the respect of the rule of law and reciprocity on investments in China. The path of convergence of the Chinese Made 2025 and Industry 4.0, started to be looked at differently, with the suspicion that: "Industry 4.0 may end up being China's and not Germany's success story[330]".

4.4.3 Foreign political implications

Germany in the last decades considered China as one of the most important factors in a multipolar world and for China, Germany was the leading partner in EU. In this paragraph, the foreign political implications of the rapid expansion of Chinese investments is analysed at three levels: 1) «China's issues» in international relations; 2) the impact on the European Institutional Process; 3) the impact on Transatlantic relations.

1) Implications on "China's issues"

The German approach to China's issue at international level can be summarised with the expression of Ostpolitik, "Einbindung", integration and co-operation instead of confrontation.[331] Under this policy, the human rights defence was attributed to the "Rechtsstaatsdialog", through the establishment of a Sino-German dialogue on the rule of law. It dates back to the agreement reached in November 1999 by Germany's Federal Chancellor Gerhard Schröder and China's Premier Zhu Rongji. Originally designed to develop the rule of law and human rights in China, since 2000 a

[330] https://www.merics.org/en/blog/mideas-bid-kuka-germanys-industry-40-sale

[331] See: Sandschneider, 2012.

symposium is held once a year and from the German side is coordinated by the Federal Ministry of Justice and Consumer Protection, while from the Chinese side it is coordinated by the Ministry of Justice. The establishment of a dialogue was central for the Social Democrats/Green coalition from the outset. "The Dialogue thus became valuable symbolic capital in the hands of the German coalition government for deflecting human rights sensitivities among its electorate and preventing human rights controversies from disturbing the rapid expansion of economic relations with China" (Schulte-Kulkmann, 2005: 7).

Since the early years, the topics addressed in symposia included "Administration under the rule of law and the protection of individual rights (2000)", "Disclosure of governmental and administrative information (2005)", "Criminal procedure law in countries governed by the rule of law (2011)", and "Regulatory systems and mechanisms to protect consumer rights in the digital age (2016)"[332] . Today, "however, the success of this dialogue is hard to evaluate, at least from a Western point of view. Against initial presentation, the dialogue did not bring along concrete results or measurable improvements throughout the years" (Schnellbach and Man, 2015: 3). It seemed a "patient" approach to human rights [..] based on "persistent communication" rather than "punitive measures" (Kundnani and Parello-Plesner, 2012: 4).

When Merkel succeeded Schröder, Chinese analysts saw her as more concerned on human rights than the predecessor. For example, she hosted the Dalai Lama in September 2007, causing a furious reaction in China[333]. The episode was severely criticized by Schröder[334] and generated tensions between Beijing and Berlin. It was the Foreign Minister FrankWalter Steinmeier, more aligned with Schröder, that cooled down the discussion "by sending a confidential letter recognising Tibet as a "part of Chinese territory" – a more precise statement of Germany's "one China policy" than in the past, which the Chinese state media saw as a diplomatic victory" (Kundnani, 2015: 80). "These 'hiccups' have reminded the German side that what they consider a privileged partnership is endangered when core Chinese interests are affected" (Huotari, 2015: 30). After the crisis Merkel seemed to revert to Schröder's tactics with the China, and *Ostpolitik,* driven by business interests, became the new mantra. On the occasion of Xi Jinping's 2014 state visit in Berlin, Angela Merkel, commenting on mass protests, addressed China's human rights issue in a joint press conference in a prudent way, stating that "Broad and free expression of opinion is of course a very important

[332] https://rechtskooperation-china.org/en/rule-of-law-dialogue/
[333] https://www.spiegel.de/international/germany/tension-over-dalai-lama-meeting-china-cancels-human-rights-talks-with-germany-a-511473.html
[334] https://www.reuters.com/article/us-china-germany-dalai/schroeder-regrets-merkels-dalai-lama-meeting-idUST594920071109

element to promote the creativity of a society, be it in research, culture or civil society"[335]. Some German politicians and German EP members were vocal in asking to investigate crimes against Falun Gong[336], calling for the release of jailed practitioners, denouncing organ harvesting and asking that Jiang Zemin, who started the persecution, be investigated.

For German people, dissidents' rights have always had a lot of space, suffice to remember Ai Weiwei or Liu Xiaobo. The occasion of the Nobel Peace Prize ceremony of Liu Xiaobo is interesting to recall because it opened a debate about Chinese influence of interference in Germany. Strittmatter, a journalist of the Sueddeutsche Zeitung, highlighted that German Sinologists had "stayed mum because their jobs were partly dependent on the Chinese government"[337]. The "conspicuous silence among Germany's Sinologists"[338] revealed the strong influence of Confucius Institutes in Germany and the Chinese departments of German universities, where teachers where sponsored by Beijing. Therefore, German orientation towards China issues at the international level during this period of analysis can be summarized as expressed in the Joint Declaration on the occasion of Chinese President Xi Jinping's state visit to Germany: "Germany supports the peaceful development of relations between both sides of the Taiwan Strait and reaffirms its commitment to a One-China policy"[339], hoping hope territorial disputes to be settled peacefully.

It must be noticed that during the Merkel's state visit to Beijing in June 2016, the bigger missing point in her speech regarded human rights in China[340]. This omission sounded louder in Germany. In fact, German media in those months gave big resonance to the irked Chinese response to Christian Democrat politician Michael Brand, who wanted to travel with a Parliamentary Committee to Tibet in late May 2016. China in fact, refused to concede him a visa and he came out saying that: "we can't just accept it when authoritarian regimes like China, Russia or Turkey carry out censorship and oppression, certainly not if they want to export these methods — and to Germany too. When it comes to human rights, pussyfooting around doesn't pay off. Human rights are not an internal affair of the state of China".[341] When the KUKA case exploded, the domestic discussion on human rights in China lighted up again. At stake was Germany's historical legacy on democracy, human rights and rule of law, and whether they had been downgraded by pragmatism on governmental and

[335] https://www.dw.com/en/merkel-highlights-human-rights-crimea-in-meeting-with-chinas-xi-jinping/a-17529401
[336] such as Martin Patzelt, Cornelia Ernst, Prof. Prof. Dr. Klaus Buchner, Stefan Eck.
[337] https://www.dw.com/en/does-beijing-have-a-grip-on-germanys-sinologists/a-6367465
[338] https://www.dw.com/en/does-beijing-have-a-grip-on-germanys-sinologists/a-6367465
[339] https://archiv.bundesregierung.de/archiv-de/meta/startseite/joint-declaration-between-germany-and-china-460244
[340] https://www.bundesregierung.de/breg-de/aktuelles/pressekonferenzen/pressekonferenz-von-bundeskanzlerin-merkel-und-dem-chinesischen-ministerpraesidenten-li-keqiang-847556
[341] https://thediplomat.com/2016/05/china-pressures-europe-to-stay-silent-on-human-rights/

diplomatic relations with China in order to promote economic affairs. Touching core industries in Germany revived the defence of core German values.

2) Implications on European Institutional Process

In response to the domestic political debate on Chinese foreign investments and on the KUKAacquisition, the German government became the promoter of an investment-screening mechanism at the European level. Andreas Audretsch, a spokesman for the German Ministry of Economics, commenting KUKA's acquisition, said to the media that Economics Minister Sigmar Gabriel would seek to initiate a public debate about how "Europe's open societies" would deal with unfair competition in future"[342] . The declarations, mentioned above in the domestic political debate, by the German Minister Gabriel resounded immediately at EU level. The EU Commissioner Oettinger immediately called for a European understanding of the potential risk of Chinese takeovers, noting the risk of a public-opinion blunder and worrying about a protectionist and even racist blacklash. The alarm that started in Germany escalated at the EU level, stimulating a debate on the national security mechanisms currently in place in many EU MSs, and their often-divergent nature. The policy debate on an EU-wide FDI screening mechanism was conceived to defend the open market and fair competition, and create a common shield against further retaliations from China.

3) Implications on Transatlantic relations

The financial crisis highlighted the "increasing estrangement"[343] between Germany and the U.S. Germany's anti-Keynesian approach was criticized by American and Anglo-Saxon policy makers, who pushed Germany to reduce its surplus account and put in action measures to stimulate growth in the eurozone[344]. The U.S. critics on German economic policy were poorly received, even prompting claims of of anti-German racism[345]. The increasing perception of a US economic decline and the emergence of other economic powers changed Germany's self-conception. This was evident

342 https://www.dw.com/en/berlin-approves-kuka-sale-to-midea/a-19479483
343 Kundnani, 2016.
344 http://www.gmfus.org/publications/united-states-german-foreign-policy
345 http://www.sueddeutsche.de/wirtschaft/paul-krugmandeutschland-will-einen-regimewechsel-und-die-totale-demuetigung-1.2563504

in the Federal President Joachim Gauck's speech at the 2014 Munich Security Conference (Bundespräsident, 2014). According to him, given its new economic and political power, Germany should shoulder more international responsibilities for guarding security[346]. 2013 can be remembered as the year of the lowest level of relationship with USA. The Edward Snowden's revelation of the massive programme of surveillance conducted by the U.S. National Security Agency (NSA), together with the British Government Communication Headquarters, a former NSA contractor, even tampering with Merkel's phone[347], "created strains in the relationship"[348] with US.

In 2016, the KUKA case sparked alarmism about Chinese takeovers not only in Germany and at EU level but also in the USA. KUKA in fact had a US subsidiary – KUKA Systems Aerospace North America, engaged in highly sensitive US defence-related activities, which was International Traffic in Arms regulations (ITAR) registered and there is a prohibition on Chinese ownership of ITAR-registered companies which dates back to sanctions imposed on China after Tiananmen Square.

The deal regarded extensively on CFIUS issues and related approval processes in Washington. On December 15, KUKA announced the sale, for an undisclosed price, of its U.S. business KUKA Systems Aerospace North America to U.S. automation company Advanced Integration Technology Inc., "in connection with open regulatory approvals in the United States"[349]. The Press release on the KUKA website, KUKA Press Release, Dec. 15, 2016 "[t]he sale is an important step to fulfill security-relevant requirements of the U.S. authorities CFIUS (Committee on Foreign Investment in the United States) and DDTC (Directorate of Defense Trade Controls). Both authorities are currently reviewing the takeover offer from MECCA/Midea for KUKA, focusing on KUKA's activities in military and security-relevant areas in the United States"[350]. Finally, the US Government Authorities – CIFIUS which is the Committee on Foreign investment in United States and the DDTC the Directorate of Defense Trade Controls, on December 30, 2016 "grant clearances for take-over of KUKA by Midea". During the same months, it must be remembered that President Obama used his power granted under CFIUS to block the Chinese Fujian Grand Chip Investment Fund from acquiring Aixtron[351],

[346] www.bundespraesident.de/SharedDocs/Downloads/DE/Reden/2014/01/140131-Muenchner-Sicherheitskonferenz-Englisch.pdf?__blob=publicationFile
[347] Dworkin, 2015.
[348] Obama, 2014. See: https://www.bbc.com/news/world-europe-27695634
[349] KUKA Press Release, Dec. 15, 2016, available on-line at: https://www.kuka.com/en-de/press/news/2016/12/kuka-sells-systems-us-aviation-section
[350] KUKA, 2016.
[351] See Aixtron Form 6-K, Ex-99.1, Nov. 18, 2016, SEC Filing, available on-line at: https://www.sec.gov/Archives/edgar/data/1089496/000106299316009926/exhibit99-1.htm and Aixtron Press Release, Nov. 18, 2016, available on-line at:
https://www.aixtron.com/en/press/press-releases/AIXTRON%20SE%20Tender%20Offer%20by%20Grand%20Chip%20Investment%20GmbH%20/%20Referral%20of%20CFIUS%20Decision%20to%20the%20President%20of%20the%20United%20States_n893

and warned Germany on security issues. The Minister of Economy, Sigmar Gabriel, reversed his position on the deal after this threat emerged and blocked the acquisition.

The political implications of Chinese foreign investments on transatlantic relations – in the case of KUKA and of Aixtron – were evident and in these cases a convergence with US emerged, giving the perception that when defence is at stake a Deutscher Weg[352] cannot be pursued without allies and information sharing.

4.5 Italy

Italy, from an economic standpoint is an open market country. The FDI Regulatory Restrictiveness Index in the period of analysis is below the OECD average.

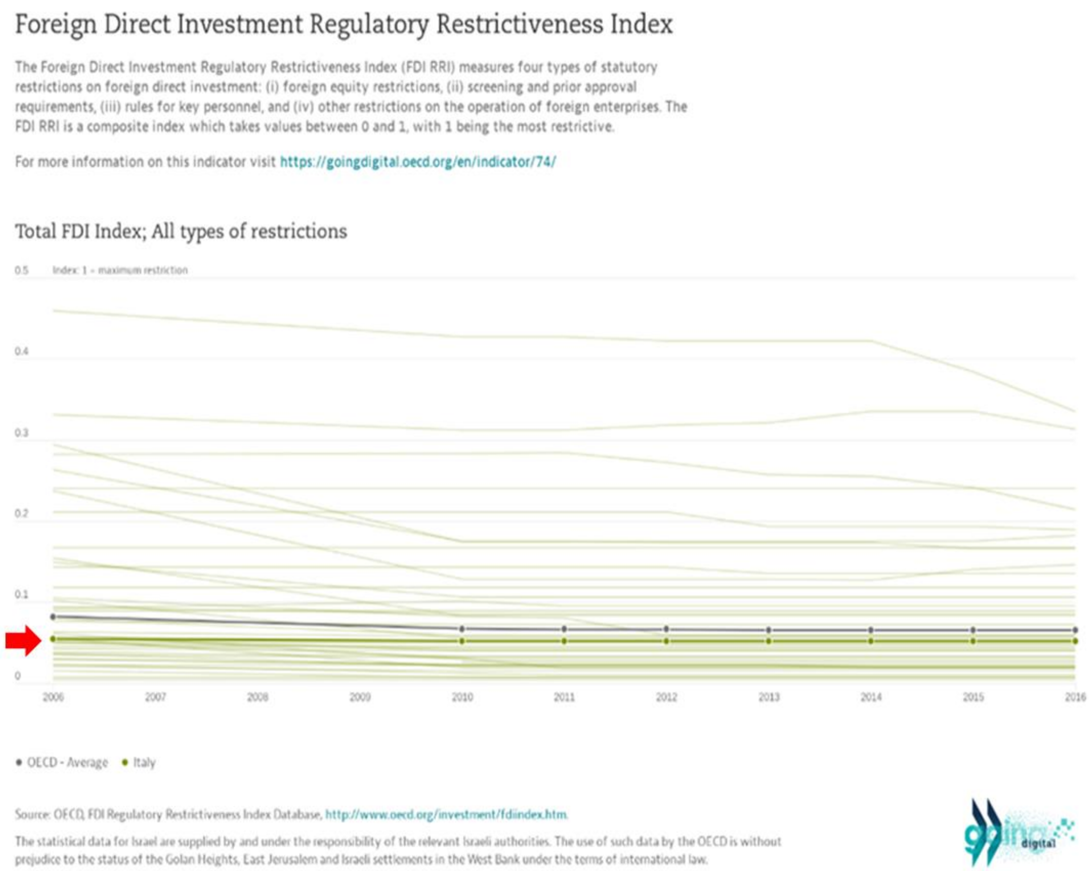

Figure 4.10: Italy's FDI Restrictiveness Index: 2006-2016 – Source: OECD, 2019

[352] Schröders, 2002 - https://www.welt.de/print-welt/article404934/Schroeders-deutscher-Weg.html

4.5.1 Deals description

Italy in the period of analysis was the third top destination for Chinese investments in Europe. The two biggest deals were Pirelli – the biggest single deal in Europe at the time - and CDP Reti.

I) Pirelli

a) The Chinese acquirer

China National Chemical Corporation 中国化工集团公司 (*Zhōngguó huàgōng jítuán gōngsī*), commonly known as ChemChina, is the largest Chinese state-owned chemical company. It is a state-owned company, under the control of the Chinese State-Owned Assets Supervision and Administration Commission (SASAC). Founded by Ren Jianxin in 1984 with a 10,000-yuan loan, it grew into an empire by taking control of over 100 troubled state-owned chemical factories across China, with the government retaining ownership. It is active in agrochemicals, rubber products, new chemical materials and specialty chemicals, basic chemicals, petrol processing and refinement, chemical equipment[353]. ChemChina's tire business is included into the segment of "rubber products", with three main business areas: auto tire, special tire, non-tire rubber products and latex products. China National Tire & Rubber Co. Ltd (CNTR) is the wholly owned subsidiary for the tire segment business segment and is the largest manufacture of OTR tires, special tires and aircraft tires, with famous brands like Aeolus, Yellow Sea, Torch, Double Happiness. ChemChina is on the list of Fortune 500 companies and in 2015 its ranking was 265 on the list with 2015's operating income of around $45 billion.

Following the "going global" principle, ChemChina has developed important international operations looking for advanced technology and market growth. As exposed in its website the company actually has "production and R&D bases in 150 countries", and has "160 thousand employees, with 86,000 outside China". It "operates 6 strategic business units (SBUs), 4 directly affiliated units, 92 production and operation enterprises, 12 overseas enterprises, and 339 R&D institutes, among which 147 are overseas ones. Moreover, it controls 9 listed companies"[354].

[353] https://www.chemchina.com/en/cpyfw/A6018web_1.htm
[354] http://www.chemchina.com.cn/en/gywm/jtjj/A601601web_1.htm

In 2015 its business strategy was: "instead of competing with upstream players for resources and downstream players for markets, ChemChina will further optimize its industrial structure through expanding its leading businesses both upstream and downstream in light of a "Harmony brings wealth" principle. It will form a competitive edge by R&D and innovation and use a market-oriented competitive method to develop itself"[355].

It later became well-known on the western markets for huge and successful acquisitions, not only thanks to the Italian Pirelli, but also its 2016 acquisition of the global plastics and rubber-processing machinery German manufacturer KraussMaffei from Onex Corp for €925 million and above all for buying Syngenta, the Swiss-based world leader in seed and pesticide production, for US$43billion in 2017. Outward investments provided ChemChina cutting-edge technologies and global markets.

b) *The domestic target*

Pirelli's origin dated back to 1872, when Giovanni Battista Pirelli founded "G.B. Pirelli & C"., in Milan to produce elastic rubber items. The success of the company followed the rapid growth of cars and its competitive position on international markets was very soon well represented by its commitment to racing. Already in the early '20s it was listed in Milan and then in New York. Technological development of both processes and products, together with geographical expansion was the mantra of the last century. "For over three decades, Pirelli has been the fifth largest tyre maker in the world, squaring off with the three largest players Bridgestone, Michelin and Goodyear, and a group of second-tier players, including Continental Tire (Germany), Sumitomo and Yokohama (Japan), Cooper Tire (USA)" (Cool, 2015). In 2014, Pirelli counted sales of 6.02 billion Euro of sales, with a distinctive focus on high-end segments, Premium tyres with the highest technological content. Through its 20 plants located in 14 countries, Pirelli can count on production facilities across 4 continents with a capacity of 72 million Consumer tires (Car and Moto) and 6.3 million Industrial tires (Truck and Agro) (Pirelli, 2016).

In 2015, the ChemChina's tyre making unit China National Tire & Rubber first bought the 26.2% stake in Pirelli owned by the Italian holding firm Camfin, and then launched a bid for the rest. The bid was launched by a vehicle, Marco Polo Industrial Holding, controlled by the Chinese state-

355 https://web.archive.org/web/20150719195734/http://www.chemchina.com.cn/en/gywm/yjysm/A601605web_1.htm

owned group (65%) and part-owned by Camfin investors (35%), which include the Pirelli and Camfin boss, Marco Tronchetti Provera, Italian banks UniCredit and Intesa Sanpaolo, and Russia's Rosneft. The operation foresaw that if the tender offer was taken up by between 90% and 95% of shareholders, Pirelli would have merged with ChemChina and delist. The restructuring of Pirelli was by far the Milan market's most important deal in 2015. Marco Polo Industrial Holding S.p.A. merged by absorption into Pirelli during 2016 and consequently a process of industrial transformation led to the separation of industrial activities and culminated later in October 2017 with the return of the Company to the stock exchange. According to the agreement, Tronchetti Provera will remain at the lead of Pirelli until 2021, while ChemChina's Ren Jianxin was nominated chairman of the company.

ChemChina, on one side, commented on the deal by reassuring the Italian market that they have "no intention of interfering in the operational management of the group", and above all, "both the headquarters and R&D will remain in Italy. Moreover, technologies will not be sold to third parties"[356]. Marco Tronchetti Provera, putatively speaking for the Italian side, reassured the employees in a letter saying that "the agreement with the Chinese will not have any impact on employment […] Pirelli has a Chinese as a majority shareholder, but its head and heart remain in Italy. Pirelli continues its journey and becomes stronger". Moreover, "the Chinese partners appreciate us for our ability to produce the highest quality tires and for our modern facilities worldwide. These are our strengths on which we will continue to invest, because these factors allow us to have the leadership in the prestige segment and to be one of the best producers in the premium segment"[357].

c) *Theory testing: national security risk assessment*

From the host country's point of view, this is not the case for national security implications. In fact, the domestic firm to be acquired does not have a sensitive semi-unique technology, critical good or service with no-substitutes in the international market or that can be deployed or sell against the host country. With a long history in tyre making, Pirelli represents an Italian manufacturing company globally recognised for its focus on the high-end segment. However, it is not the case of a

[356] https://www.pneurama.com/en/rivista_articolo.php/PIRELLI-UNDER-THE-DRAGON-S-BANNER?ID=21256
[357] https://motori.ilgazzettino.it/economia/pirelli_tronchetti_occupazione_renzi_cinesi_testa_cuore-937890.html

of a semi-unique technology or critical goods. From the Chinese standpoint, the acquisition will provide direct benefits allowing access to the advanced and premium technology, as well as market access of a well-known Italian brand. From the Italian standpoint, the acquisition represents an opportunity for its international expansion, with the possibility of increasing its penetration power in Asian markets, where the Chinese have already established a strong presence, and where competitors such as Continental and Michelin are pushing to increase their business share.

II) CdP Reti

a) *The Chinese acquirer*

State Grid Corporation of China - 国家电网公司 *(Guójiā diànwǎng gōngsī)* ("SGCC") – is a state-owned electric utility monopoly in China and it is the biggest utility in the world. It was founded on December 29th, 2002, when, at the third stage of power-sector reform, the State Council restructured State Power Corporation of China, dividing it into two grid companies[358], five generation groups and four accessorial business companies. Since 2004, SGCC has prioritized the development of China's transmission system and the creation of a national grid based on UHV (ultra-high-voltage)[359] transmission lines technology. Actually, SGCC operates on about 88% of the national territory, in 26 provinces, autonomous regions and Chinese municipalities, with over 1.5 million employees to serve a population of over a billion people[360], with a total line length of UHV transmission projects of 32,000 km and a converting capacity of more than 320 GVA (320 GW)[361]. As we can read from its website, its mission is to adopt "long-term strategies and sticks to localized operation in promoting the "Belt and Road" Initiative and pursuing globalized development, and adheres to standard operation procedures to achieve sustainable development and aims at shared growth to promote win-win cooperation. The projects State Grid invested in and constructed are all concerned with local socioeconomic development and are important infrastructure projects in related countries and regions. Currently all of them are in stable operation with regulated management and good returns, wining State Grid the recognition and appreciation of local residents and regulatory authorities and a good international reputation. Many projects of State Grid have become flagship projects in the

358 The other one is the smaller China Southern Power Grid Company.
359 "8 AC and 10 DC" UHV power transmission projects.

360 http://www.sgcc.com.cn/html/sgcc_main_en/col2017112300/column_2017112300_1.shtml
361 http://www.sgcc.com.cn/html/sgcc_main_en/col2017112610/column_2017112610_1.shtml

international community, creating economic, social and environmental value for the local area and helping State Grid to build their image as a responsible international corporation"[362]. In 2014 it ranked 7th on Fortune Global 500 for the 4th consecutive year and had already realized investments in the Philippines, Brazil, Portugal, Australia and Hong Kong. These great results were achieved thanks to its President Liu Zhenya (刘振亚) (2004-2013), who was also an alternate member of the 17th CPC Central Committee[363]. He perfectly advocated the ideas of global energy interconnection, mastering, "UHV power transmission technology with independent intellectual property rights and promoted Chinese UHV technology and equipment to go global, realizing "created in China" and "led by China" [364].

b) The domestic target

CDP Reti is a subsidiary of Cassa Depositi e Prestiti, the Italian public financial institution which provides financial support with the aim of strengthening the competitiveness of Italian companies and promoting infrastructure investments and local development. CDP RETI is a holding vehicle which at the time of the investment controlled Snam and Terna, in order to support the development of strategic infrastructure of the country in the gas and electricity sectors, respectively.

362 http://www.sgcc.com.cn/html/sgcc_main_en/col2017112808/column_2017112808_1.shtml?childColumnId=2017112808

363 http://www.chinavitae.com/biography/Liu_Zhenya

364 http://www.sgcc.com.cn/html/sgcc_main_en/col2017112610/column_2017112610_1.shtml

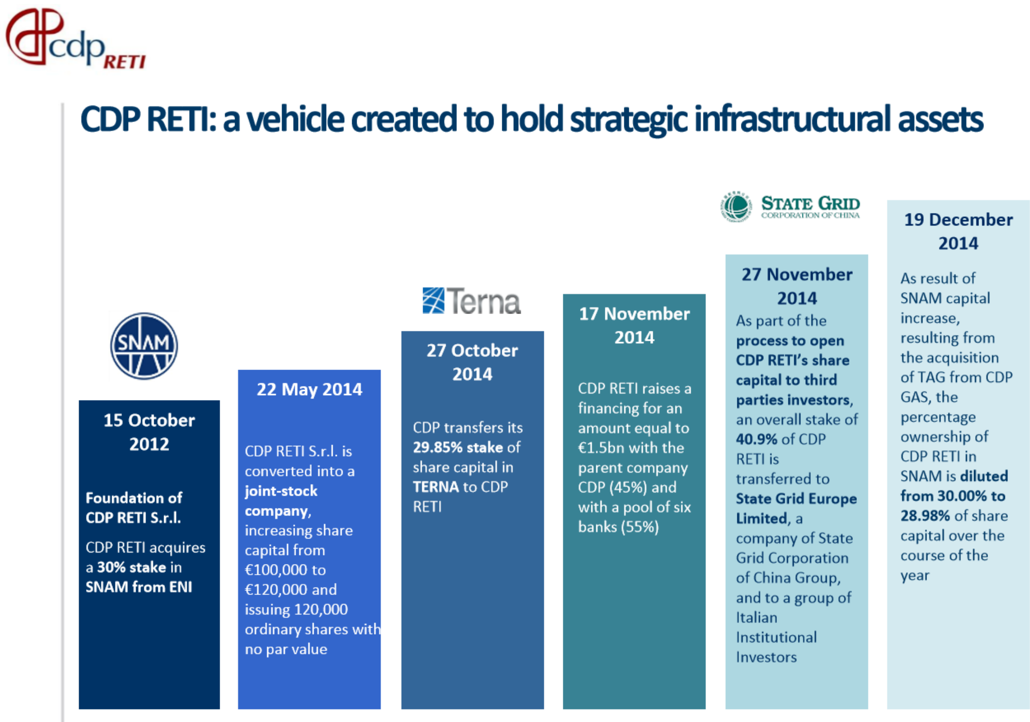

Figure 4.11 - CDP Reti's strategic infrastructure_Source: CDP Reti (May,2015: 8)

More in detail, Snam is leader in Europe in the construction and integrated management of natural gas infrastructure[365]. The Company is active in natural gas transportation (Snam Rete Gas), storage (Stogit) and regasification (Gnl Italia). It manages the Italian national gas transportation network. **Terna** is a large operator in electricity transmission grids. Through Terna Rete Italia, the Company safely manages the National Transmission Grid while, through Terna Plus, it manages new business opportunities and non-traditional activities, also abroad[366].

On July, 2014 the Board of Directors, under the Presidency of Franco Bassanini, announced the transfer of 35% of CDP Reti for 2.101 million euros to State Grid International Development Limited (SGID), a company entirely controlled by State Grid Corporation of China. From an economic standpoint, Terna and Snam are assets regulated by the state, with a stable cash flow generation for any investor. Moreover, they are companies with a solid debt-structure as CDP is a lender for 45% of the total.

According to CDP Reti's Press Release: "SGID will see recognized some governance rights to protect its investment in the company. In particular, SGID might appoint two out of five members of the Board of Directors of CDP RETI and one out of three members of the company's board of auditors.

[365] www.snam.it
[366] www.terna.it

SGID will also see recognized a veto power with respect to the adoption - both by the Board of Directors of CDP RETI, and by the shareholders of CDP RETI - of certain specific resolutions. In order to strengthen the cooperation between the parties, CDP and SGID have established that, based on the operational needs of CDP RETI, State Grid International Development may propose the name of one or two candidates that contribute to the operational management of the company. The final decision in this regard will, in any case, be made by the competent body of CDP RETI"[367].

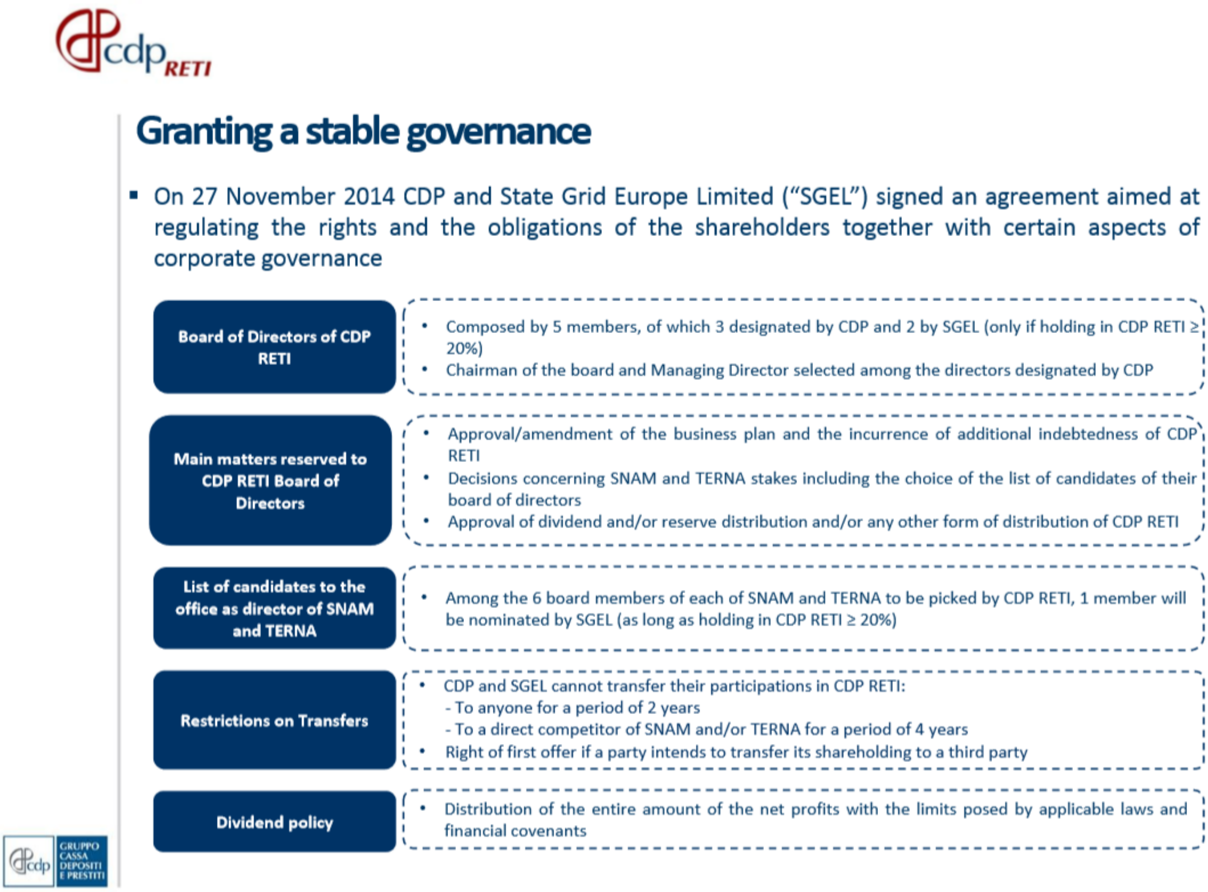

Figure 4.12 - CDP Reti's Corporate Governance_Source: CDP Reti (May,2015: 10)

In November 2014, CDP S.p.A. ("CDP") sold a 40.9% stake in the company to State Grid Europe Limited ("SGEL") a subsidiary of State Grid Corporation of China (35.0%) and to a group of Italian institutional investors (5.9%)[368]. Together with the transaction, a loan was foreseen and attached to the purchase agreement and paid at the closing and granted to CDP Reti for an amount to 1.5 billion

367 https://www.cdp.it/sitointernet/page/it/cdp_firmato_laccordo_per_la_cessione_del_35_di_cdp_reti_al_gruppo_cinese_state_grid_corporation_of_china?contentId=CSA11029

368 The Italian institutional investors are 34: banking foundations, pension fund (Cassa Nazionale di Previdenza e Assistenza Forense) and banking institutions.

euros (financed for 45% from CDP and the remaining 55% percent from a pool of third-party banks) and divided into a loan of 1 billion a year that should be repaid through a bond issue and in a five-year 500 million credit line.

On a final note, in order to have a more comprehensive overview, it should be noted that, in the first quarter of 2014, Greece had started the privatization process launched by the Sarmas government in order to improve the country's public accounts. The Public Power Corporation, the state-controlled power utility agreed to spin off, selling the 66% of Admie, the Greek electricity grid which managed 11,529 km of lines with a power of 66 - 400 kV and 310 stations. At the time, Terna presented a manifestation of interest and in August 2014 qualified for the due diligence of the next step[369]. State Grid Corporation, the Belgians of Elia e the Canadian pension fund Psp were considered possible competitors of Terna on the deal. Due to the Greek political instability, the tender was postponed several times. Later, in October 2016, Chinese State Grid won the bid presenting a proposal of 320 million euros for 24% of the capital of Admie[370], valuing the PPC's power grid unit at $1.45 billion and managing to outbid Terna, its own participated company, as well as the French power grid operator RTE, which was initially among the shortlisted investors and did not make an offer[371]. Italian lawmakers openly asked whether Terna's international reach was fully free against the backdrop of its being a Chinese-participated company[372].

c) *Theory testing: national security risk assessment*

From the host country's point of view, this is the case for national security implications. According to the operational definition derived from Moran's theory, this can be assessed as Threat I. In fact, the domestic firm to be acquired controls access to both the national electricity and gas grids. A key highlight is that SNAM and TERNA are strongly recognised as strategic infrastructures for the Italian Republic in all of CDP Reti's own corporate documents. From a theoretical standpoint, in this case we should expect the Italian government to put a veto or some conditionalities, at least for example strengthening corporate governance tools.

[369] See Gruppo Terna Resoconto intermedio di gestione consolidato 30 settembre 2014.
[370] With an overpriced evaluation, more than what Cosco Shipping spent for the 51 percent of the port of Piraeus (280.5 million euros).
[371] http://www.chinadaily.com.cn/kindle/2016-10/28/content_27205061.htm
[372] https://www.camera.it/leg17/410?idSeduta=0705&tipo=atti_indirizzo_controllo

4.5.2 Domestic political implications

From a regulatory perspective, it is important to highlight that Italy had not closed any sector to foreign investments based on national security. However, pursuant to Law 11 May 2012 no. 56, a compulsory review mechanism has been introduced together with the abolition of the previous mechanism of a "golden share". In fact, the Italian political debate on protection of strategic sectors started before 2012 and, more precisely, during the privatization phase of public companies and public utilities. With the adoption of the "golden share", the Italian state had special power on those companies operating in the defence and national security sectors, particularly those of strategic relevance such as energy, transport and communication. The review of the golden share mechanism was imposed by the EU Commission, and in fact the case was submitted to the European Court of Justice which, with the sentence of March 26, 2009, condemned Italy for the special power given to Italian State – in particular for Eni, Enel, Finmeccanica and Telecom Italia - because the discipline was against free movement of capital and Articles 43 and 56 of the Treaty. The new mechanism, introduced in 2012, foresees special power for the government in cases "where the acquisition or other form of transaction triggers an "effective threat of severe prejudice to essential interests of the states (for investments in the field of defence and national security)" or an "exceptional effective threat of serious prejudice of Italy's national interests" (for investments in energy, transport and communication sectors)". (OECD, 2016: 58). It is the Presidency of the Council of Ministers that is responsible for conducting the reviews, but in cases of national security and defence sectors, "the review process involves the Ministries of Foreign Affairs, Ministry of Infrastructure and Transport as well as Ministries of Interior and Economic Development" (OECD, 2016: 58). The review mechanism applies "to any merger and acquisition, independent of its value, affecting a company exercising a strategic activity in the field of defence and national security, or energy, transport and communications. With respect to defence and national security, the mechanism applied to all foreigners; reviews of transactions in other sectors only apply to foreigners from non-Eu and non-EEA countries" (OECD, 2016: 58).

"The foreign investor or target company must notify the authorities of a transaction falling under the ambit of the review mechanism is planned, adopted or executed" (OECD, 2016: 58). From a legislative standpoint there is a distinction between resolutions adopted by the target company, and the purchase of any interest in any relevant company" (OECD, 2016: 58). The government, after the notification, has 15 days to reach a decision in absence of which the approval is considered granted. However, the authority can extend the timeframe if additional information is required. The government can impose a veto or conditions in the form of a decree of the Prime Minister. "The implementation of regulation requires monitoring of compliance with such commitments" (Presidential Decree 19 February 2014) (OECD, 2016: 59). When CDP Reti's deal was signed in 2014[373], the deal was strongly welcomed by the government. According to the Minister of Economy, iercarlo Padoan, who was on a state visit in China[374], the deal represented a "wish for a strategy of growth, based on the real economy, on long-term investments, in line with the government's objectives [and] a very important step, but only one step in the process of economic integration between Italy and China that is being strengthened day by day"[375]. The domestic political debate spread immediately with strong reactions in media and in Parliament. Franco Bassanini, the President of CDP, in response to the spreading criticism, defended the operation, saying that "with 51% we maintain control of CDP Reti and we do not sell out […] they give us more than the current prices, the averages of the last three months and the last six months of Snam and Terna stocks. These are very favorable conditions for not having given up control"[376].

On August, 4th, Hon. Daniele Capezzone of Forza Italia presented an enquiry with a written answer (4/05771) to the Prime Minister's Office and to the Minister of Economy and Finance asking 1) "which reflection preceded the Government's approval to the operation and whether there was an adequate discussion not only on merely economic grounds, but also on the geopolitical position of Italy, in consideration of the chosen partner and of the relevant stake that has been sold (without mentioning the possibility of a pre-emption right two years after the closing by the Chinese partner, if CDP wants or is induced by circumstances to sell further stakes) and from the point of view of the national interest, also in consideration of the fact that the entry into CDP Reti follows other Chinese acquisitions in Italy, such as those involving Enel, Eni, Ansaldo Energia, and that the Chinese acquisition in Cdp Reti marks the entry into strategic Italian networks, which in turn are part of European energy networks". He asked for information about the "assessments and considerations that have led to not following the transparent path of an international tender" andalso "if it is not misleading to speak of privatization, considering that the buyer is totally controlled by a foreign government".

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373 Ending an auction procedure which started in December 2013, through a letter with a no-biding offer to potential investors. https://www.corrierecomunicazioni.it/telco/cdp-apre-il-capitale-di-cdp-reti/.
https://st.ilsole24ore.com/art/finanza-e-mercati/2012-10-16/completa-acquisto-snam-064353.shtml?uuid=Ab7fgWtG
The deal eventually entails the acquisition of a 35% stake, and not of 49% as originally envisaged.

374 https://formiche.net/2014/07/snam-terna-arrivano-i-cinesi-cdp-reti-applausi/

375 https://www.agi.it/estero/agichina/cdp_reti_approva_cessione_del_35_alla_cinese_sgid-3234846/news/2014-08-01/

376 Pineda, F. (July 31, 2014) "State Grid of China in Snam e Terna. La versione di Franco Bassanini (Cassa depositi e prestiti)" Available on-line at: https://www.bassanini.it/wp-content/uploads/2014/07/State-Grid-of-China-in-Snam-e-Terna.pdf.

On August, 7th, Hon Vallascas Andrea, together with Rodani Aris, Da Villa Marco, Mucci Mara and Crippa Davide of the Five Stars Movement presented an enquiry asking for a written answer from the Ministry of Economic Development (5/03474) saying that the "Government is dangerously weakening the Italian presence in the management and control of the country's main energy infrastructure" and "electricity transmission networks and gas pipelines must be considered a primary and inalienable asset and should therefore remain fully available and fully under Italian control, in order to prevent market logic and economic interests from making the public management of sectors to be considered for all purposes of national interest". They represent "great importance for the environment and for the health of citizens, therefore they cannot be conditioned by a logic of economic convenience or taken by organizations that are sensitive to the market". The Deputy-Minister of Economic Development, Claudio De Vincenti, replied that CDP Reti's deal represents a minority stake, that there is a "mutual commitment to a non-transfer for two years, with the first offer right of the other member at the end, with full respect of unbundling rules as foreseen by Italian and EU rules".

On October 7th, 2014, Sen. Gianni Pietro Girotto and Gianluca Castaldi of the Five Stars Movement presented an enquiry to the Minister of Economic Development (no. 4/02781), asking: 1) "what was the impact assessment on national energy strategy of the decisions taken by the Minister of Economy"; 2) "what can be the consequences of the agreement in Greece, where China Grid participates as a competitor of Terna in the acquisition of the majority stake of the "Independent power transmission", the Greek electricity grid, being the case of a parent company and its subsidiary competing for the same objective, and if the overall Chinese penetration strategy in the Mediterranean area has actually been evaluated"; 3) "whether the opinion of the national security services has been acquired, also in consideration of the fact that the participation in the board of directors of the Cdp Reti will bring to the direct knowledge of the Chinese Government information of significant strategic interest, security, commercial and international policy of the Italy".
Here, the Deputy-Minister of Economic Development, Claudio De Vincenti, replied: 1) "The transaction is purely a financial operation, in fact the share, subject to disposal, is equal to 35% of Cdp Reti, and represents a minority stake of the share capital; the remaining 65% percent, in fact, will remain with Cassa Depositi e Prestiti, which has the obligation to maintain control of CDR *ex lege*. Therefore, we do not see how this initiative can interfere or impact on the national energy strategy, which, among other things, is a national policy tool aimed at tracing a path which, at the same time, allows to strongly improve environmental standards, to implement "decarbonisation" process and to strengthen our security of supply, also thanks to the substantial investments expected in the sector". Regarding the concern expressed in the second question, De Vincenti replied that it

"does not exist, as it refers to geographical areas that are too distant to think of physical flow connections competitive from the point of view of infrastructure. Having clarified that the agreement does not provide for the control of SGID on CDR, and consequently on the subsidiaries of the latter, neither Snam nor Terna, Terna's participation in the tender for the acquisition of the majority stake of "Independent power transmission", the Greek electricity grid, places our national grid operator in competition with SGID as any other subject interested in participating in the tender. In any case, provisions will be provided within the group, within the shareholders' agreements, to avoid any potential conflict of interest". Regarding the concern expressed in the third question, De Vincenti replied that the government had recently approved the new provisions of the decree of the President of the Council of Ministers of August 6th, 2014, which constituted another guarantee for the activation, if necessary, of the special powers of the Presidenza del Consiglio dei Ministri". He referred in particular to the special powers in terms of the corporate governance in the defence and national security sector in energy, transport and telecommunications.
According to the "Relazione al Parlamento in materia di esercizio dei poteri speciali" CDP Reti's deal was finalized "to utilize the value obtained from the selling of the assets to support the Italian economy". Moreover, "during the investigation of the notification, the Coordination Committee considered that, even if it was not considered an extreme case for the exercise of special powers, in consideration of the peculiar characteristics of the sale transaction concerning delicate assets, it was necessary to specifically recommend to the notifying companies to proceed by ensuring compliance with the regulations concerning the proper functioning and security of energy supplies, maintaining the efficiency of the networks, protecting the confidentiality of sensitive data and strategic information held by CDP and its subsidiaries, as well as periodically monitoring the activities. However, with Resolution of October 23, 2014, the Council of Ministers decided the non-exercise of *tout-court* special powers, not considering it appropriate to limit the implementation of the operation with interdictory provisions" (XVII legislature: 14)[377].

During the Pirelli transaction, international media reported that Italian Prime Minister Matteo Renzi "has been uncharacteristically silent about the deal"[378] and that his government has made no protectionist noises about ChemChina. More realistically, the deal was anticipated by Renzi's visit to Pirelli's Research and Development Centre in Milan in February 2015[379], and in March 2015, Mr Tronchetti Provera declared in an interview that "in the last days I warned the Prime Minister that in the following days the partnership with ChemChina could be realized and his reaction has been

[377] http://www.governo.it/sites/governo.it/files/GP_RelazioneParlamento_2016.pdf
[378] https://www.reuters.com/article/us-pirelli-chemchina-idUSKBN0MI0PQ20150323
[379] https://www.pirelli.com/tyre/ww/en/news/2015/02/26/matteo-renzi-visits-pirelli-rd-centre-in-milan/

positive"[380]. The political debate was instead pushed for by labour unions. Susanna Camusso, the Leader of Cgil, said "the sale of a refined piece of our industrial system, such as Pirelli, to foreign capital would not be a tragedy if Italian capitalism were able to address the challenges of international competition and the government to have an industrial policy capable of addressing and nurturing productive energies which also exist in Italy". Carmelo Barbagallo, from Uil, said "the government has not been able to set up rules to avoid that, with globalization, Italy would become a discount store where everyone is coming to buy: we need to set up conditions to create an industrial policy to preserve family jewels"[381].

The Minister of Labor, Minister Giuliano Poletti, replied that it is good to have foreign investors "rather than companies that very slowly, due to lack of investments, end up aging and close down" […] "it is always necessary to have an idea, And it seems to me that Pirelli has it, to keep its head in this country with a strong national presence"[382]. The Minister of Economic Development, Federica Guidi, declared that it was "an operation that concerns a private company and, therefore, the Government is not entitled to intervene"[383]. Hon. Vico Ludovico, of Partito Democratico, asked to the Minister of Economic Development, with an enquiry with written answer (no. 5/05137), which was her orientation on the deal, with special attention to the industrial and employment prospects of the Pirelli group. Undersecretary Simona Vicari replied that "the entry into the share capital of Pirelli by the China National Chemical Corporation is a transaction involving a private company and therefore the Government is not entitled to intervene, even if it has followed the story and is informed of what occurred" […] however, according to "the shareholders' agreements concluded between China National Chemical and Pirelli, the permanence in Italy of the research and development centre and of the headquarters, for whose transfer, in fact, it would need particularly strengthened majorities, equal to 90 percent in the assembly"[384].

In conclusion, the sale of Pirelli was considered a market deal and the Government did not see any reasons to interfere, although the same was said for the CDP Reti's deal. The government, given the minority stake, considered the operation as non-relevant for the national security implications. Corporate governance conditionalities have not been posed as the specificity clauses on the BoD, on

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380 TG5 interview cited in https://www.firstonline.info/tronchetti-renzi-sapeva-di-pirelli-chemchina-reazione-positiva/

381 https://www.agi.it/economia/sindacati_in_allarme_per_la_vendita_della_pirelli_ai_cinesi-232126/news/2015-03-21/

382 http://www.ansa.it/sito/notizie/politica/2015/03/24/tronchetti-chemchina-rende-pirelli-piu-forte_1f19eaed-d462-462d-915b-176e6df41015.html

383 https://www.mise.gov.it/index.php/it/per-i-media/notizie/comunicati-stampa/2032493-pirelli-chemchina-guidi-governo-non-ha-titolo-a-intervenire-ma-ogni-operazione-che-rafforzi-un-importante-realta-industriale-italiana-va-accolta-favorevolmente

384 Legislatura 17 ATTO CAMERA - Sindacato Ispettivo - INTERROGAZIONE A RISPOSTA IN COMMISSIONE : 5/05137 presentata da VICO LUDOVICO il 25/03/2015 nella seduta numero 399

management and the two year of non-transfer can be considered as normal with a private market investor, and not relevant for investors with a long-term vision such as the Chinese. However, on a final note, it is relevant to highlight that the Italian government on December 2014, at the last moment, presented an amendment (Maxiemendamento) to the Italian Stability law on which it was asked the confidence vote, which foresaw the sale of a high and super-high electricity grid by Ferrovie dello Stato to Terna[385]. This program is highly aligned with the Chinese ultra-high voltage energy grids strategy and only by maintaining the control of CDP Reti in the hand of the Italian state is it possible to mitigate the risk in the case of national level disaster or physical and cyber threats, given the fact that no other electricity grid exists in Italy if not that of Terna.

In the last decade, Italy's diplomatic relations vis-à-vis China have become more frequent and of higher level. When the financial crisis hit western countries, China was seen as the locomotive of the world economy and Italy followed a policy of intensification of cooperation agreements, especially in the fields of economic cooperation. In 2010, the 40th anniversary of the establishment of diplomatic relations was commemorated and Italy celebrated the "Chinese culture year" to push for a new and higher level of strategic partnership. On occasion of the state visit of the Premier Wen Jiabao with Prime Minister Berlusconi, in early October 2010, the two governments signed the "Three-year action plan on Strengthening Economic Cooperation between China and Italy" (2010-2013) along with 17 other side agreements and documents[386]. In late October 2010, the Italian President of Republic, Giorgio Napolitano, paid a state visit to China and declared that "Italy slooks at China with a growing interest" and it looked for "wider convergences on global questions, such as the global economy, the reform of international institutions, peace operations, the fight against poverty and environmental protection with global warming"[387]. In June 2011, Xi Jinping attended the "150th Anniversary of Italian Unification" in Rome and the two governments signed several agreements on trade, economic and technological cooperation. The next year, it was the Italian Prime Minister, Mario Monti, who paid a state visit to China and attended the opening ceremony of the Boao Forum for Asia 2012 Annual Meeting[388], known as the "*Asian Davos" in order to* reassure the Asian fiscal community of Italian stability.

The strengthening path of political relationship with China in order to promote economic development was strengthened by later PD-led governments. Under Prime Minister Enrico Letta,

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385 comma 193 della Legge di stabilità 2015 (Legge 23 dicembre 2014, n. 190), available on-line at: https://www.gazzettaufficiale.it/eli/id/2014/12/29/14G00203/sg

386 http://www.xinhuanet.com/world/2014-10/14/c_1112824873.htm

387 https://www.avvenire.it/mondo/pagine/napolitano-cina-visita_201010250829489500000

388 http://www.xinhuanet.com/world/2014-10/14/c_1112824873.htm

the program to attract foreign investments was called "Destination Italy" and was implemented in order to combat two "syndromes": "Outlet syndrome" which means "sell off to the foreigner to make cash" and the "Fort Apache syndrome" which means "we are in decline, so we raise walls to defend ourselves and what is left"[389]. After "having scrapped the old Italian politics", Italian Prime Minister Renzi aimed to change Italian foreign policy, describing it as "up to now made up of too much diplomacy and few concrete results", while calling for more exports and asking for increasing Chinese investments in Italy[390]. In 2014 he made an official visit to China and attended the China-Italy Economic and Trade cooperation Forum with Premier Li Keqiang. Matteo Renzi in his speech showed his ability to embrace the Chinese culture in order to showcase the new Italian diplomatic and economic path toward China: "We have a miracle to do: keep the horse and the turtle together, the prudence, the wisdom together with the ability to run"[391].

On June 11, 2014, the two governments issued a new "Three-Year Action Plan on Strengthening Economic Cooperation between China and Italy" to comprehensively plan and guide bilateral cooperation in various fields. The two sides also signed a series of cooperation documents covering the fields of economy, trade, energy, aviation and infrastructure construction[392]. He issued a three-year action plan covering cooperation in trade, industries and investment, finance, business, tourism and technological innovation. On October 2014, Renzi signed a bilateral cooperative agreement in Rome with the Prime Minister of China, Li Keqiang and signed 20 cooperative agreements in trading, energy, agriculture, machinery, boat and yacht sectors for more than 8 billion euros, in order to strength cooperation industrial connections and two-way investments. Li Keqiang commented on the agreement, saying that the "Chinese government will continue encouraging Chinese companies to expand investment in Italy and hopes that the Italian side will boost legal and policy protection for Chinese companies and workers and facilitate their operations and stay in Italy" […] "The two sides should help small- and medium-sized competitive enterprises expand cooperation in advanced technology and emerging industries, give full play to the role of bilateral mechanisms such as the China-Italy innovation forum, and carry out innovative cooperation in major sci-tech projects in such fields as smart cities, energy, environment and bio-medicine" [393]. From the Italian side, "Renzi expressed full agreement with Li's proposal on further developing China-Italy relations, saying that Italy attaches great importance to bilateral ties and would like to fully expand

389 http://www.enricoletta.it/proposte/destinazione-italia/
390 https://www.lastampa.it/esteri/2014/06/11/news/renzi-in-cina-dobbiamo-aprirci-di-piu-1.35743135
391 https://www.lastampa.it/esteri/2014/06/11/news/renzi-in-cina-dobbiamo-aprirci-di-piu-1.35743135
392 http://www.xinhuanet.com/world/2014-10/14/c_1112824873.htm

393 http://english.gov.cn/premier/news/2014/10/15/content_281474997331211.htm

cooperation with China in such fields as trade and economy, two-way investment, energy, science and technology and culture”[394] .

In 2015, the Milan Expo hosted China, which for the first time in its history attended a Universal Exposition overseas, with a self-built pavilion by the name of “land of hope”, showing the gratitude and respect of the Chinese people towards nature. Expo 2015 was presented as a great marketing tool for potential investments in Italy and was pushed forward both by Letta and Renzi’s government in order to intensify economic relations with China. After CDP Reti, Eni, Enel, Assicurazioni Generali, Telecom, Prysmian, Mediobanca, Fiat-Chrysler, Krizia, there were big expectations in further big acquisitions of well-known strong fashion brands, food and wine companies. The new political course gave the expectation of a solid political backbone for Chinese investors to further their economic expansion. However, it must be said that this policy of courting Chinese investors happened when Italians showed a deep and unfavourable opinion vis-à-vis China, scoring second (61%), along with France, just after Japan (86)[395].

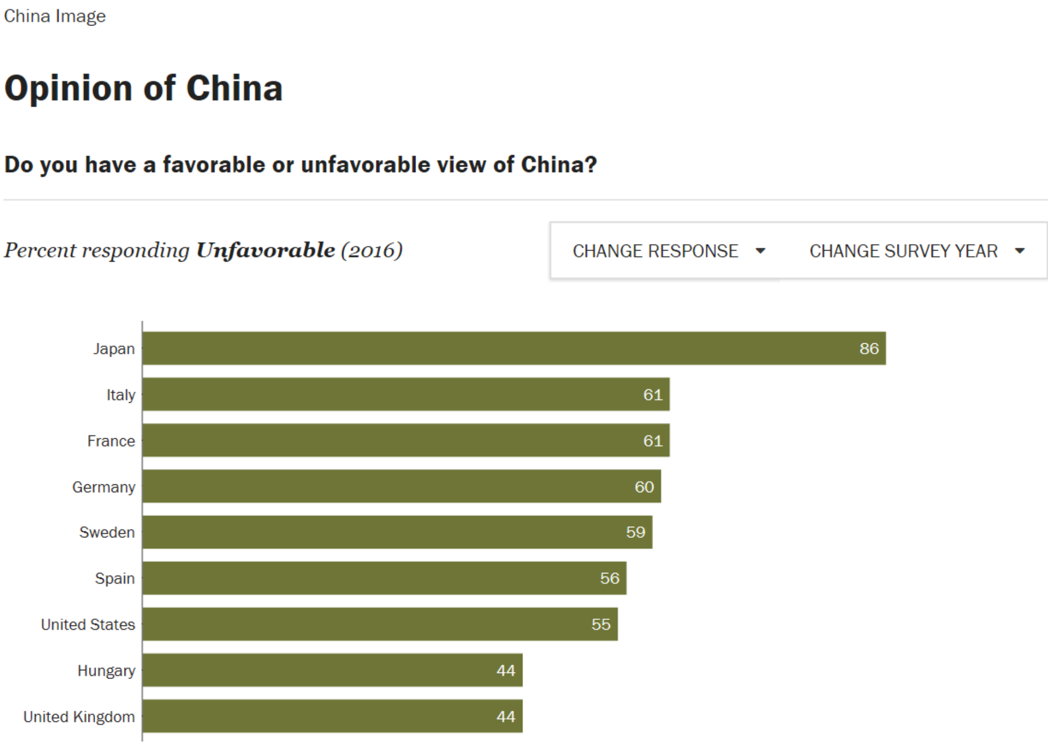

Figure 4.13 – Opinion of China (2016). Source: Pew Research Centre

394 http://english.gov.cn/premier/news/2014/10/15/content_281474997331211.htm
395 https://www.pewresearch.org/global/database/indicator/24

4.5.3 Foreign political implications

In this paragraph, the foreign policy analysis will follow three level of implications. The first one regards the impact on «China's issues» in International Organizations; the second one is the impact on the European Institutional Process; the third one is the impact on Transatlantic relations.

1) Implications on "China's issues" in International organizations

Italy has always showed a strong will at International level in the protection of human rights, human dignity, freedom and equality. Some political initiatives have been conducted in the period of analysis to promote human rights in China and to petition international community, not without Chinese reactions.

On February 2009, the Municipality of Rome, with its Mayor Alemanno, gave the Dalai Lama honorary citizenship. The Chinese Foreign Ministry, Jiang Yu, said in a press conference in Beijing that this hurt the feelings of the Chinese people and that it was seen it as an interference in China's internal affairs[396]. At the time Prime Minister Berlusconi and Franco Frattini, the Minister of Foreign affairs, immediately declared that they support the "one-China policy" and that "Italian municipalities are autonomous and take their decisions independently from the government"[397]. Fearing an assertive Chinese reaction, on June 2012, Mayor Giuliano Pisapia of Milan, cancelled the plan to give to the Dalai Lama honorary citizenship, which originally had the majority of city-council votes. It has been reported that it was cancelled as a consequence of the strong reaction expressed by the Chinese Consulate in Milan, which classified the event as unfriendly and against Chinese people[398].

On December 2013, the Commission for the Safeguard and Promotion of Human Rights of the Italian Senate hosted David Marras, the international human rights lawyer and the candidate for the 2010 Nobel Peace Prize, in a hearing in which he exposed the problem of organ harvesting from executed prisoners in China and the repression of Falun Gong. The Commission asked the People's Republic of China for the immediate release of practitioners of Falun Gong movement, threatened to reconsider training programs for Chinese doctors learning organ transplantation techniques in Italian hospitals and called for pursuing organ trafficking at the international level with tighter

[396] "此举严重伤害中国人民的感情，中方对此表示强烈不满和坚决反对" (*Cǐ jǔ yánzhòng shānghài zhōngguó rénmín de gǎnqíng, zhōngfāng duì cǐ biǎoshì qiángliè bùmǎn hé jiānjué fǎnduì*)
http://news.cctv.com/world/20090211/104540.shtml

[397] https://www.repubblica.it/2009/02/sezioni/esteri/dalai-lama/cina-reazioni/cina-reazioni.html

[398] https://www.voachinese.com/a/Article20120624-milan-drops/1246276.html

penalties for intermediaries involved[399]. On 5 March 2014, Dicki Chhoyang, the Minister of Information and International Relations of the Tibetan Central Administration Dharamsala, in a hearing to the Commission of violations of human rights in Tibet[400] exposed the situation in Tibet on the violation of human rights. The Commission declared its full support of the freedom of expression, association and belief of the Tibetan people and recommended supporting them at EU and International levels, working closely with the Office of the High Commissioner for Human Rights (OHCRH)[401].

The political dialogue with China has inevitably lowered the tone on human rights protection and of freedom of religion, in order not to irritate the Chinese government and forsake economic advantages. However, the parliamentary committee remained active to defend human dignity and Italy during the period collaborated at international level for their defence.

2) Implications on European Institutional Process

When Italy got the rotating Presidency of the Council of European Union in 2014, it was coming out of a period characterized by a general mistrust of European institutions and with other Member States considered responsible of hard budgetary policy and latent tensions between Eurozone and no-Eurozone countries. During the Mario Monti and Enrico Letta governments, Italy did not play a leading role in setting the EU international agenda. Instead, their government settled down long-term priorities of smoothing this complex phase of transition, trying to avoid intra-institutional potential conflicts under the uncertainties of economic recovery. The main economic priorities included the need to achieve better economic policies on competitiveness, growth and employment and the conclusion of a Transatlantic Trade and Investment partnership (TTIP) in order to balance United States foreign policy forged with that of the European Union as opposed to the China Pivot[402]. In many ways, Italy stood to be one of the main beneficiaries of the TTIP, due to the mix of Italian exports which are often exposed to tariff barriers[403]. No particular references to foreign direct investments were made during the period of analysis. Just one year later, in February 2017, the Italian Minister of Economic Development, Carlo Calenda, together with the French Minister of

[399] Senate of Italy, Risoluzione della Commissione Straordinaria per la tutela e la Promozione dei diritti umani, Doc. XXIVter n. 7, 5 March 2014, http://leg17.senato.it/leg/17/BGT/Schede/docnonleg/27454.htm
[400] Senate of Italy, Risoluzione della Commissione Straordinaria per la tutela e la Promozione dei diritti umani, Doc. XXIVter n. 6, 5 March 2014, http:// www.senato.it/service/PDF /PDFServer/BGT/75093. pdf.
[401] Resolution n. Doc. XXIV-ter n. 6, available on-line at: http://leg17.senato.it/leg/17/BGT/Schede/docnonleg/27453.html
[402] http://italia2014.eu/en/
[403] https://www.senato.it/service/PDF/PDFServer/BGT/00929588.pdf

Economy and Finance, Brigitte Zypries and the German Minister for Economy and Energy, Michel Sapin, jointly urged Cecilia Malmstrom of the European Commission to consider the establishment of additional means to restrict or prohibit investments by non-EU entities in order to ensure a level playing field, including reciprocity in investment relations.

3) Implication on Transatlantic relations

The good relations between the USA and Italy in the last quarter of the century were based not only on historical ties, but also on the recognition of US' economic, military, cultural and even moral power, perceived as a model of political and economic liberalism. In Italy, as well as in many EU countries, Edward Snowden's disclosures about US aggressive global surveillance caused tensions in bilateral relations with the USA. On October 23, 2013, Italian Prime Minister Enrico Letta invited the U.S. Secretary of State, John Kerry to clarify the situation, describing Snowden's allegations as "inconceivable and unacceptable"[404]. He replied that "the goal was to find the right balance between protecting the security and the privacy of our citizens and that this work will continue, as will our close consultations with our friends, including Italy"[405]. The Minister of Interior Angelino Alfano reported "We have a duty to [provide] clarity to Italian citizens—we must obtain the whole truth and tell the whole truth, without regard for anyone", while the Intelligence Undersecretary, Marco Minniti, during a hearing with the parliamentary committee on intelligence, denied that the services were aware of data collection on Italian communications by the United States, known as PRISM, and declared that "I feel I can exclude that the secret services knew"[406]. In 2014, John Phillips, the US ambassador to Italy, interviewed by TG1 on the visit to Rome of President Barack Obama, defined Italy's head of state, Giorgio Napolitano, "an old friend, a rock of stability and integrity for the country"[407]. During the same state visit President Obama met Renzi for the first time and Renzi was not shy in announcing that Obama was his "point of reference"[408] for the policies he wanted to achieve. Renzi's mandate from that moment was characterized by praises from Obama, attacks on Europe's austerity policies, said to be destroying the Union[409] , and advancing various proposals to

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404 https://www.bbc.com/news/world-europe-24670642

405 https://www.reuters.com/article/us-italy-us-security/italy-presses-kerry-over-u-s-surveillance-idUSBRE99M0LF20131023

406 https://www.repubblica.it/politica/2013/10/23/news/incontro_letta-kerry-69239836/

407 https://www.adnkronos.com/fatti/politica/2014/04/30/italia-usa-ambasciatore-statunitense-napolitano-roccia-per-italia_R9YbqTzAjl7Wdwny4WDiVJ.html

408 https://www.corriere.it/cronache/14_marzo_27/renzi-obama-fonte-ispirazione-0a04332e-b5b4-11e3-88c9-f5f1afba752a.shtml?refresh_ce-cp

409 http://www.rainews.it/dl/rainews/articoli/Renzi-Intervento-Assemblea-Onu-New-York-elogia-Obama-e-attacca-Europa-Puntare-su-austerity-significa-distruggere-UE-f30d8c7b-70e3-4430-9faf-fb799bd571f2.html

reform EU policies. In conclusion, while during Letta's government Italy distanced itself from the US, during Renzi's Italy enjoyed close relationship with USA, to the point that Obama invited Renzi to a state dinner on Oct. 18, 2016, the last formal dinner of Obama's presidency[410].

4.6 France

France, from an economic standpoint is an open market country. The FDI Regulatory Restrictiveness Index in the period of analysis is under the OECD average.

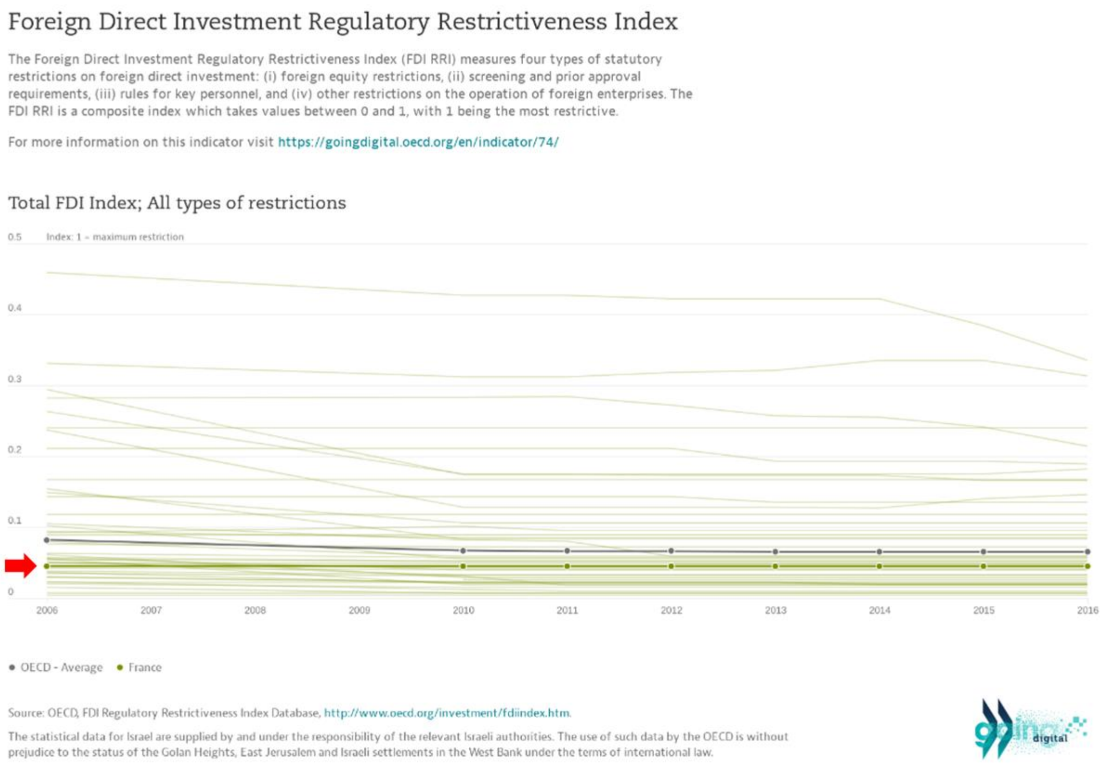

Figure 4.14 - France's FDI Restrictiveness Index: 2006-2016 – Source: OECD, 2019

4.6.1 Deals description

410 https://www.huffpost.com/entry/italy-matteo-renzi-obama-facebook_n_5820b3cbe4b0d9ce6fbd83dc

France in the period of analysis was the fourth top destination of Chinese investments in Europe. During the period of analysis, the two biggest deals involved two energy companies: GDF Suez and Total.

I) GDF Suez

a) The Chinese acquirer

China Investment Corporation (CIC) - 中国投资有限责任公司 (*zhōngguó tóuzī yǒuxiàn zérèn gōngsī*) - is one of the People's Republic of China's investment vehicles. With $941 billion in assets under management in 2019, it ranks second by Total Assets in the world.[411] It was formally established in September 2007 to manage and diversify Chinese foreign exchange reserves, which were traditional investments in dollar-denominated bonds. It is directly subordinated to the State Council and supervised by representatives from agencies such as the People's Bank of China and the Chinese Ministry of Finance. It presents itself as a financial institution that makes long-term investments in a way to maximize financial returns. According to CIC's 2011 Annual Report, its sectorial distribution was 19% financial, 14% energy, 20% consumer discretionary and staples, 10% information technology and 9% industrial. Its "overall assets were invested in domestic financial assets due to its ownership of Central Huijin, which the Chinese government created in 2003" and "financial institutions such as the Agricultural Bank of China, China Development Bank (CDB), Bank of China, China Construction Bank and the Bank of Communications" (Blanchard, 2014: 160).

However, in recent years, financial reports and academic studies revealed how much CIC has been involved in investments in resource exploration, energy and material sectors, which have been used as a tool to ensure access to raw materials in a broader economic strategy. This kind of investments "offer high potential returns if the global economy recovers and inflation increases. Furthermore, they have the potential to bolster and stabilise global energy supplies and prices, vital to China since it is the world's largest energy consumer and cannot satiate its demands with its own supplies" (Blanchard, 2014: 164). In October 2008, the Chinese government endorsed the Santiago Principles, in order to obtain the external legitimacy accepting the economic order[412]. In 2011, Gao Xinqing, the

[411] In ranks second, after the Norway Government Pension Fund Global $1,072,840,000,000 Source: https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund
[412] See: http://www.china-inv.cn/chinainven/About_CIC/Corporate_History.shtml; However, while Santiago Principles may be "useful for a better regulation of the relationship between fund managers and owners, they are

CIC President, offering financial assistance to Europe in order to help countries coping with the fiscal debt crisis, stated that “when China makes overseas investments, it aims to make profits and build influence”[413]. A lot has been written about what “influence” means, because in economic terms, rarely CIC exercised “control” over invested companies, instead voluntarily refusing seats, accepting nonvoting shares and purchasing minority stakes[414]. Some concerns about the real reasons behind investments are well reported by Professor Bismuth, who highlighted some eyebrow-raising statements by Jin Liqun, the Chairman of CIC at the time. The first statement was about labour laws in European financial distressed countries in 2011 which “induce sloth and indolence rather than hard work”[415]. An opinion of this type jars with the logic of a private investor reasoning, who would not normally invest in such qualities. The second statement was: “China cannot be expected to bail out the Eurozone unless it opens hurdles to China and other high-growth markets”[416]. According to Bismuth, this statement is even “more controversial”. In fact, “it suggests that CIC investments in the Eurozone are contingent on a change within the EU and the foreign policies of its Member States; specifically, more Chinese access to European markets. Such a declaration would be nonsensical if made by a private investor, and this indicates that CIC investments are also guided by political and geopolitical motives, which are certainly absent from its investment policy, and surely goes against the very spirit of the Santiago Principles” (Bismuth, 2017: 87).

For the sake of this analysis, it is relevant to have in mind that, in the scholarly debate on the motives that guide SWFs investments, the analysis proposed by Shemirani (Shemirani, 2011) seems the most convincing one. He indicated three motives of investments, whose intensity may vary over the time: they are a “foreign policy tool”; they are the “metamorphosis of state-run business” (here SWFs operates like other SOEs and state-controlled companies), and finally, they are a kind of “domestic compensation”, maybe responding to political risks threats that may undermine the stability of their regimes and ensuring government continuity[417].

nevertheless absolutely futile for considering and protecting the interests of the host States of sovereign investments” (Bismuth, 2017: 69).

413 https://www.reuters.com/article/cic-dbt/update-2-china-wants-profit-influence-from-investment-cic-idUSL3E7MF0CG20111115

414 Several scholars tried to give explanations to the non-financial motives behind the SWF investments such as political influence, furthering strategic interests or even to maximize the gains of the politicians (see: Murphy, 2012; Balding, 2008; Loh, 2010, Epstein and Rose, 2009; Chhaochharia and Laeven, 2008; Knill et al., 2012; Hatton and Pistor, 2012).

415 Tony Barber, *Enter the Technocrats* Financial Times (Asia Edition) 7 (12 November 2011), cited in Bismuth, 2017: 86-87.

416 *A Chinese Lesson for Europe* Financial Times (Asia Edition) 2 (30 September 2011), cited in Bismuth, 2017: 87.

417 See Kamiński, 2016: 3.

b) *The domestic target*

GDF SUEZ, is a French multinational energy company that was renamed ENGIE in April 2015[418], and operates in the fields of energy transition, electricity generation and distribution, natural gas, nuclear, renewable energy and oil. Its history dates back to the first half of the 19th century, in France and Belgium. In 1946 the "French state nationalized the assets of private gas and power companies, creating Gaz de France"[419]. Its international expansion started in the '80s and grew in dimension through a series of merger and acquisitions. GDF SUEZ was created in 2008 by the merger between Gaz de France and SUEZ, which also had a long history, dating back its origins in 1858, in the Universal Suez Canal Company, that constructed the Suez Canal. The merger happened amid a lot of political debate, because the French state at the time owned more than 80% of the company. In February 2006, the French prime Minister Dominique de Villepin, raising concerns about ENEL, the Italian state-owned company, which was planning to bid for SUEZ, unveiled the proposed merge between the two French companies. This raised lot of political reactions in Italy, with the Ministry of Industry Claudio Scajola cancelling a planned visit to Paris and Economy Ministry Giulio Tremonti calling it "an act of war"[420]. Fulvio Conti, Enel's chief executive officer, called it "the end of the European market"[421]. The long-delayed merger was than hailed by President Nicolas Sarkozy of France[422], but critics complained of protectionism and unions were upset by the deal[423]. In 2010, the combined company results showed "sustained growth since the merger" (GDF SUEZ, 2011: 4). Solid results came out in an economic environment that was "very tough and energy prices proved very volatile" (GDF SUEZ, 2010: 2). In 2011, the company's outlook forecast an "ambitious industrial strategy, with accelerated industrial development in fast-growing countries, confirmed by the combination with International Power, and sustained by key positions in mature European markets" (GDF SUEZ, 2010:20).

As a part of a wider alliance, in order to boost GDF SUEZ's expansion in the Asian market, CIC offered nearly 3,2 billion US$ for a minority stake in the company. According to a joint Memorandum of Understanding signed on Aug 10, 2011, the deal was divided into two parts. The

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418 In order to evoke *"energy for everyone and in all cultures", see:* https://www.engie.com/en/journalists/press-releases/gdf-suez-becomes-engie/

419 https://www.engie.com/en/group/history-engie-group/
420 https://www.telegraph.co.uk/finance/2933108/Italy-says-French-merger-is-act-of-war.html
421 https://www.telegraph.co.uk/finance/2933108/Italy-says-French-merger-is-act-of-war.html
422 https://www.theguardian.com/business/2007/sep/04/france
423 https://www.spiegel.de/international/business/birth-of-a-new-energy-giant-sarkozy-pushes-through-gdf-suez-merger-a-503516.html

first one foresaw that CIC would own 30 percent of GDF Suez's exploration and production division by investing 3.2 billion euros, but also would pay 600 million euros to acquire 10 percent in an Atlantic LNG liquefaction plant located in Trinidad and Tobago[424]. "What is distinctive in this deal is the fact that CIC secured itself the right to nominate two out of the seven members of the company's international board of directors. In consequence, it gave CIC access to the company's secrets, sensitive information, as well as direct influence on the management, which is unusual in the case of SWF investments" (Kamiński, 2016: 4). Lou Jiwei, Chairman and Chief Executive Officer of China Investment Corporation, said: "We are pleased to cooperate with GDF SUEZ, a leading utility company worldwide. CIC appreciates the opportunity to access a wealth of attractive joint investment opportunities alongside GDF SUEZ across its strong competencies, for example in gas, power, environmental and other energy efficiency services. Our investment of 30% in GDF SUEZ E&P would be our first sizeable transaction in Europe to date and, together with Atlantic LNG, one of our most important investments worldwide. We are committed to working with GDF SUEZ E&P to achieve its growth prospects"[425]. Chinese media welcomed the deal as "the agreement would mark China's latest bid to boost its influence over Western-owned energy assets and help GDF Suez accelerate growth in its exploration and production business"[426]. Gérard Mestrallet, Chairman and Chief Executive Officer of GDF SUEZ, declared: "I am very pleased to enter into this MoU with CIC, a major investment force worldwide, which can help GDF SUEZ access substantial incremental financing resources and strong networks in China and throughout Asia. CIC's investment in GDF SUEZ E&P business would be a highly attractive first milestone for our group, strategically and financially, and would support GDF SUEZ E&P's development. We will work together with CIC to rapidly identify and implement areas of cooperation that could benefit other businesses in our group, with a geographic emphasis on China and Asia"[427] .

c) Theory testing: national security risk assessment

From the host country's point of view, this case did not entail national security implications. In fact, the domestic firm to be acquired did not have a sensitive semi-unique technology, critical good or

[424] http://www.chinadaily.com.cn/a/201108/12/WS5a29f12aa3101a51ddf8ddb1.html
[425] https://www.lngworldnews.com/gdf-suez-signs-cooperation-mou-with-china-investment-corporation-sells-atlantic-lng-stake/
[426] http://www.chinadaily.com.cn/cndy/2011-08/11/content_13089584.htm
[427] https://www.lngworldnews.com/gdf-suez-signs-cooperation-mou-with-china-investment-corporation-sells-atlantic-lng-stake/

service with no-substitutes in the international market or that can be deployed or sell against the host country. From the Chinese standpoint, the acquisition was meant to provide direct benefits allowing access to a global player in the energy market. From the French standpoint, CIC represented a strategic partner to help to realize a strategic shift by reducing fossil fuels and investing massively in renewable energies (solar, wind, geothermal, biomass, hydroelectric, and nuclear) and other energy efficiency services, opening up joint venture investment opportunities in Asia-Pacific Regions and several significant agreement on LNG regasification facilities and environment[428].

II) Total

a) The Chinese acquirer

State Administration of Foreign Exchange (SAFE) with its subsidiary State Administration of Foreign Exchange Investment Company (SIC), is the second largest Chinese Sovereign Wealth Fund. It opened in Hong Kong in 1997. It distinguished itself by "defending the value of the Renminbi and Hong Kong dollar's peg to the US dollar against international speculators" before the transfer of sovereignty[429]. Its purpose is that of "Reserve Investment" (excess reserve management, beyond that required for stabilization or for direct monetary policy support).[430] According to the SWF Institute, SIC Current Assets Under Management (AUM) is $417,844,700,460[431], making it the eighth largest SWF. Its nature is however controversial, being less transparent than CIC and not following Santiago Principles. According to Professor Ming of the Institute of World Economics and Politics, within the Chinese Academy of Social Sciences, "SAFE does not think that it is a SWF, therefore SAFE will not implement the Principles" (Monk, 2008). Its activity is "shrouded in mystery from the very beginning. In addition, the lack of transparency of the fund is compounded by the fact that its investment strategy has not yet been made public. It does not have any website to publish reports on its investment, financial statements or any annual reports. The investment strategy of the fund

[428] See Cumming et al., 2017.

[429] Anderlini, J. (5 January 2008), "China investment arm emerges from shadows", Financial Times. https://www.ft.com/content/2ee05a68-baf9-11dc-9fbc-0000779fd2ac

[430] SWFs' purpose is usually classified as: "Stabilization" (fiscal stabilization through the investment of excess budgetary reserves); "Savings" (wealth preservation, expansion, and inter-generational transfer); "Reserve Investment"; "Pension Reserve" (national pension reserve management) or "Development" (strategic asset management, including privatization) See: Kalter, 2016.

[431] https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund

can only be surmised based on the few press reports on SAFE IC equity in the world (Cieślik, 2013)”. (Cieślik, 2014: 29). Since the financial crisis, it invested in developed countries. Geographically, it was mainly “interested in the countries of the European Union (mainly in the capital market of the UK), Australia and the United States” (Cieślik, 2014). In the period of analysis, SIC appeared very active in acquiring stakes of European energy resource companies, such as ENI, ENEL, BP, Royal Dutch, Total, Rio Tinto, with a portfolio asset allocation very specifically focused on energy. If SIC was originally considered a more prudent investment vehicle than CIC, after the crisis it seemed that the two funds has “switched roles” (Cieślik, 2014: 37). CIC decided for a more reliable and diversified portfolio of investments, while SIC choose a riskier and less diversified portfolio. Being Chinese governmental entities and lacking in transparency regarding strategic investment strategies, it is impossible to disentangle if the global market specific sectorial division reflects different management choices or was driven by a superior strategy for reducing the potential conflict of interests between the two funds, following China’s long-term development plans.

b) The domestic target

TOTAL S.A. is a French multinational operating in oil and gas. It was founded in 1924, when the French President Poincaré rejected the opportunity to form a partnership with Royal Dutch Shell, preferring to create an entirely French company[432]. Today it is one of the seven “Supermajor” oil companies in the world, with 100,000 employees and active in more than 130 countries. Its business covers all the oil and gas chain, from exploration to production and trading. It is also a successful chemical manufacturer. SIC decided to invest in Total in 2008. Judging by financial results in 2007, Total was the best performer of the majors[433], with production growth of +1.5% to 2.39 Mboe/d[434], and the best dividend growth among the majors, with 23% growth measured in dollars. The upstream showed a high-quality asset portfolio and numerous exploration successes, with good risk-reward balance and significant potential for long-term growth. Global LNG demand growth was forecast at more than10% per year on average. Total’s strategy was to progressively expand its energy offerings, by developing competitive new energy sources and carbon-free energy (Total, 2008).

[432]Compagnie française des pétroles (CFP)
[433] BP, Chevron, Exxon Mobile and RD Shell
[434] Adjusted net income of +6% to record 16.7 B$; Capex of 16.1 B$, Net cash flow of +27% to 10.3 B$.

c) *Theory testing: national security risk assessment*

From the host country's point of view, this is not the case for national security implications. According to the operational definition derived from Moran's theory, being an investment in energy company it would fall under Threat I. However, the size of the investment represents only 2% of the share and does not have an impact on the risk of supply.

It would be relevant to evaluate the lack of transparency of SIC as an investor investing in developed and highly regulated countries and further investigate how it allocates its asset portfolio in relation with CIC and other Chinese SOEs to detect if they are consistent with Chinese strategic long-term plans.

4.6.2 Domestic political implications

From the regulatory perspective, it is important to highlight that France had not closed any sector to foreign investments based on national security, although since 2014, the Monetary and Financial Code (CMF) required that foreign acquisitions in specified sectors be mandatorily reviewed. The review depends on: a) nationality of the investor, b) the degree of control of the investor after the acquisition and c) the sector of activity (article R153-3 to a53-5 of the *Code monétaire at financier*). The review mechanism applies to "any foreign investment that may threaten public order or security or national defence interests, research, production or sale of arms, ammunition or explosives; security and continuity of energy and water supply , of operations of infrastructures and networks essential for the defence, security or survival of the French nation, and public health protection" (OECD, 2016: 54). More in detail, if the acquirer is "EU/EFTA national (French non-resident in the EU/EFTA or legal person whose seat is in the EU/EFTA) a review is required if the acquisition implies the control of a company established in France or the acquisition is in one of the following sectors: cryptology; classified defence information; research, production or sale of defence goods; research or development of defence goods; energy; water; transport network and services; communications network and services; critical infrastructure and public health" (OECD, 2016: 54). They are also subject to review "in case of acquisition of a branch of activity of an enterprise established in France where this activity is the provision of private security to an operator of vital importance or in protected zones; R&D in toxic and similar substances and agents against chemical weapons as part of the prevention of terrorism; and R&D and services in electronic surveillance and protection systems”. (OECD, 2016: 54). Other foreign “non-EU investors” need to obtain government approval for acquisitions of 33.33% of the capital in relevant sectors. For non-EU investors, pursuant to Article R153-3 to R153-5 of the *Code monètaire at financier*[435], the list of sectors and activities includes more items. “The authorization procedure targets proposed investments in: national defence sectors (all activities concerning the integrity, security and continuity of the operation of an establishment, facility or work of “vital importance”), private security services, dual-use goods and technologies, listening activities, management of information technology security, and gambling (excluding casinos). In addition, foreign investments are subject to review if they concern activities related to: (1) the integrity, the safety and the continuity of: (i) the supply of water, electricity, gas, hydrocarbons and any other source of energy; (2) the operation of transport services and telecommunications; and (3) related to the protection of public health” (OECD, 2016: 55). Any foreign investor is required to seek *a priori* authorisation filling an application to the Ministry of Economy; the failure exposes to criminal penalties. The review process must be completed within two months, although the timeframe can be extended if more information is needed. Governmental agencies involved in the review may use international cooperation to verify information provided by foreign investors, especially, as foreseen by Article R 153-12 of CMF, to verify the origins of funds. The Ministry can mitigate the threat posing some conditions, for example: the “continuation of the company activities; the protection of the company’s R&D capabilities and related know-how; the safety of the supply chain which the target company must provide or of which it is a part; guarantees that the company will meet its obligations under its public procurement contracts concerning public safety or national security. Such conditions may also aim at guaranteeing the integrity, security and continuity of the operations of an installation, facility, or structure of vital importance (as defined in the Defence Code) or of any transportation and electronic communication networks and services, or the protection of the public health. The Ministry may also require the sale of part of the target’s activities falling within the sector to a third party independent from the foreign investor” (OECD, 2016: 55-56). However, both GDF SUEZ and Total did not raise national security concerns. In 2008 the relationship with China was at a very low level. French President Nicolas Sarkozy had in fact loudly boycotted the Olympic Games opening ceremony unless there was an end to violence in Tibet and some guarantees on the Dalai Lama and political prisoners. When President Sarkozy invited the Dalai Lama to attend a party in Poland for former winners of the Nobel peace prize on December 6th, 2008, China, irked by this tougher stance, pulled out the EU-China summit with just a week’s

[435] Full test is available on-line at: https://www.legifrance.gouv.fr/affichCode.do?idSectionTA=LEGISCTA000006170957&cidTexte=LEGITEXT000006072026&dateTexte=20141020

notice[436]. This event strongly affected their diplomatic relationship at all levels, political and economic. It generated also a retaliation effect in China, where Chinese consumers boycotted Carrefour supermarkets and Louis Vuitton[437] stores. The same happened with Chinese tourist agencies, apparently asinstructed by the government. It therefore needed stronger diplomatic efforts in the coming years.

After the Chinese lashed out against Sarkozy, Sino-French relations in the last decade can be summarized with France positioning itself as a "une puissance moyeen" (Godement, 2014: 2). President Francois Hollande's trip to China in April 2013 was very important to renew dialogue under his new leadership and to enhance China-French ties. The protracted financial crisis and the high unemployment rate spurred Holland to seek economic support from China. They signed an agreement for China to buy 60 planes from Toulouse, France-based Airbus, an aircraft manufacturing subsidiary of EADS, a European aerospace company, "leaving no stone unturned to overtake its US-based rival Boeing in China"[438]. They also signed an agreement for the French nuclear company Areva with China National Nuclear Corp. to develop new facilities for fuel treatment and recycling, and the intention to "complete the construction of the first two reactors in the coastal city of Taishan, in southern Guangdong province, and to start their commercial operation"[439]. In March, 2014, to celebrate 50 years after Chairman Mao Zedong and General Charles De Gaulle established diplomatic relations between the two countries, Xi Jinping made a state visit to Paris designed to represent the "blueprint" of a new diplomatic relationship described as the "opening up the New Era of a Close and Enduring China-France Comprehensive and Strategic Partnership"[440]. The new partnership has four core points: first, "the two sides should always regard each other as the preferred strategic partner, enhance mutual trust"; second, it calls for more practical and strengthened cooperation on nuclear energy and aviation, agriculture, finance, sustainable urban development, health care and ocean. The Chinese side "hopes that the French side will keep pushing the EU to completely solve the case of wireless telecommunication equipment"; third, the two sides "should facilitate people-to-people and cultural exchanges, "reinforcing tourism cooperation"; fourth, the two sides "should strengthen cooperation in international and regional affairs, push forward the reform of global economic governance system, and jointly promote world peace, stability and prosperity"[441]. Therefore, Hollande, in order to boost trade in order to resolve

[436] https://www.economist.com/node/12708134/all-comments?page=11

[437] http://news.bbc.co.uk/2/hi/asia-pacific/7347918.stm

[438] http://www.chinadaily.com.cn/kindle/2013-04/19/content_16423308.htm
[439] http://www.chinadaily.com.cn/business/2013-04/27/content_16455257.htm
[440] http://www.chinaembassy.hu/hu/zgyw/t1141540.htm
[441] http://www.chinaembassy.hu/hu/zgyw/t1141540.htm

his country's worsening economic woes, took a step toward China, positioning France for a more cooperative relationship. It is relevant to notice that a change of regulation in France did not happen as a response of an authoritarian regime posing threats to French national interest. The French Minister of Economy, in fact, in 2014, throwing up a potential roadblock to General Electric's planned $16.9 billion bid for Alstom's energy assets, issued a decree to amend the list of foreign investment activities subject to review [442]. The list includes energy supply (electricity, gas, hydrocarbon or other energy sources); water supply, transport network and services, electronic communication and services, operation of a building or installation of vital importance; protection of public health.

Given the realization of not being anymore "la grand nation", France faces a contradiction if it politically asks for a cooperative approach and economically invokes protectionism vis-a-vis western economies, while asking for fresh capital from China, as it has done with GDF SUEZ.

4.6.3 Foreign political implications

In this section, the foreign political analysis will follow three level of implications. The first one regards the impact on «China's issues» in International Organizations; the second one is the impact on the European Institutional Process; the third one is the impact on Transatlantic relations.

1) Implications on "China's issues" in International organizations

The French way to address "China's issues" in International organization must be read on the one hand by keeping in mind its long history of unceasing defence of human rights and on the other by its President's broader foreign policy agenda. The Sarkozys case had a huge impact on the way France addressed human rights, democracy and the rule of law, even if Sarkozy's defence of human rights did not take the case to the level of joint action within the UN Human Rights Commission, in line with his predecessor Jacques Chirac's way to address this issue with China. His "throw down the gauntlet" approach addressed a specific discontent among French people and political parties such as the Socialists of Ségolène Royal and the Centrists of François Bayrou, for the lack of Chinese

442 https://www.reuters.com/article/us-france-takeovers/france-issues-law-to-block-foreign-takeovers-of-strategic-firms-idUSBREA4D0WG20140514 and http://knowledge.freshfields.com/m/Global/r/1108/new_decree_on_foreign_investments_subject_to_prior

cooperation in Darfur, Sudan. Chinese reaction toward France was really strong if we consider that Gordon Brown and Angela Merkel defended the Dalai Lama in those years. This determination becomes more comprehensible if we take into account the fact that at the time there was the EU dossier on the embargo an arms-sales to China, which dated back to the Tiananmen Massacre[443]. After the Sarkozy case, France, even if it never gave up its engagement in the defence of human rights, changed its approach and became more pragmatic. Hollande's presidency was characterized by attempts to stabilize the relationship, embracing a cooperative approach. He preferred to act in defence of human rights and personal dignity, freedom of expression and religion, acting case-by-case, especially when the fact impacted a French citizen in China or had an impact on the France territory, while downgrading the level of discussion with China and not addressing the controversial issues in public. In 2015 China and France finally found a common ground to develop a closer relationship: Climate Change, which became the "core of bilateral relations" (Ekman and Seaman, 2015: 29).

2) Implications on European Institutional Process

At the outbreak of the economic crisis in 2008, the first head of government to launch the idea of Chinese support to European Union member states was Nicolas Sarkozy, believing it was in China's interest to stabilize the EU's fiscal situation. This revealed Europe's weakness in addressing an unprecedented problem[444]. The need for fresh capital in financially distressed developed countries stoked competition among Member State to attract Foreign Direct Investments from China[445]. Whereas the general competence for governance of FDIs rests with the EU, the protection of national security resides with the Member States. Protectionist actions in France took place in cases of Western companies investing in France and not Chinese ones; therefore, they welcomed Chinese capitals according to their financial needs. Concerns emerged about foreign firms using investments to squeeze out competition and achieve monopoly conditions in the host markets. Under Hollande, fear of losing market shares and not the nationality of the investor guided France in asking for an

[443] It "was again brought to the fore in November 2008, in deliberations by the Council of the European Union on transforming the EU Code of Conduct on Arms Exports into a legally binding Common Position" […] a work that, since 2005 "was prevented by France which linked the issue to a lifting of the arms embargo on China. Efforts to reach an agreement on the Common Position in December 2008 were again complicated by France's request that the Council should concurrently make a statement on a review of the arms embargo in China. in December 2008 asked to make a statement on a review of arms embargo on China" (Hellström, 2010: 19).

[444] https://www.reuters.com/article/uk-eurozone-china-france/sarkozy-under-fire-for-seeking-china-cash-for-europe-idUSTRE79T1N720111030

[445] https://www.cnbc.com/2016/08/07/france-battles-with-european-neighbors-for-chinese-business-with-eye-on-deficit.html

EU FDI screening mechanism[446]. Protectionism vis-à-vis other Member States in many merger and acquisitions, along with the competition to re-earn strategic political positions with China, pose significant doubts in other Member States – such as Italy – on whether this path is solid and neutral. Firms' competition prevails over the host countries evaluation of national security, and the set-up of the European FDI screening mechanism would highlight a relevant role performed by France, not only in the institution of the mechanism, but also in its effective functioning.

3) Implications forTransatlantic relations

When Sarkozy succeeded Jacques Chirac, who contributed most to a significant worsening of the French-US relations due to the French position in the United Nations Security Council during the Iraq crisis, he immediately extended an olive branch to the USA. The renewed friendship earned him the name of "Sarko the American"[447]. However, Sarkozy did not substantially break with the past and France continued "being allied to the US but not aligned" (Holm, 2014: 4). However, his policy stance continued that of Chirac in advocating for the lifting of the arms embargo for China, even if no security threats were faced by China, in hopes of lucrative trading opportunities. In order to bring oxygen to his country, Hollande in his speech during the 2013 state visit to China said "China and France both want a multipolar world. We want there to be a balance. We refuse a world of powers, and of superpowers" […] "When China and France agree on a position, we can drive the world"[448]. From the US perspective, the evidence of a Franco-Chinese rapprochement underscored their desire for a dilution of Washington's influence in favour of a more "multipolar" world.[449] However, Meunier pointed out that the French have been "considerably less enthusiastic about Chinese management of globalization" and "perhaps more importantly, that public enthusiasm or lack thereof with respect to Chinese interests in managing globalization tracks enthusiasm or its lack with respect to US interests" (Meunier et al., 2014: 121-122).

[446] Macron, instead, made clear his willingness to limit authoritarian influences in Europe, defending the "international liberal order"; see Macron's speech at the European Parliament, Brussels, 17 April 2018.
[447] https://www.cbsnews.com/news/sarko-the-american/
[448] http://www.chinadaily.com.cn/china/2013-04/26/content_16450746.htm
[449]https://www.atlanticcouncil.org/blogs/natosource/china-and-france-we-can-drive-the-world

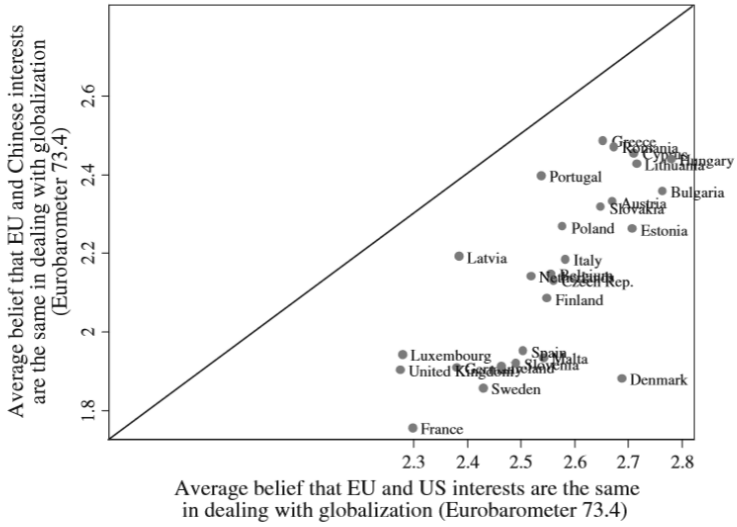

Figure. 4.12 – Beliefs that EU and Chinese or US interests are aligned (Source: Meunier, 2014: 122)

4.7 Conclusions

The above political analysis, drawn starting from single Chinese investments, has provided multiple and converging evidence that Chinese investments have caused national security concerns or political implications in the host countries. China is using its SWFs and its state-owned companies not only to pursue business goals, but also as a tool of its economic *statecraft*, as domestic political priorities always lurk beneath the surface. Moreover, Beijing leveraged its SOEs and SWFs as foreign policy instruments, enhancing China's position in the global energy market and in world resource markets, and building international strategic partnerships. This study has outlined that there is a *causal* relation between Chinese investment behaviour and the increasing political cautiousness in the host countries due to security concerns. Grounded concerns about the trampling of national security in host countries has been addressed in this chapter with a threat analysis, which, combined with quantitative economic information, could even be made to provide a measure of such vulnerabilities. The countries analysed, chosen because they were the top recipients of investment inflow, were all set in a solid liberal economic environment and showed a cooperative behaviour welcoming foreign investments. However, the increasing number of inflow investments and the specific deals pursued by Chinese companies provoked political consequences in the host countries, and in all cases host countries reviewed their national security legislation. None of the countries analysed, however, went as far as to consider Chinese investors as 'political weapons' of an authoritarian regime and none demonstrated any Sinophobic reaction.

From the application of the operative definition of national security, three cases - Global Switch, KUKA and CDP Reti – revealed national security threat profiles. The government's reaction varied case by case, and political reaction only partially confirmed the results, for example, neither blocking the deal nor posing conditionalities. However, in the period of analysis in all countries national security legislation was subjected to review and amended. In the United Kingdom, both the Barclays and Global Switch deal were welcomed and did not raise security concerns, even if the case of Global Switch was a case with national security implications. In the UK, a liberal economic environment and cooperative attitude emerged. It was Australia, more than the UK, that voiced national security implications due to the specificity of dealing with public data storage and protection. Chinese investments started to determine more profound consequences in the political debate of host countries, given external political pressure from these host countries' allies and their own security and intelligence communities. In Germany, KUKA and EEW attracted varying levels of political attention, given the different security implications at stake. As happened in the UK, in the case of KUKA, it was an external actor - the USA - and not Germany, the host country, to flag security risks. The KUKA deal, with the acquisition of critical technology, represented **"**the moment of truth" and revealed the political struggle between the Ostpolitk and the evidence of the weakness of a moral compromise, having impact on defence and security alliances. In Italy, the two deals were executed during the tenure of the same government, which showed a liberal economic order and a cooperative approach vis-à-vis China. The opposition parties – both centre-right and the Five Stars Movement- raised concerns about national security threats deriving from the sale of CDP Reti and consequently of SNAM and TERNA, while in the case of Pirelli complaints came from trade unions concerned about labour ramifications. In this case, the "Chinese invasion" narrative emerged in the opposition political debate, even if there were not security implications. In France, the two biggest deals happened before other countries. French deals did not raise security concerns, and did not have a strong impact on domestic political debate. Sarkozy's case determined a U-turn in its relations with China, and for China solid political bases comes before business deals.

As a consequence of the economic crisis and the need for fresh capital from China, host countries shifted to a more cooperative political approach and closer economic partnerships with China, fading core values, such as the defence of human rights and democracy, when they found themselves dealing with an assertive actor such as China. As the level of Chinese investments increased, targeting core industries or strategic infrastructure and spearheaded by Chinese SOEs and SWFs, at the domestic level the "China threat" theory sprouted again on to contrast the "China opportunity" theory. However, it must be said that the initial optimistic and euphoric approach to fresh Chinese capital, turned to astonishment when the investments addressed core strategic sectors of the host country and, in the lack of prompt response by government, it was the collaborative approach in the security cluster of alliances that provided the initial support to host countries, identifying potential weaknesses, sharing information and posing conditionalities. This change of perception, just one year after the period of analysis, led some EU member states to advocate for a European mechanism for the screening of foreign investments. On the one hand, its main objective is to help host countries to detect security risks at EU level. On the other hand, it helps to conserve an environment according to which the "theory of opportunity" could win over a culture of "threat", without falling in a too protectionist attitude.

What has clearly emerged from my analysis is that, across the European countries taken into consideration, human rights issues were routinely put aside, in order not to compromise the direct economic relationship with China, seen as precious amidst a period of economic crisis. All countries promoted a pragmatic approach, not addressing human rights issues in public if not on a case by case basis. When this was not done, the cost of the exposure was enormous, such as in the case of Sarkozy, and other European leaders did not offer support. The same approach can be detected in the reaction to criticism of incoming FDIs. When national security concerns emerged, the domestic political reaction, even when it entailed a change of national regulations, was conducted cautiously without exposing the country to retaliation from China. To some extent EU leaders feared each other's denial of support and felt exposed to the risk that if they set up roadblocks on the acquisition of a company in one country, a competitive advantage might be created for the firms of another country. In a fierce competition among Member States to gain fresh capital, the pattern was to leave others alone, in order to gain favour from Beijing when China applies pressure on the target country. China understands this scheme, as it is a player with global and long-term strategy and has leveraged this competition.

The Unites States and Australia have jumped into the security debate as major allies that themselves could have been exposed to security implications due to a substantial shift in a host country to a Chinese intervention. However, it must be said that when the object of security was a traditional one - such as defence – or a broader one – such as surveillance – the security cluster of allies intervened. This did not happen for the critical infrastructures of the Italian case, as these did not have direct, immediate impact on the security of others. The European project during the financial crisis revealed its shyness, resistance and myopia, ant its relations with China highlighted these again. China on the one hand considered any dialogue on fundamental values for Europeans such as human rights inconclusive, and showed it was able to smooth over issues of core interest by uttering praise for multilateralism. On the other hand, it addressed individual member states with punitive measures for its goals as retaliation for its national interests, as in the case of France.

In conclusion, what emerged from my analysis is that in 2016 all countries politically found themselves at a turning point. The host country's liberal and cooperative economic and political environment appeared to be unprepared to address the assertiveness of Chinese investment behaviour and felt the need to adopt a new cooperative attitude between allies in order not to compromise the liberal economic environment that characterizes EU membership.

The 2017 Commission proposal for the FDI screening mechanism at EU level, was introduced[450] on March 5th, 2019 and should become operative in 2020. It will be very interesting to see if we are therefore moving towards a concept of "National Interest at European level" or if this pressure in the following years will be questioned by the competition between member states, especially given the ongoing Brexit debate and by the raise of nationalist parties.

In order to evaluate the results of my analysis on the political implications that have emerged from the security debate vis-à-vis Chinese investment, I looked for the Chinese assessment of the EU countries in its relationship with China. According to two Chinese professors, Chen and Peng, the main weakness of western analysis is that the relationship with China is evaluated by looking at each Member States' position on EU policies, but these actions are not sufficient to evaluate their level of relationship, because it is more relevant to see what they do when they act in bilateral relations with China[451]. In their 2013 study they provide a map of EU member states.

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450 See: https://europa.eu/rapid/press-release_IP-19-1532_en.htm and https://www.consilium.europa.eu/media/38347/pe00072-en18.pdf

451 也就是说,成员国在欧盟的作为与自己 在和中国发展双边关系时的所作所为并不是一回事 (*Yě jiùshì shuō, chéngyuán guó zài ōuméng de zuòwéi yǔ zìjǐ zài hé zhōngguó fāzhǎn shuāngbiān guānxì shí de suǒzuò suǒ wéi bìng bùshì yī huí shì*) (Chen and Peng, 2013: 22)

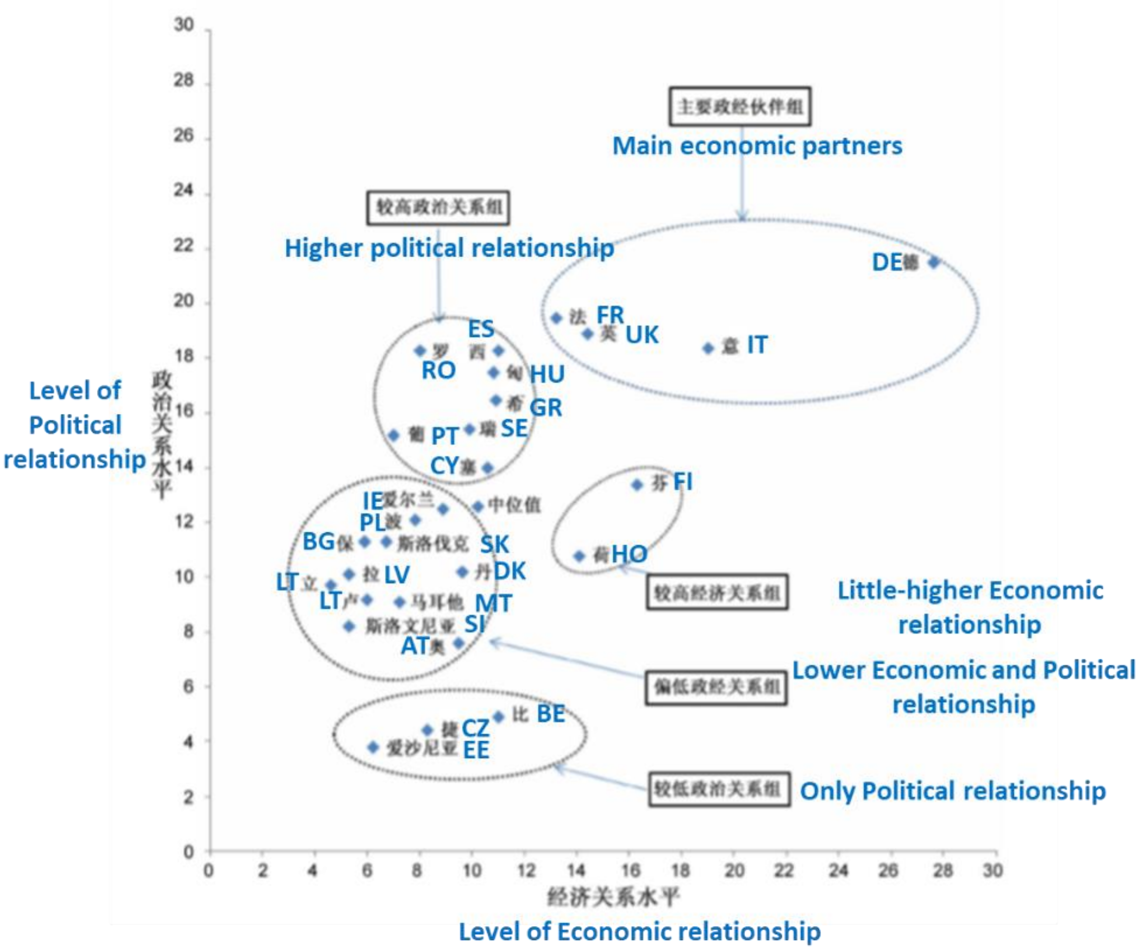

Figure. 4.15 – EU Political and Economic relationship with China: a Chinese perspective (Source Chen and Peng, 2013: 32)

According to their analysis of 2013, the economic relationship with the UK is stronger than France, given its open economy, but the Dalai Lama case and its status within the EU have inhibited the development of stronger Sino-British relations[452]. For Chen and Peng, Germany is China's core partner in the EU[453]. With Italy, relations are at high level but there is a "lack of highlights"[454] . As regards France, the economic and political relationship have been undermined by President Sarkozy's meeting with the Dalai Lama. Otherwise, France would be China's chief political partner

452 英国与中国的经济关系强于法国,但英国政府摇摆的达赖政策,加上其在欧盟一体化中的游离地位,都 抑制了中英关系的发展潜力(*Yīngguó yǔ zhōngguó de jīngjì guānxì qiáng yú fǎguó, dàn yīngguó zhèngfǔ yáobǎi de dá lài zhèngcè, jiā shàng qí zài ōuméng yītǐ huà zhōng de yóulí dìwèi, dōu yìzhìle zhōng yīng guānxì de fǎ zhǎn qiánlì*) (Chen and Peng, 2013: 31).

453 德国和中国的 政治和经济关系都居于最高的水平,成为中国在欧盟的最核心的合作伙伴" (*Déguó hé zhōngguó de zhèngzhì hé jīngjì guānxì dōu jūyú zuìgāo de shuǐpíng, chéngwéi zhōngguó zài ōuméng de zuì héxīn de hézuò huǒbàn)* (Chen and Peng, 2013: 31).

454 意大利和中国的政治经济关系都处在一个较高水 平,只是缺乏特别的亮点。(*Yìdàlì hé zhōngguó de zhèngzhì jīngjì guānxì dōu chù zài yīgè jiào gāo shuǐpíng, zhǐshì quēfá tèbié de liàngdiǎn)* (Chen and Peng, 2013: 32).

in Europe[455]. In conclusion, over the past decade, the United Kingdom, Germany, Italy and France, in their search for capital from China, became less active in the promotion of their own political values. Moreover, with the emergence of the economic crisis, they showed weaknesses in the face of an assertive and authoritarian economic power such as China.

It looks as if here too the "myth of convergence" failed. In fact, intensified economic ties did not result in the opening up of China's markets, nor ensured fair competition and the establishment of a robust rule of law. In other words, Europeans failed to "democratize China". On the contrary, the watering down of European political values turned out to be conducive for China's attempt to "socialise Europeans". In the face of Chinese investments, European host states showed an attitude best described by the Chinese expression 無爲 (*wúwèi*) – a perfect knowledge of the situation, but overall inaction in order not to jeopardize the quest for economic advantages.

455 法 国和中国的经济关系相对较低,政治关系因为 2008 年萨科齐总统会面达赖而减 分很多。 否则,法国会是中国在欧洲第一大政治伙伴 (*Fàguó hé zhōngguó de jīngjì guānxì xiāngduì jiào dī, zhèngzhì guānxì yīnwèi 2008 nián sà kē qí zǒngtǒng huìmiàn dá lài ér jiǎn fēn hěnduō. Fǒuzé, fàguó huì shì zhōngguó zài ōuzhōu dì yī dà zhèngzhì huǒbàn*) (Chen and Peng, 2013: 32).

Chapter 5. Concluding remarks

5.1. Overall assessment and findings

This research aimed to verify whether – and to what extent - Chinese outward direct investments in a democratic country represent a national security issue for the host country, or if this threat is but futile alarmism. I tested three hypotheses:

1. *Null Hypothesis*: there is no correlation between outward direct investments performed by an authoritarian regime, such as China, and national economic security issues in a democratic host country.
2. *Correlative Hypothesis*: there is an association between two concepts, but it is not possible to specify the exact nature of this relationship.
3. *Causal Hypothesis*: ODIs performed by an authoritarian capitalist actor, such as China, are driven by a national strategy of the authoritarian home country, which under certain circumstances, such as when sharp power is wielded - can result into national economic security issues for a democratic host country.

I adopted a case-oriented comparative method for my research, and this choice seemed appropriate, since the aim of my research is in-depth understanding of the political effects in the host democratic countries.

Chapter 2 comprised an extensive literature review on national security. Somehwat paradoxically, in the scholarly debate national security has not been considered as an important analytical concept. When it appeared for the first time in 1952, in an article written by Arnold Wolfer, it earned the nickname of "ambiguous symbol". However, as Wolfer pointed out, it is possible to disentangle an objective sense – "the absence of threats to acquired values" - and a subjective sense - the absence of fear that such values will be attacked". The literature that I have analysed revealed an unbalanced political discourse which has varied a lot over time. As the fall of the Berlin Wall can be considered a turning point in the narrative of security, putting an end to a bi-polar world characterized by the "security dilemma", 9/11 is the most recent juncture. However, while in the US the literature debate remains more an intra-realist debate, with military implications, Europe, in recent years, witnessed a division between schools of thought on critical security. A neat delineation has been detected between normative (Aberystwyth), analytical (Copenhagen) and sociological (Paris) approaches.

More in detail, with Waever and Buzan of the Copenhagen Peace Research Institute, the concept of "securitization" has been put forward, underlying how the concept of security affects particular issues, shifting it out of the normal political debate into an existential threat (Peoples and Vaughan-Williams, 2010: 76). With an integrated perspective of security, level and sectors must not be considered self-contained silos, but different points of view from which an analysis can start. As regards foreign direct investments, the application of an operative definition of national security based on Moran's theory turned out to be appropriate to distinguish real threats from scaremongering. Political implications from the host country perspective have been represented in four ideal-types: an **open market scenario**, with FDIs in a liberal order and a cooperative political environment; **FDIs regulations,** with a protectionist economic environment and cooperative political environment; **contested environment,** with a liberal order in the economic environment and competition in the political environment and a **protectionist environment** on the economic side and competition on the political one. This analytical matrix helps to bring the main patterns of "amity and enmity among states" to the surface and identify where there is a "security complex" among states with shared security priorities (Buzan, 2016: 160).

Chapter 3 explored the increasingly complex investment landscape of the last decade that has been characterized by the rapid emergence of authoritarian capitalist regimes, such as China's. International business literature has flourished nad explored different perspectives. Many scholars analysed this extraordinary phenomenon in search of a "special theory". However, in a country like China, where a distinction between private and public is blurred, economic behaviour cannot be analysed without considering the regime's "capacity to engage in corporate intervention" and the "motivation to intervene" (Carney, 2018). The latter, in particular, is directly linked to the stability of the regime, which is keen to manage the threat of a new emerging business class looking for political representation and to respond to domestic distribution inequalities by using an expansionist strategy. Since its launch in 2015, the new "Made in China 2025" policy has espoused a model of development in which China aspires to an innovation-driven global leadership. Chinese outward foreign investments behaviour is thus unveiled as a never ending "catch up model" that encompass technologies with both civil and military applications.

Chapter 4 started with a qualitative analysis of Chinese foreign acquisitions in United Kingdom, Germany, Italy and France. The analysis looked at several instances in which Chinese investments have caused national security concerns and political reactions in the host countries. The United Kingdom confirmed its essentially liberal economic and cooperative environment. In the case of Barclays' acquisition by China Development Bank, the latter mainly acquired a (UK) bank which had a strong footprint in the African continent since 1925 and that can provide corporate and investments banking capabilities and access to a retail platform in 14 African countries. Hence, this is the case of a Chinese state-backed bank extending its strategic tie-up to Africa, leveraging a third country's strategic competitive position, and not of a threat to UK national security.

On the contrary, the Global Switch investment has national security implications. In fact, the object of the deal are data centres, central repository for data storage, which are considered a critical infrastructure, combining both physical data security risks and cyber security risks. Indeed, it is not only relevant the geographic location of data centres and the environmental risks of the facility. Data centres are more than a "real-estate facility". It is an ecosystem that encompasses various aspects essential to ensure reliability and availability of an environment much bigger than the facility itself.

Even if the case of Global Switch was a case with national security implications, it was Australia – a security ally and a member of the Commonwealth - that raised security concerns.

In Germany, the KUKA acquisition marked the political struggle between the *Ostpolitk* and the evidence of the weakness of a moral compromise. "Wandel durch Handel" (change through trade) did not materialize and instead started to have an impact on defence and security alliances. In fact, from the host country's point of view, i.e. Germany, a national security risk can be detected in connection with the KUKA deal not in the acquisition of advanced robotic technology per se, but insofar as it represents the transfer of sensitive production and know-how. It should be recalled that KUKA is a major participant in the production of Northrop Group F-35, not only providing robots to it, but embedded in the "integrated product line", with clearly strong defence implications. The Chinese investor targeted a firm that could give over a sensitive semi-unique technology, which is a strategic integrated application in defence industry that could be even deployed against the domestic interest and of its allies. This acquisition, like other technology transfers involving Artificial Intelligence, Machine Learning, quantum technologies represents a breakthrough in military research.

The EEW deal, instead, does not impair national security. It could have national security implications only if it threatens the continuity and adequacy of energy supply, from all sources to all users, but in 2016, the share of energy sources shows that energy from waste counted just as 1% of the German energy mix.

In Italy, the two deals were performed under the same government which showed a liberal economic order and a cooperative approach vis-à-vis China. With a long history in tyre making, Pirelli represents an Italian manufacturing company globally recognised for its focus on the high-end segment. However, its acquisition is not the case of a of a semi-unique technology or critical goods and does not have security implications. The case of CDP Reti's acquisition instead entailed national security implications. In fact, the domestic firm to be acquired controls access to both the national electricity and gas grids. A key highlight is that SNAM and TERNA are strongly recognised as strategic infrastructures for the Italian Republic in all of CDP Reti's own corporate documents. From a theoretical standpoint, in this case we should expect the Italian government to put a veto or some conditionalities, at least for example strengthening corporate governance tools. None of that has occurred.

In the French case, none of the two biggest deals performed in the period of analysis did raise security concerns. The GDF Suez acquision, from the Chinese standpoint, was meant to provide direct benefits allowing access to a global player in the energy market. From the host country, CIC represented a strategic partner to help to realize a strategic shift by reducing fossil fuels and investing massively in renewable energies, opening up joint venture investment opportunities in Asia-Pacific Regions. Total's acquisition did not raise security concerns, also considering that the size of the investment was only equal to 2% of Total's share capital, with no impact on the risk of supply.

From the domestic political standpoint in all countries, China's issues and human rights have been routinely put aside in order not to compromise economic relationships. China's intimidations have been quite strong, boycotting foreign products and interfering in visa and political exchange programs. European Institutions turned out to be unprepared to deal with an actor able to leverage divisions among Member States anxious to get out of the economic crisis. Implications on Transatlantic relations have jumped into the security debate when the acquisition had strong defence implications, such as in the KUKA's case, exposing all major allies.

To conclude, foreign direct investments, which I consider as a mayor catalyst for development, have under certain circumstances revealed severe drawbacks. A foreign presence that does not entail positive externalities for the host territories, but instead is keen on exploiting resources, technology transfers and know-how, causes impoverishment. This cost may not only be borne out on the micro-economic level, but has some negative implications on resource distribution, tax collection, local employment and macro-economic stability. My study proved that it is possible to avoid negative ramifications of a hostile investment or acquisition, through an efficient operational definition of national security. Moran's theory proved useful to disentangle real objective threats and defuse the protectionist threat narrative that often leads to restricting market access to foreign investors. It also turned out to be sufficiently comprehensive to cover not only typical national security issues, such as military threats, but also, it proved a helpful tool to detect threats coming from a higher level of foreign “controllability”. This is the case of primary energy procurement sources, infrastructure building programs and other strategic sectors. Security and the continuity of supplies, security and the operativity of grids and plants, can be checked while maintaining an open investment climate. This framework of analysis is useful in the case of foreign acquisitions stemming from the privatization of state monopolies or public companies, given their importance for public services provided to the domestic community and for the containment of inflationary tendencies. Today, technology transfers involving Artificial Intelligence, Machine Learning, quantum technologies, gene editing are extremely intertwined, and research in one of this discipline tends to cross-pollinate other fields.

I also want to dwell on the fact that the due diligence phase of an investment is not only the analysis of a stand-alone capability, but entails the necessity of a wider perspective, with strong market concentration knowledge and information sharing capabilities among different countries. A single deal or technology transfer considered by itself might not appear to have immediate implications but, considered in an integrated value chain, it could turn out to be a strategic enabler in military fields, and foreign investors could in this way tilt the technological hegemony balance against the domestic interest.

Moreover, this integrated perspective turned out to be useful not only from an objective point of view, but also from a subjective one. With economic threats, risks are considered endemic for most of the actors involved, however when potential consequences have an impact on domestic political, social or military stability, they become a national security issue. From a subjective point of view, vulnerability costs are more likely taken into consideration in a pessimistic economic environment by political leaders fearing economic decline and assertive policies are more likely be undertaken (Copeland, 2015: 429). But it is also relevant that when the economic environment remains open and optimistic, the state should still be aware of these disrupting costs. The application of a valid definition is also helpful to outline and prevent different interests between agents and principals. In a particular business transaction, it is expected that management of the company (agent) represents its principal, without regard for self-interest. Under certain circumstances however different interests may emerge and become a source of conflict. Moreover, for a self-utility maximiser, this could be particularly dangerous in a case with implications for national security.

The phase of due diligence is extremely relevant also because the essential documents of a company are shown to a potentially harmful actor, and managers of the acquired company may have different levels of awareness about the issue. Therefore, in a potential acquisition or negotiation, company data could be incautiously exposed. When we speak about data, they need not only be financial data, but also biological data, such as a person's face, iris, DNA, vein pattern, fingerprints. This therefore would aggravate the already existing weaknesses in cybersecurity and conduct monitoring and surveillance to the detriment of domestic national interest and democracy.

5.2. Policy recommendation and further research

The economic benefits of FDIs are real, but beneficial effects are not automatic and the priority should be to ensure a healthy enabling institutional environment, based on **reciprocity and transparency**.

It is of course salient that, although outside the period of analysis, the EU now has an FDI screening mechanism that entered into force in April 2019. The new EU institution will: " - create a cooperation mechanism where Member States and the Commission will be able to exchange information and raise concerns related to specific investments; - allow the Commission to issue opinions when an investment poses a threat to the security or public order of more than one Member State, or when an investment could undermine a project or programme of interest to the whole EU, such as Horizon 2020 or Galileo; - encourage international cooperation on investment screening, including sharing experience, best practices and information on issues of common concerns; - set certain requirements for Member States who wish to maintain or adopt a screening mechanism at national level. Member States also keep the last word whether a specific investment operation should be allowed or not in their territory; - take into account the need to operate under short business-friendly deadlines and strong confidentiality requirements"[456]. The mechanism's objective is to find a balance between preserving the EU's general openness to foreign direct investment and that the essential interests of the European Union not be undermined. However, as the text of the norm foresees, "Member State having sole responsibility for its national security, as provided for in Article 4(2) TEU, and to the right of each Member State to protect its essential security interests in accordance with Article 346 TFEU".

In the future it would be interesting to repeat my research analysis at the level of single – and not aggregate - investments across EU Member States. This new provision could turn out to be useful to enhance cooperation and information-sharing between Member States to block hostile foreign takeovers. However, leaving the final de facto responsibility solely at the level of the single Member State, assertive investors such as China will continue to try to leverage competition among them,

[456] https://europa.eu/rapid/press-release_IP-19-1532_en.htm

exploiting differences and divisions and "improperly influence" them through the significant economic exposure of each single country to China.

While the main question raised at the beginning of the research has found a valid answer, a large space for further research is remains for those engaged in economic business theory and for political actors. China's foreign investments have been leveraged by Chinese government in order to comply and fulfil key Chinese national interest agenda items. On the one hand, this raises questions on how Principal/Agent theory applies to Chinese investors, as their "bounded entrepreneurship" liaise with Chinese party-state, probably often based more on fear of sanctions rather than on incentives. On the other hand, it leaves uncovered a field of research on the role of PLA and Chinese Defence Universities on foreign direct investments, given the increasing efforts to implement a policy of "military-civil fusion" -军民融合 (*Jūnmín rónghé*), throughout both the PLA and civilian industry[457].

During the due diligence phase of an investment involving an acquisition to by a foreign operator, it is important to have a clear understanding of the identity of the counterparts, of their main financial creditors and of any new stakeholder that could enter into the project. Very often Chinese bids are disproportionate to the market value, which makes it impossible to organize a counteroffer. Profiles and activities are rarely tracked, given the frequent use of "non-traditional collectors"[458] or further changes in ownership rights. However, when there is an objective and subjective convergence, such as in case of dual use technology, semiconductors or other technology transfers, the acquisition not only has a national security implication on the single domestic market, but entails global security implications, potentially exposing China as an increasingly intimidating military global power.

[457] Laskai, 2018.
[458] Diamond and Schell, 2019: 141.

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