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The Security Implications of Chinese Infrastructure Investment in Europe

*Dario Cristiani, Mareike Ohlberg, Jonas Parello-Plesner, and
Andrew Small*

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SUMMARY

Even before the Belt and Road Initiative (BRI) provided additional clarity about China's strategic intent, Europe had experienced major influxes of Chinese finance, used to snap up everything from fading brands to large-scale infrastructure assets. The EU and many European states have already expedited their plans to strengthen or launch investment-screening processes.

Yet Europe is still in the early stages of determining the right balance of security, openness, and economic resilience when it comes to China's economic presence. Many investment-screening mechanisms are new or untested. Debates over how far strategic infrastructure should be viewed through a military security prism continue apace in NATO. China's "dual circulation" plans for its domestic economy, which signal a more radical approach to self-sufficiency for itself and dependency for others, are still in their embryonic phase, as is European thinking about how to adjust policy in light of it.

Through the analysis of three emblematic case studies, this report takes stock of the situation and highlights commonalities in Beijing's approach to infrastructure investment in Europe.

The first case is Germany and its neighbors. Germany remains the economic locus for much of the wider region, and is the dominant actor for the European economy as a whole, which gives outsized weight to national and sub-national choices in the country about how to deal with Chinese economic actors. While specific industrial sectors continue to deepen their commercial ties, concern from important sections of industry about the systemic impact of Chinese economic and political practices has arguably had the single greatest impact on the changing nature of the European debate on China.

The second case is Italy and the wider Mediterranean region. Southern Europe was the locus of the biggest wave of Chinese investments in sensitive sectors during the eurozone crisis. Many saw Italy's willingness to sign up to the BRI in 2019 as simply a repeat of the Greek and Portuguese experience earlier. Yet, the picture has proved vastly more complex. Membership of BRI, far from resulting in a deepening of Sino-Italian relations saw a diplomatic backlash produced by the BRI memorandum of understanding and the end of the populist coalition government, formed by the Five Star Movement and the League, that signed it.

The third chapter moves to the Nordic countries. The crux of the recent story there too is the change in approach from some of Europe's most open and technologically advanced states, which have shifted from seeing China through the prism of globalization's benefits to revisiting the permeability of their systems in light of the risks that it poses.

The coming phase of Chinese infrastructure investment in Europe will not resemble the previous ones. Beijing is well aware of the changed political climate in many countries, of the heightened sensitivities around these investments, of the greater attention from the United States, and of the new scrutiny mechanisms that are in place.

Nonetheless, European analysis and responses to China has often been characterized by a “rearview mirror” approach. In drawing lessons from the case studies, the main question to address is how to ensure that the substance of the security concerns relating to Chinese investment is addressed rather than just the specific forms it has taken in the past.

This includes:

- building appropriate expertise to ensure that governments are better attuned to China’s changing goals and methods;
- addressing the more complex set of dependencies that China is now looking to establish with Europe through the “dual circulation” agenda;
- better integrating investment screening with the trade and industrial policy agenda, including with close attention to the European and allied military industrial base, with digital infrastructure as a central priority;
- adjusting legal frameworks rapidly, and retaining sufficiently expansive discretionary powers to be able to deter actions that work against the spirit of the screening legislation or move retroactively when this fails;
- robust transparency requirements relating to ownership, control, finances, audits, and personnel;
- a more active role for NATO and defense ministries in identifying risks and raising red flags that are shared with other alliance members;
- pushing ahead with a more serious infrastructure finance offer from Europe and its partners to third countries, lining up connectivity finance and streamlining the fragmented, slow-moving processes that add up to less than the sum of their parts; and
- ensuring that European states have sufficient capacity to influence the overall shape of the emerging framework of essential coordination among like-minded partners, rather than being primarily reactive to developments in U.S. and Chinese policy.

INTRODUCTION

In many ways, Europeans are seasoned hands in navigating Chinese investments. Even before the Belt and Road Initiative (BRI) provided additional clarity about China's strategic intent, the continent had experienced major influxes of Chinese finance used to snap up everything from fading brands to large-scale infrastructure assets. The experience of the coronavirus pandemic has helped to sharpen minds further. Learning their lessons from the preceding years, and from the eurozone crisis in particular, the EU and many European states expedited their plans to strengthen or launch screening processes to prevent Chinese investors from acquiring valuable assets at fire-sale prices.

In other respects, though, Europe is still in the early stages of determining the right balance of security, openness, and economic resilience when it comes to China's economic presence. Many investment-screening mechanisms are new or untested. Debates over how far strategic infrastructure should be viewed through a military security prism continue apace in NATO. China's "dual circulation" plans for its domestic economy, which signal a more radical approach to Chinese self-sufficiency and dependency for others, are still in their embryonic phase, as is European thinking about how to adjust policy in light of it. The recently concluded EU-China investment agreement has proved highly contentious and its ratification is in doubt.

Europe is still in the early stages of determining the right balance of security, openness, and economic resilience when it comes to China's economic presence.

This report, which has benefited from funding support from the Ministry of Defense of Norway, provides a stock-take. The overall landscape for infrastructure investments in Europe during and beyond the pandemic is conditioned by developments on the ground and the rapidly shifting political context in several European states. The three major case studies in the report illuminate the current state of play in each regard.

The first case is Germany and its neighbors. While so much of the scrutiny of BRI investments in recent years has been concentrated on Southern, Central, and Eastern Europe, it is Chinese investment patterns in Germany that have been the hinge for much of the recent pan-European decision-making. Germany also remains the economic locus for much of the wider region and the European economy as a whole, giving outsized weight to national and, as the chapter explains, sub-national choices in the country about how to deal with Chinese economic actors. In its original conception, Germany represented the literal endpoint for the Belt and Road, the economic counterpoint to China at the far end of the Eurasian landmass. While specific industrial sectors continue to deepen their commercial ties, and act as the strongest ballast for a cooperative Sino-European relationship, anxiety has grown. Concern from important sections of German industry about the systemic impact of Chinese economic and political practices has arguably had the single greatest impact on the changing nature of the European debate on China.

The second case is Italy and the wider Mediterranean region. Southern Europe was the locus of the biggest wave of Chinese investments in sensitive sectors during the eurozone crisis, and many saw Italy's willingness to sign up to the BRI in 2019 as simply a repeat of the Greek and Portuguese experience earlier. Yet, as the chapter explains, the picture has proved vastly more complex. In some respects, this is a function of the fact that Italy saw the first set of major Chinese investment plans to proceed in the light of full critical scrutiny by the United States and the country's European partners. Yet Italy has long been one of the more skeptical European states when it comes to economic relations with China—it was one of the first to experience the “shock” after China's accession to the World Trade Organization (WTO). The chapter situates developments in Italy in the context of China's broader push in the Mediterranean and interrogates how much of the country's infrastructure investment story represents concrete commercial developments on the ground, and how much of it is political smoke and mirrors.

The third chapter moves to the north of the continent. Just as some elements of China's agenda in the Mediterranean play into deeper shifts in the balance of trade flows and shipping routes in Europe, so too there is an Arctic dimension to the Chinese investment approach to the Nordic states. Yet, as the chapter outlines, the crux of the recent story there is the change in approach from some of Europe's most open and technologically advanced states, which have shifted from seeing China through the prism of globalization's benefits to revisiting the permeability of their systems in light of the risks that China poses. If Germany has been the hinge state for the overall balance of views in Europe, the rebalancing of views in the Nordic region—which might once have seen the recent policy developments as “protectionist”—has been more quietly among the most important in determining China's access to some of the investments it values most in Europe.

There are several common strands across the chapters. The first is the catalytic nature of the Huawei and 5G debates. While each region has experienced one or more sensitive investments that have forced a serious look at whether the screening and monitoring mechanisms in place are adequate, the 5G question—in all its complexity—has been posed to virtually every state in Europe. In the process of apprehending the relationship between China's state and its private sector, the impact of the Chinese legal and political framework on its activities in Europe, the nature and implications of Chinese industrial policy, and the more immediate security issues around allowing Chinese firms access to digital infrastructure, European capitals have reached answers that go well beyond the telecoms sector.

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and are as often a product of political opportunism.***

The second strand is the establishment, expansion, or consolidation of the legal framework around inbound investments, a process driven almost entirely by the Chinese experience. In most instances, it has become clear that the existing means to address the problem were inadequate and there has been considerable impetus at national level, collectively through the European Union, and in conjunction with other allies to deal with some of the most obvious deficiencies and loopholes, which in a number of countries amounted to the complete absence of a formal process.

The third strand is the continued need to analyze Chinese investments through the prism of national and local politics rather than a purely geo-strategic view. Many investments represent far less than originally met

the eye and are as often a product of political opportunism—knowing that a big Chinese investment story will make a splash and draw outside attention—as serious plans on Beijing’s part. However, the report also highlights the importance of looking at Chinese investments in aggregate rather than just on a case-by-case basis. Considering piecemeal decision-making by individual companies or states rather than taking a regional or pan-European view can obscure some of the most important developments, whether the controlling influence over critical economic arteries or the damaging impact on an entire technological sector.

The fourth strand is the changing nature of the Chinese actors themselves. As recent crackdowns in China’s technology sector demonstrated, even nominally quasi-independent or politically well-connected private firms are ever-more subject to the strictures of the Chinese Communist Party. When there is a choice in Beijing between political control and the international credibility of some of China’s leading firms, the decision is no longer even in doubt. As a result, the once-meaningful distinction between the private sector, the state, and the party is becoming ever less so. In one sense this makes matters easier. Parsing the difference between a CEFC investment and a CITIC investment, or pondering whether a particular Chinese firm has governmental or military linkages, is a less important exercise now than during the previous phase of economic interactions between China and Europe.

When there is a choice in Beijing between political control and the international credibility of some of China’s leading firms, the decision is no longer even in doubt.

The recommendations section of the report therefore proposes an approach that is conditioned by these new circumstances rather than the context European policymakers were dealing with when many of the legal instruments to address Chinese investments were initiated or sharpened. There has already been several distinct periods: an initial, short round of enthusiasm on Europe’s part, when the injection of Chinese finance into firms like Volvo seemed to portend a complementary balance in the economic relationship; a second round hot on its heels, during the eurozone crisis, that saw the acquisition of some highly sensitive infrastructure assets with little European scrutiny; a longer phase, which coincided with the BRI, but was more often focused on Chinese targeting of tech firms and the BRI as a political idea than any comparably large infrastructure acquisitions; and the most recent phase defined by Huawei, coronavirus-related supply chain questions, and growing pressure from the United States.

This report provides the context on where things stand in the aftermath of this latest phase. It examines the situation for the BRI and Chinese infrastructure investments in Europe beyond the pandemic, with the economic situation in Europe looking very different from the one during the last major crisis facing the continent. The focus of the recommendations is on how Europe can move beyond the defensive and retroactive measures it has put in place in recent years to shape the wider strategic environment in which the BRI is sited. While the bulk of the report is concerned with China’s playbook in Europe, Europe’s own playbook on infrastructure, including its still-nascent connectivity plans, will need to be at the center of any response.

GERMANY AND ITS NEIGHBORS

Mareike Ohlberg

This chapter examines Chinese investments in strategic and security-relevant infrastructure in Germany, which has been consistently among the top destinations for Chinese investment in Europe alongside the United Kingdom and France.¹ Examples from Germany's neighboring countries, especially in Central and Eastern Europe, supplements the analysis where these illustrate certain patterns of investment, show commonalities and differences in European countries' approaches, provide important examples of Chinese investment activities with potential security implications, or constitute cases of Chinese investment crossing national borders. Recent developments in investment screening are also addressed.

Chinese investment in Germany is largely driven by China's industrial policy priorities as defined in the Made in China 2025 plan and related policy documents. These strategic investments serve to gain access to advanced technologies where Germany is in a leading position, which it hopes to maintain and expand it under its own Industry 4.0 strategy. In fact, it was concern about losing competitiveness in key technologies that began the debate about investment screening in Germany. While many investments in these sectors do not fall under the purview of this study, some of them have security implications due to their dual-use character. In addition to key technologies, Germany and its neighbors have also seen Chinese investments in various forms of infrastructure such as ports and airports, energy, and digital infrastructure, some of which arguably have security implications.

It was concern about losing competitiveness in key technologies that began the debate about investment screening in Germany.

As in most of Europe, Chinese investment in Germany peaked in 2016 and 2017, and it has continually declined since then. In part this is due to tightening of investment screening. As one study points out, if the published sums² of prevented acquisitions were counted, investments in 2018 would have been at roughly the same level as in 2016.³ The tightening of rules in China in late 2016 to prevent investments from becoming a way to circumvent capital controls is another important factor. This, combined with China's economic imbalances, may also explain why, unlike in the aftermath of the financial crisis of 2008–2009, the wave of Chinese takeovers that some feared might happen during the coronavirus pandemic has not happened.⁴

1 The author would like to thank Jürgen Matthes, Christian Rusche, Sarah Kirchberger, and Mathieu Duchâtel.

2 Often, the sums of Chinese investments in Germany, as elsewhere, are not made public, so the sum of transactions does not provide a full picture. See Christian Rusche, [Chinesische Investoren in Deutschland in 2017 sehr aktiv](#), Institut der Deutschen Wirtschaft, January 28, 2018.

3 Christian Rusche, [Chinesische Beteiligungen und Übernahmen 2018 in Deutschland](#), Institut der Deutschen Wirtschaft, January 18, 2019.

4 Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, [Chinese FDI In Europe 2020 Update](#), Mercator Institute for China Studies, June 2021.

Germany's direct neighbors can be divided as follows: the Benelux countries; Poland and the Czech Republic (both members of the 17+1 format with China and signatories to the Belt and Road Initiative); Austria and Switzerland; and France, itself a top destination for Chinese investment in Europe. (Denmark is considered in the chapter on the Nordic countries.) Each of these neighbors has complex relations with China, but all of them have become more critical overall toward China and Chinese investments. Compared to Western Europe—especially France, Germany, and the United Kingdom—Central and Eastern Europe (CEE) have received significantly less investment, which has contributed to the disenchantment of the region with China.⁵ One outlier was Poland in 2020, which received the second-largest volume of Chinese investment among European countries after Germany. However, much of this was due to a single investment.⁶ At the same time, anger about lack of reciprocity in investment opportunities has grown in Germany and its neighbors.⁷

Investment Screening on the Rise

Germany was ahead of most countries in Europe in tightening its investment-screening regulations, and it was also a key country, alongside France and Italy, to push for a mechanism at the EU level.⁸ The debate around Chinese FDI in Germany started with the takeover of the robotics company Kuka by the Chinese electrical appliance manufacturer Midea in 2016. The government failed to prevent the sale by getting a German company to buy a stake in the company, which led to an intense debate about the lack of appropriate tools to prevent the sale of strategic economic assets.⁹

Following Kuka's acquisition, Germany expanded and finetuned its mechanism for screening foreign investments on an almost annual basis. In 2017, the Foreign Trade and Payments Ordinance was amended to widen the scope of sector-specific application and to include a reporting obligation for planned investments from outside the EU in "security-relevant" sectors.¹⁰ As many other countries, Germany distinguishes between sector-specific and non-sector-specific investment screening, and transactions can be blocked on security and public-order grounds. The Federal Ministry for Economic Affairs and Energy (BMWi) is responsible for screening investments.

In December 2018, rules were tightened to allow for screening of stakes of 10 percent or higher in certain sectors, including critical infrastructure, defense-related companies, and media,¹¹ after the government had to order a state-owned bank to prevent the sale of a 20 percent stake of a electricity transmission company to the State Grid Corporation of China (SGCC). The threshold for having to report a planned investment from

5 Richard Q. Turcsányi, [China and the Frustrated Region: Central and Eastern Europe's Repeating Troubles with Great Powers](#), China Report, 2020.

6 Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, [Chinese FDI In Europe 2020 Update](#).

7 BNR, "[VVD wil opheldering Blok en Kaag over Chinese inmenging overnames](#)," October 5, 2020.

8 Joshua Kirschenbaum, Etienne Soula, and Meaghan Clohessy, [EU Investment Screening—At Last, a Start](#), German Marshall Fund of the United States, September 26, 2019.

9 Klaus Köster, "[Kuka: Bundesregierung gibt Kampf um deutsche Roboterfirma auf](#)," Stuttgarter Nachrichten, July 4, 2016.

10 [Bundesministerium für Wirtschaft Und Energie, Neunte Verordnung zur Änderung der Außenwirtschaftsverordnung](#), December 7, 2017.

11 Christian Rusche, [Chinesische Beteiligungen und Übernahmen 2018 in Deutschland](#).

a non-EU investor into critical infrastructure or a security-relevant sector was lowered from 25 percent to 10 percent, and investors now need to get explicit permission from the BMWi for sector-specific investments.¹²

Germany was ahead of most countries in Europe in tightening its investment-screening regulations, and it was also a key country, alongside France and Italy, to push for a mechanism at the EU level.

In June 2020, the Foreign Trade and Payments Act was amended to bring it in line with the EU Screening Regulation,¹³ and further amendments were made to the Foreign Trade and Payments Ordinance to reflect these changes. In May 2021, the areas and technologies classified as security-relevant were expanded from 11 to 31, with a focus on advanced technologies such as artificial intelligence, robotics, semiconductors, and autonomous driving.¹⁴ This is expected to be the last amendment.¹⁵ The Federation of German Industries and others have criticized Germany's investment screening for being motivated by industrial policy concerns.¹⁶

France, long known as one of the more protectionist countries in Europe, also expanded its investment screening multiple times in recent years. Screening applies to any actor that is not French, including EU investors, for sector-specific investments. Strategic sectors include defense, national supply of water, food and energy, and many high-tech industries, including biotechnologies since 2020.¹⁷ The Netherlands has screening laws for gas, electricity, and telecommunications, and it is in the process of introducing additional screening, including the ability to intervene after the fact if notification was not provided by the investor or incorrect information was provided.¹⁸ Belgium does not have an investment-screening mechanism but is expected to introduce one in 2022.¹⁹ Switzerland does not have an investment-screening mechanism.²⁰

Poland first introduced an FDI Control Act in 2015. In response to concerns that the coronavirus pandemic could lead to a large number of takeovers, amendments to the act came into force in July 2020 for two years, expanding the sectors for which screening is applied for investors from outside the EU and OECD countries. These now include strategic infrastructure; production, storage, or transmission of energy; large segments of the IT industry working in strategic sectors; medical products; and food processing. While the act is based on the EU Screening Regulation, it goes beyond it in the scope of sectors covered.²¹

12 Norton Rose Fulbright, [Änderung der Außenwirtschaftsverordnung – Mögliche Auswirkung für Boykottklärungsverbote und Investitionskontrollen](#), January 2019.

13 European Commission, [List of Screening Mechanisms Notified by Member States](#), July 14, 2021.

14 Kai Neuhaus and Moritz Pottek, [Investitionskontrolle: Weitere Reform bringt massive Verschärfungen](#), CMS, May 4, 2021.

15 Interview. See also Kai Neuhaus and Moritz Pottek, [Investitionskontrolle: Weitere Reform bringt massive Verschärfungen](#).

16 Federation of German Industries, [Growing National Investment Screenings- In Germany and Worldwide](#), September 25, 2020.

17 Nicolas de Witt and Adrien Ahmadi Kermanshahani, [Comment: France updates its FDI Screening Procedure](#), International Investment, July 14, 2020.

18 Matthijs de Wit and Rhamsey Croes, [Foreign Direct Investments Screening in the Netherlands?](#), BarentsKrans, December 29, 2020; Mathijs Enthoven and Jelle Nijland, [The Dutch implementation of the EU framework for the screening of Foreign Direct Investments](#), University of Leiden, April 19, 2021.

19 Mathieu Duchâtel, [The New Landscape of Investment Screening in Europe](#), Institut Montaigne, June 21, 2021.

20 Marcel Dietrich and Allegra Arnold, [Investment control in Switzerland](#), Homburger, October 6, 2020.

21 Arkadiusz Rumiński and Łukasz Karpiesiuk, New Foreign Direct Investment screening rules in Poland, SSW Pragmatic Solutions, July 24, 2020; Jakub Piętrasik and Jacek Michalski, [Poland: Foreign Direct Investment Regimes](#), ICLG, 2021.

In response to the new EU regulation, the Czech Republic introduced screening legislation that came into force in May 2021.²² The main screening authority is the Ministry of Investment and Trade, but for certain investments into the media sector it needs to consult the Ministry of Foreign Affairs, the Ministry of Defense, the police, the intelligence services, and any other state organ under whose competences the investment might fall.²³

A small number of Chinese investments have been blocked in Germany. The first was a planned investment in Leifeld Metal Spinning AG by the Yantai Taihai Group, due to the latter's involvement in China's nuclear sector.²⁴ The government forbade the transaction even though Yantai Taihai had already withdrawn its offer.²⁵ In 2020, the BMWi blocked the takeover of IMST, a company specializing in radio technology and microelectronics, by an intermediary company acting on behalf of AddSino, which is a subsidiary of the state-owned arms company China Aerospace Science and Industry Corporation. The reason given was that IMST has special knowledge of satellite and radar communication and 5G technology. According to the BMWi, if the acquisition were completed "IMST would no longer be a reliable partner because IMST would then be under the control of a Chinese armaments company."²⁶

Ports

A key part of the BRI, Chinese investments in ports around the world have received much scrutiny. Only one port authority in Europe, that of Piraeus in Greece, is owned by a Chinese investor, but Chinese companies own and operate multiple terminals or have stakes in them, with a particular concentration in Belgium, the Netherlands, and France. The three big Chinese players in port investments are the state-owned China Ocean Shipping Company (COSCO) China Merchants Groups (CMG), and the Hong Kong-based private company CK Hutchison Holdings.²⁷

Hutchison was formerly chaired by the Hong Kong business magnate Li Ka-shing, who stepped down from this role in 2018. Its subsidiary Hutchison Ports owns terminal operator Hutchison Ports ECT Rotterdam, which in turn owns multiple terminals in Germany (Duisburg), Poland (Gdynia), the Netherlands (Venlo and two in Rotterdam), and Belgium (Willebroek and Moerdijk).²⁸ In France, CMG's subsidiary CMPorts

22 Michal Simčina and Michal Malkovsky, [Czech Republic introduces new foreign investment screening regime](#), Baker McKenzie, March 3, 2021.

23 Ministry of the Interior of the Czech Republic, [Sbírka zákonů a Sbírka mezinárodních smluv](#), 2021.

24 Mikko Huotari, Thilo Hanemann, and Agatha Kratz, [Chinese FDI in Europe: 2018 trends and impact of new screening policies](#), Mercator Institute for China Studies, March 6, 2019; DW, ["Chinese takeover of Leifeld collapses ahead of German veto"](#), August 1, 2018.

25 Christian Rusche, [Chinesische Beteiligungen und Übernahmen 2018 in Deutschland](#).

26 Christian Rusche, [Chinesische Beteiligungen und Übernahmen 2018 in Deutschland](#); Der Spiegel, "Regierung stoppt Übernahme deutscher Firma durch China," December 3, 2020.

27 Issac B. Kardon, [China's Development of Expeditionary Capabilities: Bases and Access Points](#), U.S.-China Economic and Security Review Commission, February 20, 2020.

28 ECT Hutchison Ports, [Terminals](#).

has stakes in terminals in Nantes, Dunkirk, Le Havre, and Marseilles Fos Port.²⁹ COSCO owns a stake in a terminal in Rotterdam and a 90 percent stake in the only terminal operator of Zeebrugge.³⁰

In June 2021, German port operator Hamburger Hafen und Logistik AG announced that it planned to sell its container terminal Hamburg-Tollerort to COSCO.³¹ The main concern with the latter is its closeness to China's party-state and the People's Liberation Army (PLA). Since 2013, COSCO has been officially considered an "important backbone state-owned enterprises." It also has its own militia³² and has supported the People's Liberation Army Navy (PLAN) in the Gulf of Aden.³³

As Isaac Kardon of the U.S. Naval War College has noted, "COSCO's lack of transparency and appetite for loss-making ventures due to heavy subsidization and support from Beijing make it a most-likely candidate for facilitating military utilization of its port facilities (and its shipping, container, and general logistics capacity)."³⁴ Presumably, this applies to ports outside of Europe as it seems unlikely that Zeebrugge, Rotterdam, or Hamburg, if the transaction goes through, would turn into PLAN support bases any time soon. However, closeness to the party-state and the PLA should still be taken into account to assess the risk.

A less well-known but potentially riskier case than Hamburg's Tollerort terminal is the Jade-Weser-Port in Wilhelmshaven, due to its strategic location. Germany's only deep-water port, completed in 2012, struggled for years before China Logistics stepped in in early 2020.³⁵ The company signed a lease agreement for 99 years in return for investing €100 million.³⁶ The biggest potential security risk with this investment stems from the fact that the port is only 6.6 kilometers north of one of Germany's four naval base commands, and the only naval base command in the North Sea.³⁷ Any German navy ship leaving the bay needs to pass the Jade-Weser-Port at a very close proximity.³⁸ The fact that a lease was signed for 99 years means that the Port of Wilhelmshaven is making long-term plans with an actor that is potentially untrustworthy at a strategically important location for the German navy. Regardless of the intentions of China Logistics at the time of the acquisition, such a position could be abused in the future.

The risk is exacerbated by the fact that China Logistics is a state-owned company whose parent company has worked for the PLA in the past. It is a wholly owned subsidiary of the China Chengtong Group, a large state-owned enterprise that was designated a pilot asset management company by the State Council and the State-owned Assets Supervision and Administration Commission of the State Council in 2005. According to

29 Issac B. Kardon, [China's Development of Expeditionary Capabilities: Bases and Access Points](#).

30 Frans-Paul van der Putten, [European Seaports and Chinese Strategic Influence](#), Clingendael Netherlands Institute of International Relations, December 2019.

31 HHLA, [Ad hoc: HHLA verhandelt mit COSCO SHIPPING Ports Ltd. über strategische Minderheitsbeteiligung am Terminal Tollerort](#), April 6, 2021.

32 Charlie Lyons Jones and Raphael Veit, [Leaping across the ocean: the port operators behind China's naval expansion](#), Australian Strategic Policy Institute, February 2021.

33 Jude Blanchette et al, [Hidden Harbors: China's State-backed Shipping Industry](#), Center for Strategic and International Studies, July 8, 2020.

34 Issac B. Kardon, [China's Development of Expeditionary Capabilities: Bases and Access Points](#).

35 JadeWesterPort Wilhelmshaven, [Chinesischer Logistiker investiert 100 Millionen Euro im JadeWeserPort](#), February 20, 2020.

36 DVZ, ["Vom Geisterhafen" zum „Seehafen der Zukunft"](#), December 1, 2020.

37 Wilhelmshaven Naval Base Command, [Marinestützpunktkommando Wilhelmshaven](#).

38 The author would like to thank Sarah Kirchberger for alerting her to this.

China Chengtong's 2011 Corporate Social Responsibility Report, the group supplied metal and equipment for unspecified key national projects in the military industry. Subsidiaries of the Chengtong Group also provided material and equipment for the construction of naval bases in Qingdao as well as Sanya in the South China Sea.³⁹ None of this has been discussed in the German press or appears to be known to the German stakeholders who made the decision.

Hosting over 1,200 Chinese companies, North-Rhine-Westphalia is a favorite destination for Chinese investments in Europe.

A somewhat similar situation exists in Gdynia, Poland. In 2005, Hutchison Ports bought a majority stake in Wolny Obszar Gospodarczy S.A. and renamed it Gdynia Container Terminal (GCT).⁴⁰ GCT is less than 5 kilometers away from the naval base of Port Wojenny Gdynia as well as the Polish navy's Seaborne Operations Center-Seaborne Component Command, and it is close to multiple other Polish naval installations in the Gdynia port. Gdynia also regularly hosts NATO vessels.⁴¹ Hutchison is less close to the party-state and the PLA than the other big Chinese players in port investments,⁴² but the presence of a Chinese company within close proximity of Polish and NATO naval operations nonetheless opens up possibilities for intelligence gathering and, as such, should be considered a risk.

Another German case is the inland port of Duisburg, duisport, which is owned by the federal state of North-Rhine-Westphalia and the city of Duisburg.⁴³ All big three Chinese terminal operators are involved in it in some form: Hutchison Ports ETC Rotterdam owns the terminal Hutchison Ports Duisburg,⁴⁴ COSCO has a 30 percent stake in a new terminal,⁴⁵ and CMG subsidiary Sinotrans established the first train route between Shenzhen and Duisburg.⁴⁶

Hosting over 1,200 Chinese companies, North-Rhine-Westphalia is a favorite destination for Chinese investments in Europe,⁴⁷ which it has actively tried to court. Duisburg is among Germany's economically weakest regions. Part of the former coal and industrial Ruhr area, it has been struggling economically for decades. Due to its high unemployment rate and high levels of debt, Duisburg/Essen was identified as one of the three most

39 China Chengtong Holdings Group, [Corporate Responsibility Report](#), 2011.

40 Hutchison Ports, [Gdynia Container Terminal](#), March 11, 2015.

41 Port of Gdynia Authority S.A., [NATO Ships at the Port of Gdynia](#).

42 Issac B. Kardon, [China's Development of Expeditionary Capabilities: Bases and Access Points](#).

43 duisport, [Duisburger Hafen AG](#).

44 Hutchison Ports Rotterdam, [Hutchison Ports Duisburg](#).

45 Thorsten Fuchs, ["Chinas neue Seidenstraße: Endstation Duisburg,"](#) RND, June 18, 2021; ["Pläne Für Grösstes Hinterlandterminal in Europa Liegen Aus,"](#) RND, June 18, 2021.

46 BZ Duisburg, ["duisport zum fünften Mal in Folge, Ausgezeichneter Ausbildungsbetrieb,"](#) December 21, 2020.

47 Alessio Giustolisi and Judith Terstriepe, [Chinesische Investitionen im Ruhrgebiet](#), Institut Arbeit und Technik, September, 2020.

economically endangered of Germany's regions in a 2019 study.⁴⁸ Unemployment remains high in Duisburg at 12.1 percent in 2020.⁴⁹

Duisburg has cast itself as the Western endpoint of the Silk Road (one of many such endpoints) after President Xi Jinping visited the city in 2014. The city has also signed a memorandum of understanding with Huawei (see below). Overall, it follows the pattern of economically weak regions trying to reinvent themselves through Chinese investment.⁵⁰ The need to save jobs and local industry puts additional pressure on local governments to find any kind of investment, which increases the chance that economic considerations will be placed above security ones.

Chinese companies owning stakes in port terminals is something that European governments should continue to monitor. Arguably, a large part of the consideration for these investments is ensuring Chinese commercial access to ports in Europe for logistics purposes. However, depending on how control over terminals is wielded, this can become a security concern. Aside from more direct threats, such as the potential for espionage or signals intelligence gathering at ports close to military installations like the Jade-Weser-Port, prioritization of shipping can be used as leverage. This is why some highlight the need to ensure continued “non-discriminatory commercial access to Chinese projects”⁵¹ in all these ports.

Airports

There have reportedly been concerns in Belgium about espionage at Alibaba's €100 million investment into the airport in Liège, where the company is building its main European hub.⁵² While it is unclear whether concerns about espionage are justified, the case shares similarities with other Chinese investments in airports in Europe. The city of Liège has been struggling economically with an unemployment rate of over 20 percent, and local authorities placed high hopes in Alibaba.⁵³

Two airports in Germany—Frankfurt-Hahn and Schwerin-Parchim—are Chinese-owned, and in both cases local economic concerns played a major role. Both are former military airports with 24-hour licenses and both have faced severe financial difficulties, before and after the Chinese acquisition. Frankfurt-Hahn was a U.S. military airport until 1993. In 2017, the federal state of Rheinland-Pfalz sold an 82.5 percent share in it to the HNA Group—a Chinese conglomerate involved, among others, in aviation, tourism and real estate—for

48 Michael Hüther, Jens Südekum, and Michael Voigtländer, [Die Zukunft der Regionen in Deutschland: Zwischen Vielfalt und Gleichwertigkeit](#), Institut der deutschen Wirtschaft Köln, 2019.

49 Statista, [Arbeitslosenquote in Duisburg in den Jahren 2001 bis 2020](#), July 4, 2021.

50 Thorsten Fuchs, [Chinas neue Seidenstraße: Endstation Duisburg](#).

51 Issac B. Kardon, [China's Development of Expeditionary Capabilities: Bases and Access Points](#).

52 Stuart Lau, [“Alibaba and the 40 spies? Belgium frets over Chinese mega project”](#) Politico, May 12, 2021.

53 Melissa Heikkilä, [“Go back to your cave’: Alibaba’s European expansion triggers anger in Liège”](#) Politico, February 3, 2020.

€15.1 million.⁵⁴ The federal state had previously wanted to sell the airport to Shanghai Yiqian Trading but stopped the transaction after suspicions that the company was fraudulent.⁵⁵

Despite HNA's notorious lack of transparency, the company was welcomed as an investor in Germany. In 2017, its co-founder Chen Feng was invited to a banquet with President Frank-Walter Steinmeier after the group had purchased a stake in Deutsche Bank.⁵⁶ HNA declared bankruptcy in January 2021 and has been effectively taken over by the Chinese state.⁵⁷ According to some reports, the U.S. military still uses Frankfurt-Hahn for troops transports by chartered civilian airlines.⁵⁸ The impact any new developments at the airport and its owner HNA could have on such transports is unclear.

Schwerin-Parchim is a former Soviet military airport. It was sold by the commune for €30 million in 2007 to Beijing-based LinkGlobal Logistics. Besides turning it into a cargo airport, LinkGlobal CEO Jonathan Pang also planned to use the airport for passenger flights and to transport U.S. troops to Iraq and Afghanistan.⁵⁹ However, LinkGlobal failed to make its first payment in December 2007. The company claimed that the Chinese government had blocked the payment for political reasons due to Chancellor Angela Merkel meeting with the Dalai Lama.⁶⁰

In the following years, LinkGlobal Logistics continued to miss payments and delayed construction.⁶¹ In October 2017, the company declared bankruptcy, just a month after Pang had talked about purchasing the bankrupt Air Berlin airline.⁶² In May 2019, the operating company of Schwerin-Parchim Airport, Baltic Airport Management, declared bankruptcy. Negotiations with potential new investors have been delayed as the German side has been unable to track down Pang.⁶³

Like Frankfurt-Hahn, Schwerin-Parchim is a case of a local government trying and failing to save jobs through Chinese investment. In both cases, security risks appear low, but Chinese investments also failed to save local jobs.

Energy

One significant part of China's BRI is the Global Interconnection Initiative, led by the Global Energy Interconnection Development and Cooperation Organization, which plans for a globally connected China-cen-

54 Rolf Schlicher, "[Millionenrisiko für das Land: Weiter Verluste am Flughafen Hahn](#)," Die Rheinpfalz, February 21, 2020.

55 NTV, "Chinesen übernehmen Flughafen Hahn," August 9, 2017.

56 Stephan Scheuer, "Weitere Verkäufe: Chinas Vorzeigeunternehmen HNA steckt in der Krise," Handelsblatt, August 31, 2020.

57 Wall Street Journal, "[China's HNA, Hit by Coronavirus, Is Effectively Taken Over by the Government](#)," February 29, 2020.

58 L'Essentiel, "[Darum landen gerade US-Airlines am Airport Hahn](#)," January 7, 2020.

59 YouTube, [Pleite-Flughafen Parchim](#), November 3, 2017.

60 aero.de, "[Abschlag für Flughafen Parchim ausgeblieben](#)," December 18, 2007.

61 DW, "[Frankfurt-Hahn wird chinesisch](#)," June 6, 2016.

62 YouTube, [Pleite-Flughafen Parchim](#).

63 DW, "[30 Interessenten für Flughafen Parchim – Eigentümer Pang verschwunden](#)," December 19, 2019.

tered energy grid by 2070.⁶⁴ According to one study, two-thirds of money spent on BRI projects that had been completed by 2019 went into the energy sector, though the investments have been less focused on actually establishing a global grid and more intended to ensure power supply for Chinese companies abroad as well as securing market share and key assets.⁶⁵

In the energy sector, one can distinguish between investments in electricity infrastructure and in energy generation, including renewables. SGCC is best-known for its purchases in Southern Europe (see next chapter). Compared to Southern Europe, Germany and its neighboring countries have seen fewer Chinese investments in its electric grid, though there were some attempts.

In 2018, the German government prevented SGCC from purchasing a 20 percent stake in the electricity transmission system operator 50Hertz Transmission. As screening rules at the time only allowed it to prohibit an investment for stakes of 25 percent or higher, the government ordered Germany's state-owned Credit Institute for Reconstruction to buy the stake instead, explicitly citing the need to protect critical energy infrastructure.⁶⁶ This particular case involved a transnational intervention of the type that the EU Screening Regulation is now meant to facilitate, as 50Hertz belongs to the Belgian corporation Elia, but the company operates an electricity grid in Germany. In Belgium, the city of Antwerp prevented State Grid International Development Limited from purchasing a 14 percent stake in the electricity and gas distributor Eandia.⁶⁷

Private and state-owned Chinese companies have invested in renewable energy in Germany and neighboring countries, with Germany the most important destination.

Private and state-owned Chinese companies have invested in renewable energy in Germany and neighboring countries, with Germany the most important destination.⁶⁸ In 2008, the partially state-owned Xinjiang Goldwind Science and Technology bought a 70 percent stake in the German wind-turbine maker Vensys. The most important reason for the investment was technology transfer. Goldwind had obtained its first technology license from another German company in 1999 and had later obtained further licenses from Vensys. The purchase of a controlling stake in 2008 ensured continued access to the company's intellectual property.⁶⁹ In 2012, the Chinese company Hanergy bought Germany's solar technology manufacturing company Solibro.⁷⁰ In June 2016, the state-owned China Three Gorges (CTG), which built and operates the Three Gorges Dam and also tried to buy a controlling stake of Portugal's electric utilities company EDP and owns 49 percent of

64 Clémence Pèlerin and Hugo Marciot, [China at the gates of the European power grid](#), Groupe d'études géopolitiques, January 2021.

65 Thomas S. Eder and Jacob Mardell, [Powering the Belt and Road](#), Mercator Institute for China Studies, June 27, 2019.

66 Daniel Zugehör, ["Bund Sperrt China Bei 50 Hertz Aus"](#), Ener Gate Messenger, July 27, 2018.

67 Enerdata, [State Grid's Acquisition of 14% in Belgian distributor Eandis blocked](#), October 6, 2016; Nieuws, ["Antwerpen keurt Eandis-deal Chinezen goed, ondanks waarschuwing met 'gevoelige informatie'"](#) September 26, 2016.

68 Louise Curran, Ping Lv, and Francesca Spigarelli, [Chinese investment in the EU renewable energy sector: Motives, synergies, and policy implications](#), Energy Policy, January 25, 2016.

69 Joanna I. Lewis, ["Building a national wind turbine industry: experiences from China, India, and South Korea"](#), International Journal of Technology and Globalisation, 2011.

70 Louise Curran, Ping Lv, and Francesca Spigarelli, [Chinese investment in the EU renewable energy sector](#).

EDP Renewables,⁷¹ bought an 80 percent stake in Germany's offshore wind farm Meerwind.⁷² (CTG was listed by the U.S. Department of Defense as a company with ties to the PLA in August 2020.)⁷³

Chinese companies and investment funds also own new energy companies in Germany's neighbors. The China-CEE Fund, which is backed by China's Exim Bank, has invested in wind energy in Germany's eastern neighbors. In Poland, it owns the Korytnica Wind Farm, the Southern Wind Farm, and a 50.1 percent stake in Wróblew Wind Farm. The China-CEE Fund also bought a stake in Polenergia in 2014 but exited it in February 2021. In the Czech Republic, it owns Energy 21, which operates photovoltaic plants.⁷⁴

Attitudes in the Czech Republic toward Chinese investment in the energy sector have been highly negative.⁷⁵ In 2021, the government excluded China General Nuclear (which also owns a stake in the United Kingdom's Hinckley Point) from a tender for expanding a nuclear power plant.⁷⁶

Chinese companies and investment funds also own new energy companies in Germany's neighbors.

The risks associated with these energy-sector investments vary. For investments into generation, one risk is loss of intellectual property to a major competitor in renewables, which is predominantly an economic or industrial policy issue. The other is energy security. However, when it comes to the energy sector, Chinese ownership of traditional or renewable energy production pales in comparison to other risks such as dependency on Russian gas.

For grid operators, potential risks include disruptions of energy supply, which can cause economic damage as well hard-security issues. The question therefore is what is the maximum damage a malicious actor could inflict if it had control over the infrastructure. Minister of Germany for Economic Affairs and Energy Peter Altmaier has said: "We don't want critical infrastructure, like electricity, water and streets, to be taken over by companies when we're not 100 percent sure what their intentions are."⁷⁷ Here, Germany and its neighbors have been successful at preventing takeovers.

71 Clémence Pèlegri and Hugo Marciot, [China at the gates of the European power grid](#).

72 Simon Nicholas, [China is Investing Heavily in European Wind](#), Institute for Energy Economics and Financial Analysis, August 2018.

73 U.S. Department of Defense, [DOD Releases List of Additional Companies, in Accordance with Section 1237 of FY99 NDAA](#), August 28, 2020; and [Qualifying Entities Prepared in Response to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999](#), August 28, 2002.

74 CEE Equity Partners, [Investments](#).

75 Richard Q. Turcsanyi, "[Central European Attitudes towards Chinese energy investments- The Cases of Poland, Slovakia, and the Czech Republic](#)," Energy Policy, February 2017.

76 Krzysztof Dębiec and Jakub Jakóbcowski, [China excluded from a Czech nuclear tender](#), Centre for Eastern Studies, February 2, 2021.

77 Jack Ewing, "[Europe Takes Steps to Block Chinese Bargain Hunters](#)," New York Times, June 17, 2020.

Digital Infrastructure

The Digital Silk Road, launched in 2015, has left its imprint on Europe in the form of investments and of an intense debate over whether Huawei should be involved in building the continent's 5G infrastructure. The latter debate remains unresolved in some countries, including potentially Germany. While Huawei provides equipment instead of investment, its involvement can have potentially significant impact on the security of Europe's 5G network and data security.

In April 2021, Germany's new IT Security Law 2.0 was passed, creating high hurdles for Huawei's participation in the country's 5G network, though it does not exclude the company outright. The law gives the government significant leeway in deciding whether and how to include Huawei.⁷⁸ How it will be implemented will depend in large part on the direction to be taken by the government that will take office after the September 2021 elections. The IT Security Law 2.0 came after two years of intense debate and multiple reversals on the part of the government. There are several reasons for the reluctance to ban Huawei. First, Germany's primary telecommunications company, Telekom, relies heavily on Huawei gear in its network and wants to continue the partnership. Telekom claims that excluding Huawei would cost it €3 billion and delay its 5G rollout.⁷⁹ The second reason is fear of upsetting China's government. In 2019, China's ambassador to Germany, Wu Ken, indirectly threatened retaliation against the country's automotive industry if Huawei were to be banned from the 5G rollout.⁸⁰

The situation in neighboring countries is mixed. Some countries have blocked Huawei completely or from the core of the network. Poland and the Czech Republic have signed on to the U.S. Clean Network initiative aimed against "untrusted vendors" such as Huawei.⁸¹ In France, the company's equipment is being removed from major cities.⁸² In the Netherlands, Huawei is blocked from the core of the network.⁸³ In other countries, telecommunications operators have chosen to go with other suppliers, despite the lack of an official decision from their government. In Belgium, Orange and Proximus chose Nokia for their shared 5G network.⁸⁴ In the Czech Republic, telecommunications company CETIN chose Ericsson.⁸⁵ In Switzerland, where there has been very little debate about Huawei and the intelligence services opposed a ban, the telecommunications company Sunrise continues to work Huawei.⁸⁶

78 Laurens Cerulus, "[Germany falls in line with EU on Huawei](#)," Politico, April 23, 2021.

79 Frankfurter Allgemeine, "[Ein Ausschluss von Huawei würde die Telekom Milliarden kosten](#)," June 17, 2020.

80 Golem.de, "[Autoproduktion: China droht Deutschland mit Vergeltung bei Huawei- Ausschluss](#)."

81 Laurens Cerulus, "[Huawei challenges legality of 5G bans in Poland, Romania](#)," Politico, November 2, 2020; U.S. Department of State, "[The Clean Network](#)."

82 Helene Fouquet and Tara Patel, "[France's Huawei Ban Kicks in as Altice, Bouygues Remove Equipment in Cities](#)," Bloomberg, March 1, 2021.

83 NL Times, "[Huawei blocked from core 5G networks of major Dutch providers](#)," May 21, 2021. An internal report from 2010 produced by the Dutch telecommunications company KPN explained that Huawei had the ability to eavesdrop on the entire network, including calls of the president (though whether it did so is unclear); Jon Henley, "[Huawei may have eavesdropped on Dutch mobile network's calls](#)," The Guardian, April 19, 2021.

84 Supantha Mukherjee and Mathieu Rosemain, "[Huawei ousted from heart of EU as Nokia wins Belgian 5G contracts](#)," Reuters, October 9, 2020.

85 Gautam Chikermane, "[Czech Republic's CETIN does what the government couldn't: reject Huawei](#)," Observer Research Foundation, October 21, 2020.

86 Nele Husmann, "[Warnum Sunrise-CTO Elmar Grasser weiter auf Huawei setzt](#)," WiWo+, July 15, 2020.

Austria is amending its telecommunications law to allow for the exclusion of Huawei, although whether this will be done and how remains unclear, and all of the country's telecommunications companies are lobbying against the move.⁸⁷ One of Austria's main telecommunications companies, 3, is wholly-owned by the Hong Kong-based Hutchison. 3 is also active in Denmark, Sweden, Italy, Ireland, and the United Kingdom. It has absorbed other telecommunications companies in Austria, including Orange Austria and Tele2Austria.⁸⁸ Although Hutchison's stakes in port terminals have caused concern elsewhere in Europe as part of the overall debate on Chinese ownership of terminal operators, there appears to have been no debate about potential security risks from it providing much of the telecommunications infrastructure in Austria.

By contrast, Huawei's involvement in smart cities in Germany and neighboring countries has caused some controversy.⁸⁹ Duisburg signed a memorandum of understanding (MoU) with the company in 2017 for a smart-city project. After initially refusing to do so, arguing that it contained proprietary information and that Duisburg could be sued by Huawei if it made it public, the city eventually released the MoU on its website.⁹⁰ Neighboring Gelsenkirchen also signed a smart and safe— city agreement with Huawei in 2016. Part of the concept was a joint security platform to be used by law-enforcement bodies, among others, to reduce crime.⁹¹ While the federal government and parliament were still debating the security of Huawei equipment, Duisburg and Gelsenkirchen started using it for offering free public wifi and building smart city infrastructure.

Huawei's involvement in smart cities in Germany and neighboring countries has caused some controversy.

Huawei is also involved in smart cities in the Netherlands, including in Amsterdam,⁹² Groningen,⁹³ and The Hague.⁹⁴ Only in Amsterdam does there seem to have been concrete progress, while little seems to have happened in Groningen and The Hague beyond signing of MoUs in 2015. The Smart City Dashboard used in Amsterdam appears similar to initiatives in China such as Shanghai's City Brain in Pudong.⁹⁵ The issue of divergence between how national and local authorities deal with Huawei's involvement in their digital infrastructure is similar to the situation in Germany.

Finally, there are some Chinese acquisitions outside of Germany and its neighbors that may affect these countries. A case is the United Kingdom's data-storage company Global Switch, which was bought by Jiangsu Shagang Group in 2018 and taken under full ownership in 2019.⁹⁶ Global Switch has data centers in Asia

87 Matthias Auer, "[Österreichs, Lex Huawei ufert aus.](#)" Die Presse, February 18, 2021.

88 Hutchison Drei Austria, "[Firemenbuch: Aus Orange und 3 wird Drei.](#)" July 2, 2013.

89 Der Tagesspiegel, "[Huawei soll Duisburg digitalisieren.](#)" December 2, 2020.

90 SmartCity Duisburg, "[Huawei.](#)"

91 Oliver Pifferi, "[Gelsenkirchen und Huawei formen die Stadt der Zukunft.](#)" Huawei Blog, August 30, 2017.

92 Huawei, "[GEODAN Amsterdam Smart City Dashboard.](#)"

93 Ashley Theron-Ord, "[City of Groningen and Huawei sign MoU to implement smart city concept.](#)" Smart Energy International, June 16, 2015.

94 Dutch IT Channel, "[Huawei wil van Den Haag een Smart City maken.](#)" March 16, 2015.

95 For more information about Pudong's City Brain, see DW, "[China: Effiziente Verwaltung perfekte Kontrolle.](#)" June 2, 2021.

96 Agatha Kratz et al, "[Chinese FDI in Europe: 2019 Update.](#)" Mercator Institute for China Studies, April 8, 2020; Peter Judge and Mark Ballard, "[China's Shagang Buys Final Quarter of Global Switch.](#)" Data Center Dynamics, August 30, 2019.

and Europe, including in Frankfurt, Amsterdam, and Paris.⁹⁷ Australia's Ministry of Defense, which uses the company's services, was criticized for failing to move its data away from its data center in Sydney.⁹⁸ So far, no such debate has happened in affected countries in Europe.

A Mixed Picture

The picture that emerges in Germany and its neighbors is mixed. Investment-screening procedures have been tightened significantly in Germany, though many of the changes were made not just with security considerations in mind but also to maintain competitiveness for the country under its Industry 4.0 strategy. Germany's neighbors have largely followed suit, either due to existing domestic dynamics (France) or in response to the EU Screening Regulation. The coronavirus pandemic has added some urgency, even though the wave of takeovers feared as a result of its economic impact has not happened.

With regard to digital infrastructure, the debate has centered heavily on Huawei. The outcome has been mixed, although most countries considered in this chapter are set to ban the company in large part or completely from their 5G networks. However, Germany, and to a lesser extent France, remain on the fence and have delayed a definitive decision.

Overall, the time of large Chinese investment into Europe has come to an early end. Due to domestic constraints in China and the changed mood in Europe, they are unlikely to rise again. This does not mean, however, that European countries should not consider the various security risks that arise from certain Chinese investments, either at the local level risks or in terms of overall impact on governments' China policy as a whole.

According to multiple interviewees, Chinese investments in German infrastructure have not been used systematically to try to gain concessions from the government or influence its China policy. Other factors, such as China being Germany's most important trade partner and the dependencies on the Chinese market of key German industries are more likely to affect the government's position on China. However, there are several ways in which investments can be weaponized. One is the tension between federal and state governments that their differing interests create. Germany's federal states wield a substantial degree of influence over national legislation via the upper house of parliament. In addition, a high degree of dependence on Chinese businesses, as is the case in cities like Duisburg, can create pressure to ignore security risks and avoid upsetting the partnership with China.

Such risks are not limited to Germany; they exist wherever economically weak regions see Chinese investment as their last and only option to save jobs. Despite heightened awareness of security risks and tightened investment-screening mechanisms, economic need continues to generate blind spots. The Jade-Weser-Port is a case in point. Economically weak regions continue to place high hopes on Chinese investors, which can lead to decisions that are economically unsound or pose national security risks. In some cases, such as such

⁹⁷ Global Switch, [Data Centre Locations](#).

⁹⁸ Andrew Greene, "[Defence renews storage deal with Global Switch, years after Government vowed to ditch Chinese-owned firm](#)," ABC News, February 15, 2021.

purchase of Schwerin-Parchim airport, no great political considerations were at play in China. In other cases, such as the investments by COSCO and China Logistic, political considerations may well have played a role, or could play one. It is important that the desire to attract investment to boost local economies does not lead to a disregard of security considerations. Here, the countries under consideration in this chapter have room for improvement.

ITALY AND THE MEDITERRANEAN

Dario Cristiani

This chapter examines Chinese investments in, and economic agreements with, Italy within the broader context of Beijing's projection in the Mediterranean basin. The decision to focus on Italy is due primarily to the fact that in 2019 it was the first G7 country and major European economy to formally join the Belt and Road Initiative (BRI). As such, it represents an extremely important case study of China's approach to the Mediterranean.

However, the issue of Chinese investments in Italy deserves a much deeper look as many of these, particularly in sensitive sectors such as ports and logistics, predate the country's BRI membership. At the same time, this membership—at least so far—has not resulted in a deepening of Sino-Italian relations. On the contrary, there has been the diplomatic backlash produced by the BRI memorandum of understanding (MoU) and the end of the populist coalition government, formed by the Five Star Movement (M5S) and the League, that signed it.

After laying out some of the key features of China's Mediterranean engagement, this chapter maps Chinese investments in Italy and then focuses specifically on seaports and the 5G network. The chapter then analyzes the screening mechanism in place to prevent foreign investors from acquiring stakes in sensitive areas, and concludes by explaining how, after the signature of the BRI MoU, developments took a different path than many had foreseen.

China and the Mediterranean

Since the opening of the Suez Canal in 1869, the Mediterranean Sea has represented a crucial element connecting Asia to Europe, and this significance has increased since. Between 1995 and 2018, Mediterranean ports experienced a 477 percent increase in the amount of cargo they handled, with the Mediterranean region currently serving 20 percent of global shipping.¹ This growth boosted the strategic position of the Mediterranean Sea for geoeconomic and geopolitical dynamics. Against this backdrop, the region has attracted growing Chinese interest. China never perceived it as a coherent bloc or region, and tended to focus more on distinct parts: Southern Europe, North Africa, and the Middle East. Each of these areas is managed with a distinctive set of drivers and priorities. China does not have a specific view of the Mediterranean as a coherent region and its definition in Chinese foreign policy and international cooperation is, at best, ambiguous.²

1 Laura Basagni, "The Mediterranean Sea and Its Port System: Risk and Opportunities in a Globally Connected World," in EuroMesco, *Infrastructures and Power in the Middle East and North Africa*, p. 13.

2 Alessia Amighini, [Cina nel Mediterraneo o Mediterraneo cinese?](#), Istituto Studi di Politica Internazionale, November 28, 2019.

China became more interested in the dynamics of the Middle East and North Africa from the late 1970s.³ Following the end of the Cold War, particularly as China became a net oil importer by the mid-1990s,⁴ this interest became even greater. However, it is over the past ten years that a more tangible shift has occurred. Starting from the early 2010s—with the Arab Spring,⁵ an increasing geoeconomic presence, and the launch of the BRI in 2013—the Chinese role in the area deepened even further.

The Mediterranean became a crucial part of the BRI, being one of the few areas in which the Belt (the Silk Road Economic Belt) and Road (the Maritime Silk Road) connect.

The Mediterranean became a crucial part of the BRI, being one of the few areas in which the Belt (the Silk Road Economic Belt) and Road (the Maritime Silk Road) connect. The expansion of the Suez Canal in 2016 made this space even more crucial for China. Chinese activism in Europe, the Middle East, and North Africa increased substantially after 2016. China acquired a majority stake in Piraeus port that year, and between 2016 and 2019 several Mediterranean countries joined the BRI (see Table 1).

However, in many of these countries, Chinese investments had been ongoing for a while. Southern European countries were relatively late in formalizing the already well-established trend of inbound Chinese investments by signing on the BRI. Greece and Portugal joined in 2018 and Italy in 2019, relatively late compared to other European countries. China had already made acquisitions in several of these countries over the previous years, as a result of the privatization processes that the global financial crisis and the eurozone crisis triggered.⁶

Chinese Investments in Italy

In March 2019, Italy and the China signed a broad and comprehensive MoU for the former to join the BRI. Italy was the first big European country and the first G7 member to formalize its participation in the BRI. The MoU contained no legally binding clause and its wording was mostly generic, pointing at a collaboration focused primarily on transport, logistics and infrastructure. The document showed a significant degree of confusion driving the approach of the Italian government at the time and the benefits were not as clear as the political costs.⁷ The immediate price that Italy paid was the growing scrutiny from other EU members and the United States of the direction and intentions of its foreign policy.⁸

3 Andrew Scobell, “Why the Middle East Matters to China,” in Anoushiravan Ehteshami and Niv Horesh (eds.) *China’s Presence in the Middle East: The Implications of the One Belt, One Road Initiative*, Routledge, 2017, p. 9.

4 Yitzhak Shichor, “China’s Upsurge: Implications for the Middle East,” *Israel Affairs* 12:4 (2006): 666.

5 I-Wei Jennifer Chang, “Chinese Policies on the Arab Spring,” in Robert Mason (ed.), *The International Politics of the Arab Spring: Popular Unrest and Foreign Policy*, Palgrave Macmillan US, 2014, p. 178.

6 Francesca Ghiretti, [The Belt and Road Initiative in the Eastern and Southern EU](#), Robert Schuman Centre for Advanced Studies Global Governance Programme EU-Asia Project, European University Institute, July 2021, p. 8.

7 Alessia Amighini, [“Italia-Cina: quel Memorandum è un pasticcio.”](#) Lavoce.info, March 15, 2019,

8 Silvia Sciorilli Borrelli, [“Silk Road Opens a Rift in Italy’s Government.”](#) Politico, March 13, 2019,

Table 1. The BRI in the Mediterranean

Country	Year Joined	Area	Income Group
Albania	2017	Europe & Central Asia	Upper middle income
Algeria	2018	Middle East & North Africa	Upper middle income
Bosnia and Herzegovina	2017	Europe & Central Asia	Upper middle income
Croatia	2017	Europe & Central Asia	High Income
Cyprus	2019	Europe & Central Asia	High Income
Egypt	2016	Middle East & North Africa	Lower middle income
Greece	2018	Europe & Central Asia	High Income
Italy	2019	Europe & Central Asia	High Income
Lebanon	2017	Middle East & North Africa	Upper middle income
Libya	2018	Middle East & North Africa	Upper middle income
Malta	2018	Middle East & North Africa	High Income
Mauritania*	2018	Sub-Saharan Africa	Lower middle income
Montenegro	2017	Europe & Central Asia	Upper middle income
Morocco	2017	Middle East & North Africa	Lower middle income
Portugal	2018	Europe & Central Asia	High Income
Serbia	2015	Europe & Central Asia	Upper middle income
Slovenia	2017	Europe & Central Asia	High Income
Tunisia	2018	Middle East & North Africa	Lower middle income
Turkey	2015	Europe & Central Asia	Upper middle income

Based on information taken from [Green Belt and Road Initiative Center](#).

* Mauritania is not a Mediterranean country but, it being part of the Arab Maghreb Union, here it is considered as part of the Maghreb bloc.

The motivations for the Italian decision to join the BRI were economic but also linked to the specific ideological preferences of some of the members of the M5S-League coalition government. The expected economic impact was relevant: the ten trade agreements on the table were nominally worth \$22.45 billion, and they were expected to provide a significant stimulus to the economy.⁹ For China, the MoU was a major political success and image boost. Visiting Italy to sign the agreement, President Xi Jinping said that “prospects for cooperation between Italy and China have a bright future.”¹⁰ Many expected the relationship to flourish in the following months.

9 Il Sole 24 ORE, “[Italia-Cina, accordi per 20 miliardi sulla Via della Seta](#),” March 23, 2019.

10 Adnkronos, “[Italy-China Relations Have ‘a Brilliant Future’ - Xi](#),” March 22, 2019.

As 2020 was approaching, the two countries launched the Italy-China 2020: Year of Culture and Tourism.¹¹ President Sergio Mattarella was due to visit China at the end of the year.¹² The global outbreak of the coronavirus pandemic severely undermined these plans, as the sanitary measures needed to contain the pandemic and the ensuing recession destroyed global tourism by delivering an unprecedented blow to world mobility.

The signature of the BRI MoU was an important moment in relations, but China's interest in investing in Italy has grown constantly over the past ten years. Before that, Italy was not a major destination for Chinese investment. Chinese investments in Italy have been negligible compared to those from other Asian countries. As of the mid-2000s, China accounted for 2.9 percent of Asian investments in Italy. However, from 2001 to 2006, the value of inflows from China grew by 522 percent and more than doubled in 2007.¹³ This showed mounting interest from China but nothing that could be compared to its investments in other European countries, notably the United Kingdom, France, and Germany. The numbers were still so small that Chinese direct investments remained below €1 billion per year as late as 2013. They then surged to more than €2.5 billion in 2014¹⁴ and more than €7.2 billion in 2015 before returning to a more moderate level at €1.1 billion in 2016.¹⁵

It is evident that China started becoming more interested in Italy after launching the BRI, yet many of its acquisitions took place before. This interest was also facilitated by the impact of the global and European economic crisis of the previous five years, which severely affected Italy and presented interesting opportunities for all those who had capital and resources to invest in the country. It is against this backdrop that Chinese interest in Italy kept growing, culminating in the BRI MoU.

The Most Important Chinese Players

The most up-to-date picture on who are the most important Chinese players in Italy comes from a document released from the Parliamentary Committee for the Security of the Republic in late 2020. That this has been produced by the committee overseeing the intelligence services shows how the issue has become increasingly a security issue rather than a merely economic one.

The committee also published the result of the hearings of the domestic and external intelligence agencies to the committee and economic intelligence reports. According to this document, at the end of 2019, 405 Chinese groups were directly present in Italy, of which 270 from the People's Republic of China and 135 headquartered in Hong Kong, through at least one investee company. There were 760 Italian companies owned by these groups, employing over 43,700 workers, with a turnover of over €25.2 billion.¹⁶ The largest number of

11 Italian Ministry of Foreign Affairs, [Italy-China 2020: Year of Culture and Tourism](#), January 21, 2020.

12 La Stampa, "[Mattarella in Cina nel 2020 per i 50 delle relazioni commerciali](#)", November 4, 2019.

13 Francesca Spigarelli, *Nuovi Investitori Globali: Le Imprese Cinesi in Italia*, Università degli Studi di Macerata, January 2008, p. 17.

14 Ronald H. Linden, [The New Sea People: China in the Mediterranean](#), Istituto Affari Internazionali, 2018, p. 7.

15 Nicola Casarini, "[Chinese Investments in Italy: Changing the Game?](#)" in John Seaman, Mikko Huotari, and Miguel Otero-Iglesias (eds.), *Chinese Investment in Europe: A Country-level Approach*, European Think-tank Network on China, 2018, p. 82.

16 Il Sole 24 ORE, "[Energia, reti, aziende strategiche: la mappa dei capitali cinesi in Italia](#)," November 9, 2020.

investee companies (150) was registered in the manufacturing sector, accounting for almost three-quarters of the total in terms of employees (over 22,700). The services sector follows with over 4,500 employees in 173 investee companies. There are also 126 commercial enterprises with almost 3,300 employees, while the remaining sectors (primary sectors, construction and utilities) have a total of just over 500 employees in 142 companies (mostly in electricity generation from photovoltaic sources).¹⁷

These investments are either “brownfield” ones, the result of reconversion, or “greenfield” ones in companies founded in Italy by Chinese citizens or companies or branches of Chinese companies. For example, in 2015 the state-owned China National Chemical Corp (ChemChina) struck a €7.1 billion deal to acquire a 45 percent stake in Pirelli, the world’s fifth-largest tire maker.¹⁸ This deal was very significant not only because of its symbolism, ending after 143 years Italian ownership of one of the country’s most important and iconic companies, but also because it showed one of China’s ultimate goals: using such acquisitions to gain faster the technology and know-how it lacks.

The energy sector, networks, and companies with high strategic and innovative potential usually attract significant Chinese capital.

The energy sector, networks, and companies with high strategic and innovative potential usually attract significant Chinese capital. In 2014, The Shanghai Electric Corporation bought 40 percent of Ansaldo Energia,¹⁹ while StateGridFor acquired a 35 percent stake in Italy’s electricity networks, Cdp Reti, which controls Italy’s biggest energy companies (Snam, Terna, and Italgas).²⁰ The historic Italian household appliance company Candy was bought in 2018 by Qingdao Haier.²¹ Shares of Eni (oil and gas), Tim (telecoms), Enel (electricity), and Prysmian (energy and telecoms) are under the control of the People’s Bank of China, the country’s central bank.²² Chinese entities also own shares in other large Italian companies that include the bank Intesa SanPaolo, Saipem (oilfield services), Moncler, Krizia, Salvatore Ferragamo (major fashion brands), Prima Industrie Ferretti Yacht group (naval constructions), the olive-oil producer Salov, and Buccellati (high jewelery).

Two areas of fundamental importance for Chinese investments in Italy are the IT network and seaports. Huawei and ZTE have had a crucial role in developing the internet network in Italy.²³ The China Ocean Shipping Company (COSCO), China Communications Construction Company (CCCC), and the Weichai Group—which acquired the Ferretti Group, a company based in Romagna, once one of the heavyweights of the Italian nautical industry—²⁴are among the most important Chinese actors operating in Italy.

17 Italian Parliament, [Comitato Parlamentare Per La Sicurezza Della Repubblica](#), August 2007.

18 Reuters, [“ChemChina to Buy into Italian Tire Maker Pirelli in \\$7.7 Billion Deal,”](#) March 23, 2015.

19 Reuters, [“Exclusive: Italy’s Grid Company to Get 1.5 Billion Euro Loan Ahead of China Grid Deal - Sources,”](#) July 23, 2014.

20 Reuters, [“UPDATE 3-Shanghai Electric Buys Stake in Italian Power Engineering Firm,”](#) May 8, 2014.

21 The Local Italy, [“China’s Haier to Acquire Italian Home Appliance Firm,”](#) October 2, 2018.

22 Reuters, [“China Central Bank Buys 2 Percent of Italy’s Eni, Enel,”](#) March 27, 2014.

23 Reuters, [“Italy Approves Use of Special Powers over 5G Supply Deals,”](#) September 5, 2019.

24 Reuters, [“Chinese Group Takes over Italian Yacht Maker Ferretti,”](#) January 10, 2012.

Investments in Seaports

Seventy-five percent of European imports come by sea, with access through North Atlantic ports traditionally being most crucial. However, in recent years, Europe's fastest-growing ports have been in the south.²⁵ The Mediterranean route is the most direct to Europe for China,²⁶ and it became even more crucial amid the expansion of the Suez Canal in 2016, which has increased the volume of trade into and from the Mediterranean. This factor was crucial in pushing China to invest in maritime infrastructures in Southern Europe, and in the same year COSCO acquired 51 per cent of the Port of Piraeus in Greece.

China also has, or had, agreements with the ports of Genoa, Trieste, Venice, Taranto, Gioia Tauro, Naples, Salerno, and Ravenna. In many cases, these were signed well before the launch of the BRI. Moreover, in some cases China decided to leave or downscale its presence after a few years. For instance, COSCO sold its stakes in the Conateco and Soteco container terminals in Naples to MSC (Mediterranean Shipping Company) in 2016.²⁷

Three cases—Genoa, Trieste, and Taranto—are of particular significance. Genoa and Trieste were the only two seaports interested in the BRI agreements, while Taranto is paradigmatic of the tension between Rome and local leaders, with the latter only caring about the money Chinese investments would bring to their regions and not about international alliances and the strategic implications of these investments.

Genoa and Trieste

Two of the 28 agreements under the BRI MoU concerned partnerships between the China Communications Construction Company (CCCC) and the Port of Genoa, under the Western Ligurian Sea Port Authority (WLSPA), and the Port of Trieste, under the Eastern Adriatic Sea Port Authority (EASPA).²⁸ The agreements were undertaken with CCCC and not with COSCO as neither Genoa nor Trieste needed collaborations directly on their ports: the former was considering Chinese investment for the construction of a new break-water dam, and the latter needed investments for the railway stations and rail connections.²⁹ However, these cases predate the BRI MoU agreements, which so far have not brought any change in the level of cooperation.

In the case of Genoa, the WLSPA has a higher number of collaboration initiatives with Chinese counterparts that were initiated well before 2019. In 2012 the Port of Genoa signed a customs agreement with the ports of Tianjin, and in 2017 it completed a deal with Wenzhou for a customs corridor for the fast trading of food and beverages.

25 Ronald H. Linden, "[The New Sea People](#)," 5.

26 Ibid., p. 6.

27 "[Cosco lascia il porto di Napoli ad Aponte tutto il Conateco](#)," *Il Mattino*, July 8, 2016.

28 Francesca Ghiretti, "[The Belt and Road Initiative in Italy](#)," p. 3.

29 Ibid., p. 6.

Broadening the analysis to other ports falling under the WLSPA, in 2016 COSCO and the Qingdao Port Group entered into a joint venture with APM Terminals in Vado Ligure, after the Danish group that won the tender for a new terminal in 2007 realized that it could not manage the project on its own anymore.³⁰ In 2017, the Shanghai Zhenhua Heavy Industries Company (ZPMC) opened an office in Savona, supplying 80-metre-high cranes to the ports of Vado Ligure and Pra.³¹

After the 2019 MoU, CCCC offered the WLSPA the possibility to participate in a new logistics park in China and to Italian enterprises to sell their products on an online platform it operated. However, an agreement was never finalized as the limited size of the Italian enterprises involved prevented them from conducting large-scale shipping, as the costs were unbearable. CCCC failed with its bid for the construction of the new breakwater dam for the Port of Genoa, and its interest in building on COSCO's and Qingdao's activities in Vado Ligure to the Port of Genoa, but this never happened.³² The Port of Trieste, where the BRI MoU signing took place, signed a second, more specific MoU with CCCC in November 2019 in Shanghai, aimed at developing the collaboration with EASPA. EASPA had already planned a significant upgrade of its collaboration with potential Chinese investors before the MoUs, though. Crucial to this was the Trihub project launched in 2016, whose completion is expected by 2024. This project aims at developing the Campo Marzio station, the central rail infrastructure serving the port, and turning it into a larger hub connected with the stations of Cervignano and Villa Opicina, while reactivating the Servola and Aquilinia stations.³³

The Trihub project is one of the key projects envisaged by the second BRI MoU. In this context, the Servola and Aquilinia stations were supposed to be connected to the port and function as intermodal stations, although apparently there is not enough space to do this. CCCC is supposed to build the stations, and the port authority and Italy's national railway company to manage them and pay rent to CCCC. However, several issues are preventing the project from moving forward. CCCC has so far not put forward a project for the construction of the stations, which needs to be presented first to the port authority for suggestions on how to improve it and then be put to public tender. In addition, there are geoeconomic and geopolitical implications. First, Germany's Hamburger Hafen und Logistik AG acquired 50.01 percent of the logistic intermodal platform at the Port of Trieste in 2021,³⁴ which signaled a pivot by the latter to European partners, in line with its history as the Mediterranean door of the German world. Second, the blacklisting of CCCC by the United States in 2020 has created financial, political, and reputational risks.³⁵

Trieste was offered another potential post-BRI agreement similar to that offered to Genoa: participation in new logistics parks in China involving the ports of Shanghai, Ningbo, and Shenzhen, and the possibility for Italian enterprises to sell their products on the online platform operated by CCCC. The Port of Trieste in 2019 launched a pilot project for local wine producers to sell their goods on the platform, and it selected ten

30 Ibid., p. 9.

31 Ibid., p. 10.

32 Francesca Ghiretti, "[The Belt and Road Initiative in Italy](#)," p. 13.

33 Ibid., p. 10.

34 Offshore Energy, "[HHLA Wraps up Acquisition of Italian Terminal](#)," January 8, 2021.

35 Francesca Ghiretti, "[The Belt and Road Initiative in Italy](#)," pp. 14–15.

companies that would send samples to China and place them on the CCCC platform but maintain control of the logistics. The project was momentarily put on hold as the coronavirus pandemic broke out but was restarted in May 2020.³⁶

Taranto

The Parliamentary Committee for the Security of the Republic also intervened with regard to the situation in Taranto, ringing the alarm about the interest expressed by Chinese companies in the local seaport and the Ilva industrial plants. Taranto's geographical position made it a major hub to protect Italy from assaults and invasions, and a naval base was established there at the end of the 19th century. The strategic role of Taranto was further strengthened by being a NATO base since 2002 and, these days, hosting the ships of the EU-led mission Irini that enforce the arms embargo in Libya.

In October 2020, Italy granted the concession to the former Belleli port, an area of 220 thousand square meters inside the port, to the Ferretti Group, which is part of the Weichai Group. M5S Senator Mario Turco, who is from Taranto, was the major supporter of this decision. He was considered extremely close to Prime Minister Giuseppe Conte, who is also from the region. Turco was responsible for the institutional committee for the Taranto area, which handles €1 billion in projects and investments for the town. In the same period, Yilport—a Turkish company that in 2019 signed with the Port Authority a concession for the next 49 years of the container terminal—³⁷struck a global deal with COSCO. Many thought that this agreement could have transformed Taranto into “A Rotterdam of the South.”³⁸

Taranto is a city in dire need of rejuvenation from an industrial and environmental perspective. Local politicians insist that Chinese investments are needed to revive the city and that the criteria for investments should not be based on the origin of the investors but on their seriousness.³⁹ However, these investments have not materialized and even what was delivered by Yilport in terms of development has been well below expectations.

Italy's Screening Mechanisms

Over the past few years, the activity of companies such as Huawei and ZTE came under the spotlight. This 5G issue has assumed a greater public relevance, particularly as the technological competition between China and the United States became more significant. A report published in December 2019 by the Parliamentary Committee for the Security of the Republic expressed concerns regarding the presence of Huawei in developing the 5G network in Italy, ultimately leading to the committee recommending, but not formally requesting, to exclude it.

³⁶ Ibid.

³⁷ YILPORT Holding, [YILPORT Holding Signs 49-Year Concession for Port of Taranto](#), August 1, 2019.

³⁸ La Repubblica, “[Taranto, la santa alleanza Turchia-Cina per il porto](#),” September 29, 2019.

³⁹ La Repubblica, “[Taranto sulla Via della Seta. Il porto in mani cinesi. Ma è allarme sicurezza](#),” September 27, 2020.

These developments inevitably put under the spotlight the legal provisions to screen foreign investments. According to the EU, when it comes to 5G, Italy is well prepared in three domains: restriction of high-risk suppliers, diversity of suppliers, and prohibition of outsourcing network operation centers. Addressing these issues was already possible through use of the Golden Power that allows the government to block or limit FDI or corporate transactions involving strategically important areas.⁴⁰

Italy has had an ex-post FDI screening mechanism since 2012, which has been amended several times, most recently in April.⁴¹ In its original form, the government could exercise the Golden Power only when a relevant harm to the strategic interests of the state could be found regarding companies active in the sectors of defense and national security as well as in energy, transport, and communications.⁴² These powers allow the blocking of or the enforcement of specific conditions on the acquisition of shares in companies carrying out activities of strategic importance in the sectors listed, and the capacity to either veto or impose requirements concerning the adoption of certain corporate resolutions, the performance of acts, or the execution of transactions by companies active in these sectors. The Department for Administrative Coordination, in the Prime Minister Office, is the responsible authority.

A first major amendment was introduced in July 2019.⁴³ This expanded the screening powers to all those sectors identified by the EU's screening regulation.⁴⁴ These included: critical infrastructures (physical or virtual), comprising energy, transportation, water, health, communications, media, data processing or storage, aerospace, defense, electoral, financial infrastructures, sensitive areas, investments in land and buildings essential for the use of such infrastructures; critical technologies and dual-use products, including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defense, energy storage, quantum and nuclear energy, nanotechnology and biotechnology.

As the coronavirus pandemic hit Italy's economy heavily, the government introduced new measures to reinforce the protection of companies and national assets from speculation and hostile foreign bids.

The amendment introduced other changes too: the time frame for the screening procedures was extended from 15 to 45 days and investigative powers were broadened, allowing the government to extend inquiries to any third parties. The amendment also enhanced cooperation between different public authorities, facilitating information sharing, and introduced a new regime of administrative sanctions up to the double value of the transaction.

In 2020, as the coronavirus pandemic hit Italy's economy heavily, the government introduced new measures to reinforce the protection of companies and national assets from speculation and hostile foreign bids. This

40 Francesca Ghiretti, [Europe's Manoeuvring on 5G Technology: The Case of Italy](#), Istituto Affari Internazionali, September 24, 2020, p. 2.

41 Gazzetta Ufficiale, [Decreto-Legge](#), April 30, 2021.

42 Gazzetta Ufficiale, [Decreto-Legge](#), March 15, 2012.

43 Gazzetta Ufficiale, [Decreto-Legge](#), July 11, 2019.

44 European Union Law, [Document 32019R0452](#), March 19, 2019.

broadened the areas of intervention by the government and extended the possibility of exercising the Golden Power to companies active in the security of supply of critical inputs, including energy and raw materials, as well as food security; to access to sensitive information, including personal data; and to freedom and pluralism of the media.

Over the past months, the government has used its Golden Power against Chinese companies. It blocked a takeover by Shenzhen Investment Holdings of the semiconductor firm LPE on national-security grounds.⁴⁵ Just weeks before this, the government used the Golden Power over a 5G supply contract to Linkem by Huawei and ZTE and something similar happened to Fastweb over the presence of ZTE and the Taiwanese Askey in developing its network.⁴⁶

The Post-BRI Shift in Mood

Chinese interest in investing in Italy, including acquiring stakes or a role in several Italian seaports or the 5G network, predates the signing of the BRI memorandum of understanding. However, Italian policymakers thought that, as an almost immediate outcome of the MoU, Chinese investments would increase and Italy would export more to China. This never materialized.

In 2020, the outbreak of the coronavirus pandemic damaged trade and mobility worldwide, and Italian-Chinese economic relations inevitably slowed down, particularly as the two countries were the most affected by the pandemic in its early stages. Both adopted extensive lockdowns that adversely affected economic activities and, subsequently, exports and investments. However, even before that, Italian policymakers had been disappointed when the first post-MoU data started emerging. By early 2020, Italian exports to China had shrunk while Chinese exports to Italy had grown. The BRI deal meant more business opportunities for China in Italy and fewer for Italian companies in China. Italian policymakers cite informal and non-economic barriers to trade in China as the main reason. In the pro-BRI narrative, this had to be resolved by Italy joining formally the project.

More broadly speaking, there has been a shift in the perceptions that many political and economic actors have of the BRI and of relations with China. The causes are summarized below.

The strengthening of the U.S.-Chinese confrontation. During the Trump administration, the concern in the United States over the new Chinese assertiveness used to come from the broader policy apparatus rather than the White House alone. These were the same actors that were concerned with Italy joining the BRI and exerted pressure behind the scene to persuade the country to reduce its commitment, if not to abandon the BRI project. More recently, two elements made the U.S.-Chinese confrontation harsher: the outbreak of the pandemic and the election of Joe Biden. Biden has a more coherent view on China than his predecessor,⁴⁷ one that is shared by the broader U.S. policy world. This transition thus reinforced the U.S. capacity to pressure

45 Bloomberg, "[Italy Blocked Chinese Semiconductor Bid, Draghi Says](#)," April 8, 2021.

46 Formiche.net, "[Draghi stoppa ancora il 5G cinese. Golden power su Huawei e Zte](#)," April 8, 2021.

47 Daniel Baer, "[America Under Biden Won't Go Soft on China](#)," Foreign Policy, November 6, 2020.

Italy into being more receptive to Washington's interests and priorities, even just from a symbolic point of view, in dealing with China.

China's aggressive coronavirus public diplomacy. In response to the pandemic, China adopted a very proactive public-diplomacy approach with a two-fold aim.⁴⁸ First, it used the know-how built in the first months of the outbreak in China and the control of several value chains of the global bio-med industry to promote the image of being a benevolent provider of global public goods, particularly as Western countries were acting selfishly in the early stage of the pandemic. Second, it tried to shift the responsibility regarding the outbreak of the pandemic away from itself. Italy was one of China's main targets.⁴⁹ While this approach worked with part of the country's public opinion, it also alarmed part of the institutional and political world.

Changes in the Italian political landscape and agency from institutional and personal perspectives. Despite Italy's proverbial political instability and reputation for taking some liberties in respect of its historical alliances, its foreign policy has remained constant. The BRI MoU was the most notable foreign policy act of the M5S-League government and it created tension with the United States, but otherwise the coalition's foreign policy did not change Italy's historical orientation.⁵⁰ Once the coalition collapsed in 2019, the League was replaced in government by the center-left Democratic Party. Although historically the predecessors of the party—the Communist Party, the Socialist Party and partially the Christian Democrats—used to look with interest at deepening relations with China,⁵¹ the situation these days is very different. In the new coalition government with M5S, the Democratic Party imposed a change of approach. Minister of Defense Lorenzo Guerini and Enzo Amendola (the former minister for European affairs, and now undersecretary for European affairs) are considered to be the pillars of Italian Atlanticism and are usually very critical of China.⁵² This attitude was strengthened as Mario Draghi became prime minister in February. He is a Euro-enthusiast and Atlanticist, and a China-sceptic.

The two major architects of Italy's joining the BRI have changed course. The most pro-China member the M5S-League government, Luigi Di Maio, who is now foreign minister, has become staunchly pro-United States.⁵³ M5S, however, remains divided on China, as shown by a recent quarrel after party leader Beppe Grillo and other members endorsed a report from an obscure think tank, the Centro Studi Eurasia Mediterraneo, that shared China's narrative on Xinjiang. Moreover, on the day of the G7 summit in June, Grillo visited the Chinese embassy in Rome, a move seen by many as a message to Draghi and the pro-Atlanticist members of M5S. Meanwhile, the League's Michele Geraci, who pushed for the BRI,⁵⁴ was dismissed as economic develop-

48 Valérie Niquet, "[China's Coronavirus Information Warfare](#)," *The Diplomat*, March 24, 2020.

49 Francesca Ghiretti, "[China, Italy and COVID-19](#)."

50 Ferdinando Nelli Feroci, "[La politica estera del Governo giallo-verde](#)," *Istituto Affari Internazionali*, March 22, 2019.

51 Sergio Romano, "Italia e Cina: La Lunga Marcia Del Riconoscimento," *Aspenia*, October 2010.

52 Dario Cristiani, "[China's Charm Offensive Meets Italy's Euro-Atlantic Resilience](#)," *German Marshall Fund of the United States*, June 9, 2020.

53 Francesco Bechis and Valeria Covato, "[From Coronavirus to Mediterranean Tensions, Italy Has Stepped up Its Diplomatic Game during Dramatic Year, Foreign Minister Says](#)," *Atlantic Council*, September 10, 2020.

54 Giulia Pompili, "[Chi Mise La Cina al Governo](#)," *Il Foglio*, March 7, 2019.

ment undersecretary when the coalition with M5S collapsed. Since then, the League has repudiated him for his role in the issue and his heavy pro-China propaganda.

Convergence with the rest of the EU has become a more significant factor since Draghi became prime minister. His government's turning away from China parallels the shift across the EU.⁵⁵ Draghi has said that he would like to reassess the participation of Italy in the BRI,⁵⁶ although Italian commentators have noted that withdrawing from it might do more harm than good.⁵⁷ As one observer puts it, in Italy “the BRI has not been as successful as one would have thought...But it is not dead.”⁵⁸ More likely, it will remain an empty frame within which Italy will try to move ahead only on specific and isolated projects, while paying attention to what its European allies and the United States say and do. The BRI brought neither a qualitative nor a quantitative shift in Sino-Italian relations. Most of the ongoing projects were signed before the MoU, and they will continue to face structural tension between the push of local groups interested in receiving investments on their territory regardless of their origins, and the central state, that instead now has a more nuanced approach. Moreover, Italy has a sophisticated and robust mechanism to screen investments, which was further reinforced by the government of Prime Minister Mario Draghi.

55 Miles Johnson, Davide Ghiglione, and Silvia Sciorilli Borrelli, “[Mario Draghi Sets Tone in Cooling EU-China Relations](#),” Financial Times, June 6, 2021.

56 Ansa, “[Italy to Assess Involvement in China's Belt and Road](#),” June 14, 2021.

57 Giulia Pompili, “[Draghi cerca di uscire dalla trappola della Via della Seta](#),” Il Foglio, June 14, 2021.

58 Francesca Ghiretti, “[The Belt and Road in Italy: 2 Years Later](#),” The Diplomat, March 23, 2021.

THE NORDIC COUNTRIES

Jonas Parello-Plesner

As small, open economies, the Nordic countries—Denmark, Finland, Norway, and Sweden—have taken a default approach of being open to trade and investments globally, including from China.¹ For example, the Chinese company Geely bought the crown jewel of Swedish industry, the carmaker Volvo, in 2010, and Chinese investors have bought large stakes in the Danish sound design icon Bang & Olufsen and Finland's sporting goods icon Amer Sports. However, more recently, the mood has soured on this all-embracing openness to Chinese investments.

Such investments have started to be perceived through the prism of national security, particularly in sensitive sectors such as critical infrastructure. This is also reinforced by the focus of the United States and NATO on domestic resilience and protection of critical infrastructure. Furthermore, new reservations have arisen concerning how Chinese investments fulfil strategic objectives of the Chinese government, such as through the Made in China 2025 plan where unfair trade practices such as subsidies underpin the Chinese strategy.

China's increasingly tough rhetoric and actions have also reinforced negative perceptions in the Nordic countries of its political system. In Norway, the long-standing debacle with China over the awarding of the Nobel Prize to Liu Xiaobo in 2010 gave a taste of China's new-found hard power. In Sweden, it was the kidnapping in Thailand and later conviction in China in 2020 of a Swedish citizen, Gui Minghai, that has been pivotal in a broader downturn in relations.

Denmark, Norway, and Finland have implemented investment-screening procedures while Sweden is in the process of doing so. A comparison of their approaches is undertaken at the end of this chapter. This trend is reinforced for the Nordic EU member states by EU's introduction of investment screening from October 2020.

Huawei's unsuccessful and controversial bids for 5G networks in the Nordic countries illustrate the shift towards a more security-focused approach to Chinese economic engagements.² Earlier, the company was an integrated partner for 4G in Denmark and Norway, but China's intelligence law from 2017 and increased security concerns among their traditional allied countries, particularly the United States, soured the relations with Huawei on 5G for all Nordic countries.

In Greenland, which is autonomous within the kingdom of Denmark, there have also been several cases generating wariness about Chinese investments. The Nordic countries are also prioritized as a gateway to the

1 Thanks to Rasmus Grand Berthelsen, project manager at Rasmussen Global, for research and input for this chapter.

2 Huawei operates through applying for network licenses rather than through investments, but its actions fit a broader definition of Chinese companies' economic agreements.

Arctic by China, which calls itself a “near-Arctic state”³ and was given observer status in the Arctic Council in 2013.

A Changing Tide

The Nordic countries are attractive investment targets because of their stable and open economies, as well as strong levels of expertise and skills. This has attracted Chinese investors, which are increasingly present in the region. With high levels of deal-making in 2019, the Nordic countries received almost half of Chinese direct investment in Europe, but that number returned to a more regular level in 2020.⁴ The 2019 strong performance was mainly driven by the acquisition of Finland’s Amer Sports by China’s Anta Sports for €4.6 billion.⁵

Otherwise, Chinese investment in the Nordic countries has followed the same trend as in most of Europe: the number and volume of acquisitions grew steadily over the last two decades and peaked in 2016–2017. There have many cases involving smaller companies that did not receive as much media attention as major acquisitions such as those of Volvo, Nordic Cinema, Radisson, and the electric-vehicle maker NEVS in Sweden; Bang & Olufsen and Saxo Bank in Denmark; or Supercell and Amer Sports in Finland.

While Chinese investment in the early 2000s was focused on acquisitions in developing economies rich in natural resources, in the 2010s it focused more on leading players with technological expertise in specialized sectors. This has increased China’s economic footprint in the Nordic countries. In all of them, Chinese investments are increasingly focused on high-tech sectors, particularly those highlighted in the Made in China 2025 industrial strategy to become a world leader and self-sufficient in a range of advanced technology areas. A recent study confirmed this pattern of Chinese investment in Sweden.⁶

High-tech acquisitions by Chinese companies have sparked a debate in the Nordic countries about the economic vulnerabilities of certain sectors.

High-tech acquisitions by Chinese companies have sparked a debate in the Nordic countries about the economic vulnerabilities of certain sectors, which potentially stand to lose important expertise and know-how from strategic acquisitions. The fact that the Chinese companies involved often are either directly state-run or receive subsidies for such foreign takeovers add to the worries. In a recent study, respondents in all Nordic countries expressed negative views toward Chinese foreign investment in natural resources, infrastructure, technology, and to a lesser extent retail.⁷

3 The State Council Information Office of the People’s Republic of China, [China’s Arctic Policy](#), January 26, 2018.

4 Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, [Chinese FDI in Europe: 2020 Update](#).

5 Reuters, “[China’s Anta Sports-led group buying Finland’s Amer Sports for \\$5.2 billion](#),” December 7, 2018.

6 See, for example, Jerker Hellström, Oscar Almén, and Johan Englund, [Chinese corporate acquisitions in Sweden: a survey](#), Totalförsvarets forskningsinstitut, February 18, 2021; and Nicolai Raastrup and Leonora Beck, “[Kinesere går efter danske teknologivirksomheder](#),” Finans, September 13, 2020.

7 Morten Andersen, Henrik Hilm, and Ulf Sverdrup, [The Nordic shift: China’s uphill battle for public approval in northern Europe](#), European Council on Foreign Relations, March 18, 2020.

Sweden: from Cars and Strategic Seaports to Critical Technologies

The first major Chinese acquisition in Sweden was Geely's \$1.8 billion purchase of Volvo Cars from Ford in 2010. Geely's acquisition of a minority stake in the truck-maker AB Volvo for \$3.26 billion was among the largest Chinese acquisitions completed in 2018 in Europe and North America. In 2014, China's Jilin Connell acquired the chemicals company Chematur from Karlskoga, a company with connections to the Swedish arms industry. In 2019, Chematur was sold to the Wanhua Chemical group for \$135 million. Wanhua's largest shareholder is Yantai Guofeng Investment Holding, which is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council. At the time, neither of these cases raised serious security concerns in the public debate.

In 2017, the Chinese businessman Ming Wai Lau bought the small but strategically important submarine port on the island of Gotland, 13 years after it was sold to a private Swedish investor. Ming's investment firm, Artmax AB, bid higher than Sweden's Ministry of Defense. At the time, the greatest worry in Sweden—and in neighboring countries⁸—was that the Russian financier Vladimir Antonov would win the bid. Antonov had tried to buy Saab plants ten years earlier, but the purchase was abandoned after the Swedish police reportedly received information that linked him to organized crime. While Artmax faced public scrutiny, its acquisition of the port was mainly seen as a relief from a Russian acquisition that would have been worse.

In October 2020, the Swedish Post and Telecom Agency decided that equipment from Chinese suppliers Huawei and ZTE could not be used by telecom operators in Sweden.

Between 2014 to 2016, three Swedish semiconductor companies—Imego, Silex, and Norstel—were acquired by Chinese investors. At the time, Sweden already had an export ban to China for semiconductors with dual uses, but the government had no means to stop the acquisitions. Silex's ultimate owner, Nav Technology, turned out to be a company with close links to the Chinese military. These acquisitions went under the radar at the time, and they were only debated when the government's role in the sales was revealed in 2018, prompting a discussion about Chinese investment in sensitive sectors.⁹

In October 2020, the Swedish Post and Telecom Agency decided that equipment from Chinese suppliers Huawei and ZTE could not be used by telecom operators in Sweden. The decision was based on the assessment by the police and military that allowing the two companies in would entail increased risks of cyber espionage. Furthermore, the police stated that “the Chinese party state and the intelligence service can influence and exert pressure” on Huawei and ZTE. A spokesperson for China's Ministry of Foreign Affairs afterwards announced that Swedish companies would risk consequences if Sweden did not change the decision, vowing to take “all necessary measures” in response.¹⁰

8 Charlotte Aagaard, “[Hvis Sverige ikke har kontrol over Gotland, kan hvad som helst jo sluses ind](#),” Dagbladet Information, March 4, 2017.

9 Birgitta Forsberg, “[Staten sålde spjutspetsbolag till Kina – under radarn](#),” SvD Näringsliv, December 18, 2018.

10 Felicia Nordlund, “[Ambassadörens uppmaning: Dra tillbaka Huawei-beslutet](#),” SVT Nyheter, October 21, 2020.

The chief executive of the Swedish telecom operator Ericsson, Börje Ekholm, feared the potential fallout for the company, which had won a series of contracts in China, and sent text messages to Trade Minister Anna Hallberg questioning the authorities' approach to Huawei, which he said was bad for Ericsson. "The decision the government supports singles out our Chinese competitor in a way no other EU country has done," he wrote.¹¹ This is a prime example of how Western companies' fear of losing market access in China drives them to lobby governments on behalf of Chinese economic or political interests.

Denmark: Dealing with China across the Kingdom's Territory

Denmark has had fewer Chinese acquisitions and less direct investments than Sweden. As in Sweden, public and media attention has focused primarily on major acquisitions of well-known companies, whereas smaller investments and acquisitions mostly go unnoticed.¹² But, most importantly, China's interest in the Arctic has sparked a large debate in Denmark.

During the early 2010s, Chinese official speeches and documents on the Arctic were humble and underplayed China's ambitions there, which helped alleviate the concerns of Arctic states and paved the way for the country being given observer status in the Arctic Council in 2013. But over the past decade, China has intensified its efforts to establish strong relations with all Arctic actors, and it has gradually increased its presence and influence in Arctic institutions. There have also been several Chinese investments and infrastructure projects related to the Arctic, largely driven by growing interest in the region's resources and sea routes. In November 2014, the first indication came that China's more confident and ambitious foreign and security policy line also includes the Arctic, with its first White Paper on military strategy linking the country's ambitions in the Arctic directly to its goal of being a maritime superpower.¹³

Denmark's Ministry of Defense and intelligence services have raised questions about China's activities in the autonomous territory of Greenland. The publication of China's first White Paper on Arctic policy¹⁴ in 2018, which defined the country as a "near-Arctic state" with a goal of establishing an Arctic Silk Road, increased the government's focus on possible broader geo-strategic interests from China of which investments would be a component. China's Arctic White Paper contains a clear call on Chinese companies to prioritize their participation in the construction of infrastructure linked to the Arctic sea routes, and it emphasizes that the country is ready to cooperate with all interested parties in the development of the Polar Silk Road.

Starting in 2010, Chinese companies started seeking ownership stakes in Greenlandic mining companies. Of particular interest was rare earth elements, in which China is a world leader in production and refinery, and of which Greenland has a very large untapped potential. A project in Kvanefjeld, in which China's Shenghe Resources bought a 12.5 percent stake and signed an agreement to become the sole refiner of the rare earth

11 Dagens Nyheter, "[Sms avslöjar: Ericssons vd pressade regeringen att rädda Huawei](#)," January 6, 2021

12 Nicolai Raastrup and Leonora Beck, "[Kinesere går efter danske teknologivirkksomheder](#)."

13 The State Council Information Office of the People's Republic of China, [China's Military Strategy In 2015](#), May 26, 2015.

14 The State Council Information Office of the People's Republic of China, [China's Arctic Policy](#), January 26, 2018.

elements extracted from the mine, particularly drew criticism, mostly on environmental grounds. But it was also the spark for considering this as a security issue.

In 2016, a Chinese mining company, General Nice Group, bid on the public tender of the naval port Grønedal in southern Greenland, which Denmark's Defense Ministry had shut down in 2014. The public tender was then suddenly revoked. Prime Minister Lars Løkke Rasmussen reportedly personally vetoed the sale, which was seen as a security risk.¹⁵

Denmark's Ministry of Defense and intelligence services have raised questions about China's activities in the autonomous territory of Greenland.

That nascent reluctance became more apparent when the state-owned China Communications Construction Company was shortlisted as a possible contractor to build and expand three Greenlandic airports: in Nuuk, Ilulissat, and Qaqqortoq in March 2018. A high-ranking Danish official said: "We are very concerned. China has nothing to do in Greenland...Denmark has a big responsibility to live up to with regards to our closest ally, the United States."¹⁶ Following this, the prime minister travelled to Greenland in September 2018 to seek an agreement with the Greenlandic government, offering public funding to co-finance the new airports.

The issue was controversial in Greenland and led to the fall of the local government. Pro-independence voices have become stronger over the last decades but the island's economy still depends on Danish subsidies. Many Greenlanders saw Chinese investment as the gateway to help Greenland become economically and then politically independent from Denmark.¹⁷

China's presence led to lengthy discussions within the Danish and Greenlandic governments. Although Greenland is an autonomous territory, defense and security policy remains a competency of the government in Copenhagen, while control over underground resources was devolved to the Greenlandic authorities in 2010. The question therefore was if the mining of uranium and rare earths should be considered a security issue or purely a resource one. A joint governmental working group concluded in 2013 that uranium mining did qualify as a security issue.¹⁸ Still, the Greenlandic government formed after elections in April 2021 has halted a major uranium project, led by a partly Chinese-owned firm, at Kvanefjeld due to expected negative environmental consequences.

Denmark has also grown increasingly skeptical of Chinese investments in sensitive sectors. When the largest Danish telecommunications company, TDC, in 2013 signed a contract with Huawei to upgrade and maintain the country's mobile network for a six-year period, a short-lived debate arose about the security risks in giving a Chinese company access to large parts of the telecommunications networks. At that time, the intelligence services did not object to the deal and Huawei won the contract to upgrade TDC's network to 4G.

15 Martin Breum, "[Løkke stopper kinesisk opkøb i Grønland](#)," Information, December 20, 2016.

16 Erik Matzen and Tom Daly, "[Greenland's courting of China for airport projects worries Denmark](#)," Reuters, March 22, 2018.

17 The Economist, "[Chinese investment may help Greenland become independent from Denmark](#)," May 3, 2018.

18 Udenrigsministeriet, Arbejdsgruppen om konsekvenserne af ophævelse af nul-tolerancepolitikken: [Rapport om udvinding og eksport af uran](#), October 2013.

In 2018, however, Huawei faced a massive backlash and in 2019 TDC chose Ericsson to build the 5G network. Defense Minister Claus Hjort Frederiksen said that he had serious concerns over Huawei but underlined also that Denmark at the time did not have the legal means to ban it. “It is up to TDC to find the right supplier,” he said.¹⁹ China’s 2017 intelligence law, which instructs Chinese companies to cooperate with the intelligence services, helped fuel the growing skepticism of Beijing’s intentions.²⁰ Increased U.S. pressure during the Trump administration reinforced this.

In 2019, Prime Minister Mette Frederiksen stated clearly that security concerns needed to be taken much more into consideration. Denmark also initiated legislative changes, which classified all telecommunications as critical infrastructure, making it impossible for Huawei to qualify as a trusted vendor, even in the periphery of Danish networks.²¹ “We need to make sure that suppliers are reliable and cannot, for instance via a 5G network, counteract Danish security interests,” said the prime minister, who also pointed to concerns in NATO and the EU, and announced a government proposal for an investment-screening mechanism.²²

In the Faroe Islands, which is also an autonomous part of Denmark, the press revealed how the Chinese ambassador in 2019 threatened local authorities with restrictions on market access for fish—the islands’ main export commodity—if they did not accept Huawei as a vendor.²³ As in Greenland, the issue plays into the ongoing fights with Copenhagen over security policy competence and whether telecoms is a commercial local decision or a security issue to be decided by the government in Copenhagen.

Norway: Huawei’s Continued Failures

In Norway, the acquisition in 2011 of the high-profile company Elkem, an advanced materials and silicon producer, by China’s Bluestar Silicones was broadly considered a positive inflow of foreign capital in an economic sector with little relevance to security policy. Most concerns were expressed by the country’s unions, which said the deal could potentially undermine Norwegian labor standards, a point that has mostly been disproved.²⁴

Later, as was the case in Denmark, Huawei’s role in the development of the 5G network generated heated debates about the balance between economic benefits and potential security challenges. The company was deeply involved in the development of the 4G network but the increasing focus on China’s role in international affairs by Norwegian security experts and increased international attention on Norway among its traditional allies, especially the United States, contributed significantly to the concerns over Huawei. Ultimately, the case of Huawei led to pressure to find political and administrative answers to a whole new set of challenges at the

19 Thomas Klose Jensen, “[Claus Hjort: Vi kan ikke forbyde Huawei](#),” DR Nyheder, January 19, 2019.

20 Arjun Kharpal, “[Huawei says it would never hand data to China’s government. Experts say it wouldn’t have a choice](#),” CNBC, March 5, 2019.

21 Simon Kruse and Lene Winther, “[Nu trækker Danmark »plastret af såret«: Her er loven, der kan sende Huawei ud i kulden](#),” Berlingske, December 10, 2020.

22 Kristian Mouritzen, “[Mette Frederiksen trækker nye grænser i fejden mellem Kina og USA: Coronakrisen har vist os, hvor sårbare vi er](#),” Berlingske, May 13, 2020.

23 Lasse Karner, “[Kinas pres på Færøerne for at indkøbe Huawei viser, hvad vi kan forvente af Kina i fremtiden](#),” Information, December 12, 2019.

24 Khetil Malkenes Hovland, “[Industrigiganten har hatt kinesisk eier i syv år: – Ikke grunnlag for bekymringene](#),” E24, March 24, 2018.

intersection of national security, new technology, and geopolitics, which has been an important driver in setting up regulations and screening mechanisms for foreign investments in Norway.

Finland: Good Relations Tainted by China's Arctic Silk Road Ambitions

Relations between Finland and China are better than those between China and Sweden, Denmark, or Norway. Central to them is the 10,000 km trans-Arctic undersea internet cable connecting Finland to Russia and Asia via its state-owned Cinia Group Oy. In 2016, Cinia Group Oy chose Huawei to build what they referred to as "Direct Digital Silk Road between Asia and Europe."²⁵ In 2018 the two countries also agreed to develop a joint research center for Arctic space observation and data sharing services in Sodankylä in Finnish Lapland.²⁶ An important selling point for Finland is its relatively cheap power for data centers and its booming tech workforce.

It was revealed earlier this year by Finland's military that China's state-funded Polar Research Institute had made an offer to buy the airport at Kemijärvi, close to the joint research center.²⁷ The goal was to establish an airbase for Arctic climate and environmental research flights extending to the northern polar area, according to Kemijärvi's Mayor Atte Rantanen. When the story about the secretive plan broke, it surprised the University of Lapland and its Arctic Centre, which had previously collaborated with Chinese researchers but had not been consulted about their Chinese partners' plan.

When the Ministry of Defense received information about the discussion on the purchase of the airport in 2018, it blocked its acquisition by any foreign state-owned entity because it is located next to a strategically important firing range. In the meantime, the EU's investment-screening mechanism had entered into force, and the Ministry of Defense noted that in addition to Finland's own laws, the EU legislation would also have been an obstacle to such a deal.²⁸

The most important factor in Finland's debate over Chinese investment was the Talsinki project, announced in 2016, to build the largest tunnel in the world to connect Estonia's Tallinn and Finland's Helsinki by rail. Touchstone Capital Partners, an investment vehicle for Chinese state-owned enterprises, pledged to invest €15 billion in the Finnish Company FinEst Bay to build the tunnel. This was accompanied by a memorandum of understanding between FinEst Bay Area Development and the state rail conglomerate China Railway International Group (CREC), China Railway Engineering Corporation (CRECG), China Communications Construction Company (CCCC), and financier Touchstone Capital Partners.²⁹ The former Finnish ambas-

25 Cinia News Archive, "[Cinia is building Direct Digital Silk Road between Asia and Europe by selecting Huawei transport platform](#)," March 16, 2016.

26 Xinhua Net, "[China, Finland to enhance Arctic research cooperation](#)," April 18, 2018.

27 YLE, "[Defence Ministry blocked Chinese plans for research airbase in Lapland](#)," March 4, 2021.

28 Ibid.

29 Frank Jüris, "[The Talsinki Tunnel: Channelling Chinese Interests into the Baltic Sea](#)," International Centre for Defence and Security, December, 2020; Reuters, "[Three Chinese companies to build Tallinn-Helsinki tunnel](#)," July 12, 2019.

sador and foreign policy expert, Alpo Rusi, sharply criticized the project “in terms of security,” saying the “role of China as the main investor is the major problem.”³⁰

General opposition to the cost of the project has delayed it and it is unlikely to ever come to fruition. Meanwhile, concerns about Chinese investments triggered a broader discussion about China’s Arctic Silk Road, which would potentially bring large investments into Finnish infrastructure,³¹ but also harm Finnish security interests as well as the indigenous Sami population by making traditional reindeer husbandry more difficult.³²

The EU Screening Mechanism and its Implementation in Nordic Countries

In the midst of domestic discussions about the vulnerability of critical infrastructure and security interests, particularly triggered by high-profile Chinese investment cases and security concerns related to Huawei, all Nordic countries have updated or are updating legislation related to their investment-screening regimes, not least due to introduction of the EU screening regulation.

The screening mechanisms in the Nordic countries vary; for example, in terms of which sectors are covered, whether notification is voluntary, and which activities are covered. All are aimed at foreign investment in domestic companies, while there is a difference in the extent to which they cover other types of acquisitions and economic activities.

The screening mechanisms in Finland, Denmark, and Norway allow the government to block a foreign acquisition on grounds of national security and, where appropriate, public order. They also make it possible for the government to prohibit the acquisition or to set mitigating conditions for the acquisition.

The screening mechanisms in Finland and Denmark cover sector-specific and non-sector-specific acquisitions with Denmark’s mechanism being slightly broader in scope. In both countries, non-sector-specific investments with ultimate ownership based outside EU or European Free Trade Association (EFTA) countries can be subjected to scrutiny. Finland and Denmark also include special economic agreements (such as joint ventures and supplier or service agreements where the acquiring entity receives significant control over security-sensitive activities). For sector-specific investments, both countries have a 10 percent threshold, which corresponds with the portfolio investment criteria. Recently, there was press scrutiny in Denmark of science cooperation with China and of Chinese researchers with undeclared ties to China’s government-run Thousand Talents program.³³ The new legislation is thus geared to cover such science cooperation if it is based on an economic agreement.³⁴

30 Alpo Rusi, [The Belt and Road Initiative, the “Talsinki” Tunnel and Coronavirus as a Geopolitical Factor](#), Lecture in Kaunas, February 25, 2020.

31 Arno Rydman, [“Suomi otollisessa paikassa jos Uusi silkkitie toteutuu.”](#) Verkkouutiset, February 22, 2018.

32 Jukka Huusko and Jukka Gröndahl, [“Kiina hiipii tunturiin.”](#) Helsingin Sanomat, December 18, 2018.

33 Stryhn Kjeldtoft, [“Kina hyrer vindmølleforskere via talentprogram, som bliver mistænkt for industrispionage”](#), Politiken, May 1, 2021

34 Author’s interview with Danish government official, Ministry of Foreign Affairs, June 7, 2021

Finland's legislation places responsibility for final decisions to council meetings of the government. The government will intervene only if the acquisition represents an "extremely important national interest." Interventions to protect defense or public security and order can only happen if there is a "genuine and sufficiently serious interest in a fundamental interest of society."

In Denmark, it is the Danish Business Authority that deals with notifications of direct investments in critical sectors. The Ministry of Industry, Business, and Financial Affairs is authorized, after negotiation with relevant ministry, to lay down criteria for assessing whether an investment poses a threat to national security or public order, and eventually block or demand mitigating changes to the investment.

Currently, Greenland and the Faroe Islands are not covered by Denmark's investment-screening legislation, but it is the ambition in Copenhagen that both autonomous entities will implement legislation almost identical to the updated Danish one. However, since the elections in April, the new pro-independence Greenlandic government seems less likely to implement legislation that would enable the Danish government to intervene on security grounds. While officials in Copenhagen push for the whole kingdom to implement joint security standards, the view in Greenland and the Faroe Islands is that certain areas in the new investment-screening act belong to local competences.

Outside of defense-focused regulations, Sweden does not have a mechanism for screening foreign investment on national security grounds. The updated Protective Security Act of 2018 requires operators that transfer security-sensitive entities to a foreign acquirer to notify the security services, but it does not require scrutiny of the foreign acquirer. In August 2019, the government formed a special commission, the Direct Investment Investigation, to explore proposals for an investment-screening mechanism, which delivered its interim report in March 2020.³⁵ A final report with proposals is scheduled for release in November.

The commission's interim report mainly deals with the choice of authority to administer the investment-screening mechanism, and it does not outline any significant recommendations. It notes that existing knowledge and experience of investment and security screening, as well as the ability to collaborate with other authorities, is an important part of assessing which authority should be the contact point and responsible for a screening system.

Norway's investment-screening mechanism differs somewhat from the three other ones. Instead of having sector-specific screening based on a number of criteria, individual ministerial departments must decide within their area of responsibility whether the Security Act—in whole or in part—should apply to companies that process classified information; have information, information systems, objects or infrastructure that are crucial for basic national functions; and engage in activities that are essential to fundamental national functions.

If a company is considered to fall under the rules of the Security Act, it must be notified in advance. This involves regular updates of a list of all covered companies. Norway also has a special mechanism for screening

³⁵ Justitiedepartementet, [Kompletterande bestämmelser till EU:s förordning om utländska direktinvesteringar](#), March 6, 2020

Table 2. Investment-Screening Mechanisms in the Nordic Countries

	Finland	Denmark	Norway
Name of law	Laki ulkomaalaisten yritysostojen seurannasta/ Lag om tillsyn över utlänningars företagsköp	Lov om screening af visse udenlandske direkte investeringer m.v. i Danmark	Lov om nasjonal sikkerhet (sikkerhetsloven)
Date adopted (latest version)	October 2, 2020	May 1, 2021	January 1, 2019
Sectors	Sector-specific (defense, critical suppliers to defense, dual-use) and non-sector-specific	Sector-specific (defense, dual-use, critical technology, infrastructure) and non-sector-specific	Potentially all sectors; a list of companies covered by the act is regularly updated
Threshold	10 percent for sector-specific and non-sector-specific	10 percent for sector-specific; 25 percent for non-sector-specific	At least one-third of the share capital, participations or voting rights; or significant influence
Additional coverage	Corresponding actual influence in the company; special economic agreements	Corresponding actual influence in the company; special economic agreements	
Notification	Sector-specific requires prior confirmation; non-sector-specific is a voluntary notification	Sector-specific requires notification; non-sector-specific is a voluntary notification	Notification to the relevant department must be given to acquire a company covered by the act
Nationalities covered	Sector-specific applies to all countries except Finland; non-sector-specific applies to non-EU or EFTA entities	Sector-specific applies to all countries except Denmark; non-sector-specific applies to non-EU or EFTA entities	The scheme applies regardless of the acquirer's nationality
Screening Authority	Ministry of Economic Affairs and Employment; final decision taken by government	Ministry of Industry, Business and Financial Affairs	Individual ministerial departments depending on the company's sector

certain procurements. Under it, companies covered by the Security Act have a duty to notify the authorities of acquisitions of information systems, objects, or infrastructure worthy of protection if the acquisition entails a “not insignificant risk” that it may be affected by or used for security-threatening business. According to the legislation, national security interests refer to the country’s sovereignty, territorial integrity, and democratic governance as well as overriding security interests.

Norway’s mechanism is in principle broader in scope as it is not sector-specific. However, it provides the government with fewer means to intervene in a potentially security-threatening investment, compared to the situation in Denmark and Finland. Norway’s mechanism also differs from the Danish and Finnish ones in that it is based on a pre-designation of covered companies, which constitutes a significantly narrower scope.

As in the Danish and Finnish mechanisms, in Norway’s Security Act “qualified ownership” covers economic agreements, where the acquiring party could potentially gain significant influence over the management of a company through activities other than direct acquisitions, such as leasing or joint ventures.

Where Are We Now?

The traditional free-trading Nordic countries, with their small and export-oriented economies, were to a large extent initially skeptical of any curbs on foreign investments. Inside the EU, they stand for free trade

and typically object to measures that are seen as protectionist. But the advent of Chinese state-driven investments changed that. The other factor was the change in the United States' posture on China under President Donald Trump, which has largely continued under President Joe Biden. The United States expresses worries about its allies' cooperation with China in sensitive sectors such as critical infrastructure and technology. At the NATO's Brussels Summit in June 2021, China figured in the final communiqué, which noted concerns about hybrid threats, its lack of transparency and use of disinformation, and a strengthened commitment to “enhance the security of our critical infrastructure, key industries, supply chains, and communication information networks, including 5G.”³⁶

The next frontier will be whether Nordic countries are willing to look beyond security concerns and critical infrastructure in engaging with China economically. Inside the EU, the coronavirus pandemic has reinforced the France-led thinking on strategic autonomy. Upon Nordic insistence, the concept has been renamed open strategic autonomy. Meanwhile, Beijing's Made in China 2025 strategy also targets new and cutting-edge tech industries including artificial intelligence and semiconductors. Cooperation in science and research also has the potential for voluntary or involuntary intellectual property transfer and capacity building to the benefit of China. The United States recently published a catalogue of sectors where cooperation with China is to be limited.

The introduction of investment screening in the Nordic countries might thus just constitute a first step—the United States has had one for decades—in a bigger economic and tech supremacy battle between the United States and China, which will create broader repercussions for the Nordic countries' trade and investments relations with China. They may not fully join the United States in its contest with China, but this will be the new background they will have to relate to, of which investment screening is just one component.

³⁶ NATO, [Brussels Summit Communiqué](#), June 14, 2021.

Conclusion

The coming phase of Chinese infrastructure investment in Europe will not resemble the previous ones. Beijing is well aware of the changed political climate in many countries, the heightened sensitivities around these investments, the greater attention from the United States, and the new scrutiny mechanisms that are in place. The investment numbers from China are indicative of greater preemptive restraint as a result. The economic context in Europe is different than it was in past phases too: where the eurozone crisis saw countries in dire economic straits being encouraged by creditor countries to sell assets, the last year has seen creative financing tools used to provide fiscal stimulus across the continent. Despite the straitened conditions resulting from the coronavirus pandemic, there has been no European government simply turning a desperation-induced blind eye to Chinese money.

Nonetheless, European analysis and responses to China has often been characterized by a “rear-view mirror” approach. As this report lays out, in many countries closer attention to Chinese hard infrastructure acquisitions did not induce a pause in the embrace of Chinese companies’ role in digital infrastructure. It required external pressure to alert states to the risk, an EU-wide process to help them manage it effectively, and a global pandemic to bring supply-chain issues to their attention. In drawing lessons from the case studies, the main question to address is how to ensure that the substance of the security concerns relating to Chinese investment is addressed rather than just the specific forms it has taken in the past.

In this regard, there are considerations that go beyond the question of infrastructure investments. Many of the problems identified relate to capacity gaps for governments in dealing with the issues at stake. This is not simply a question of adding “China expertise.” Recruiting a few more Mandarin speakers to the diplomatic corps is not going to equip European governments with, say, the means to foresee how the evolution of Chinese fintech might require changes in Europe’s regulatory practices or how third-party acquisitions of niche component suppliers might affect the Chinese government’s capacity to hold European telecoms infrastructure at risk. Mainstreaming China knowledge and awareness across various key fields and discipline has become increasingly important. Ideally, European governments would be developing cadres of multi-disciplinary experts who are able to operate with facility between analysis of the goals of the Chinese Communist Party, changes in the technology landscape, the workings of Hong Kong shell companies, and other topics.

Realistically, though, this will require pooling and complementarity. Most governments in Europe are unlikely to be able to build and retain the full spectrum of capacities required, and there are instances where even well resourced states such as Germany have been dependent on U.S. intelligence for critical investment-related decisions vis-à-vis China. A mutually reinforcing pool of cross-departmental expertise operating between EU member states, NATO members, EU and NATO institutions, and—in some cases—sub-state administrative bodies is likely to be required. There are growing calls for the strengthening of China-related knowledge

and coordination in Europe but the manner in which this capacity is beefed up should assist with foresight and judgment on some of the most pressing policy questions that are likely to confront governments, not just generic expertise. States and institutions with the most advanced capabilities can also play a critical role through the development and sharing of best practice. The EU's 5G toolkit illustrated the benefits of this approach, which could easily be replicated in other sectors, from traditional transportation infrastructure to cloud storage.

Governments have been ready for a repeat of the practices relating to Chinese investment seen during the eurozone crisis.

The EU investment-screening mechanism already gives the European Commission the power to issue a non-binding opinion if an investment poses a threat to the security or public order of more than one member state, or if an investment is likely to affect projects or programs of EU interest. It also increases the formal commitments to information sharing between member states and the European Commission. Despite the absence of formal blocking powers, the processes are now in place to establish stronger norms of transparency, mutual assessment, harmonization, and shared best practice on a pan-European basis. As the case studies in this report show, some of these assessments may usefully be conducted on a regional basis rather than solely a national or continental level. Pooling assessments on strategically important areas such as the Mediterranean, including through cooperation with non-European partners, will provide more holistic views on questions such as Chinese influence over supply lines and sensitive security environments in the European periphery.

Yet part of the need for appropriate expertise is to ensure that governments are attuned to China's changing goals and methods, and nimble in responding.

Governments have been ready for a repeat of the practices relating to Chinese investment seen during the eurozone crisis. In many cases they have also thought more seriously about how China's Made in China 2025 initiative relates to specific sectors. Yet Beijing's approach to developments such as the "dual circulation" strategy is still at a more nascent stage. In explaining the concept, President Xi Jinping has spoken about creating fully domestic supply chains for national-security reasons, and he made it a declared goal to increase foreign actors' reliance on Chinese supply, stating: "we must tighten international production chains' dependence on China, forming a powerful countermeasure and deterrent capability against foreigners." Already, European companies in the country have reported to the EU Chamber of Commerce in China "that this [self-reliance] drive is different and more radical than in the past," as Beijing moves faster to "create state-sponsored national champions to dominate a self-reliant ecosystem of indigenous technology integrated across its entire market." Yet the recently concluded negotiations on the EU-China Comprehensive Agreement on Investment showed little indication of an adjustment in approach that would take these shifts into account. The EU conducts regular assessments on critical raw materials and is reviewing its supply chains, but neither effort encompasses the more complex set of dependencies that an actor determined to build them can establish.

When thinking about the security risks relating to Chinese investment, a narrow view—confined to addressing acquisitions of sensitive hard infrastructure—is even more obviously insufficient in dealing with these developments. As the experience in telecoms demonstrated, with Chinese subsidies and predatory pricing deci-

minating the entire industry, Europe and the United States faced the situation of losing the capacity to build the next generation of wireless technology altogether or being dependent on Chinese subsidies and firms simply because the market was no longer viable for their own companies. It was a vivid demonstration that investment screening needs to be integrated with trade and industrial policy, including with close attention to the European and allied military industrial base, if some of the most serious long-term security risks are going to be addressed. Losing the technical ability and know-how to develop entire fields of digital infrastructure as a result of Chinese subsidies, acquisitions, and market-access restrictions should be seen in the same context as acquisitions of ports or energy installations.

Although many national- and European-level instruments have necessarily been framed in broad terms—setting general rules rather than China-specific ones—a high degree of adaptability is critical. While legal predictability for investors is important, it is clear that Beijing will test out whether these rules are interpreted expansively or narrowly. China has already shown creativity in circumventing restrictions, as cases such as the post-takeover boardroom maneuvers at Imagination Technologies, where the Chinese backer of its private-equity owner sought to gain control of the chip-design company, illustrated. As one international lawyer noted at the time, “hostile actors do seem increasingly happy to sit in the long grass before implementing their intended strategy.”¹ Governments will need to be ready to adjust their legal frameworks relatively rapidly, and to retain sufficient expansive discretionary powers to be able to deter actions that work against the spirit of the screening legislation or move retroactively when this fails. In general, the aim should be to focus on the goal rather than just the specific transmission mechanism. If the Chinese state is able to achieve the same effect through incentivizing “voluntary” technology transfer that impacts European capacity in a critical sector, or if it is able to shield research partnerships from adequate scrutiny, the ability to block outright acquisitions in these sectors will not be sufficient. Some of these issues can be addressed by stipulating robust transparency requirements relating to ownership, control, finances, audits, personnel, and other considerations.

In principle, infrastructure is a topic that should be subject to appraisal for military security risks too, which is one of the reasons it has featured as a question for NATO in the last two years.

In principle, infrastructure is a topic that should be subject to appraisal for military security risks too, which is one of the reasons it has featured as a question for NATO in the last two years. Yet it has been contentious in this context. When China was first raised as a topic, critical infrastructure seemed an obvious focal point for the alliance. But there have been debates ever since about the extent to which this should be a NATO or an EU matter, NATO’s capacity to address infrastructure issues effectively at all, and concerns from some alliance members about the level of securitization of commercial issues. If anything, however, there has been a real lag in integrating military considerations relating to Chinese presence in the Atlantic theater into European security planning. NATO’s attempts at evaluating the spectrum of China-related issues came very late in the day. Moreover, the low level of involvement of defense voices in the European 5G debates, beyond cyber-related issues, was indicative of how little thinking had gone into the impact of Huawei’s role in European digital

¹ Patrick Wintour, “[Chinese threat prompts calls for UK to toughen company takeover laws](#),” The Guardian, May 14, 2020

infrastructure on military mobilization or various contingencies. Acculturating European defense officials to address these issues seriously will require an ongoing process of China assessments in NATO, and regular cooperation and coordination between NATO and the EU on the topic. While much of the expertise on infrastructure may lie with member-state and EU civilian institutions, NATO and defense ministries can, at a minimum, play a more active role in identifying risks and raising red flags that are shared with other alliance members.

European security in this area—whether in terms of intelligence sharing, analysis, or simply ensuring a degree of harmonization in approaches—will continue to depend on close coordination with other like-minded partners. This is already underway in several formats, whether with the United States, Japan, or informal G7-plus groupings. The coming period will determine which of these stick. Ideally, while starting in smaller, trusted formats, it will be possible to forge relatively coherent approaches across much of the OECD on issues ranging from investment screening to technology transfer and export controls. While specialist working-level coordination processes on investment screening itself are valuable, the questions at stake are sited in a wider framework relating to the security issues involved in economic interactions with China. As the case studies illustrate, these need to be analyzed on a continuum, given the range of channels Chinese actors can utilize to pose similar security risks even if one of those avenues—such as restrictions on acquisitions—is shut down. Strengthened European capacities of the sort detailed above will help to ensure that European states have scope to influence the overall shape of this emerging framework, including on the U.S. side, rather than being primarily reactive to developments in U.S. and Chinese policy.

While the “offensive” dimensions of European policy are still underdeveloped, Europe now has substantially better instruments to deal with the defensive response to Chinese infrastructure investment.

Also important will be the infrastructure offer from Europe and its partners. Even if EU and other Western European states are now developing more effective mechanisms domestically, the overall security environment—particularly in Europe’s neighborhood—will continue to be conditioned by whether like-minded actors are able to provide attractive alternative offers to Chinese infrastructure finance. After several years of slow progress, there is now political momentum behind the EU’s connectivity scheme and a refreshed U.S. push behind the Build Back Better World initiative provisionally highlighted at the G7. But there have been several false starts already. The coming stretch will also be a credibility test for whether Europe, the United States, and their partners in Asia are serious about lining up connectivity finance and streamlining the fragmented, slow-moving processes that add up to less than the sum of their parts. Priorities in this area should be conditioned by an appraisal of security needs, with appraisals of how Chinese investments and wider presence in locations ranging from the Western Balkans to North Africa will affect European security interests.

As the case studies have illustrated, while the “offensive” dimensions of European policy, in areas such as competing with China in third countries on connectivity finance, are still underdeveloped, Europe now has substantially better instruments to deal with the defensive response to Chinese infrastructure investment. The use of those tools, during what amounts to a trial period for many countries, will do much to define how Chinese actors assess the overall investment landscape on the continent. As with the backlog of cases to be

dealt with by the Committee on Foreign Investment in the United States, it is conceivable that this transition phase will see a testing of the latest legislation. Once the new norms are clear though, Chinese investors will adjust to these new political parameters, as has already been evident from their assessment of the changed environment on the continent.

While some of the traditional hard-infrastructure investment cases will continue in these circumstances, many of the more complex cases will involve digital infrastructure, finance, data, and other fields where the risks are less immediately obvious than a port investment in close proximity to a NATO military facility. Helpfully, from Made In China 2025 to dual circulation, Beijing continues to lay out early what its plans are. With the right expertise and planning in place, these developments can readily be incorporated into strategy for European governments and institutions. The 5G process has illustrated how politically painful and economically costly it can be to deal with these issues in crisis mode, particularly as many governments were operating with often thinly informed and incomplete analysis, in a context where disinformation abounded. This report is intended as a contribution to ensuring that there is no repeat of this.

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About the Author(s)

Dario Cristiani is the IAI/GMF senior fellow at the German Marshall Fund of the United States, based in Washington, D.C.

Mareike Ohlberg is a senior fellow in the Asia Program and leads the Stockholm China Forum.

Jonas Parello-Plesner is a non-resident senior fellow in GMF's Asia program.

Andrew Small is a senior transatlantic fellow with GMF's Asia Program,

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