

Project Title: Building Fortress Europe: Economic realism, China and Europe's investment screening mechanisms

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Research summary

This study aims to explain the emergence of heightened Foreign Direct Investment (FDI) control through the establishment of investment screening mechanisms in Europe in the post 2015 period. This development presents a significant puzzle, given that Europe, as the world's largest FDI recipient, has greatly benefited from it. Moreover, this shift towards protectionism contradicts prevailing economic orthodoxies and business interests. Explaining this behavioral shift is central to the research.

Employing the economic realism framework, the research posits that investment screening in Europe can be understood as part of an economic balancing process against China. Throughout the 2010s, China significantly enhanced its economic competitiveness, demonstrating not only the capability for successful catch-up growth but also the potential to dominate key global industries. Europe's perception of a rising threat was underpinned by this growing competitive ability, further accelerated by China's explicit ambitions and its FDI activities in Europe.

China aimed not only to compete in the same industrial sectors as Europe but also sought to leverage European intellectual capital and firms for this purpose. This strategy could not be tolerated, prompting a multifaceted balancing process against China. Consequently, investment screening has emerged as a crucial defensive measure to prevent Chinese access to key know-how and technologies, pivotal for its attempt at global industrial leadership.

This is shown through the use of case studies, with focus on Germany, France and at the supranational level with the EU.

Data Type: Qualitative data and economic statistics