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The European Response to Chinese Outbound Foreign Direct Investment: Introducing a Dynamic Analytical Framework

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ABSTRACT

Since the turn of the 21st century, the emergence of Chinese outbound investment has been one of the most prominent features of globalization. Its trajectory has been notable both for its speed and scale and for its global dispersion. Since the early 2000s, Chinese outbound investment has grown rapidly from a very low base that predominately involved South–South flows, expanding into the global North. The idiosyncratic nature of Chinese investment has generated diverse responses over time from the countries of the developed world. The policy dilemmas that Chinese investment creates for the latter economies is manifest in their fragmented reactions and in the degree of contestation around policy responses. In the light of the recent increasing backlash towards investment by Chinese multinational corporations (MNCs) in much of the developed world, this article introduces a dynamic analytical framework that is able to assess the response to investment by Chinese MNCs in Europe, and examines the implications of that response for China and its corporations. By doing so, this article contributes to the debate on Chinese globalization and further elaborates on the so-called 'China anxiety' issue.

INTRODUCTION

In 2000, before joining the World Trade Organization (WTO), the Chinese government initiated the 'Go Global' policy aimed at encouraging its companies to become globally competitive by engaging in overseas activities in specific industries (Wu et al., 2011). In 2001 this policy was incorporated within the 10th Five Year Plan (FYP), indicating the importance of the 'Go Global' policy. This policy approach was part of the continuing reform and

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liberalization of the Chinese economy and also reflected the Chinese government's desire to create internationally competitive and established companies. Successive FYPs have continued to stress the importance of promoting and expanding outward foreign direct investment (OFDI), which became one of the main elements of China's new development strategy. Since China issued its 'Go Global' imprimatur to its companies at the turn of the century, its flows of outward investment have grown rapidly to become one of the largest in the world (UNCTAD, 2017). After China embarked on its opening up in the late 1970s, it became a major destination for inward flows of foreign direct investment (FDI) and continues to be so to this day. However, by 2015, annual outflows of FDI exceeded inflows, demonstrating China's rapid progress along the international development path within a very compressed time frame (KPMG, 2016).

The case of Chinese multinational corporations (MNCs) and their outbound investment strategy deserves special attention for a number of reasons (Brennan, 2011): first, the primacy attached to the goal of facilitating China's next stage of domestic economic development in relation to Chinese OFDI; second, the degree to which China's MNCs remain deeply embedded in the country's cadre-capitalism; and third, the contrast between OFDI on the part of Chinese MNCs and some established economic theories. In addition, as noted in the *East Asia Forum Quarterly*, 'In no dimension of China's economic engagement internationally is the interaction between the economic and political systems more prominent and important than in respect of the surge in China's Overseas Direct Investment (ODI)' (Drysdale, 2012: 31). This illustrates how OFDI has contributed to the so-called 'China anxiety' (Zhang, 2013) which has led some authors to identify some distinctive Chinese traits that are currently shaping the discourse around 'Chinese globalization' (Henderson et al., 2013).

Initially such OFDI tended to be resource seeking and focused on the resource-rich regions of Africa and Latin America to meet the requirements of China's growing economy (Rios-Morales and Brennan, 2006). Today, China's outbound investment is not only resource seeking but is also market seeking and asset seeking (Brennan, 2015). There are even an increasing number of examples of efficiency seeking, with China's growing cost base driving its companies to target the lower-cost regions of Southeast Asia and East Africa (Jiajun and Hubbard, 2018). The expansion in the drivers of Chinese investment has been accompanied by a greater global dispersion of target sites, with the developed economies of the USA and Europe accounting for a greater share of such investment in recent years. Chinese direct investments into Europe peaked at nearly € 36 billion in 2016 (Baker McKenzie, 2017). From 2014 onwards, Chinese investment into Europe started to exceed Europe's investment into China (Economist Intelligence Unit, 2015). However, China's FDI flows have declined from their 2016 peak, with the Rhodium Group expecting FDI flows from China into the European Union (EU) for 2020 to be the lowest since 2013 (Rhodium Group, 2020). The

growth of Chinese investment in the developed economies has generated contestation, particularly around investments that involve the acquisition of technology companies and infrastructure. As a result, the degree of receptivity to Chinese investment in the developed economies of Australia, Europe and the USA has lessened, with a greater focus on the monitoring of such investment and in some instances its restriction and outright prohibition.

Europe has long been regarded as one of the most open and attractive regions for foreign investment with its large marketplace and a stable and secure institutional environment (Yang and Stoltenberg, 2014). Countries such as Germany and the UK have traditionally been very welcoming of foreign investment. Contrariwise, some other countries — notably France and Italy (Vecchi, 2016; Vecchi and Brennan, 2014) — have been less consistent in welcoming foreign investment, with concerns about ceding to foreign entities the control of companies that were considered national champions. More recently, there have been signs of increasing skittishness around Chinese investment into Germany and the UK indicating a potentially more fraught environment for such investment (Brennan, 2017), thus posing additional challenges for Chinese investment in Europe (Brennan, 2015).

China's development trajectory and its rise as a superpower have been conceptualized as a series of interlinked modes of interaction such as trade links, investment flows, aid, institutions of global governance, flows of people and environmental implications (Kaplinsky, 2008). According to Mohan (2013), not only were these modes of interaction theorized in relative ignorance of China, but most research has focused on the economic relationships, and on those areas where data are available, notably trade and FDI. As a result, international business analysts in the development studies field have tended to treat such linkages in isolation and to underplay the politics of these international relations (IR). Within political science, scholars of IR have tended to focus on Sino–US relations or other major power relationships whereas other political scientists have often focused on the elite politics of the party-state leadership. We embrace the view that an interdisciplinary approach to understanding the impact of China's OFDI on Europe and the resultant European policy response is needed, at the intersection of international business/development studies and political science/IR.

The aim of this contribution is therefore to introduce a dynamic analytical framework that is able to assess the responses to OFDI by Chinese MNCs in the West, with a particular focus on Europe, and the implications of these responses. Within the context of the EU–China relationship, the article describes how the investment relationship has evolved since the advent of China's 'Go Global' policy. The European responses to Chinese MNCs' outbound foreign direct investment over time are detailed. The implications of the policy responses are then evaluated. The remainder of the

article comprises six sections. Together, these sections: (1) outline the theoretical framework and contextualize the research question; (2) describe the EU–China investment relationship; (3) outline the evolution of inward investment policy in Europe to Chinese MNCs; (4) provide a critical evaluation of the European policy response; (5) address the issue of the trajectories that Chinese MNCs are likely to pursue, considering their ambition; and (6) summarize the conclusions and the theoretical contribution of this article as well as briefly sketching directions for future research.

CHINESE GLOBALIZATION AND ITS POLICY IMPLICATIONS FOR THE WEST

Despite a few exceptions (Casarini, 2009; Maher, 2017; Morita and Chen, 2010; Rosenthal and Wong, 2011), there is still surprisingly little work on the emergence of China as a political and economic superpower and the European policy response to this. In the context of this relative lack of attention, we might ask whether China is fostering some radical change in the nature of globalization and if so, what this change is likely to entail.

In a 2006 article, Jude Howell explored the relevance of the developmental state concept to China and suggested that the proliferation of alternative terms such as entrepreneurial state and corporatist state to capture the changing character of the state in China, tended to cover a deeper process of state fragmentation that entailed contradictory and complex patterns of state behaviour. By the mid-1990s, international institutions such as the World Bank were already acknowledging the significant role the state had played in the economic success of the Asian Tigers a decade earlier. This in turn led to a growing interest in 'effective states' and 'good governance'. However, the expectations that 'good governance' should be democratic and protective of human rights simultaneously challenged the notion of the developmental state, which in practice had proved to be authoritarian, often repressive of civil society, and less than respectful of civil and political human rights. Within this context, according to Howell (2006), the conjuncture of specific political, socio-economic and institutional processes, both internal and external, undermined the case for China as a developmental state. Rather, she suggested that China lay between the two categories of predatory and developmental state, displaying elements of efficiency and inefficiency, of control and chaos, of relative autonomy and clientelism, of neoliberalism and neo-corporatism. However, Howell acknowledged that this was likely to be a transitional phenomenon and that China would settle down into a distinctive neoliberal or neo-corporatist state, or even mature towards a more orthodox developmental state.

The peculiarities of China as a political and economic actor have been extensively emphasized by other scholars (e.g. Ghosh, 2019). China's steady externalization is visibly making a significant contribution to the nature of

globalization and its inherent power relations, to the extent that some authors claim the existence of a 'globalization with Chinese characteristics' (Henderson et al., 2013). Aligned with this work, our article endorses the view that globalization should be understood not merely as a reflection of the universal core of capitalism, but also as an externalization of a given national form (or related forms) (ibid.). In similar vein, Pal (2013) claims that China's 'rise' is actually re-scripting globalization and, specifically, that it may be offering new visions of modernity. He describes how China has emerged as a major source of investment and development assistance across the 'developing world', by also triggering the rise of global networks that in some ways stand apart from the existing order of globalization.

Zhang (2013) discusses what he refers to as 'China anxiety', clearly visible in the current Anglo-American discourse on the rise of China. It is argued that beneath the hype, deep anxieties can be detected that are mainly concerned about the purpose of China's rise to power. In particular, Zhang suggests that there is a deeper 'cauldron of anxiety' which causes a certain intellectual disorientation among those participating in the discourse. For many commentators, the rise of China remains a jigsaw puzzle, as it presents a number of paradoxes, contradictions and ironies. Moreover, Zhang argues that China's pathway to power poses fundamental challenges to some intellectual premises and political wisdoms widely accepted in the West. More precisely, Zhang claims China is shrinking the idea of the West, as the Chinese Communist Party has become 'indispensable … to the functioning of global capitalism' (ibid.: 1420), and that authoritarian resilience in China may suggest that authoritarianism is a viable regime form even under conditions of advanced modernization and integration with the world economy, thus raising questions about the basis of the West's political philosophy.

More recently, Ghosh (2019) has addressed the same issue but from a different angle, asking whether the rise of China can be better described as a 'brave new world or the same old story with new characters?'. The author outlines how, since the late 1960s, only the East Asian region has shown notable increases in its share of global GDP, and for the last two decades this has been dominated by the rise of China. This is mainly due to the ability of the Chinese state to control the economy and to implement heterodox policies with very high investment rates. These provided for a mixed set of market-driven private economic activities along with substantial public investment and state control over finance. This in turn enabled an export-driven expansion that relied on manufactured goods produced cheaply (due to labour surpluses) combined with large infrastructure investments. Ghosh claims that hardly any other country, either developing or developed, shares these characteristics. These various accounts allow us to better contextualize our main research question, which is: what is the nature of the European response to Chinese OFDI, and how can that response be explained?

THE EU–CHINA INVESTMENT RELATIONSHIP

The contours of EU–China business relationships are especially clear in the field of trade. China is the EU's second largest trading partner, behind the United States, and the EU is China's biggest trading partner. With such a significant trade relationship, the EU and China have a serious stake in each other's prosperity and sustainable growth. While there has been sensitivity about imbalances in the direction of trade, it is important to note that imports from China are essential to the competitiveness of many industries in Europe, for example parts and components used to make European finished products.

Unlike its trading relationship, the potential of the EU–China investment relationship has been largely unexploited as evidenced by investment flows to date. China accounts for just 2.9 per cent of overall European investments abroad; Chinese investments in Europe have been rising rapidly, but from an even lower base, and accounted for 2.8 per cent of FDI stocks in the EU at the end of 2018 (Eurostat, 2018). The growth in Chinese MNCs engaging in the acquisition of European companies is driven by both opportunity and strategic imperative. Cash-strapped European companies offer opportunities to Chinese companies with ample finance while European companies can provide their Chinese acquirers with access to advanced technology, valuable brands and distribution channels.

Diversification characterizes Chinese investment in Europe in a number of aspects. Investment has been directed to traditional sectors but increasingly also to new sectors. Geographically, Chinese companies have invested across Europe, with the greatest concentrations of investments in the larger advanced economies. State-owned enterprises (SOEs) have thus far dominated Chinese FDI into Europe, with mergers and acquisitions tending to predominate over greenfield investment (Alon et al., 2018). This trend reflects the evident intent of acquiring strategic resources via mergers and acquisitions vis-à-vis any consolidation that is more likely to occur with greenfield investment. As noted by Wu (2011: 90), 'China's outward direct investment to Europe is greatly motivated by technology seeking and concentrated in the sectors where the appropriate technologies are useful to China's next stage of domestic economic development'.

Currently investments between EU member states and China are governed by a series of bilateral investment treaties involving individual member states and China. With the entry into force of the Lisbon Treaty in 2009, the EU's competence was extended to FDI enabling the European Commission to negotiate investment agreements with third parties. The EU–China 2020 Agenda for Cooperation, adopted in 2013, is the highest-level joint document in EU–China relations, setting out terms for cooperation across a wide number of areas of mutual interest including trade and investment. It called for the negotiation of an EU–China Comprehensive

Agreement on Investment to address issues of interest to either party, including investment protection, market access and the investment climate. Beyond protection for investors on both sides, the foremost potential benefit of this agreement for the EU is improved market access for EU investors in the Chinese market. Europe and its companies seek from China the continuation of market reforms in line with WTO commitments, the opening up of services and public procurement, in particular to international competition, the reduction of foreign-ownership restrictions including the removal of non-commercial technology transfer conditionality, the strengthening and simplification of measures related to intellectual property, and increased recourse to international standards to assist transparency and predictability. For China and its companies, the foremost potential benefit would be the provision of a unified investment regime for Chinese companies investing in Europe and their continued access to the EU single market.

The European Council authorized its Commission to initiate negotiations for such a comprehensive EU–China investment agreement on 18 October 2013. The agreement should simplify practices and create certainty for investors on both sides by replacing 26 bilateral investment treaties between China and individual EU member states, protecting Chinese investors under a single set of standards throughout the EU and providing all EU investors an equal level of protection for their investments in China. The EU Strategy on China, as adopted by the European Council on 18 July 2016, states that 'A comprehensive Agreement on Investment is the EU's main priority towards deepening and rebalancing its economic relationship with China'.[1] While there have been reports of 'complaints from the European side that China was dragging out negotiations and showing no serious willingness to agree to open up its market' to European investment (Hornby and Brunsden, 2018), China embraced a sense of urgency around concluding negotiations in the second half of 2020. Terms were agreed in principle between the two parties during the 35th round of negotiations that concluded at the end of December. Although the EU gained some concessions from China in the agreed terms, these fell short of the EU's much-touted 'level playing field' with the failure to achieve reciprocity in key areas such as procurement. On issues such as labour rights, that the EU professes to be core to its ethos, the agreement reached contains little of substance. The absence of any effective enforcement mechanisms in the agreement is much to the EU's disadvantage. The implementation of the agreement requires approval from the European Parliament, where there is expected to be a robust questioning of its terms from members.

1. See: https://data.consilium.europa.eu/doc/document/ST-11252-2016-INIT/en/pdf Article 7.

THE EVOLUTION OF INWARD INVESTMENT POLICY IN EUROPE TO CHINESE MNCs

An examination of the response to Chinese FDI in Europe reveals a fragmented response and one that has evolved through different periods of time, which we can summarize as: the pre-Eurozone crisis phase; the Eurozone crisis and aftermath; and the period beyond the Eurozone crisis, up to the present. In this most recent phase, the European Commission has proposed a regulation to help the EU and its member states screen incoming FDI to ensure that it remains a source of growth in the EU while protecting the EU's essential interests.

The Pre-Eurozone Crisis Phase

In the pre-Eurozone crisis phase, the responses of EU member states tended to vary. Based on their overall reactions to the growth of Chinese investment into Europe, the EU member states can be broadly classified into three groups. The protectionist group consisted of France, Italy, Spain and Portugal. Companies in France and Italy that were the subject of Chinese takeover attempts included well-known names in the European manufacturing sector. Their protectionist rhetoric suggested that countries like Italy and France, where manufacturing occupies an important part of the economy, felt especially threatened by acquisitions by Chinese companies in their manufacturing sector. This sense of anxiety seemed to be particularly acute in these two countries, given that some of the emerging countries, including China, have become competitors in Italy and France's traditional manufacturing fields, such as textiles and household appliances. France and Italy were the most vocal in their opposition to Chinese takeovers, resisting several high-profile takeover attempts.

At the opposite end of the spectrum lay the liberal group, represented by the UK, Ireland and the Scandinavian countries. These were, on the whole, the most open to FDI and consistently voiced their concern over what they saw as the rising tide of protectionism among their fellow Europeans. Situated somewhere between these two opposing sides lay Germany and, to a lesser extent, the Eastern European countries. This group displayed a more or less pragmatic but nevertheless cautious approach to FDI from Chinese companies.

It is of interest to consider how Germany, the leading economy and industrial/export heavyweight of the EU, fits into this fragmented picture in the pre-Eurozone crisis phase. Any protectionist rhetoric from Germany was relatively muted: the general unease voiced openly by French and Italian politicians over China was not echoed with the same gravity in Germany. At that time, Germany's trade with China accounted for one-third of the total EU trade with China: it had invested over € 20 billion in China and

had recently pushed for permanent consultations, a form of partnership that Germany shares with few other countries (*The Economist*, 2011).

In contrast to France or Italy, the UK has traditionally been more open to FDI. With its strong service sector, investor-friendly environment, cultural familiarity with international investments. and leading financial institutions, the UK has attracted considerable investment from China (Deng et al., 2017; Yang and Deng, 2017). As MNCs from China aimed to move up the value chain and internationalize, increasing reliance on the international service businesses based in the UK was deemed to be likely (Rossi and Burghat, 2009).

The most high-profile Chinese takeover bid during the pre-Eurozone crisis phase in Europe was Tianjin Xinmao's attempt to acquire Dutch cable maker Draka in December 2010. From the outset, the acquisition raised some concerns. According to Meunier (2012: iii), in a briefing to the European Parliament: 'Chinese OFDI may come with implicit strings attached and could potentially act as a Trojan Horse affecting European norms and policies, from human rights to labour laws. The surge of Chinese investment could also potentially affect European institutional processes, exerting both centrifugal and centripetal pressures on European integration'. At EU level, the EU Industry Commissioner, Antonio Tajani, and the Commissioner for Internal Market and Services, Michel Barnier, wrote a letter in March 2011 to the President of the Commission, arguing for the creation of a centralized investment review board, akin to investment oversight bodies found in national governments but on a European scale. This committee would not only review and investigate investments in Europe from non-European countries, but it would also have the authority to reject bids and investment funds.

The fragmented and diverse reactions from different groups of European countries described above can be attributed, in part, to their economic realities. Each country reacted according to the specific economic situation in which it found itself, and its understanding of what would be the best course of action for its economic interests vis-à-vis Chinese investment. Thus, rather than framing the heterogeneity of reactions in the pre-Eurozone crisis phase as an ideological battle between liberalism and protectionism, it seems prudent to recognize not only the ideological/cultural aspects underpinning reactions but also the existing complex economic reality (Brennan and Kim, 2013).

The Eurozone Crisis and Aftermath Phase

The Eurozone crisis began in late 2009. The period of its intensification, in the second half of 2011 and into 2012 and beyond, saw a sea change in attitudes towards Chinese investment into Europe. There were no developments in relation to the plan proposed by Tajani and Barnier for a centralized investment-vetting committee. The urgency around investigating and

reviewing FDI from emerging market countries such as China receded. Instead, European politicians and Commission officials seemed willing to seek help from anyone, including the Chinese.

In 2008 the then Italian Minister of Finance and Economics, Giulio Tremonti, warned of the dangers of a Chinese economic onslaught in Europe. Three years later, with Italy's interest rate on its bonds soaring, Tremonti was meeting with representatives from China's SAFE Investment Company to discuss a Chinese purchase of Italian bonds. It was not only the Italians, however, who were having discussions with the Chinese on bond purchases. Both Greece and Spain entered into discussions with their Chinese counterparts to convince the largest foreign reserve holder in the world to purchase their bonds. Such discussions also took place at the European level. In October 2011, the head of the European Financial Stability Facility, Klaus Regling, visited Beijing, possibly to convince his Chinese counterpart to invest in the Eurozone's bailout fund. In subsequent years, Chinese companies acquired stakes in a number of key state-owned companies in the crisis-hit countries of southern Europe ranging from the main electricity provider in Portugal to the port of Piraeus in Greece.

The protectionist rhetoric in Europe in relation to non-traditional sources of investment diminished, and exhortations for a closer, integrated and liberal economic union continued. Given the very challenging economic and financial circumstances in Europe at that time, the liberal argument in favour of being receptive to emerging market FDI had greater appeal. Indeed, the crisis offered an opportunity for Europe to discard its fragmented approach and adopt a common united approach to emerging market FDI, which would have been consistent with the 'coordinated and common' approach that is also at the heart of Article 207 of the Lisbon Treaty.[2] With foreign investment embedded in commercial policy, the Lisbon Treaty granted the European Commission sole authority to negotiate with third party countries. In lieu of the disparate, ad hoc and inconsistent reactions, policies and agreements that had characterized much of Europe's response to companies from China, the Commission would serve as a unifying mechanism, able to speak with one voice for the largest market in the world, both ensuring a liberalized single market and addressing concerns in relation to investment from China. In short, it would push for a managed liberal approach towards third party FDI. In that regard, it was perhaps significant that at the EU–China summit held in September 2012, the summit leaders reconfirmed both sides' commitment to launching negotiations on an EU–China Investment Agreement

2. As stated in Article 207: 'for the negotiation and conclusion of agreements in the fields of trade in services and the commercial aspects of intellectual property, as well as foreign direct investment, the Council shall act unanimously where such agreements include provisions for which unanimity is required for the adoption of internal rules'. See: https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E207:en:HTML

as soon as possible to promote and facilitate investment in both directions, thus resulting in an additional source of growth and employment.

The Current Phase

Between 2006 and 2015, Chinese FDI in Germany grew roughly 20-fold. As noted earlier, Germany traditionally had an open approach to such investment. However, from the middle of 2016, Germany's response became more circumspect. There was the prospect that China's ambitious industrial policy goals — as enunciated in its Made in China 2025 strategy — could, if realized, see Germany lose its technological advantage vis-à-vis China. Furthermore, there were increasing concerns that as the capabilities of Chinese companies increased, they were more and more likely to become competitors in high-value sectors that Germany has traditionally dominated on world markets. Germany's concerns in relation to recent Chinese investment are two-fold. There is a fear that future innovation will take place in China, not Germany, and that flow of investment will be one-sided. At the same time, German companies face restrictions on doing business in China. Many strategic sectors are open only to Chinese companies, and for many other sectors, entry is only possible in the form of joint ventures with local partners. The German Chamber of Commerce in China lists protectionism as one of the top 10 business challenges for German companies (Dadush and Weil, 2021).

In the summer of 2016, the Chinese company Midea announced its intention to acquire the German company KUKA, which produced advanced robotics and other automation equipment for German industry including its car industry. The acquisition met with opposition from German politicians with Markus Ferber, a German member of the European Parliament, stating that 'We really need to think about whether we want to give such a key enterprise to the Chinese, or try to keep it in European hands. My concern is that as a result of deals like this, the cars of the future will be no longer be built in Stuttgart and Wolfsburg but in China' (Chazan, 2016). German Chancellor Angela Merkel spoke of her expectation of reciprocity from China and the Vice Chancellor and Minister of Economics Sigmar Gabriel emphasized that open markets required a level-playing field (ibid.).

Notwithstanding those concerns, the acquisition of KUKA by Midea went ahead, with Midea giving undertakings related to technology and employment. Adding further to German concerns were the acquisition of an almost 10 per cent stake by the Chinese car company Geely in Daimler, the owner of Mercedes-Benz, in February 2018, and a stake of circa 10 per cent by the Chinese conglomerate HNA in Germany's flagship bank, Deutsche Bank in 2017. In April 2018, the head of Germany's domestic intelligence agency argued, with reference to increased takeovers of German companies by Chinese companies, that 'Industrial espionage is no longer necessary if one can

simply take advantage of liberal economic regulations to buy companies and then disembowel them or cannibalise them to gain access to their know-how' (*South China Morning Post*, 2018).

In its report on China's Made in China 2025 (MC2025) policy, the European Chamber of Commerce in China raised the question:

> *does MC2025 in part amount to a shopping list of technologies that the country has not been able to develop at home?* While it is perfectly standard for private business to make strategic acquisitions, their decisions should ultimately be informed by the profit motive. Investments made by companies in response to their government's industrial policies or strategic interests may be completely at odds with the interests of the country into which the investment is made. (European Chamber of Commerce, 2017: 19, emphasis in original)

In 2017, Germany moved to prevent Chinese acquisition of German companies by extending a law blocking companies from outside the EU acquiring more than a 25 per cent stake of a German entity beyond those related to national security to also include those operating in critical infrastructure. It also extended the time period allowed to investigate acquisitions and expanded the purview of the law to encompass indirect acquisitions.

In 2016, the French government introduced new investment regulations that require non-EU investors seeking a share of equity or voting rights in a local company exceeding one third to seek approval from its Finance Ministry. The UK government proposed — and subsequently implemented — the removal of thresholds under which national security concerns can be cited as the basis for government intervention on a deal, allowing for such intervention not only in the case of a takeover, but also in the context of acquisition of assets, intellectual property or large shareholdings. Germany, along with Italy and France (whose president has expressed reservations about investment from China on security grounds) have called for the EU to introduce new powers that could be used to block acquisitions by Chinese companies. However, not all countries share the opposition coming from the Northern liberal states, especially Central European states and southern states on the periphery whose economies have benefited from Chinese investment. In September 2017, the European Commission proposed a Europe-wide screening framework that would see member-state governments sharing information on sensitive acquisitions with each other and with the Commission and indicating which acquisitions they were planning to screen.[3] In the words of European Commission President Jean-Claude Juncker, in his State of the Union Address on 13 September 2017: 'Europe must always defend its strategic interests. This is why today we are proposing a new EU framework for investment screening. If a foreign, state-owned, company wants to purchase a European harbour, part of our energy infrastructure or a defence technology firm, this should only happen in transparency, with scrutiny and debate' (quoted in European Commission, 2017).

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3. This screening mechanism was implemented on 11 October 2020. See: https://trade.ec.europa.eu/doclib/html/157945.htm

At the same time, there have been calls, notably from President Macron of France, for Europe to support the creation of European champion companies with the capability to compete globally in the face of intensifying competition particularly from Chinese MNCs.

In June 2020, the European Commission produced a white paper (European Commission, 2020) on levelling the playing field as regards foreign subsidies, which complemented its investment screening policy (Poitiers and Domínguez-Jiménez, 2020). The white paper outlines the rationale for addressing foreign subsidies, including typical examples of foreign subsidies that appear to undermine the level playing field in the internal market. It sets out the basis for legal instruments to address the regulatory gap in relation to foreign subsidies distorting the internal market, including regarding acquisitions of EU undertakings. While not explicitly targeting Chinese investment in the EU, there is little doubt that concern about China's acquisitions in the EU was a primary consideration in the production of the white paper.

The pronounced shift in attitudes regarding Chinese investment on the part of some in Europe is summed up by Philip Stephens in the *Financial Times*: 'in Europe … Beijing's growing assertiveness, a suspicion that it is using its financial clout as a tool of geopolitical coercion and its unabashed appropriation of western technology has changed the mood. China suddenly looks a strategic threat as much as a market opportunity' (Stephens, 2018). That change is also influenced by fears in Brussels and elsewhere in Europe that China is pursuing a 'divide and conquer' approach to Europe through its '17+1' regional grouping. The report of the European Parliament on the state of EU–China relations published in July 2018 (European Parliament, 2018) notes that while EU direct investment into China has steadily decreased since 2012, China's investment into Europe had grown exponentially in recent years. It further notes that in 2017, 68 per cent of such investment came from SOEs, expressing its concern that such state-orchestrated acquisitions might hinder European strategic interests, public security objectives, competitiveness and employment. The involvement of Chinese companies in European ports, such as Cosco in the Port of Piraeus in Greece, has also raised concerns. It has been cited as a reason for a backlash in Europe, giving rise to a suspicion of China's economic influence and driving the agenda for an EU-wide framework for foreign investment screening (Huang, 2018). As noted by the European Chamber of Commerce (2018): 'The tone of discussions on China among many in Europe has soured significantly in recent years'. At the same time, China is concerned about the growing perception in certain European countries of the 'China threat', with China's ambassador to Germany warning in May 2018 against a protectionist tendency in Germany. In March 2019, the European Commission referred to China as a systemic rival promoting alternative models of governance (European Commission, 2019).

Of course, the stance of the Chinese government is also significant in relation to investment by Chinese MNCs overseas and into Europe

specifically. For years, China engaged in a progressive liberalization of its OFDI regime. However, the second half of the 2010s saw mounting concern about excessive capital outflows and the consequences for China's foreign reserves and its currency; as a result, the liberalization process stalled and arguably went into reverse, as the OFDI regime became more restrictive in Europe, making the regulatory environment less conducive for some Chinese companies to invest overseas. However, China still wants its companies to continue to acquire intellectual property, technology and know-how, as well as consumer brands that will help it move up the value chain (Yang et al., 2013), compete with Western multinationals, promote emerging consumer and service sectors at home and, especially, fulfil the goals of Made in China 2025.

Europe as a target destination for investment by Chinese MNCs remains very attractive. As highlighted by Seaman et al. (2108), European economies have a wide range of assets and features that Chinese investors seek, such as cutting-edge technology, the world's largest single market, vast corporate networks that span the globe, recognized brand names, integrated regional and global value chains, and a stable legal, regulatory and political environment. Seaman et al. stress that the importance of these assets for Chinese companies, both today and in the long run, should not be underestimated.

The so-called 'China anxiety' has been further exacerbated by several recent developments, most notably the extensive debates about Huawei's involvement in the development of 5G telecommunications infrastructure. Next-generation 5G networks have been widely acknowledged as a technological game changer, and the Chinese telecommunications titan Huawei is a leading 5G vendor worldwide. Yet, as Huawei expands its 5G footprint globally, critics have questioned the security aspects of its network equipment. Moreover, as the broader US–China geopolitical competition heats up, many EU countries are striving to avoid picking sides. Throughout Asia, Europe and the Americas, governments are weighing up whether to partner with Huawei or turn to other top vendors like Ericsson, Nokia and Samsung (Carnegie Endowment for International Peace, 2020; see also Friis and Lysne, this issue).

'China anxiety' has also been compounded by the establishment of the Belt and Road Initiative (BRI) which has provided the conceptual context for Chinese OFDI in Europe in recent years (Amighini, 2018), and has been instrumental in shaping the European governments' perception of such investments as part of a wider, cohesive plan rather than merely a series of individual decisions. The BRI — together with the establishment of its funding institutions, the Asian Infrastructure Investment Bank and the Silk Road Fund — signals China's willingness to take a more active role in regional and global governance, compared to the key principle of China's foreign policy over the past decades, that is, a 'peaceful rise' with a 'low profile' (Liqun, 2010).

Table 1. EU Responses to Chinese OFDI

	Chinese OFDI Drivers	EU Responses
Pre-Eurozone crisis phase (1990–2011)	Predominantly resource seeking	Varieties of capitalism
Eurozone crisis and aftermath phase (2011–16)	Resource and markets seeking; increasingly asset seeking	Economic and financial imperative
Current phase (2016 – present)	Resource, market, asset and efficiency seeking	'China anxiety'

Source: authors' elaboration

In terms of EU–China relations more specifically, China's previous focus on the larger EU member states has recently been complemented by the growing attention of Beijing diplomacy to the countries of Central, Eastern and Southern Europe, which implies a need for the EU to seek a more careful balance in its foreign policy between the diplomatic and economic power of larger member states and the rising power of peripheral member states. This is particularly visible in relation to the 17+1 cooperation initiative launched by China with the countries of Central and Eastern Europe and the more recent 5+1 cooperation initiative with the Nordic countries.

EVALUATING THE EUROPEAN RESPONSE TO CHINESE INVESTMENT

Table 1 provides an overview of the three different phases of OFDI from China into Europe and the EU responses. From the Table it clearly emerges that as China's OFDI drivers started to become more and more sophisticated from a strategic perspective, the EU's long-standing position of affording relatively unfettered access to FDI has shown signs of faltering. Its response has come to embody a tangible sense of widespread 'China anxiety'.

The European response to Chinese FDI is unlike the negative reactions it might have to American or other European investments. It is a reaction to investments from a non-European, non-Western state that has a different institutional and political background and often opaque corporate governance structures. Corporate issues such as who owns the company, how the board is structured, the decision-making process within that board, whether the company is serving foreign policy objectives and so on, can be causes for concern. Without Chinese companies adopting corporate governance standards that are deemed acceptable or internationally recognized, such as those stipulated in the OECD Principles for Corporate Governance, such unease is likely to persist.

Concern over the role of the government is a recurring theme in relation to corporate governance of Chinese companies. Many Chinese MNCs are SOEs, owned, controlled and supported by the government. Given such a high level of government involvement and the relative lack of domestic legal and fiscal scrutiny, questions arise as to whether takeover bids from these

companies can be seen as equivalent to bids from other European states. For example, corporations from China are often viewed as being unfairly subsidized by the state, with preferential arrangements concerning foreign exchange, corporate tax exemptions and commercial loans.

Furthermore, China is an autocratic state: its companies are often portrayed as having little accountability and scant regard for workers' rights and being driven by a dubious political agenda. Chinese officials and businesses have either been reticent or have denied that their overseas investments conceal a hidden geo-political agenda — but the sometimes aggressive, assertive and nationalist rhetoric emanating from Beijing, along with the pursuit of economic policies that are sometimes portrayed as semi-mercantilist, have not reassured Europeans of the non-political nature of Chinese investment. Host country governments and business representatives may fear that Chinese companies, once they acquire their targets, will deploy their acquisitions in the service of their home state, with little respect for the business environment and regulations of a democratic and transparent European country. Clegg et al. (2018: 668) recently concluded that autocratic home countries are 're-purposing SOEs to pursue international nationalist objectives and … can do so more effectively and purposefully than democracies by maintaining control over their [state owned] MNCs'.

Some authors argue that concerns over corporate issues are driven and shaped by unease about the bidder's country of origin (Goldstein, 2008), while others claim that the nationality of the bidder is not as important as its corporate structure (Geiger, 2008). This assumes a certain separation between nationality and corporate governance, which does not accurately reflect the complexity or the heterogeneity of European concerns. For example, the protectionist rhetoric and pronouncements of some populist European politicians focuses far more on China and its companies than on other emerging economies. Moreover, the situation is not static: despite the institutional and financial support that the Chinese government gives to its multinational corporations, it tried for a number of years to reduce its direct involvement in their management (Buckley et al., 2008). More recently, however, the opposite trend has been apparent (Ramamurti and Hilleman, 2018).

Leaving aside the issue of political compatibility, economic relations between China and Europe have often been far from smooth. Europe's persistent trade deficit in goods vis-à-vis China has been of the order of € 150 billion over the last five years and Europe has complained about the dumping of goods from China on the European market. In addition, claims that China impedes market access to European companies, has scant regard for intellectual property rights, and operates a restrictive quota on rare earth exports (BusinessEurope, 2011) further undermine China's standing. Increasingly, China and its companies are being viewed as a threat, a competitor that would reduce European companies' market share or strip away their technical expertise or industrial assets.

Apart from political and economic factors, cultural and historical factors must also be considered. China does not have any cultural, historical or ethnic propinquity to Europe. It lacks 'psychological' proximity with Europe, familiarity with European corporate culture, and the managerial resources, skills and understanding of managing foreign companies (Sornarajah, 2011). In general, the Chinese system is not viewed positively in the eyes of Europeans. As noted above, corporate governance and country of origin both shape and colour the European response and perception towards Chinese MNCs. Thus, for Chinese MNCs, the vexed issue of the 'liability of origin' appears to play a major part in European responses to Chinese investment (Doh et al., 2016). From a Chinese viewpoint, negative responses can be largely attributed to a failure, or indeed unwillingness, on the part of Europeans to confer legitimacy on Chinese companies. However, from a host country viewpoint, it is the failure on the part of the home country (China) to adhere to or enforce minimal standards required to earn that legitimacy that foments many negative responses.

WHITHER CHINA'S MNCS?

The emergence and growth of Chinese companies on the global stage has been facilitated by several factors. These have included favourable Chinese government policies and support for companies investing overseas, a largely positive and receptive external environment towards Chinese MNCs, and the potential advantages of leapfrogging opportunities arising from the late-mover status of Chinese companies and the fragmentation of production (Deng et al., 2017). Knoerich (2016) maintains that some advanced economy companies actually prefer to be acquired by Chinese MNCs since there can be complementary motives between those driving the acquiring Chinese MNC and their own strategic objectives. Thus, the Chinese company can provide assistance to the target firm in accessing the potentially attractive Chinese market, while the acquiring firm's internationalization process may benefit from the target's prior international experience. At the same time, the Chinese firm may be able to help the target firm in cost-reduction efforts (for instance if the target firm was planning to off-shore its production to the lower-cost environment of China) while the acquirer benefits from the enhanced know-how and technology of the target company, thus supporting its upgrading strategy. Perhaps most critically from the perspective of the target company, the Chinese acquirer tends to be capital rich and is thus able to provide the target firm with capital to address any financial difficulties and/or to expand (Boateng et al., 2008).

On the other hand, Chinese MNCs have had to address issues connected to the liability of origin and related legitimacy problems, and to overcome the not-inconsiderable integration challenges that companies face, regardless of origin, in the context of an investment acquisition (Muralidharan

et al., 2017). In addition, Chinese MNCs today must contend with a much less receptive environment than hitherto, with (for example) the increasing prevalence of vetting, restricting or blocking of proposed acquisitions and investments and trade-related measures such as tariffs. The combination of trade- and investment-related measures targeting China's companies places them in double jeopardy. Furthermore, for Chinese companies seeking to accelerate their ascent up the value chain by acquiring the requisite know-how and technology from Western companies, the increasingly unwelcoming environment in Western markets represents a major challenge to this strategy (Zhang et al., 2019). While China's companies can, in many instances, develop for themselves the technology required, albeit at a slower pace, there are also sectors such as semiconductors in which the development of know-how and technology is dependent on learning by doing (Deng, 2010; Lyles et al., 2014; Peng et al., 2017). In such cases, the ambition of China and its MNCs to gain global competitive positioning will be difficult to realize without the ability to acquire the know-how and technology, thus leaving China and its companies still critically dependent for key inputs on overseas companies.

Given the current external environment, Chinese multinationals are likely to have to deepen their engagement with non-Western markets such as, for example, those of Southeast Asia and Africa. Many Chinese MNCs are already well entrenched in these markets, pursuing efficiency-seeking, market-seeking and resource-seeking opportunities. However, such markets offer few if any opportunities for Chinese MNCs pursuing asset-seeking opportunities. Accordingly, in the absence of any change in the current orientation of the external environment, the pace of China's development and upgrading and that of its MNCs may fall short of its ambitions.

CONCLUSION

By critically assessing the policy responses to Chinese investment in Europe, this article aims to contribute to the literature on the relationship between policy and FDI. Notably, it introduces a dynamic analytical framework that is able to assess the response to investment by Chinese MNCs in Europe and its implications for China and its corporations. The framework is analytical in nature as it establishes a causal effect between the forms of Chinese investment, their rationale and the subsequent EU response.

The article further demonstrates the importance of the institutional context in shaping the policy response to FDI. It contributes to the burgeoning literature on Chinese outbound investment by demonstrating how the idiosyncratic nature of such investment creates challenges for both investing and recipient country actors and how the distinctive institutional contexts of host regions can be both beneficial and detrimental for Chinese investors.

We also aim to contribute to policy and practice in terms of clarifying the challenges that arise from Chinese FDI for policy makers and managers. For EU policy makers, the evidence presented supports the view that the main challenge stems from the diversity of interests of EU member states, which prevents them from reaching a common position. This fragmented approach is particularly visible in the current phase, in which Chinese investments are becoming more strategic and 'China anxiety' is heightened amongst EU members (Zhang, 2013). From the perspective of EU companies, Chinese bidders are attractive as they can provide a vast array of benefits along with the promise of easier access to the lucrative Chinese market. However, they also need to contend with the possible risk of loss of control that might occur if the EU operations are moved to China as a result of acquisition (Vecchi, 2016).

Our identification of the challenges responds to the recent claim by Buckley and colleagues (2017) that research on MNCs from emerging economies appears not to have spilled over to the world of policy or practice. In line with Henderson et al. (2013) this article provides evidence of the existence of a particular form of Chinese globalization. More precisely, the anecdotal evidence provided here outlines how China's globalization does indeed entail some distinctive features within the sphere of FDI. The primacy of China's own development in driving the nature and scope of outbound investment by its firms, as well as the extent to which its SOEs participate in such investments, are distinguishing features of Chinese outbound investment. This broadly supports the prominence of state involvement also outlined by Ghosh (2019).

Furthermore, China's economic and political weight, which enables it to rival and even threaten Europe's economic and political standing, is of concern to Europeans. China is essentially autocratic, a one-party communist state, which is often associated with human rights abuses and which lacks freedom of speech. These associations contribute to the liability of origin experienced by Chinese investors in Europe and help to fuel the high level of anxiety described so eloquently by Zhang (2013). This anxiety and the ensuing European policy response seem to suggest that perhaps Europe — and the West more broadly — are not yet ready to question the foundations of their political philosophy.

This anxiety is further exacerbated by the perceived ambiguity of China's motives. With regard to the specific taxonomy suggested by Howell (2006), the approach which currently characterizes Chinese FDI is indeed perceived as being predatory by the majority of EU member states. The lack of reciprocity in the case of foreign firms seeking to access and operate in the Chinese market compared to the relatively unrestricted conditions facing China's firms in overseas markets, is an increasing source of the disquiet being voiced in Europe. China itself, in referring to its global expansion, continually emphasizes the 'win-win' nature of its approach to relations with other countries. As this article demonstrates, however, China's approach

to FDI is increasingly being perceived in quite different terms by most European countries. It seems clear that future receptivity to Chinese FDI will depend on China not only asserting a 'win-win' commitment but also demonstrating it via practical manifestations of reciprocity. The challenge for Chinese globalization is whether such reciprocity is consistent with the preservation of an autocratic state.

Given that policy responses to FDI do not take place in a vacuum and evolve over time, there will be an ongoing need for analysis of the European response to Chinese investment, taking account of the shifting context — whether that be the renewed emphasis on national sovereignty or the increasing tension between the USA and China. Likewise, an evaluation of the extent to which China's model of globalization can be adapted to reassure its international partners that they are engaging on a level playing field is worthy of further enquiry.

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