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# 19-12 Chinese Investments in the US and EU Are Declining—for Similar Reasons

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For years China has been one of the world's most rapidly growing sources of outward foreign direct investment (FDI). Since peaking in 2016, however, Chinese outward investments, primarily to the United States but also the European Union,<sup>1</sup> have declined dramatically, especially in response to changes in China's domestic rules on capital outflows and in the face of rising nationalism in the United States (Posen 2018). Concerns about growing Chinese influence in other economies, the ascendant role of an authoritarian government in Beijing, and possible security implications of Chinese dominance in the high-technology sector have put Chinese outward investments under intense international scrutiny.

In the early 2000s, the Chinese government actively promoted outbound investment as part of its "Going Global"

strategy, which encouraged Chinese private and state-owned enterprises to acquire technologically advanced companies in OECD countries and aggressively pursue opportunities to invest in poorer countries' natural resource wealth and infrastructure. By 2016, China had become a major outbound investor, with outward investments reaching over \$200 billion, or almost 2 percent of Chinese GDP.

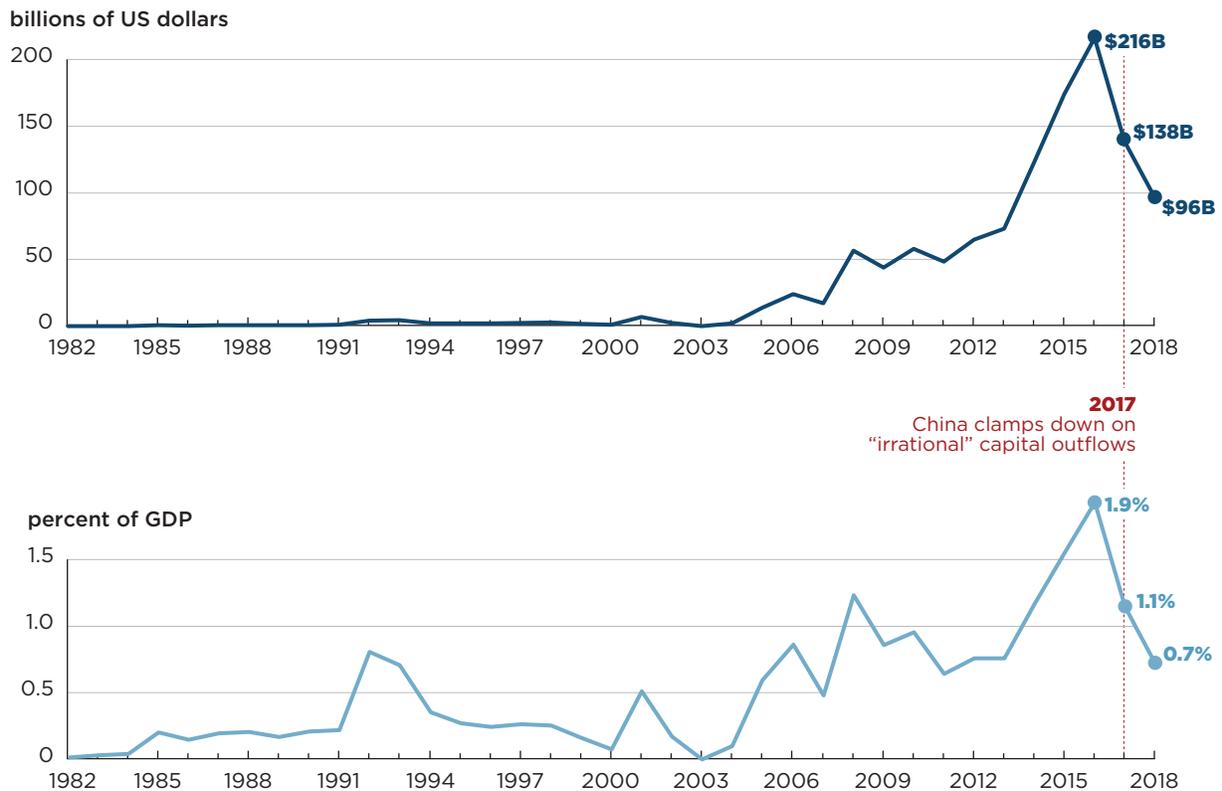
But since 2016, growing concerns over capital flight and associated depreciation pressure on the Chinese renminbi have led China to toughen restrictions on outward investment. There is also a growing perception in the United States and Europe that China under President Xi Jinping has turned back toward authoritarianism. China's rising economic power and lingering doubts abroad about its long-term political and economic intentions have prompted US and European governments to implement several new screening and evaluation measures for foreign investments, mostly targeted (effectively if not explicitly) toward Chinese investors. These include the 2018 congressional overhaul of the US government's Committee on Foreign Investment in the United States (CFIUS) and export control processes and the introduction of the first common inward investment framework in the European Union in 2019. As a result, Chinese investment levels, especially in the United States, have declined dramatically in recent years. Adam Posen (2018) had highlighted the decline in FDI to the United States early on.

Chinese outward investments, especially in the United States, are unlikely to reach the peak levels of 2016 in the foreseeable future, and US and EU governments will likely never fully believe Chinese investors are implementing merely a business-driven investment strategy.

This Policy Brief analyzes the most recent trends in Chinese investments in the United States and the European Union and reviews recent political and regulatory changes both have adopted toward Chinese inward investments. The final section explores the emerging transatlantic difference in the regulatory response to the Chinese information technology firm Huawei. Concerned about national security and as part of the ongoing broader trade friction with China, the United States has cracked down far harder on the company than the European Union.

1. This analysis relies on data for the 28 member countries of the European Union (EU-28).

Figure 1  
**Chinese annual outward investment flows, 1982–2018**



Sources: State Administration of Foreign Exchange, [www.safe.gov.cn/en/DataandStatistics/index.html](http://www.safe.gov.cn/en/DataandStatistics/index.html); GDP data from IMF (2019).

## TRENDS IN CHINESE OUTWARD FDI TO THE UNITED STATES AND EUROPEAN UNION

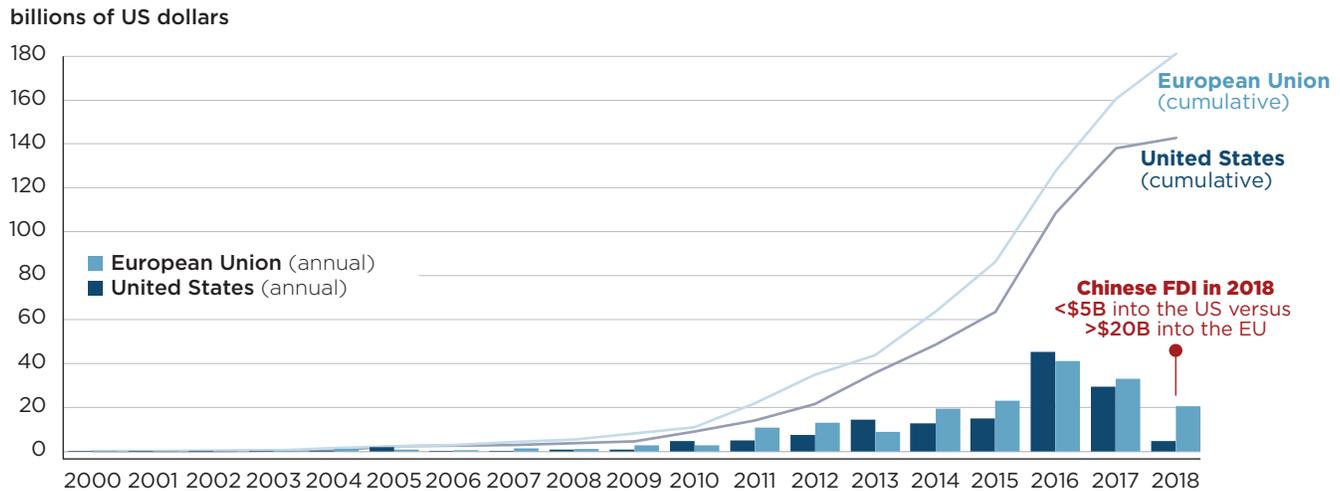
China's global outward FDI was extremely modest for over 25 years after economic reforms began in 1978. Only by 2005 did it exceed \$10 billion in one year for the first time. Outward FDI grew rapidly in the following years and especially after 2013, before peaking at over \$200 billion, or almost 2 percent of Chinese GDP, in 2016. In 2017, however, outward Chinese FDI dropped dramatically for the first time by over one-third the 2016 level to \$138 billion. The decline continued through 2018, reaching less than \$100 billion, a decline of more than 50 percent from the 2016 peak. As a share of Chinese GDP, outward FDI in 2018 dropped back to below 1 percent of GDP, the average level of 2006–13 and the level first seen as far back as 1992. Figure 1 shows the trends in outward Chinese FDI from 1982 to 2018 using data from China's State Administration of Foreign Exchange (SAFE). The figure relies on gross asset data under the balance of payments and as such does not include any divestments made in overseas assets by Chinese

firms after 2016, which would further reduce China's international investment footprint in recent years.<sup>2</sup>

The most important reason for this dramatic decline in Chinese global outward FDI since 2016, which also explains recent trends in FDI inflows into the United States and the European Union, is the Chinese government's clampdown in 2017 on "irrational" capital outflows. Increased regulatory scrutiny of Chinese investments in both the United States and the European Union has played a less important role in the decline.

2. China's net international investment position (NIIP) in direct investment assets grew by only \$90 billion from end-2017 to end-2018. While the NIIP is also potentially affected by market valuation and exchange rate fluctuations, the NIIP position grew less than the \$96 billion in new outward FDI recorded in the Chinese balance of payments presented in figure 1. The fact that the "net" NIIP position grew less than the "gross" increase in new Chinese outward FDI strongly implies that divestments of foreign assets by Chinese firms were significant during 2018.

Figure 2  
**Total Chinese outward investment into the United States and European Union, 2000–18**



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).

Source: Rhodium Group.

Figures 2 to 4 provide a more detailed look at the trends in Chinese outward investments to the United States and the European Union, revealing a remarkably similar trend in FDI levels and channels after 2000.

The trajectories of aggregate Chinese outward investments into the two sides of the Atlantic have been nearly identical, with the European Union getting a slightly higher level of investments after 2011 (figure 2). A more significant difference between the United States and European Union emerges only in 2018, as Chinese FDI into the United States dropped to just below \$5 billion, while remaining at over \$20 billion in the European Union. Chinese investments to the United States declined by over 80 percent from 2017 to 2018, in striking contrast to the only about one-third decline in investments into the European Union (figures 3 and 4).

Chinese acquisitions of American and European firms accounted for over 90 percent of total Chinese FDI from 2000 to 2018, while greenfield investments were a material part of the investment relationships only in the early 2000s, when total inflows were very small (figures 3 and 4).

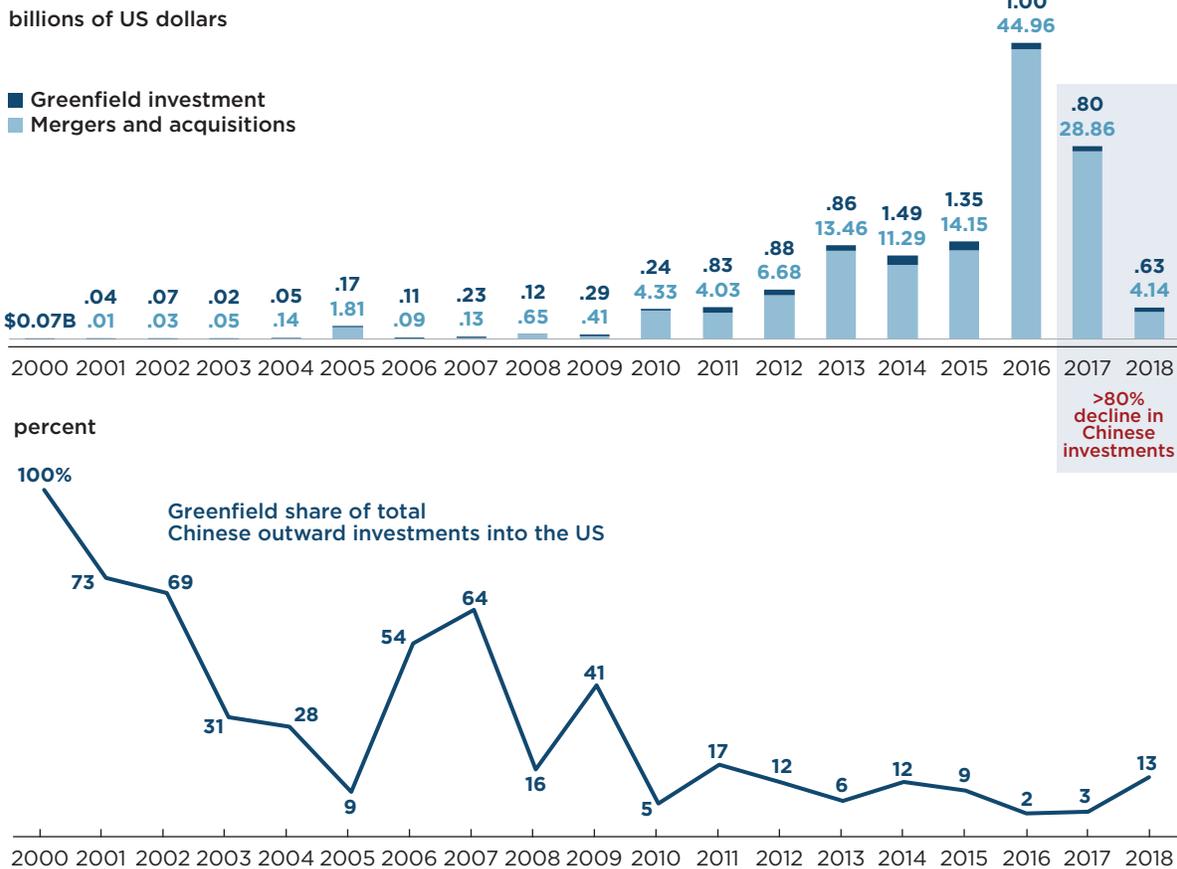
Chinese firms' focus on mergers and acquisitions (M&A) is in line with standard corporate expansion strategies, whereby cash-rich Chinese firms seek to acquire new technologies, firm capabilities, and market access through the purchase of businesses in advanced economies. The limited relevance of greenfield investments meanwhile illustrates that the rapidly rising Chinese FDI inflows into the United States and the European Union have not imme-

diately created jobs in the two destination economies. On the other hand, as probably in the case of the Chinese firm Geely's acquisition of Swedish car company Volvo (from US company Ford) in 2010, Chinese investments often have saved a significant number of jobs, especially in Europe, where more high-profile takeovers have occurred. Yet, the contrast between Chinese M&A-driven outward FDI and, say, FDI from Japanese firms, which often have invested in new greenfield plants in the United States and the European Union, is striking. Japanese firms in general possess far more inhouse technological capabilities than most Chinese outward-investing firms and hence have the technological knowhow to make greenfield investments profitable. But the fact that almost all Chinese investments have not created jobs will cost the Chinese business community political support in the United States and Europe.

Figures 5 to 7 break down Chinese investment flows into the United States and the European Union by economic sector of the target company.

Chinese firms have invested far more in industrial machinery, automotive, information and communication technology (ICT), and transportation and infrastructure sectors in the European Union than in the United States (figure 7), while US real estate and hospitality sector assets have been far more attractive than those of the European Union (figure 6). Chinese investors also invested noticeably more in the US electronics and consumer product industries than in the European Union, though these two sectors saw only relatively low investment inflows (less than \$10 billion). The

Figure 3  
**Chinese outward investment into the United States, by channel of entry, 2000-18**



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).  
 Source: Rhodium Group.

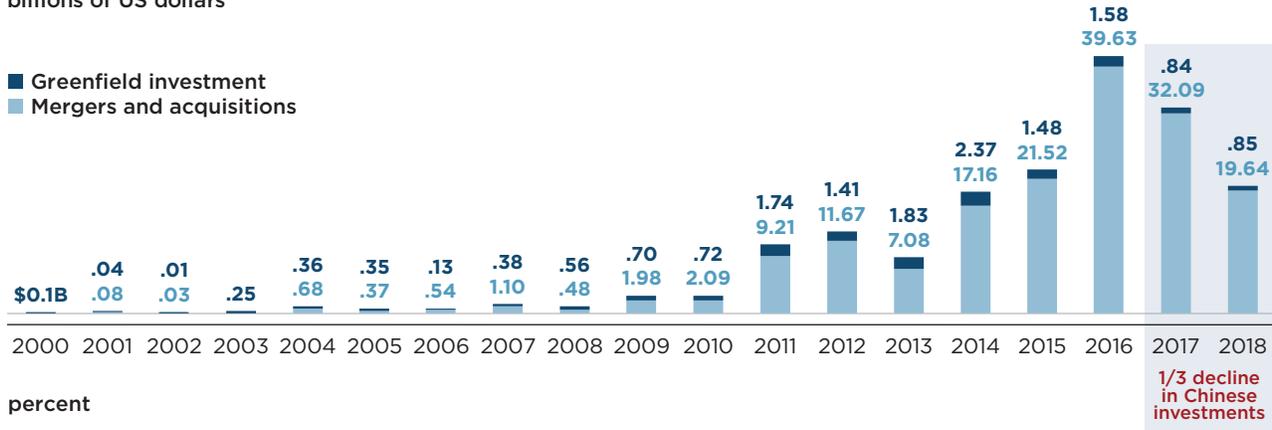
tightening of Chinese outward investment rules in 2017 saw the State Council<sup>3</sup> issue a list of “restricted FDI sectors,” in which only limited outward Chinese FDI would be approved. The restricted sectors included real estate, hotels, entertainment, sport clubs, and outdated manufacturing industries. It is, therefore, not surprising that Chinese investments in real estate and hospitality in the United States essentially disappeared in 2018, accounting for a significant share of the total decline in US-bound Chinese investments (figure 6). The dramatic decline in Chinese investments in the transportation and infrastructure sectors in both the United States and the European Union after 2016 is similarly likely to have been caused mostly by China’s domestic rule changes rather than recipient countries blocking inward investments.

Overall, Chinese investments into the European Union in 2018 rose to more than four times the level in the United States, illustrating that for the first time the European Union is significantly more open to Chinese investments than the United States (figure 7). Important sectoral differences in Chinese investments into the United States and Europe and the differing impact of China’s outward investment rules on individual sectors drive this trend. Chinese investments into the European ICT and automotive sectors remained sizable in 2018 and actually rose significantly from 2017 to 2018 in sectors other than the “potentially speculative” real estate, hospitality, transportation and infrastructure sectors. In contrast, Chinese investments to the United States, which previously concentrated in what the Chinese authorities now label speculative sectors, have declined far more dramatically, and the political sentiment in the United States has turned more forcefully against Chinese investments than it has in Europe. Hence, the distinctly diverging Chinese investment levels in the United States and Europe are now visible in the most recent recorded data for calendar year 2018. Should this

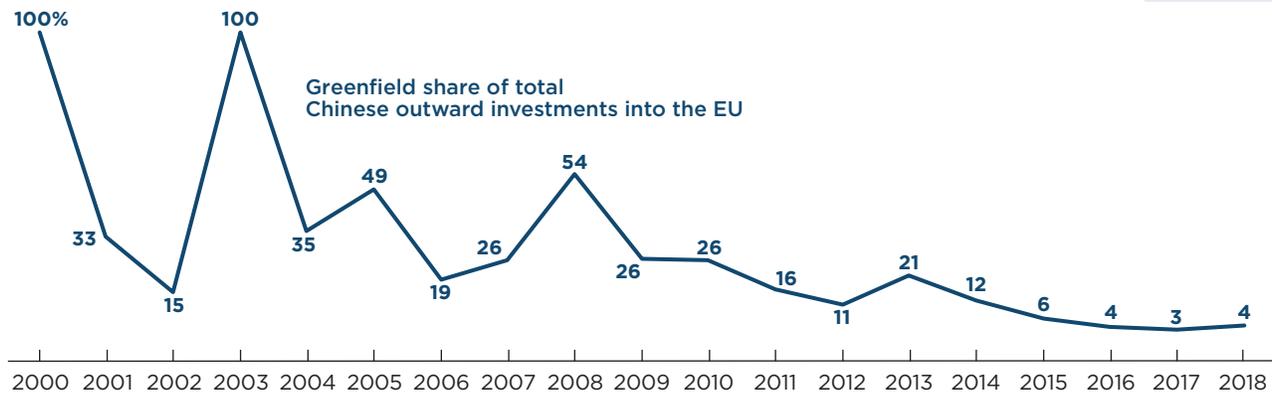
3. State Council, “State Council issues guideline on overseas investment,” news release, August 18, 2017, [http://english.www.gov.cn/policies/latest\\_releases/2017/08/18/content\\_281475798846134.htm](http://english.www.gov.cn/policies/latest_releases/2017/08/18/content_281475798846134.htm).

Figure 4  
**Chinese outward investment into the European Union, by channel of entry, 2000–18**

billions of US dollars



percent



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).

Source: Rhodium Group.

trend continue in coming years, it would slowly open up a potentially significant economic difference in the US and EU relationships with China, which could over time also become of geostrategic relevance in a hypothetical future crisis.

A particular concern sometimes voiced in the European debate about Chinese investments<sup>4</sup> in the European Union is the fear that such FDI will make individual EU members less critical, for instance, of China’s human rights record or trade practices and consequently undermine the possibility of a common EU political and economic approach to China. Figure 8 breaks down Chinese outward FDI to the European Union by member state and also compares with individual member state GDPs.

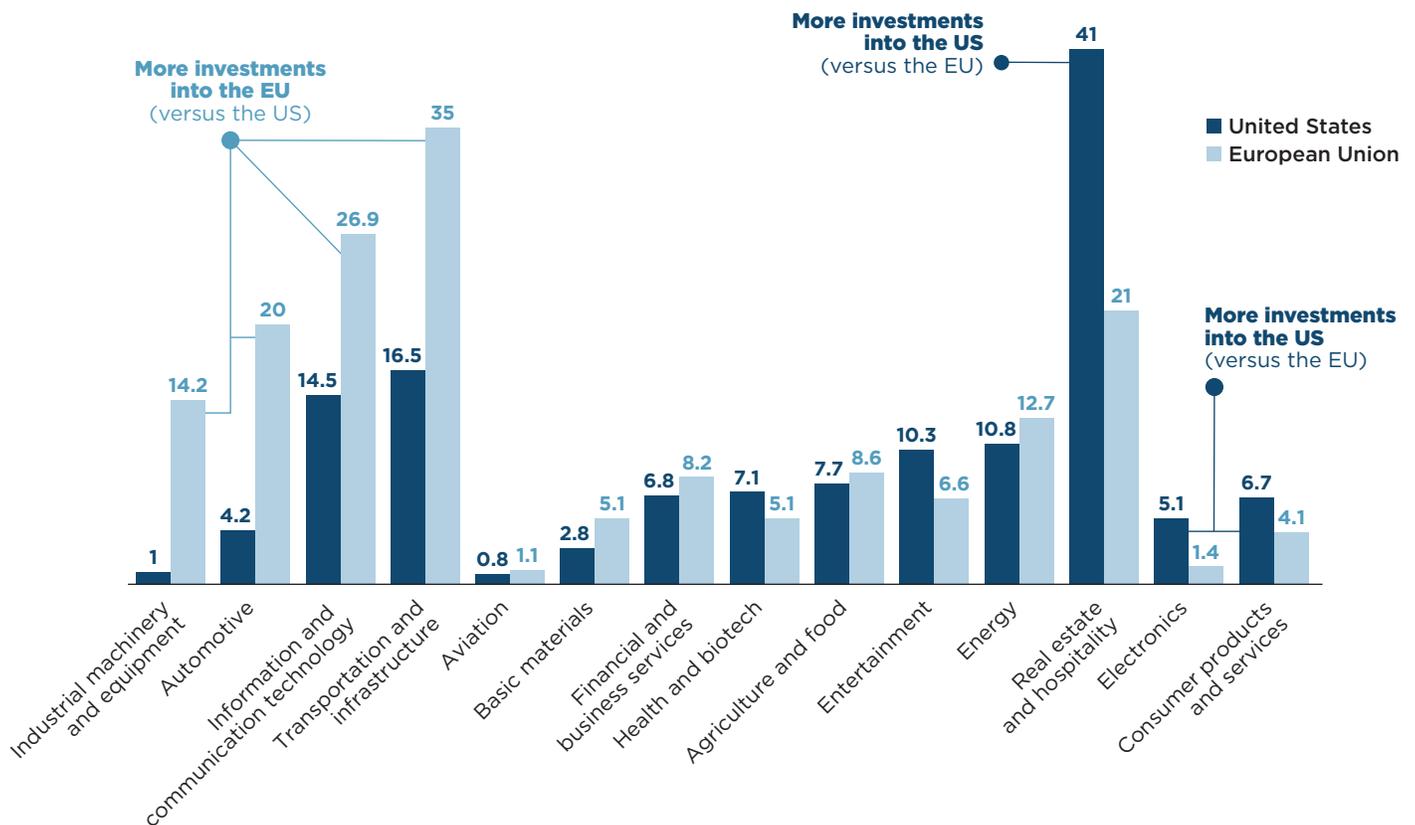
The biggest EU recipients of cumulative Chinese investments in 2000–18 are predictably the largest EU members, led by the United Kingdom at \$55.3 billion, Germany at \$26.3 billion, Italy at \$18 billion, and France at \$17.5 billion. Member states like Portugal and Greece, frequently mentioned as potential targets for “politically strategic Chinese investments,” received much less at \$7.6 billion and \$2.2 billion, respectively. In 2000–18 tiny economies Malta and Luxembourg received Chinese FDI worth 7.5 and 4.2 percent of their national 2018 GDPs, respectively, followed by Portugal at 3.2 percent, Finland at 2.9 percent, Hungary at 2.1 percent, and the United Kingdom at 2 percent. No individual member state had levels of Chinese inward FDI significantly above the EU-28 average of 1 percent of 2018 EU GDP. Given that these percentages of GDP are small<sup>5</sup>

4. See, for instance, Germany’s State Secretary for Economic Affairs Matthias Machnig quoted in a *Politico* article, “Enter the Dragon,” October 4, 2017, [www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe/](http://www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe/).

5. Measured instead as a share of total inward FDI, the Chinese component in some member states is significantly higher than the share measured in GDP. This is the case in some Eastern European members, like Bulgaria, Croatia, and

Figure 5  
**Total Chinese outward investment into the United States and the European Union, by sector, 2011-18**

billions of US dollars



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).

Source: Rhodium Group.

and refer to the cumulative sum of Chinese inward FDI over almost two decades, in general fears over the potential political influence of Chinese investments on individual EU member states appear exaggerated.<sup>6</sup>

**RECENT REGULATORY CHANGES IN THE TREATMENT OF INWARD CHINESE FDI IN THE UNITED STATES**

Since 1975, the United States has regulated inward foreign investments through the Committee on Foreign Investment

in the United States (CFIUS),<sup>7</sup> a cabinet-level committee chaired by the Treasury secretary, though dominated by the secretary of defense and other members of the US national intelligence sector.<sup>8</sup> CFIUS reviews foreign M&A bids to take over US firms to determine whether they threaten US national security. Reviews are in principle “voluntary,” but since US authorities can revoke approval of nonreviewed approved transactions, prudent market participants want

Romania, but total inward FDI in these countries is often low. Measuring inward FDI as a share of overall national target country GDP is the most accurate guide to actual policy influence.

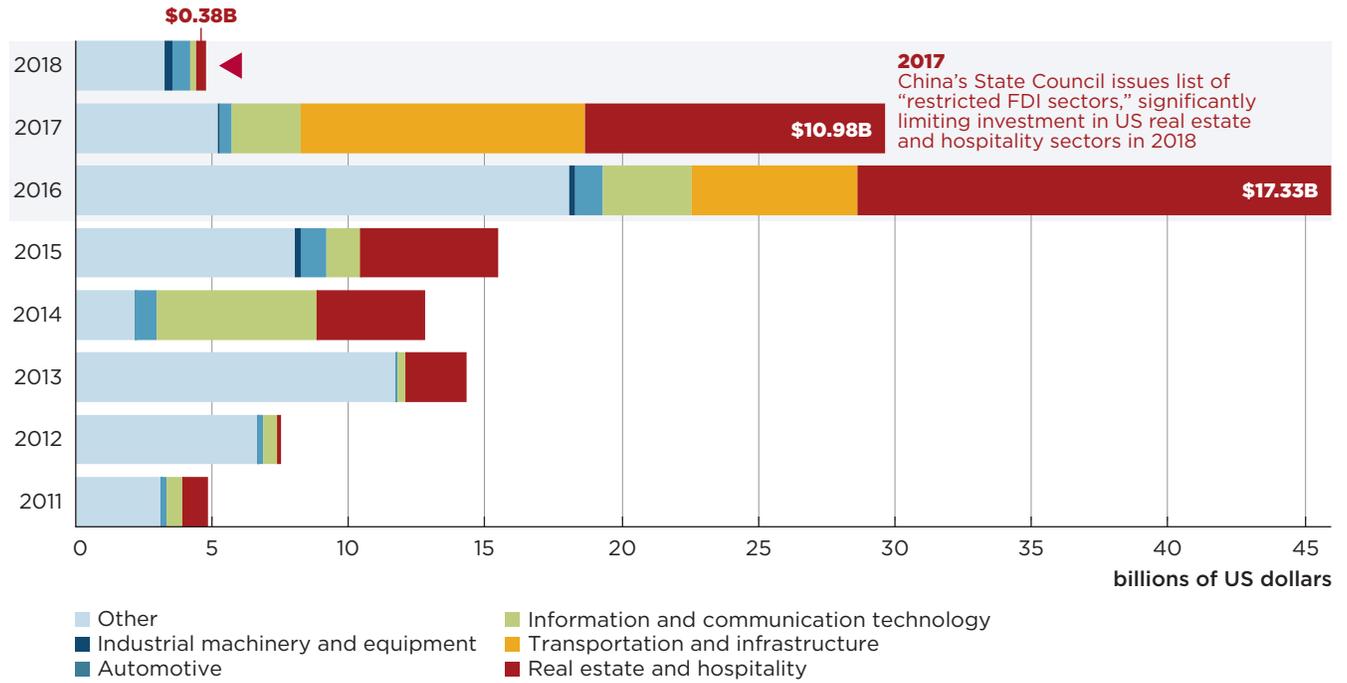
6. The fact that Greek archeological authorities recently partly blocked the Chinese logistics firm COSCO from expanding its investments in the Greek port of Piraeus highlights how Chinese investors in even smaller and poorer EU members do not appear to get any preferential treatment. See Nektaria Stamouli, “China’s Biggest Investment

in Greece Blocked by Archaeological Authority,” *Wall Street Journal*, April 3, 2019, [www.wsj.com/articles/chinas-biggest-investment-in-greece-blocked-by-archaeological-authority-11554317046](http://www.wsj.com/articles/chinas-biggest-investment-in-greece-blocked-by-archaeological-authority-11554317046).

7. For details, see “The Committee on Foreign Investment in the United States (CFIUS),” US Treasury, <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>.

8. In the Trump administration, where many top-level positions outside the national security area have not yet been filled, the risk of officials linked to defense and intelligence agencies dominating the CFIUS process has increased.

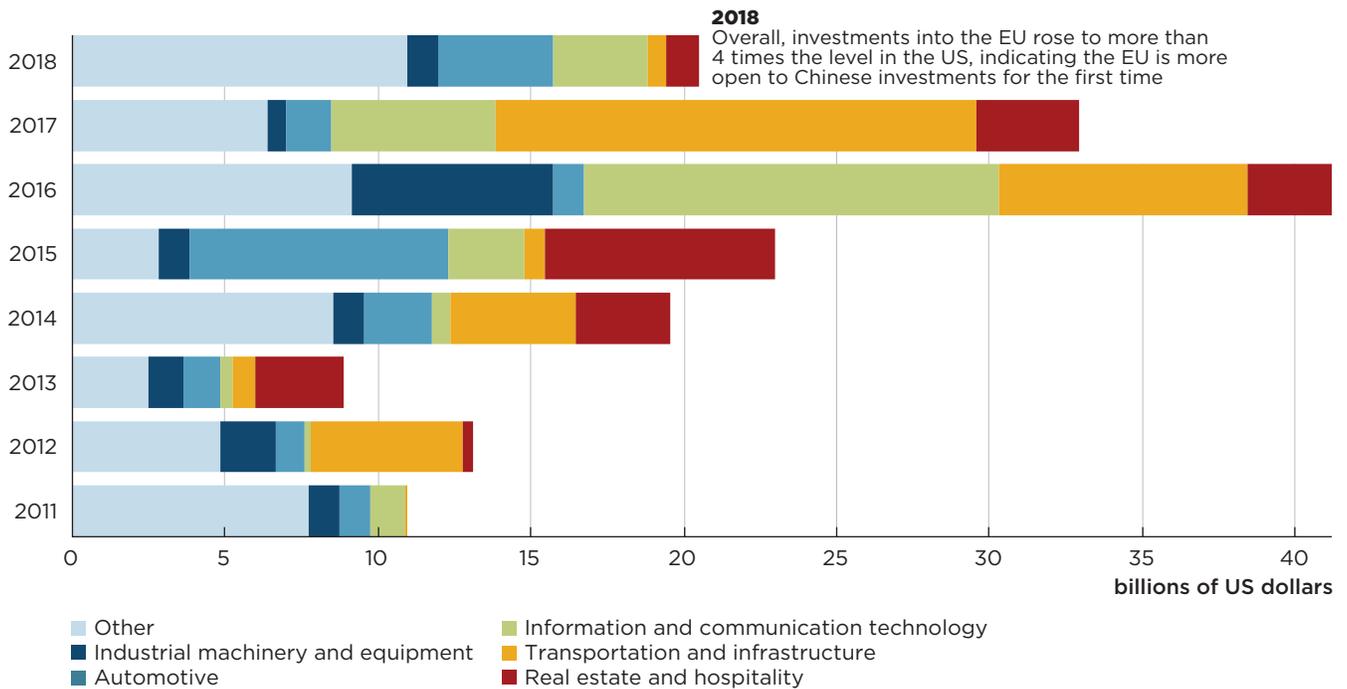
Figure 6  
**Chinese outward investment into the United States, by main sectors, 2011-18**



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).

Source: Rhodium Group.

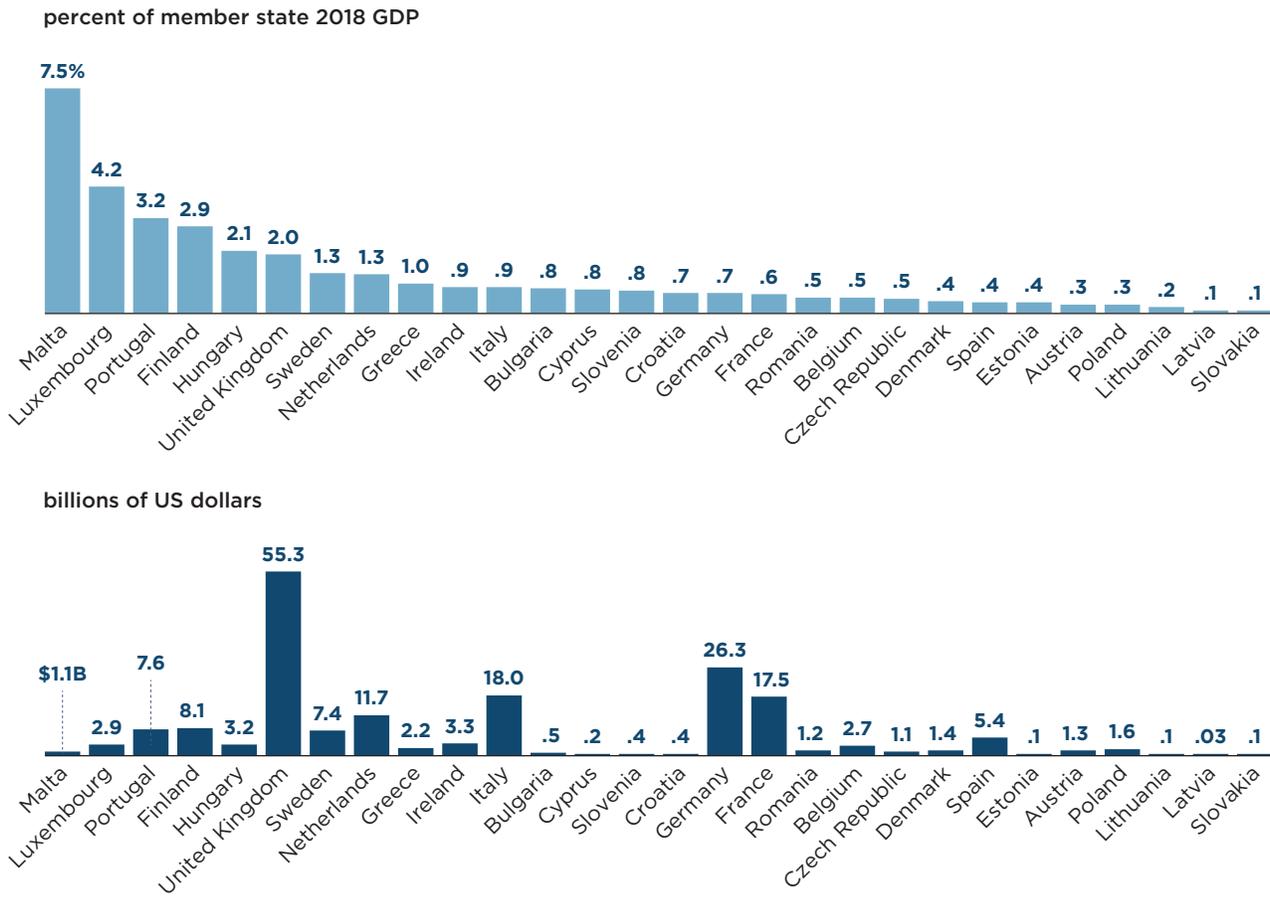
Figure 7  
**Chinese outward investment into the European Union, by main sectors, 2011-18**



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).

Source: Rhodium Group.

Figure 8  
**Chinese outward investment into the European Union, by member state, 2000-18**



Note: Data represent the combined value of direct investment transactions by mainland Chinese companies, including greenfield projects and acquisitions that result in significant ownership control (>10 percent of equity).  
 Sources: Rhodium Group; GDP data from IMF (2019).

to minimize future risks, so all economically and politically significant cases are de facto submitted to CFIUS for review.<sup>9</sup>

The most significant reform of the CFIUS process in many years took place in August 2018 with the passage of the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) and Export Control Reform Act (ECRA). These acts saw Congress expand the scope of CFIUS somewhat (though far less than initially feared) and subject new categories of “foundational” and “emerging” technologies to export controls implemented by the US Department of Commerce.<sup>10</sup> The new CFIUS regime, according to the US Department of Treasury (2018), is not aimed at China or

any specific country, but Congress demands in the legislation that the Commerce Department produce a new biannual report on Chinese FDI in the United States with a specific focus on investments by state entities. Another new provision restricting “foreign government-controlled transactions” will clearly also directly affect some Chinese investors.

In other words, formal regulatory barriers to Chinese investments in the United States in recent years have increased only to a relatively limited degree. But if the definition of “foundational” and “emerging” technologies is broad in the ultimate implementation of the new legislation by the US government, the barriers could frequently prove prohibitive for Chinese investors in the United States.

With the new FIRRMA and ECRA legislations, Congress clearly refrained from enshrining the most expansive potential restrictions on Chinese (and other foreign) investment explicitly into US law. But the fact that the two bills passed

9. See Hufbauer (2018) for details.

10. See detailed analysis of these issues in Chorzempa (2018a, 2018b, and 2019).

the US Senate in an overwhelming 87–10 vote<sup>11</sup> highlights the strong bipartisan support for tougher regulation of these (and other China-related) issues. Chinese investments to the United States, therefore, will stay on lawmakers’ radar screen for the foreseeable future, irrespective of which party controls the presidency or Congress.

The greatest barrier to Chinese investments in the United States today and in the future is not necessarily US laws as currently written but the broader US political focus on a perceived threat from China to the United States’ traditional position as the world’s preeminent military power and technological innovator. Fueled by ongoing and extensive Chinese government–linked spying efforts against US government and private entities, such political concerns in the United States can make any significant Chinese investment in the United States a political issue, in effect dissuading most potential Chinese investors from proceeding in the US market.

Given the current political environment, the recent dramatic decline in Chinese investments into the United States (figures 3 and 6) is unlikely to be significantly reversed in the years ahead, even if China eases domestic restrictions on outflows in the future. Moreover, the real risk from a near stop to bilateral investment flows between the two economic giants is not that the two countries will forego the economic gains but that it would accelerate their rivalry in technological standards (see penultimate section below) in otherwise global sectors. This conflict would potentially disrupt supply chains and sector economies of scale and effectively bisect the global economy.

### RECENT REGULATORY CHANGES IN THE TREATMENT OF INWARD CHINESE FDI IN THE EUROPEAN UNION

Unlike trade issues, which the EU Treaty stipulates is the sole responsibility of the European Commission, investment issues continue legally to reside mostly with EU member state governments, and any national security concerns remain exclusively a member state matter. Consequently, the European Union has only gradually entered the investment review policy area, and its first framework for screening FDI in the European Union came into effect as recently as April 2019 (European Union 2019).

Compared with the US CFIUS, the new EU framework is far from being a legally robust, aggressive, and comprehensive regulation. Instead it takes the form of a “coordination and cooperation instrument,” through which EU members

can share FDI details with, and request information from, other member states concerning transactions that could impact “national security and public order.”<sup>12</sup> The European Commission now has the “name and shame” option to issue nonbinding opinions on transactions affecting more than one member state or the interests of the European Union as a whole. In the latter cases, member states are required to publicly justify why—if so—they failed to follow a Commission opinion. The Commission is limited to screening restrictions based on national security and public order implications of acquisitions, as the EU framework does not include economic or general net-benefit criteria and excludes greenfield, venture capital, and portfolio investments.

At the same time, however, the definition of “national security and public order” in the new EU framework has a potentially far-reaching scope. Article 4 (1) in the new legislation lists five factors that member states and the Commission may consider while determining an acquisition’s potential effects on “national security and public order”:

- “critical infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing or storage, aerospace, defence, electoral or financial infrastructure, and sensitive facilities, as well as land and real estate crucial for the use of such infrastructure;
- critical technologies and dual use items..., including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defence, energy storage, quantum and nuclear technologies, as well as nanotechnologies and biotechnologies;
- supply of critical inputs, including energy or raw materials, as well as food security;
- access to sensitive information, including personal data, or the ability to control such information; or
- the freedom and pluralism of the media.”<sup>13</sup>

If EU-level scrutiny of foreign investments is tightened in the future, such a broad reach could limit many Chinese investments and, at a minimum, could, through the demonstration effect, also broaden the scope of many national member state investment review mechanisms.

Perhaps most importantly, the new EU-level regulation is intended not only to incentivize member states that do not yet have a national process to establish an investment screening function but also to push for the gradual conver-

11. FIRRMA and ECRA passed as part of the 2018 annual defense authorization bill, but this had only a limited effect on the vote count.

12. For detailed information on and analysis of the new EU investment framework, see European Commission (2019) and Hanemann, Huotari, and Kratz (2019).

13. See European Union (2019).

Table 1

**National investment screening mechanisms in EU member states, status in early 2019**

Country	Changes implemented/ planned	Details of changes
Belgium	n.a.	No national investment screening mechanism in place or planned
Bulgaria	n.a.	No national investment screening mechanism in place or planned
Croatia	n.a.	No national investment screening mechanism in place or planned
Cyprus	n.a.	No national investment screening mechanism in place or planned
Estonia	n.a.	No national investment screening mechanism in place or planned
Greece	n.a.	No national investment screening mechanism in place or planned
Ireland	n.a.	No national investment screening mechanism in place or planned
Luxembourg	n.a.	No national investment screening mechanism in place or planned
Malta	n.a.	No national investment screening mechanism in place or planned
Slovakia	n.a.	No national investment screening mechanism in place or planned
Slovenia	n.a.	No national investment screening mechanism in place or planned
<b>Subtotal: 11 EU members accounting for 7.7 percent of total inward Chinese FDI from 2000 to 2018</b>		
Austria	No changes planned	The Ministry of Economic Affairs has to review and approve the acquisition of 25 percent or more of controlling interest by non-EU, non-EEA, and non-Swiss persons in an Austrian enterprise engaged in “protected sectors,” including defense, telecommunications, energy, water supply, hospitals, traffic infrastructure, and education.
Finland	No changes planned	Ministries of Trade/Industry and Defense approve foreign investments. If they consider “important national interests” to be jeopardized, ministries defer the decision to the Council of State.
Poland	No changes planned	In addition to approval requirements in specific sectors, foreign investors planning to buy a stake of 20 percent or more in a so-called strategic Polish company need approval from the Ministry of State Treasury. The Council of Ministers maintains a list of strategic companies, which can be amended by regulation.
Portugal	No changes planned	Portugal maintains a general safeguard clause in its investment regulation that requires an assessment of compliance with statutory requirements and preconditions established under Portuguese law for non-EU investments that could affect public order, security, and health.
Romania	No changes planned	Romania is listed in several EU documents as not having a screening mechanism in place, but the Supreme Defense Council can review referred mergers and acquisitions for potential threats to national security after notification from the Romanian Competition Council.
Spain	No changes planned	Foreign investors need to obtain prior approval by the Council of Ministers in the defense sector, gambling, broadcasting, and air transportation. The Council of Ministers can also intervene on an ad hoc basis if investments affect, or may affect, public powers, public order, security, or public health-related activities.
<b>Subtotal: 6 EU members accounting for 13.9 percent of total inward Chinese FDI from 2000 to 2018</b>		
Czech Republic	2019	Government considering setting up a dedicated mechanism or strengthening investment review.
Denmark	2019	Government considering setting up a dedicated mechanism or strengthening investment review.
Netherlands	2019	The Dutch government is considering adopting a sector-specific foreign investment control regime. Debates about and legislative proposals for the telecommunications sector have advanced the most, but other sectors involving vital infrastructure might follow.
Sweden	2019	Government considering setting up a dedicated mechanism or strengthening investment review.
<b>Subtotal: 4 EU members accounting for 12 percent of total inward Chinese FDI from 2000 to 2018</b>		

Table continues

Table 1 (continued)

**National investment screening mechanisms in EU member states, status in early 2019**

Country	Changes implemented/planned	Details of changes
France	2017–19	In November 2018, a new decree in France expanded the list of sensitive sectors in which foreign investments are subject to review and approval by the Ministry of Economy. The list now includes areas such as cybersecurity, artificial intelligence, robotics, and semiconductors as well as space operations. Further legal changes are expected in 2019 (with the relevant law, Plan d'Action pour la Croissance et la Transformation des Entreprises, currently under review).
Germany	2017–19	In July 2017, the German federal government adopted amendments to its Foreign Trade and Payments Ordinance in order to allow for wider control of foreign corporate takeovers with a focus on critical infrastructures. In December 2018, German authorities further changed investment screening rules so as to review any transaction in which a non-European foreign company plans to buy more than 10 percent of a German firm in sectors such as defense, critical infrastructures, and the media.
Hungary	2017–19	In October 2018, the Hungarian government adopted new regulations that require investing companies with non-EU shareholders to obtain government approval before acquiring assets in national security–related areas, including dual-use technologies and critical infrastructures.
Italy	2017–19	In October 2017, Italy's cabinet passed a decree to strengthen disclosure requirements for foreign investors acquiring significant stakes in Italian companies and expanded the “golden powers,” under which transactions in certain strategic sectors can be vetoed, to “high-tech” companies, such as those dealing with data storage and processing, artificial intelligence, robotics, semiconductors, dual-use technology, and space/nuclear technology.
Latvia	2017–19	In March 2017, Latvia strengthened its investment policy related to national security, establishing a mandatory review mechanism for transfer of ownership in companies and facilities “with significance to national security” or in national and European critical infrastructures.
Lithuania	2017–19	In January 2018, the parliament adopted an updated version of the “Law on Enterprises and Facilities” to require notification and facilitate vetting of investments in certain economic sectors or in certain protected zones.
United Kingdom	2017–19	In June 2018, the UK government expanded its powers to review merger and acquisition (M&A) transactions. The “share of supply test” was amended, and turnover thresholds for review have been lowered from £70 million to £1 million for military, dual-use, and advanced technology (computing, quantum technology) sectors. A significantly broader and dedicated national security M&A regime is expected to come into force in 2019.
<b>Subtotal: 7 EU members accounting for 66.5 percent of total inward Chinese FDI from 2000 to 2018</b>		

n.a. = not applicable; EEA = European Economic Area; FDI = foreign direct investment

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

gence of these national member state frameworks, which is where the actual power to block investments continues to reside. There has already been a substantial shift in investment screening regulations in several EU members in recent years (table 1).

The 11 member states that still have no national inward investment screening mechanism in place in early 2019 are mostly small economies accounting for only less than 8 percent of total Chinese inward FDI since 2000. Six other member states, accounting for about 14 percent of Chinese inflows since 2000, have not implemented or planned any reforms of their existing investment screening tools. Four member states accounting for about 12 percent of Chinese inflows since 2000 are likely to implement new national screening processes. Most importantly, the seven remaining

EU members, including all the largest members, accounting for roughly two-thirds of Chinese investments since 2000, have since 2017 introduced and/or tightened their existing investment screening mechanisms.

Significant changes in national EU investment screening procedures that could affect Chinese investments in the European Union have, therefore, already been implemented in recent years. In addition to national measures, the new EU framework contains several provisions that could affect a very large share of Chinese investments in the European Union. As already noted, the sectors covered by the new EU regulation are very broad in scope, including—per figure 7—several such as infrastructure and transportation in which Chinese investment inflows into the European Union have in recent years been considerable. Second, the EU framework

calls for special scrutiny of inward investments by directly or indirectly state-controlled entities, including transactions relying on state-backed funding.<sup>14</sup> While in principle applying to inward investments in Europe from anywhere, this provision is certain to elevate focus on many Chinese investments given the large and rising role of state-owned or sovereign entities in them. Third, the new EU framework calls for potential reviews of investments that form part of “state-led outward projects or programmes.”<sup>15</sup> This formulation is evidently aimed at capturing the Chinese Belt and Road Initiative (BRI), among other investment channels into Europe.

While the new EU framework cannot command member states to take any particular action, or explicitly call for increased focus on Chinese inward investments, its provisions will no doubt stir public debate in Europe of Chinese investments in general, even if only very few actually end up being blocked by member state governments.

The debate over Chinese investments in the European Union is certain to extend to a more general debate about the pros and cons of deeper European economic engagement with China in the coming years.

The ripple effects on EU-China investment relations arising from Europe’s general debate about its economic and political engagement with China are likely to come from several quarters. The ongoing debate on competition policy in Europe concerning industrial policy and the geographic scope of markets in determining firms’ dominant positions<sup>16</sup>

is also a debate about the EU reaction to the global expansion of state-controlled Chinese industrial conglomerates. The European Union’s explicitly taking Chinese firms’ global market effects (i.e., effects outside the European Union itself) into consideration would evidently affect the ability of these conglomerates to invest in the European Union. Similarly, the ongoing EU debate about allowing the Chinese to bid on EU public infrastructure tenders could block Chinese bidders from the EU market if EU firms are not given the same opportunities to bid on tenders in China.

Finally, the critical issue of data privacy in Europe is another important factor that could prevent the expansion of many Chinese firms into the European market, as their business models and even presence may simply not be tolerated due to data privacy concerns. The extent to which the perceived lack of data privacy in China and Chinese commercial practices hinders Chinese investments and firms’ operations in the EU economy will depend crucially on the development of data privacy in China. In a one-party state like China, where the government reserves the absolute right to access and control all types of information, including the private data of all residents, it is self-evident that notions of data privacy centered around individuals’ data rights are meaningless given the long arm of the government. There is no question of the Chinese government’s ability to snoop on its own citizens, and restrictions to rein in this ability similar to the ones (perhaps) imposed on the US National Security Agency (NSA) following the Edward Snowden revelations are simply unthinkable under the current Communist Party rule.

At the same time, however, it is important to recognize that the main focus of the European Union’s data privacy concerns—after all, EU governments themselves keep extensive track of their citizens’ data, often far beyond what they like to discuss publicly—is the corporate control of personal data by just a few private (mostly to date) American firms. The core political fear is not government access to personal data but corporate control of these data and the risk of such corporate entities exploiting in a noncompetitive way, reselling, or losing these data.

Such concerns, meanwhile, are widespread in China today, where two giant digital firms, Alibaba and Tencent, have a virtual duopoly on significant aspects of the Chinese online marketplace and electronic payments and transfers.<sup>17</sup> If Chinese authorities restricted the harvesting, resale, storage, and competitive exploitation by private Chinese firms of customers’ personal data in China, the risk of data-based restrictions on Chinese investments and operations in the

14. Article 4 (2) of the new EU framework stipulates that “in determining whether a foreign direct investment is likely to affect security or public order, member states and the Commission may also take into account, in particular, whether the foreign investor is directly or indirectly controlled by the government, including state bodies or armed forces, of a third country, including through ownership structure or significant funding” (European Union 2019).

15. The preamble of the EU regulation, section (13), notes that in determining whether a foreign direct investment affects national security or the public order, it should also be possible for member states and the Commission to take into account the context and circumstances of the foreign direct investment, in particular whether a foreign investor is controlled directly or indirectly, for example, through significant funding, including subsidies, by the government of a third country or is pursuing state-led outward projects or programs (European Union 2019).

16. The recent controversy over the European Commission’s decision to block a proposal to merge the train production units of Germany’s Siemens and France’s Alstom illustrates the importance of the market scope aspect clearly. The German and French governments wanted the merger approved to create a “European champion” able to compete against the new larger Chinese state-owned train producers in the global market, but the Commission vetoed it, due to the dominant position the merged entity would have held in the EU domestic markets.

17. I am indebted to Martin Chorzempa for emphasizing this issue to me.

European Union could be greatly reduced. Although the direction of domestic Chinese regulation in this field remains indeterminate, Beijing could suddenly impose restrictions on private firms' operations in China similar to the restrictions in Europe.

## TRANSATLANTIC DIFFERENCES IN THE TREATMENT OF HUAWEI

Arguably the most important and potentially most divisive issue in transatlantic regulatory treatment of Chinese entities operating in the United States and Europe is the handling of the giant Chinese telecommunications equipment and services provider Huawei in the two markets. For a single private company, Huawei has attracted a remarkable degree of political and regulatory scrutiny, due to its Chinese origin and potentially pivotal role in the rollout of the fifth generation cellular wireless (5G) technology on both sides of the Atlantic. But the US and EU approaches have been starkly different.

### US Approach

The Trump administration has limited Huawei's access to the US marketplace and US technology, as well as pushed allies to also restrict the operations of the company.

In January 2019, the US Department of Justice issued a series of indictments against Huawei (and its Chinese chief financial officer) for financial fraud<sup>18</sup> and theft of trade secrets, wire fraud, and obstruction of justice.<sup>19</sup> On May 15, 2019, President Trump issued an executive order initiating the process of banning Huawei from the US market due to the "undue risk of sabotage" arising from being "controlled by a foreign adversary."<sup>20</sup> While the Chinese firm is not explicitly mentioned in the executive order, there is little doubt that

18. See US Department of Justice indictment at [www.justice.gov/usao-edny/pr/chinese-telecommunications-conglomerate-huawei-and-huawei-cfo-wanzhou-meng-charged](http://www.justice.gov/usao-edny/pr/chinese-telecommunications-conglomerate-huawei-and-huawei-cfo-wanzhou-meng-charged).

19. See US Department of Justice indictment at [www.justice.gov/usao-wdwa/pr/chinese-telecommunications-device-manufacturer-and-its-us-affiliate-indicted-theft](http://www.justice.gov/usao-wdwa/pr/chinese-telecommunications-device-manufacturer-and-its-us-affiliate-indicted-theft).

20. The executive order explicitly prohibits any transactions that "involve information and communications technology or services designed, developed, manufactured, or supplied, by persons owned by, controlled by, or subject to the jurisdiction or direction of a foreign adversary," that "pose an undue risk of sabotage to or subversion of the design, integrity, manufacturing, production, distribution, installation, operation, or maintenance of information and communications technology or services in the United States," and that "pose an undue risk of catastrophic effects on the security or resiliency of United States critical infrastructure or the digital economy of the United States" (see White House, Executive Order on Securing the Information and Communications Technology and Services Supply Chain, May 15, 2019, [www.whitehouse.gov/presidential-actions/executive-order-](http://www.whitehouse.gov/presidential-actions/executive-order-)

the US Department of Commerce will in time identify both Huawei and China as targets and exclude them from the US market. On the same day, the Commerce Department placed Huawei on the Bureau of Industry and Security's so-called Entities List, requiring that the sale or transfer of any US technology to Huawei first receive a Department of Commerce license. Given that Commerce also said that it has information providing "a reasonable basis to conclude that Huawei is engaged in activities that are contrary to U.S. national security or foreign policy interest,"<sup>21</sup> it is safe to assume that sales of many advanced technologies to Huawei will not receive a license.<sup>22</sup> At the same time, however, in a concession to China following the bilateral meeting between presidents Trump and Xi at the 2019 G-20 Summit in Osaka, Japan, the Trump administration announced that it would allow some American firms to sell some inputs to Huawei for a limited time.<sup>23</sup> How many sales will be permitted remains unclear, and the signals from the Trump administration remain inconsistent,<sup>24</sup> though the US government's treatment of Huawei might be "normalized" as part of an overall trade and economic agreement between the two countries in the future. But given the deterioration in the bilateral relationship in August 2019, with President Trump announcing more tariffs on US imports from China and

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[securing-information-communications-technology-services-supply-chain/](#)).

21. See Department of Commerce press release at [www.commerce.gov/news/press-releases/2019/05/department-commerce-announces-addition-huawei-technologies-co-ltd](http://www.commerce.gov/news/press-releases/2019/05/department-commerce-announces-addition-huawei-technologies-co-ltd). This expression presumably implies that Huawei is in some manner directly engaged with the Chinese government and security apparatus and as such the Chinese government might use the company's equipment to gain access to information on US public and private networks.

22. On May 20, 2019, the Department of Commerce issued a temporary and limited exemption to certain US inputs to Huawei products to allow operations to continue for existing Huawei mobile phone users and rural broadband networks. See Department of Commerce press release at [www.commerce.gov/news/press-releases/2019/05/department-commerce-issues-limited-exemptions-huawei-products](http://www.commerce.gov/news/press-releases/2019/05/department-commerce-issues-limited-exemptions-huawei-products).

23. See Jim Tankersley and Ana Swanson, "Trump Administration Will Allow Some Companies to Sell to Huawei," *New York Times*, July 9, 2019, [www.nytimes.com/2019/07/09/business/huawei-donald-trump.html](http://www.nytimes.com/2019/07/09/business/huawei-donald-trump.html).

24. The Commerce Department continues to treat Huawei as being blacklisted as of early July 2019. See Reuters, "U.S. government staff told to treat Huawei as blacklisted," July 2, 2019, [www.reuters.com/article/us-china-usa-huawei-idUSKCNITY07N?utm\\_campaign=trueAnthem:+Trending+Content&utm\\_content=5d1c217c0ca7240001ca6888&utm\\_medium=trueAnthem&utm\\_source=twitter](http://www.reuters.com/article/us-china-usa-huawei-idUSKCNITY07N?utm_campaign=trueAnthem:+Trending+Content&utm_content=5d1c217c0ca7240001ca6888&utm_medium=trueAnthem&utm_source=twitter).

Beijing stopping all purchases of US agricultural products, it is doubtful if US firms can continue to sell parts to Huawei.<sup>25</sup>

Simultaneously, the US government has publicly called on allies especially in Europe to similarly ban Huawei products from their information technology and telecommunications networks or lose the ability to exchange information with the US government. Secretary of State Mike Pompeo on February 21, 2019, said that “if a country adopts this and puts it [Huawei technology] in some of their critical information systems, we won’t be able to share information with them.”<sup>26</sup>

### European Approach

Meanwhile in Europe, a broad-ranging debate about Huawei has raged in many EU members in recent months, not least in response to the intense US political pressure to ban Huawei’s participation in the rollout of 5G networks in Europe. In stark contrast, however, to the de facto blanket ban on this specific Chinese firm in the United States largely on vaguely defined “national security grounds,” the Huawei debate in the European Union has resulted in a complex and occasionally even contradictory policy approach toward the firm.

5G networks will allow an unprecedented degree of connectivity, offering faster speed and more reliable connections between various 5G-enabled products in our everyday life, such as smartphones and other devices. Given the extremely high number of possible entry points into any 5G network, adequately securing such a network is increasingly viewed in the European debate as a far broader issue than merely one firm’s national origin and ability to install possible backdoors. Moreover, since many of the 5G network’s core functions will be via cloud-based software, the traditional distinction between the network core and edges in 4G networks is no longer relevant. Banning Huawei completely or just from core network elements is hence unlikely to make 5G networks safer in Europe, especially as the European Union continues to worry at least as much about Russian cyber intrusion in Europe as about the activities of any Chinese actor.<sup>27</sup>

25. See Jenny Leonard, Ian King, and Jennifer Jacobs, “U.S. Holds Off on Huawei Licenses as China Halts Crop-Buying,” Bloomberg, August 8, 2019, [www.bloomberg.com/news/articles/2019-08-08/u-s-holds-off-on-huawei-licenses-as-china-halts-crop-buying-jz36cqr](http://www.bloomberg.com/news/articles/2019-08-08/u-s-holds-off-on-huawei-licenses-as-china-halts-crop-buying-jz36cqr).

26. Mike Pompeo, interview with Fox Business News, February 21, 2019, [www.foxbusiness.com/technology/pompeo-slams-huawei-us-wont-partner-with-countries-that-use-its-technology](http://www.foxbusiness.com/technology/pompeo-slams-huawei-us-wont-partner-with-countries-that-use-its-technology).

27. The intrusive surveillance by the US NSA of several EU leaders revealed by Edward Snowden in 2013, moreover, continues to undermine the Trump administration’s argu-

Another important factor in the European debate is that given Europe’s large investment needs in its 5G rollout, banning the largest and often most price-competitive supplier in Huawei will significantly increase the cost of the 5G rollout. This is certainly the case in Germany, which faces a particularly large catchup in IT infrastructure investments in 5G following years of public and private underinvestment in the sector. Price, however, will also matter greatly in the less affluent Eastern European member states, posing an acute political challenge for these members who crave Trump’s protection against Russia and making any unified EU position on Huawei impossible.

It is, moreover, a testament to the hard economic priorities of many EU member states that 5G rollout cost concerns play such a prominent role in the European debate despite the fact that the principal corporate beneficiaries of any blanket Huawei ban in Europe would be the firm’s main European competitors Ericsson and Nokia. In contrast, the United States does not have a major producer of 5G network equipment, though US firms own much of the underlying intellectual property rights for its manufacturing. This situation, however, cuts both ways, as the European Union will also have to factor in the likely effect of its policy response to Huawei on the prospects of Nokia and Ericsson in the Chinese domestic market (likely the world’s largest), whereas the United States, with no major domestic producer to worry about, is far more unconstrained by commercial concerns in its 5G response to Huawei. China could retaliate against a hypothetical EU ban on Huawei in a manner it could not when the United States banned the company’s equipment. All major Chinese telecom operators are state-owned and the technical capabilities of Chinese firms like Huawei or ZTE are rapidly improving, so China could easily place the bulk of its domestic 5G investments with Chinese firms, lowering Nokia’s and Ericsson’s 5G market shares. However, politics may prove crucial, and an EU position on Huawei that pleases the Chinese could help European firms gain market shares in China’s future 5G market.<sup>28</sup> If US sanctions inhibit Huawei’s progress in 5G equipment production, risking a delay in China’s otherwise ambitious 5G rollout plans, Huawei and China may be increasingly eager to do 5G business

ment against China for fear that Beijing might engage in many of the same type of surveillance activities in Europe.

28. State-owned Chinese media outlets have already touted the success of Nokia and Ericsson in securing the initial 5G contracts, though it is unclear to what degree these early contracts will affect the bulk of Chinese 5G investments. See, for example, Ma Si, “Ericsson, Nokia secure key 5G contracts in China,” chinadaily.com.cn, June 6, 2019, [www.chinadaily.com.cn/a/201906/16/WS5d05abcba3103dbf1432871e.html](http://www.chinadaily.com.cn/a/201906/16/WS5d05abcba3103dbf1432871e.html).

with Europe, provided the right EU policies are put in place for the company there.

Perhaps reflecting the likely lure of the Chinese domestic market for any global 5G equipment producer, the US government is reportedly considering demanding that any 5G equipment installed in the United States be manufactured using inputs from a supply chain that excludes China.<sup>29</sup> Given that the United States does not have domestic 5G equipment makers and Chinese producers are already essentially banned from the US market, such a measure would mainly penalize EU firms like Nokia and Ericsson and force them to either choose between the US and Chinese market or create two separate supply chains, pushing up prices of their products everywhere. While such a US government measure on 5G equipment manufacturing would seem the logical endpoint for a policy exclusively shaped by blanket and unquestioned national security considerations, it would considerably increase the cost and slow the deployment of 5G equipment in the United States.

Ultimately and in complete contrast to the United States, Huawei is likely to face only relatively limited legal restrictions on its operations in the European market, an outcome that will see the European Union seek to avoid excessive reliance on one supplier in any national network and seek to guarantee as much public scrutiny of Huawei products as possible in the process. EU member governments are likely to insist on rigorous screening and licensing of all 5G network equipment installed in Europe, though it is clear that Huawei as likely the main non-EU supplier would face particular scrutiny. For this purpose Huawei has maintained a test center in the United Kingdom in collaboration with UK authorities for several years and has recently opened similar centers in Germany and Belgium (i.e., near Brussels).

The European Union's different approach to Huawei hence reflects a combination of political and commercial considerations. The European Union wants cheaper 5G equipment and a generally constructive commercial relationship with China,<sup>30</sup> partly for purely business reasons and

partly because it views China as an occasional partner against Trump's wilder trade protectionism and undermining of multilateral institutions. And the European Union politically rejects the Trump administration's national security argument for an outright ban on Huawei. In a more general sense, this response reflects the lack of geostrategic competition between the European Union and China, as the European Union—unlike the United States—has few such aspirations, allowing it to pursue a more commercially driven policy towards Huawei and Chinese economic engagement in general.

This relatively benign outcome for Huawei and EU-China economic and investment relations in particular, however, will remain contingent on at least two issues.

First is that the United States maintains that it cannot disclose evidence for its claim that Huawei is linked to the Chinese security apparatus. But the absence of publicly disclosed proof of those ties has generated skepticism throughout Europe, where distrust of US intelligence agencies was increased by revelations of Edward Snowden in 2013. This distrust outweighs any legitimate US concerns about revealing the means and capabilities of intelligence gathering on Huawei. Even if the US government has confidentially shared such information with some EU intelligence services, Washington has already lost the public debate on this issue in Europe.

Second is a gradual reversal of the slide toward increased authoritarianism in China and Xinjiang in particular. If the crackdown in Xinjiang and, for instance, on pro-democracy protesters in Hong Kong accelerates, however, European public opinion is likely to force EU policymakers to take a far more robust "US-style" approach toward China.

The Trump administration's approach to date may already have done a lot of damage, however. Even if the post-G-20 summit concession to allow certain US technology sales to Huawei is sustained and ultimately leads to a future broader US-China trade agreement, including new provisions regulating American technology sales to the company, it is doubtful if such a deal would matter much. Given the Trump administration's willingness to restrict technology access to pressure Huawei and the Chinese government as part of its broader rivalry with China, Huawei and other global technology firms may, as a precautionary measure, develop multiple global supply chains to insulate themselves against US political volatility in the future. This might mean that a single integrated global supply chain in the technology

29. Stu Woo and Dustin Volz, "U.S. Considers Requiring 5G Equipment for Domestic Use Be Made Outside China," *Wall Street Journal*, June 23, 2019, [www.wsj.com/articles/u-s-considers-requiring-5g-equipment-for-domestic-use-be-made-outside-china-11561313072?mod=djemwhatsnews](http://www.wsj.com/articles/u-s-considers-requiring-5g-equipment-for-domestic-use-be-made-outside-china-11561313072?mod=djemwhatsnews).

30. Unsurprisingly, such considerations are especially important in Germany, the largest EU exporter to China. This was highlighted again during German Economy Minister Peter Altmaier's recent trip to China. See Jakob Hanke and Laurens Cerulus, "Germany's Altmaier seeks to head off a trade war in China," *Politico*, June 19, 2019, [www.politico.eu/article/germany-altmaier-china-seeks-to-head-off-a-trade-war/?utm\\_source=POLITICO.EU&utm\\_campaign=ba9852c4ff-EMAIL\\_CAMPAIGN\\_2019\\_06\\_20\\_04\\_19&utm\\_medium=email&utm\\_term=0\\_10959edeb5-ba9852c4ff-189815853](http://www.politico.eu/article/germany-altmaier-china-seeks-to-head-off-a-trade-war/?utm_source=POLITICO.EU&utm_campaign=ba9852c4ff-EMAIL_CAMPAIGN_2019_06_20_04_19&utm_medium=email&utm_term=0_10959edeb5-ba9852c4ff-189815853) and Jakob

Hanke, "Germany seeks common ground with China amid trade war," *Politico*, June 21, 2019, [www.politico.eu/article/germany-seeks-common-ground-with-china-amid-trade-war/](http://www.politico.eu/article/germany-seeks-common-ground-with-china-amid-trade-war/).

sector including both the United States and China is a thing of the past, unless the US-China political trajectory shifts to a more general détente in the future.

## CONCLUSION

Chinese investments in both the United States and the European Union have declined dramatically since 2016. The main reason is the tightening of Chinese financial regulations on capital outflows after 2016.

As the most dramatic decline (to less than \$5 billion in 2018) occurred in the United States, the increased US political and regulatory scrutiny of Chinese investment inflows likely significantly compounded the decline. In contrast, Chinese investments into the European Union, which in 2000–17 received almost the same inflows as the United States, remained at over \$20 billion in 2018, for the first time significantly exceeding US-bound inflows. Virtually all Chinese investments in the United States and European Union after 2000 came in the form of acquisitions, highlighting the importance of technology and asset purchases to the prior expansion strategies of cash-rich Chinese outward investors. The (occasionally speculative) US real estate and hospitality sector accounted for the largest single sector share of Chinese investments in the United States, whereas the EU ICT and transportation and infrastructure sectors have been the most important for Chinese investors. But the still-low levels of Chinese investments into any single EU member, relative to GDP, underline how fears that Chinese investments could have undue political influence in individual EU members appear exaggerated.

The US passage of FIRRMA and ECRA in 2018, overhauling CFIUS foreign investment screening, did not result in explicit new and prohibitive barriers to foreign, especially Chinese, investments in the United States. But heightened political anxiety in the United States about the broader economic and political effects on the United States of China's continuing economic growth is likely to continue to depress Chinese investments into the country for the foreseeable future.

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The European Union implemented its first investment screening framework only in early 2019. The framework, however, remains embryonic and leaves actual decision making power to individual member states, which have begun to gradually introduce more rigorous national investment screening mechanisms. Together with the increased power of the European Commission to raise questions about individual transactions, the screening mechanisms could gradually hinder Chinese investments into Europe.

For the time being, however, the European Union's approach toward Chinese investments is likely to be determined by its policies on issues like competition policy, public tender rules, and data privacy, rather than by fears of Chinese espionage.

The United States and the European Union, meanwhile, are destined to rapidly drift further apart on the treatment of the Chinese company Huawei, as the US government moves to completely exclude it from the US market, while the European Union is likely to adopt a policy enabling Huawei to become a major supplier of 5G networks in Europe.

Europe's approach to Huawei highlights how its broad economic and investment policy approach to China is in general dictated less by national security concerns and more by commercial considerations.

Finally, as the US government continues to pursue a strategy of increasingly blocking US technology access to contain Huawei (and other Chinese firms), this escalating transatlantic divergence in the approach to this firm in particular and Chinese investments and corporate activities more generally highlights the dilemma facing all US allies around the world and any firm with a global supply chain. They will increasingly be compelled to choose between the United States and China, in the process accelerating deglobalization.

The cost of new technologies in such a scenario is likely to increase as supply chains will have to be replicated and the speed of innovation slows because opportunities for research collaboration no longer exist. The result of forcing Europe and the rest of the world to choose between the United States and China cannot yet be discerned, but it will be costly for all involved.

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