

Screening Foreign Direct Investment into the European Union

Collin van de Wiel (s1030178)

Nijmegen School of Management
Radboud University, Nijmegen, The Netherlands
Supervisor: dr. G.C. van der Kamp-Alons

Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of Master in Political Science (MSc)
Specialization: Conflict, Power and Politics

Submitted: 28 June 2020

Abstract

The concerns about incoming Foreign Direct Investments (FDI) in the EU are growing. Especially when these investments are from China and if they are directed at strategic or high advanced companies. Therefore, in September 2017 the EU adopted a regulation for the screening of FDI based on security and public order. This study aims to explain the establishment of this European Investment Screening regulation. This EU regulation provides the member states with a framework for the screening of incoming FDI's, creates better European coordination and allows the Commission to give non-binding opinions. To explain the establishment, this study examines the preferences of different political actors for further European integration concerning FDI policies. The analysis mainly concentrates on Germany and France. Secondly, it focusses on the EU-level of decision-making. It uses the theoretical framework of neofunctionalism and liberal intergovernmentalism to generate possible explanations and conducts a process-tracing to check these explanations. This study concludes that a strong preference for integration from Germany and France, combined with neo-functional dynamics of European integration, form the most suitable explanation. The implementation and possible extension of the FDI regulation should provide more clarity.

Key words: EU, Foreign Direct Investment, European Integration, Investment Screening.

Table of Contents

ABSTRACT	II
TABLE OF CONTENTS	III
CHAPTER 1: INTRODUCTION	1
1.1 FOREIGN DIRECT INVESTMENT	5
1.2 FDI IN THE EU	5
1.3 THE INVESTMENT SCREENING REGULATION	7
CHAPTER 2: THEORETICAL FRAMEWORK	10
2.1 BACKGROUND OF NEOFUNCTIONALISM	10
2.2 NEOFUNCTIONALISM	11
2.2.1 SUPRANATIONAL INTEREST GROUPS	12
2.2.2 ELITE SOCIALIZATION	13
2.2.3 SPILLOVER	14
2.3 BACKGROUND OF LIBERAL INTERGOVERNMENTALISM	17
2.4 LIBERAL INTERGOVERNMENTALISM	18
2.4.1 NATIONAL PREFERENCE FORMATION	19
2.4.2 INTERNATIONAL BARGAINING	21
2.4.3 INSTITUTIONAL DELEGATION	22
2.4.4 ROLE OF THE EUROPEAN INSTITUTIONS	23
CHAPTER 3: METHODS	25
3.1 RESEARCH DESIGN	25
3.2 OPERATIONALIZATION	26
3.2.1 NEOFUNCTIONALISM	26
3.2.2 LIBERAL INTERGOVERNMENTALISM	28
3.3 DATA SELECTION	29
3.4 LIMITATIONS	30
CHAPTER 4: EMPIRICAL RESEARCH	32
4.1 OVERVIEW OF EVENTS	32
4.1.1 GERMANY	32
4.1.2 FRANCE	34
4.1.3 THE LETTER	34
4.1.4 EUROPEAN PARLIAMENT	35
4.1.5 SUMMIT JUNE 2017	36
4.1.6 THE PROPOSAL OF THE COMMISSION	37
4.2 HYPOTHESES	41
CHAPTER 5: CONCLUSION	46

5.1 SUMMARY OF THE RESEARCH	46
5.2 FINAL CONCLUSION	46
5.2.1 EMPIRICAL QUESTION	46
5.2.2 THEORETICAL QUESTION	48
5.3 IMPLICATIONS AND FUTURE RESEARCH	49
5.4 LIMITATIONS	50
5.5 FINAL REMARKS	51
BIBLIOGRAPHY	52

Chapter 1: Introduction

The flow of foreign direct investment (FDI) from China into the European Union increases strongly. Since the Chinese government is promoting outward investments, more and more Chinese firms are investing in foreign economies, including many state-owned enterprises (Bickenbach et. al, 2015). This increase started in 2010 and accelerated rapidly after 2013 and mostly took place in the more economically advanced EU member states like France, Germany, Italy and Great Britain (Bickenbach and Lui, 2018). Also, the economic crisis of 2008 contributed to the increase of Chinese FDI inflows (Meunier, 2014). The crisis provided the opportunity for an already existing desire of Chinese companies to invest in Europe. These growing international investments are in line with China's policies around the New Silk Road, also referred to as the Belt and Road Initiative, a foreign policy strategy launched in 2013 by the Chinese government (Holslag, 2017). Even though there are many positive effects of these incoming investments, foreign investments from China or Chinese takeovers are often accompanied by fears and worries (Meunier, 2015). Labor rights issues, geopolitical implications and the unusual direction of technological flows are examples of these concerns. Moreover, Meunier (2014) is arguing that China deliberately purchases a divide and conquer strategy resulting from ambiguous European FDI policy. She argues that developments on the China side should definitely be kept in mind when making European investment policies. Naturally, these growing amounts of Chinese investments flowing into the European continent are not left without attention. The influx of China's FDI's into the EU is definitely one of the major aspects in the FDI policy context of the EU (Götz, 2015).

Hence, the European countries are aware of the risks resulting from Chinese investments and should be able to provide a European answer to these new challenges. One way to deal better with these Chinese and other foreign investments, would be to create a pan-European committee that jointly investigates foreign investments. However, Meunier (2018) claims that such a pan-European FDI committee would be very unlikely in the future. First, because there is no European climate for further integration, and second because the preferences of member states are too disparate regarding foreign investments. Whereby France regards Chinese investments more as an issue of national security, Germany perceives those investments as a threat to the competitiveness. Other European countries, on the other hand, see Chinese investments just as a welcome source of financing.

Götz (2015) claims that European coordination is more important than ever to overcome harmful competition within the EU and a collective race to the bottom. But she points out that “several member states have expressed their negative feelings towards a common FDI approach” (Götz, 2015, p.300).

On September 2017, former president of the European Commission Juncker proposed a regulation for a new European framework for the screening of FDI. This new regulation aims to safeguard Europe’s security and public order.

Kao (2020) is arguing that the adoption of this FDI screening proposal is very uncertain, due to the divided attitudes of the member states. The author pronounces that it is highly unlikely that this proposal will reach a majority in the Council. Most member states are against the screening of foreign investments on the European level. The Nordic countries and the BENELUX feel that such a screening threatens their traditional free trade. While Portugal, Greece and the Eastern European countries do not want to restrict FDI’s because their economies depend on it. Only Germany and Italy would support the French proposal for a European FDI screening. Di Benedetto (2017) also emphasizes the resistance and scepticism of the Nordic and some Southern countries towards this proposal. At the same time, Bickenbach and Liu (2018) express their doubts about the feasibility of an investment regulation. Thus, the need for a European approach to FDI’s, often lead to statements of why this European integration would be very unlikely.

However, the majority of the European Parliament and the European Council were in favour of this proposal. Consequently, a new EU framework of the screening of foreign direct investments officially entered into force on the 10th of April 2019. It represents the date when the regulation has legal existence in the legal order of the European Union and in the legal order of each member state. The Investment Screening Regulation will apply from October 10, 2020. From this date, the regulation is enforceable, and the rights and obligations can be exercised. The period of time in between is called “vacatio legis” and provides stakeholders the time to prepare for compliance with the new rule.

With this new regulation, the European countries try to adapt to the new globalized world. The regulation provides a common European solution to the growing worries about Chinese and other foreign direct investments. The main goal of the regulation is to provide the member

states with the right tools to screen incoming FDI's that are likely to affect the national security and public order.

Existing research has not been able to explain the establishment of this new regulation. Moreover, literature claims that the establishment of a common European approach towards FDI's is unlikely. But in reality, the European Investment Screening Regulation is established and will be fully applied by the end of this year. This study seeks to explain the establishment of the Investment Screening Regulation. Empirically, the establishment is interesting and puzzling considering the negative climate for further EU integration, the diffused preferences of member states and their expressed negative attitudes towards a common FDI approach. This leads to the following research question:

How can the establishment of the European Investment Screening regulation be explained?

The establishment of the regulation will be traced back using a sequential model (figure 1). The analysis will focus on preference formation, the role of member states and on the influence of member states at the European level. Moreover, the analysis will examine the role of the European institutions and the European decision-making process. These elements will directly and indirectly lead toward the establishment of the regulation. The outcome of the analyzes will provide more information about the preference formation of European integration. Moreover, it will identify what the role is of the member states in the process and how the European institutional act in the process. Hence, it will give insight to the establishment of the regulation.



Figure 1. *Sequential model of the research*

Despite the voluntary nature of the proposed framework, the regulation can be perceived as further integration. The regulation sets out basic requirements for investment screening mechanisms, creates a cooperation mechanism among member states and between the member states and the European Commission and allows the Commission to issue opinions. Hence, theories of European integration can be used to examine the establishment of the investment screening regulations. Integration theories seek to explain how and under what conditions new policies come under the European regulation, how competences devolve from the nation-state to the EU-level and how European rules expand in space (Schimmelfennig, 2010).

This study makes use of two important and contradicting European integration theories in order to explain the establishment of the regulation. The two theories that fit the best with the research question are neofunctionalism and liberal intergovernmentalism. These two theories represent the basic division in European integration theory between intergovernmentalism and supranationalism. These theories are selected because they provide contradictive versions of how European integration occurs. Together they cover four major analytical elements, assumed to be the most plausible motives or driving force behind the European integration and the present regulation. The theories focus on (1) the role of the European Institutions like the Commission, (2) the role of member states, (3) the role of national and international interest groups and on (4) potential spillovers to explain integration. The applied theories are incompatible with each other, meaning that the theories exclude each other, and that one theory has a better explanation than the other.

Neofunctionalism emphasizes the influential role of supranational institutions such as the European Commission in the process of integration. It assumes that integration happens due to functional or political spillovers. It focusses on the role of supranational and national interest groups. Liberal intergovernmentalism, on the other side, assumes that the European member states are the major player in integration. It assumes domestically formed preferences and a dominate role of the powerful member states. Thus, these theories have fundamentally different views of European integration. Therefore, the theoretical research question reads:

Which theory, neofunctionalism or liberal intergovernmentalism, is providing a better explanation for the establishment of the European Investment Screening regulation?

This question is theoretically relevant since the answer will contribute to the intergovernmental-supranational debate of European integration. It will provide more theoretical clarity about the explaining factors of European integration. Moreover, the outcome of this case analysis contributes to the general debate about European integration. In the second chapter, both theories will be explained more in more detail. The following section will elaborate more on the nature of FDI and presents an overview of the history of investment related policies in the EU. Afterwards, the examined screening regulation is discussed.

1.1 Foreign Direct Investment

International equity flows are important features of the current globalization of capital markets (Goldstein and Razin, 2004). These international equity flows consist of foreign *direct* investments (FDI) and foreign *portfolio* investments (FPI). The foreign aspect refers to the fact that the investor, an individual or other company, is located in a different country than the company in which the investment is taking place. Control is the key difference between the two forms of foreign investments. With FDI's, foreign investors acquire both ownership and a leading position in the company. Hence, the investor gains the right to participate in the management of the company. The investor can actively determine the course of the company. Whereas with FPI's, investors only gain ownership over the company in return to their investment. An example of portfolio investments would be the purchasing securities like stocks or bonds. This key element of control leads to a different role and place of the investors. With foreign direct investments, the investor becomes an insider of the firm and gets first-hand information (Wu et al., 2012). Whereas investors of foreign portfolio investments remain an outsider and have to rely on information that is publicly available. Fina and Lentner (2016) expose another element that differs. Namely that FDI's are usually creating durable economic ties with the company, with investors who strive for long-term profits, whereas FPI's are more driven by short-term goals, with investors who focus on financial benefits from the acquisition and sale of shares.

1.2 FDI in the EU

Since the 2009 Lisbon Treaty, policies related to foreign direct investment are part of competences of the European Union (included in Article 206 and 207 of the TFEU). The treaty brings foreign direct investment under the Common Commercial Policy Title 2 of the TFEU. This entails that the EU is able to negotiate investment related treaties as a whole. Unity amongst the EU and its member states potentially enhances the negotiation leverage, compared

to the leverage of single states (Moskvan, 2017). Considering this significant benefit, European integration in this domain seems to be desirable. However, Meunier (2017) argues that this transference of competence in the treaty of Lisbon occurred by stealth and was against the preference of member states. This competence shift happened under the radar, with the commission not broadcasting the inclusion and the member states not prioritizing this topic given limited time and resources. To put it simply: a combination of smart agency of the commission and the bounded capabilities of the member states caused the incorporation of FDI in the Common Commercial Policy (CCP). Member states that already had relatively strict inward investment rules opposed because they did not want to lose the authority on this domain. Other member states rejected the integration of investment policies because they oppose stricter economic regulation on liberal grounds.

Including FDI competences in the CCP contributes to a coherent and strong European external economic policy and puts an end to distinctive EU investments policies and discrimination among EU investors. The EU's exclusive competences over FDI means that negotiations and ratifications of treaties related to FDI are now conducted by the EU institutions. However, the scope of this EU competence remained unclear and the lack of any concrete definition of FDI in the Treaty still left room for disagreement (Chaisse, 2012). Resulting in debates between the Commission and the member states about the power division concerning investment related competences, immediately after the Lisbon Treaty entered into force (Reinisch, 2013). To better understand how this works, it is useful to have some basic knowledge of European law. Competences of the European Union rest on the principle of conferral (Fina and Lentner, 2016, p. 422). This means that the European Union has no competences by right, but only possess competences if they are transferred from the member states to the EU. Fundamentally, the EU is a union of member states, and it is the member states that provide the Union with competences. With this knowledge, the discussion about the nature of competence shift between the EU and the member states makes more sense. And such discussions or disagreements are not uncommon (Fina and Lentner, 2016). Where the European member states insisted on keeping investment policies as shared competence, the Commission assumed that all investment related issues fall under the exclusive competence of the EU (Moskvan, 2016). Eventually, it was up to the Court of Justice of the European Union (CJEU) to settle the different views. The Commission asked the CJEU for an opinion as to whether making a Free Trade Agreement (FTA) with Singapore was an exclusive or a shared competence. In opinion 2/15, the Court concluded that negotiating FTA's falls within the exclusive competence of the

EU and therefore do not acquire the involvement of national parliaments (van der Loo, 2018) It was also concluded that portfolio investments and the Investor-State dispute settlement mechanism remains a shared competence. Hence, all the competences around FDI are under the exclusive competence of the Union.

1.3 The Investment Screening Regulation

“Europe must always defend its strategic interests and that is precisely what this new framework will help us to do. This is what I mean when I say that we are not naive free traders. We need scrutiny over purchases by foreign companies that target Europe’s strategic assets” Jean-Claude Juncker (European Commission, 2018).

In September 2017, former President Juncker proposed a new European framework for the screening of FDI. After a European decision-making and legislative process, the proposal turned into the Investment Screening Regulation. After the approval of the European Parliament on February 14, 2019, the regulation was adopted by the European Council on the March 5, 2019. The regulation provides the member states with the proper tools to screen incoming investments from third countries on the ground of public order. It moreover creates a better European coordination mechanism to exchange information concerning foreign investments. This regulation defines FDI as: “an investment of any kind by a foreign investor aiming to establish or to maintain lasting and direct links between the foreign investor and the entrepreneur to whom or the undertaking to which the capital is made available in order to carry on an economic activity in a Member State, including investments which enable effective participation in the management or control of a company carrying out an economic activity” (EUR-Lex, 2019). Hence, foreign portfolio investments are not part of the screening regulation, probably because of the lesser security risk there is with this type of investment because foreign investors do not acquire any form of control over the company. In the remainder of this study, the terms investments, overseas or cross-border investments or something similar will all refer to foreign *direct* investments.

The main features of the regulation are providing a legal framework for screening FDI on the ground of national security and public order, creating a cooperation mechanism between the Commission and the member states and providing the Commission with a new competence to screen FDI. Moreover, it enables the Commission to issue non-binding opinions.

Before the implementation of this policy, there wasn't any comprehensive framework on European level for the screening of FDI's on the ground of national security and public order. Only 14 of the then 28 member states had national mechanism for the screening of incoming investments, and those existing screening mechanisms varied considerably (Bickenbach and Liu, 2018). They differ significantly in scope, screening threshold and in design. Also, formal coordination among member states or between member states and the European Commission did not exist. The regulation calls upon member states that already have a national mechanism to incorporate issues that may affect security and public order and it encourages states without national screening mechanisms to put one in place. However, the regulation does not oblige the member states to adopt or change a mechanism.

Firstly, the regulation proposes a legal FDI screening mechanism. It provides the member states with a list of non-exhaustive factors that the member states can take into account when screening incoming investments. Member state might screen investments when the investments are directed at:

- (a) Critical infrastructure (both physical and virtual);
- (b) Critical technologies;
- (c) The supply of critical inputs;
- (d) Companies that have access to sensitive information, such as personal data;
- (e) The freedom and pluralism of the media;

Member states and the European Commission may also take several factors concerning the investor into account. Factors that might be important to the security and public order are, if the investor:

- (a) is directly or indirectly controlled by the government;
- (b) is already engaged in activities that affect the security or public order;
- (c) has been involved in illegal or criminal activities.

Although the screening regulation supposes non-discrimination towards the nationality of the investors, Hanemann, Huotari and Kratz (2019) argue that the main principles of the regulation overlap with the characteristics of Chinese investments. Both the sectors and the mentioning of state-controlled companies correspond to investments from China.

Another aspect of the regulation is European cooperation. It entails that the member states are obliged to share relevant information about investments with their fellow EU members and the Commission. Coordination can be useful, since emerging threats are not limited to the host country of the investment, considering the open structure between the European member states. The regulation creates new transparency and information requirements for all governments. Moreover, member states should notify the Commission and the other members if an incoming investment is undergoing a screening. Member states are also empowered to comment on each other if the investment is likely to affect the security of multiple countries. Member states without a national screening mechanism should submit an annual report on incoming FDI's. Information that member states need to share relate to the nature of the investments. It concerns information about:

- (a) the ownership structure of the investor and when the investment is taking place or completed;
- (b) the approximate value of the investment;
- (c) the products, services and business operations of the investor;
- (d) the member state in which the investments is taking place;
- (e) the funding of the investment and its source.

Thirdly, the regulation enables the European Commission to issue an opinion to a member state when the investments interfere with Union interests. Before, the EU could only review incoming investments on competition ground, not on national security. The Commission could also issue an opinion if the investment undermines a strategic European project or programme of interest. And even though the advice of the Commission is not binding, the member state should provide an explanation if this opinion is not followed.

In short, the regulation provides tools for member states to create a screening mechanism or adapt their current mechanism to the new standards. It creates a cooperation mechanism to exchange information and concerns amongst the member states. And it enables the Commission to advise governments on investments that threatens the security or public order of the European Union.

Chapter 2: Theoretical framework

“Theories of European integration stipulate the conditions and mechanism under which competencies and boundaries shift between levels and agents of governance in the European multilevel system” (Schimmelfennig, 2010, p.37).

As mentioned in the introduction, neofunctionalism and liberal intergovernmentalism are providing a theoretical framework for in this study. The theories are used because they both represent one side of the major division in European integration theories, namely between supranational and intergovernmental theories.

Neofunctionalism was the theory of European integration for a long time and can be seen as the start of supranational theorizing (Schimmelfennig, 2010). Fundamentally, neofunctionalism is focusing on the role of supranational institutions and non-state actors. It argues that states are not the only important driving forces in integration. Moreover, it asserts that the process of integration often moves on unintendedly and that the member states have lost control over process of integration (Schimmelfennig, 2010). It also emphasizes the self-reinforcing role of European institutions. Liberal intergovernmentalism on the other side, asserts that it is the member states who are in control of integration, they are making the treaties and are able to push or inhibit the process of integration.

Another major difference between these theories is about the role of the European institutions. While neofunctionalism recognizes the influence of supranational institutions, liberal intergovernmentalism exploits neoliberal institutionalist assumptions and supposes a coordination role of international institutions.

This chapter will discuss the most important elements of both theories, followed by general hypotheses. In Chapter 3, these general hypotheses will be operationalized.

2.1 Background of Neofunctionalism

Neofunctionalism can be seen as the most important starting point of supranational theorizing (Schimmelfennig, 2010). The theory was developed by Ernst B. Haas and Leon Lindberg in the 1950s and 1960s to explain the establishment of the European Coal and Steel Community (ECSC) and the European Community (EC). It started in 1958, when Haas published his book *The Uniting of Europe: Political, Social and Economic Forces 1950-1957*, which explained

how six European countries created a new form of supranational cooperation after the Second World War. With intellectual roots in functionalism, federalism and communication theories, neofunctionalism was at its prime in the late 1960s/early 1970s. Due to some stagnations in the process of European integration, with the empty chair policy of de Gaulle in 1965 as the most important example, the neofunctionalist explanations turned out to be unsatisfactory (Leustean, 2009). However, the theory resurrected in the 1980s when the process of European integration continued (Niemann, 2006; Niemann, 2013). Especially around the 1990s with the implementation of the Single European Act and the creation of the single market, the theory gained renewed popularity (Jensen, 2013).

Neofunctionalism is mainly concerned with the question how economic integration leads to political integration. It derives from a different position than the traditional approaches of international relations like realism. Where realism is more concerned with the power games between states and assumes a zero-sum game of international cooperation, whereby only relative gains are possible, neofunctionalism believes that economic integration or cooperation can result in win-win situations for all players (Jensen, 2013).

Neofunctionalism has a rich history and has been adjusted by many scholars over the years. The current framework is based on the more traditional concepts of neofunctionalism as intended by Haas and Lindberg.

2.2 Neofunctionalism

Neofunctionalism consists of several elements and assumptions. The elite socialization hypotheses, the spillover hypothesis and the supranational interest group hypotheses form the core of neo-functional theorizing (Jensen, 2013). The next session will provide an overview of neofunctionalism, followed by three hypotheses.

Neofunctionalists see European integration as a process, with the implicit notion that it evolves over time and has its own dynamic. Both Haas and Lindberg regard integration as a process, although there are also certain elements that differentiate between their definitions. Haas for example argues that process of political integration results in a shift in attitudes and loyalties. Haas' probably most common used quote about integration as a process reads:

“the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new center, whose institutions possess or demand jurisdiction over the pre-existing national states. The end result of a process of political integration is a new political community, superimposed over the pre-existing ones” (Haas, 1958 p.16).

Lindberg, on the other hand, has a more cautious definition of integration. His definition does not suggest a specific endpoint in integration but assumes more of a constant flux (Niemann and Schmitter, 2009). Both viewings of integration include the creation of regional institutions.

Elements of the theory are about the driving forces in the integration process. It focuses on what kind of actors are involved in the process, what the role of supranational institutions is and what the dynamics behind the integration process are.

2.2.1 Supranational interest groups

One factor that explains the process of integration is the role of supranational interest groups. Multiple, diverse and changing societal actors are the key actors in the process. These interest groups perceive further integration as something desirable, while governments might be quite reluctant to engage in integration (Jensen, 2013).

Interest groups perceive further integration as a way to resolve their problems, despite the fact that all interest groups have different problems or other ideological positions. Actors in the process of integration are assumed to be rational and self-interested (Niemann and Schmitter, 2009). Hence, integration is proceeding due to the rational choices of societal groups to solve nationally insoluble problems, rather than by a joint ideological vision of Europe or a shared European identity (Jensen, 2013). However, these self-regarding preferences are not fixed; they are likely to change over time as actors learn from previous interaction experiences. Interest groups are also not bound by national borders and are able to build international coalitions.

Secondly, neofunctionalism has a rather elitist approach towards European integration (Jensen, 2013). Although it is assumed that the process of integration is driven by (international) interest groups, the functional and technocratic needs tend to be the most important. The creation of the European community is primarily driven by elites, whereby Haas focused on non-governmental elites and Lindberg mainly focused on governmental elites (Niemann and Schmitter, 2009).

Neofunctionalism does not ascribe a great importance to the European people and assumes a tacit support for the ongoing integration. This ‘permissive consensus’ from the people of Europe is sufficient for experts and executives to push for further integration. Combined with the previous element of rationality and self-interested actors, it can be said that international cooperation is driven by national and supranational elites who understand the limitations of national solutions (Niemann, 2013, p. 636). As Haas (1958) formulates: “in the process of reformulating expectations and demands, the interest groups in question approach one another supranationally while their erstwhile ties with national friends undergo deterioration” (p. 313). Based on neofunctionalism’s expectations on the role of supranational interest groups in European integration, the following hypothesis can be formulated.

H1: The preference for European integration originates from national and supranational interest groups, which express their preferences at the European level.

It is important here that those preferences of (transnational) interest groups are unmediated by national governments.

2.2.2 Elite socialization

Another element of neofunctionalism is about the creation and dynamic of supranational institutions. It is assumed that the established supranational institutions and organizations develop their own agenda and escape from the control of the creators. In the long term, it is predicted that supranational agendas will overrule the interests of member states (Jensen, 2013). Following from this, is the concept of elite socialization. This concept assumes a Europeanization of the political elites.

Jensen (2013) mentions the behavior of the members of the European Parliaments (MEP) as an example of this socialization. He states that despite the fact that MEP’s have a specific national electorate, the seats or preferences of these MEP’s are not divided between nations but around party family. The main prediction of this part of the theory is that people from supranational institutions change their loyalties and preferences to the European level. It mainly focuses on a shift of loyalties by officials and politicians. Additionally, supranational actors are concerned with their own powers and actively influence the perception of participating elites and national interests (Niemann and Schmitter, 2009).

The socialization hypothesis itself is not necessary to include in this research, since it mainly focuses on changed behavior and expectations of people who are regularly involved in the process of supranational policy making. Plus, this element is already more or less incorporated in the supranational interest groups hypothesis and in the notion political spillover.

2.2.3 Spillover

Spillover effects form one of the basic elements of neofunctionalism. In general, the concept refers to the process of integration as unintended consequences. It assumes that the growing unification and functional interdependencies of the European economies lead to an unavoidable stronger integration of economic sectors. In other words, the concept of spillover refers to a process whereby a specific goal or cooperation leads to new goals or further cooperation in order to achieve the first goal or to cooperate better. As Schimmelfennig (2010) accurately describes, neofunctionalism “asserts that the institutions created by member state governments trigger a self-reinforcing process which begets further integration and escapes member state control” (p.38).

It can for example refer to the process whereby integration in one sector spills over to cooperation and further integration in another sector, in order for the first sector to cooperate better. Or it can mean that previously made agreements unintentionally extend over time (Jensen, 2013). For early neofunctionalism, the process of integration refers to a mechanism whereby established rules and regulations unintentionally trigger a snowball that keeps on rolling. Spillovers refer to the driving force and inherent logic of integration due to functional or economic interdependence (Niemann and Schmitter, 2009). Decisions and adjustments that eventually contribute to further integration are often unintended consequence of previous actions due to the incapacity of political actors to engage in long term purposive behavior (Niemann and Schmitter, 2009). Hence, the process of integration often progresses unintentionally and with small steps. In the first version of neofunctionalism, there are three different kinds of spillovers: the functional, the political and the cultivated spillover. The next section will examine each category.

2.2.3.1 Functional spillover

Functional spillover refers to the process whereby one step towards further integration functionally leads to another step. Originally, Haas’ notion of functionalism refers to the economic interdependencies that induce a logic of sector integration (Niemann, 2013). Due to

European integration, certain sectors become so interdependent that this pressures other related sectors or issues to cooperate as well. It means that member states sometimes have to expect the integration of new sectors, even though this was not their original objective.

The functional spillover is the process whereby further integration or cooperation is almost necessary to resolve another issue. Due to dissatisfaction or inconveniences, another related sector has to follow suit. To get more specific, for the Investment Screening Regulation this would mean that this regulation is adopted because policymakers foresee certain problems that have emerged due to other European interdependences. An example of functional spillover is the harmonization of national tax laws, a measure that was necessary after the removal of tariffs on products between the European member states (Mansour, 2013). Without the harmonization of the tax laws, certain national businesses could be disadvantaged.

However, this hypothesis is irrelevant for this case. First, because the investment regulation is not providing any strict binding obligations. The regulation does not provide any concrete or necessary solutions. Maybe it could be argued that European coordination might improve some dissatisfactions, but that seems unlikely. Second, as I argued in the introduction, because the regulation is driven by changed foreign policy dynamics on the side of China or globalization in general. Hence, both the motivation and the outcome seem not to match with the concept of functional spillover.

2.2.3.2 Political spillover

With the political spillover, the theory of neofunctionalism refers to the socialization processes and increased habit of national governments to look for European solutions. This is what Lindberg and Haas mean with the shift of expectations and loyalties towards a new center. Political spillover occurs when national political elites or interest groups experience a nationally unsolvable problem and therefore request a supranational (European) solutions. It regards a specific need from national governments that is expressed towards the European supranational institutions.

The assumption here is that member states assume that a supranational solution is more capable of solving this international issue. This is also connected to the elite socialization aspect of the theory, which is outlined in the previous section. Political spillover refers to the process whereby supranational coordination is requested. It asserts that member states express a need

for further integration towards the European level. The European Commission, moreover, develops a proposal based on this request. Based on the neofunctionalist concept of political spillover, the following hypothesis can be formulated.

H2: European integration will take place due to political spillover: Member States express their preference for supranational coordination.

This hypothesis entails that there should be an explicit call from the national governments upon the European Commission to develop a proposal or take a more central role.

2.2.3.3 Cultivated spillovers

Cultivated spillovers are in place when the European institutions are pushing the integration forward when they mediate between the member states. According to Haas, the European Commission cultivated the underlying logic of functional interdependence. Lindberg, on the other hand, focuses on the cultivation of the central and authoritarian role of the Commission. This enabled the Commission to direct the dynamics among the member states and between interest groups (Niemann and Schmitter, 2009). The European Commission can for example make use of so called “package deals” during European negotiations. This strategy entails linking multiple issues or policy areas in the bargaining process to incorporate a variety of member state interests and increase the acceptance.

The third hypothesis is deduced from this concept of cultivated spillovers and connected with the neofunctionalism’s assumption about the role of supranational institutions. It is assumed that supranational institutions have a significant impact on European integration. In this research, the focus lies on the Commission and their role as policy entrepreneur and important actor in European integration. The Commission is not only coordinating interstate cooperation, but they are also able to pursue their own interests. Hence, the role of the Commission is significant. For example: Basedow (2016) concluded that, considering the EU’s international investment policy since the 1980s, it was the Commission that promoted integration. Due to a variety of strategies, the European Commission extended the competences regarding investments, even though the member states opposed. Also, in the treaty of Lisbon, the European Commission plays a significant role. Due to policy entrepreneurship in the area of freedom, security and justice, the Commission promoted stronger European integration in these domains (Kaunert, 2010). Meunier (2017) also attributes a great role to the EU Commission

regarding FDI competences. Based on neofunctionalism, the following hypothesis can be formulated.

H3: In the process of European integration, the European Commission plays a significant role in promoting or establishing further integration and cooperation.

2.2.3.4 Criticisms of the concept of spillover

For early neofunctionalism, the concept of spillover refers to further integration as an almost automatic, unstoppable and unintended consequence (Jensen, 2013). However, as already touched upon in the introduction of neofunctionalism, the history of European integration showed that further integration can indeed be stopped (empathy chair crisis as major example). The major critic on the concept of spillover originates from liberal intergovernmentalism. According to this theory, further integration is due to rational choice of states (Moravcsik and Schimmelfennig, 2009). This theory fundamentally disagrees with the whole concept of spillover and claim that the concept lacks a “sufficient coherent and comprehensive specification of the conditions under which spillover will occur” (Niemann and Schmitter, 2009, p.52).

2.3 Background of Liberal intergovernmentalism

Intergovernmentalism emerged in the mid-1960s as a counterpart to neofunctionalism. The foundation of intergovernmentalism was laid by Stanley Hoffman. This first framework of intergovernmentalism, also referred to as classical intergovernmentalism, went against neofunctionalist claims of spillover driven integration. It argued for a more state-centric approach of integration, one that minimizes the role of supranational institutions. It emphasizes the relevancy of nation states because they possess political legitimacy and legal sovereignty. In addition, intergovernmentalists claim the importance of European cooperation over European integration (Leustean, 2009). It is the member states who engage in European cooperation without conceding their sovereignty or transfer control over this process. Moreover, it replaces the logic of integration with a logic of diversity (Cini and Borragán, 2016). Integration was no longer assumed to be some universal aspiration, but cultural differences are assumed to be influential for a state’s perception of interests.

It also pleads for a better acknowledgment of the global context in which the European integration has occurred. Classical intergovernmentalism also differentiates between high and

low politics. This distinction is also seen in European integration. Whereby integration around issues of low politics are often more technocratic and less controversial, integration around issues of high politics like national sovereignty or national identity do often not occur (Cini and Borragàn, 2016).

With origins in intergovernmentalism, Andrew Moravcsik's liberal intergovernmentalism (LI) is one of the major theories of European integration. The theory is supposed to be a grand theory, created to explain a broad range of regional integration. Furthermore, it strives to include a variety of factors and link multiple theories into a single coherent theory that explains integration (Moravcsik and Schimmelfennig, 2009). Liberal intergovernmentalism exploits neoliberal institutionalist assumptions about how international institutions facilitate cooperation among rational state actors. Together with a liberal theory of national preferences, and the incorporation of realist elements, LI attempts to explain European integration (Cini and Borragàn, 2016). The theory focusses on the major steps in integration, as in the introduction of new policies and competencies that result from treaty negotiations, instead of focusing on informal constitutional changes that follow after the implementation of treaties (Schimmelfennig, 2010).

The next section will first explain the two most important assumptions of liberal intergovernmentalism, followed by the three major elements of the theory and three hypotheses.

2.4 Liberal intergovernmentalism

“European integration resulted from a series of rational choices made by national leaders who consistently pursued economic interests [...] that evolved slowly in response to structural incentives in the global economy” (Moravcsik, 1998, p.3).

As mentioned in the previous section and appears in the quote above, liberal intergovernmentalism offer a rather state focused theory of integration. Hence, the first basic assumption is that states are the major actors in international relations. Moreover, it is assumed that states are unitary actors, located in a context of anarchy; without any higher authority that has control over them. The role of supranational institutions is assumed to be minimal, leaving them with just a coordinating role. The same applies for the European Union or the European Community, it is treated as an international regime for policy coordination (Moravcsik and Schimmelfennig, 2009). It is the member states who constitute European treaties. In contrast to

neofunctionalism, LI proclaims that the national governments of the EU member states are in control of integration (Moravcsik, 1995; Niemann and Schmitter, 2009).

Secondly, the theory of liberal intergovernmentalism assumes that states are rational. It entails that states calculate the utility of their possible actions and choose the action that maximizes the utility under the present circumstance. This individual or agency assumption assumes that the outcome of international agreements is the result of rational and strategic state behavior, of course combined with the dynamics of interstate negotiation (Moravcsik and Schimmelfennig, 2009). Although, assuming the rational behavior of states, the importance of both national preferences and the relative power of states is emphasized. This will be clarified with the three core elements of liberal intergovernmentalism.

The theory of LI explains international cooperation and European integration in a framework with three stages. These stages will be explained in the next section.

2.4.1 National preference formation

The first stage focusses on the formation of national preferences. Liberal intergovernmentalism combines conceptions of liberalism in IR with European integration. According to liberal theories of international relations, the preferences of the states matter the most in politics (Moravcsik, 1997). The core idea of liberal theory in IR is that: “The relationship between states and the surrounding domestic and transnational society in which they are embedded critically shapes states behavior by influencing the social purpose underlying state preferences” (Moravcsik, 1997, p. 516). This is in contrast with more (neo)realist theories of IR, whereby national preferences arise from power or security concerns (Pollack, 2001). Hence, for LI, state-society relations are fundamental in determining those national preferences or in other words, domestically generated preferences. It assumes that through domestic pressures and national interactions, government preferences of integration are formed. According to the theory, member states’ preferences for European integration are national and issue specific (Schimmelfennig, 2015). Different, independently formed interests are aggregated towards the national level. Hence, the process of preference formation is a bottom-up process. It is still assumed that states act as unitary actors (Moravcsik and Schimmelfennig, 2009). Thereby, it assumes that globalization is the most important driving force behind the preference formation of domestic societal actors (Moravcsik, 2008). Issues of national interest groups concerning

globalization are translated to the national level. Together with the assumption of rationality, it is predicted that states will act instrumentally in international politics to manage globalization.

National preferences are not only constituted but also constrained by the society, whereby societal actor pressure the government to behave according to their preferences. The mix between the relative influence, the identity and the nature of interests determines the amount of influence important societal actors have on a state's foreign policy (Moravcsik, 1993). This influence can be either direct or indirect.

While national preferences are broadly defined, Moravcsik (1998) concludes that economic interest dominated the European integration. In his book *the Choice for Europe*, he concluded after investigating the developments in de EU from 1955 to 1992 that concrete economic interests reflected the national interests better than for example European ideals or security issues. It was the rising opportunities for profitable economic exchange that dominated national motivations in European decisions (Moravcsik, 1998, p.6). Geopolitical considerations formed another important incentive behind European integration.

In short, the theory asserts that national preferences are shaped by the economic interests of domestic groups, in the context of globalization. Based on liberal intergovernmentalism, the following hypothesis can be formulated.

H4: The preference for further European integration originates from domestic interest groups, which express their preferences towards their national government.

Hence, national preferences are derived from domestic interest groups motivated by domestic economic or geopolitical interests.

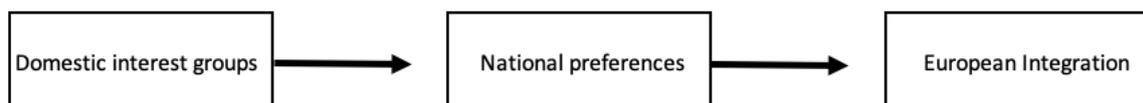


Figure 2. *Sequential model of the assumed relationship under hypothesis four.*

2.4.2 International bargaining

After the formation of the national preferences, the next stage focuses on substantive international negotiations, in which states try to realize their national interests. In these intergovernmental bargains, the relative power is shaped by asymmetrical interdependence.

LI exploits a bargaining theory of international cooperation to analyze these interstate actions. Bargaining theory proclaims that the outcome of the negotiation depends on the relative power of the actors (Moravcsik and Schimmelfennig, 2009). In the context of European integration, bargaining power is determined by uneven distributed benefits that follow after an agreement. To put it simple: states that gain economically more from the agreement, have to compromise more to complete the deal. If states are more independent or have lesser benefits from the agreement, the more power they have to impose conditions and demands (Moravcsik, 1998). Information is another factor that determines the bargaining power of states. The actor that possesses the best information about the preferences of the other actors or the working of institutions, are better able to influence the outcome. The power of individual member states determines whose interests will be best represented in the policy. The outcome of the negotiations is a reflection of the power balance of the actors; the other way around, the most powerful states are more likely to get what they want. Therefore, liberal intergovernmentalists tend to focus the most on the preferences of largest and most powerful states, such as the UK, France and Germany (Cini and Borragàn, 2016).

As already mentioned in the introduction, liberal intergovernmentalism mainly focusses on the major steps of integration (Schimmelfennig, 2010). It concentrates on the implementation of new policies and transfer of competencies that result from these major interstate negotiations. Examples that are examined by Moravcsik (1998) are the consolidation of the common market (1958-1969), the Single European Act (1984-1988) and the negotiations of the Maastricht Treaty (1988-1991). These events of European integration are quite different than the regulation that is examined in this study. The Investment Screening Regulation is not a large step in the process of integration and did not result from a process of grand bargaining. It is not a large step of integration since it hardly possesses any obligatory elements or major transfers of power towards the EU-level. Neither can it be considered as an insignificant agreement: it is the first time that the Union agrees to have a better coordination. Moreover, the regulation provides a European framework for the screening of FDI's.

One could argue that liberal intergovernmentalism is not suited for explaining these smaller types of European cooperation. However, Moravcsik and Schimmelfennig (2009, p. 74) argue that recent empirical research indeed suggests that liberal intergovernmentalism can be applied to the more common and everyday decision-making of the EU. They argue that recent studies imply that LI can be applied for beyond treaty-amending decisions. For example, many EU decisions are taken by unanimity or de facto consensus, even when the rules do not prescribe this. Or that the role of the European Council, where member states act by consensus, has increased its influence. The focus on intergovernmental decision-making and powerful states in these processes, can certainly be applied outside the context of large, treaty-making negotiations. Concluding, the theory can indeed contribute in explaining the establishment of the Investment Screening Regulation.

The hypothesis that follows from this part of the theory states that integration arises from the preferences of member states, mostly from powerful states as Germany, the UK and France. Base on liberal intergovernmentalism, the fifth hypothesis can be formulated.

H5: Further European integration takes place according to the preferences of the most powerful European Member States.

Hence, European integration only occurs if the powerful member states are in favor of the implementation of new policies and regulations that increase integration.

2.4.3 Institutional delegation

The third stage is about institutional delegation. States delegate powers towards supranational institutions to make sure that all states are committed to the agreement. LI follows institutionalist theories in emphasizing the role of international institutions in facilitation and coordination international negotiations (Schimmelfennig, 2013). One important reason for states to strive for institutional reinforcement is that it enhances the ‘credibility of governmental commitments vis-à-vis domestic and international pressure under conditions of uncertainty’ (Moravcsik, 1995, p. 621). Institutions reduce the transaction costs for future negotiations and reduces future uncertainty by providing information about the preferences and behavior of the participating states. Furthermore, institutions set down the rules for the distributions of future benefits and secure the agreement with the possibility of sanctioning by non-compliance.

Institutional delegation is the third part of LI theory. However, this part is not included in our analysis since it does not apply to the case and it is not relevant for the research question.

2.4.4 Role of the European institutions

Liberal intergovernmentalism's core element is that states are the major actors in European integration. It ascribes a larger role to the member states and their power to steer European integration. Consequently, it assumes a small role of the European supranational institutions. The theory supposes that the supranational organizations have a marginal influence on the outcome of international negotiations. The European Community should be seen as an international regime for coordination (Moravcsik, 1993). However, the theory does not believe that European institutions are totally insignificant (Moravcsik and Schimmelfennig, 2009). Moravcsik (1999) claims that the role of supranational entrepreneurship in the process of European integration is exaggerated. He claims that during European treaty-amending bargains, the preferences of national governments remain the major determinants. "Supranational actors enjoy no formal powers" (Moravcsik, 1999, p. 269). The author also challenges the neofunctionalist conception of effective informal supranational entrepreneurship and the idea that supranational entrepreneurship is a necessary condition for integration. The theory asserts that the Commission merely coordinates and corrects interstate bargains. The Commission does not have the power to impose its own will and should not be considered an active actor in the context of European integration. Based on liberal intergovernmentalism, the sixth and final hypothesis can be formulated.

H6: In the process of European integration, the European Commission is merely coordinating.

Hence, European institutions will not play a significant role in further European integration. The European Commission is only coordinating the different member state's preferences. If liberal intergovernmentalism explains the establishment of the European screening regulation, the role of European institutions should be marginal.

Table 1 provides an overview of all the hypotheses that are discussed in this chapter. The following chapter will focus on research design, the selected data and will operationalize the hypotheses.

	Preference formation and expression	Role of the European Member States	Role of the European Commission
Neofunctionalism	<i>H1</i> : The preference for European integration originates from national and supranational interest groups, which express their preferences at the European level.	<i>H2</i> : Further European integration will take place due to political spillover: Member States express their preference for supranational coordination.	<i>H3</i> : In the process of European integration, the European Commission plays a significant role in promoting or establishing further integration and cooperation.
Liberal intergovernmentalism	<i>H4</i> : The preference for further European integration originates from domestic interest groups, which express their preferences towards their national government.	<i>H5</i> : Further European integration takes place according to the preferences of the most powerful European Member States.	<i>H6</i> : In the process of European integration, the European Commission is merely coordinating.

Table 1. Overview of the hypotheses.

Chapter 3: Methods

In the introduction, the relevancy of this research and the FDI screening regulation has been outlined. In the theoretical framework, two theories of European integration were discussed. Both neofunctionalism and liberal intergovernmentalism provide general expectations about how European integration develops. The next section will provide the research design and explains the data selection. Moreover, the specified variables that are deduced from the theories will be explained.

3.1 Research design

“Process-tracing methods enables the researcher to make strong within-case inferences about the causal process (...)” (Beach and Pederson, 2013, p. 2).

This study is using process-tracing to provide an answer for the research question. According to Beach and Pedersen (2013), the essence of process-tracing research is that it goes beyond merely identifying correlations. Process-tracing unpacks causal relationships and therefore allows to study the causal mechanism. This type of research enables us to say more about the causal relationships compared to quantitative research, which merely provides correlations. Process-tracing tries to identify the causal chain and mechanisms between the independent variables and the outcome. A causal mechanism can be seen as a complex system that produces a certain outcome due to the interaction of several variables. Process-tracing investigates how those mechanisms work that contribute to the outcome of interest.

Beach and Pedersen (2013) argue that there are three variants of process-tracing. There is process-tracing with the purpose of explaining a particular outcome, for building a theory or for testing a theory. The present paper uses process-tracing for testing the above theories. For this variant of process-tracing, the goal is to test whether a theoretical causal mechanism is present in a specific case. This is the most applicable variant because there are two existing theories from which observable elements are deduced. After this, it is tested whether these elements are present in the case. In other words, it attempts to trace causal mechanisms, provided by existing theories. It is the underlying theorized causal mechanism that is traced. In this paper, causal mechanisms deduced from neofunctionalism and liberal intergovernmentalism are tested around the European investment screening regulation. The type of research is not able to determine which theory has the best explanatory power. However,

it is possible to conceptualize competing mechanism in such a way that they are mutually exclusive. In other words, it is possible that observable manifestations rule out one theory.

To start with process-tracing, the causal mechanism should be conceptualized between the X (variables) and Y (outcome). These mechanisms are deduced from the theories and formulated as hypotheses. Secondly, the variables should be operationalized: the translation of the theoretical framework into the case-specific empirical predictions. Finally, relevant empirical evidence is collected. This evidence will show to which extent the expected mechanisms were present in the case and if it functioned as predicted.

3.2 Operationalization

In the theoretical framework, the general hypotheses are formulated. In this section, the variables will be operationalized, meaning that they are translated into observable characteristics, related to the examined screening regulation.

3.2.1 Neofunctionalism

According to the first hypothesis, the preference for European integration originates from national and supranational interest groups, which express their preferences at the European level. For the establishment of the Investments Screening Regulation, the hypothesis implies that the preferences for FDI regulation originates from interest groups. Transnational interest groups prefer integration and emphasize the supranational interest of integration. For the hypothesis to be confirmed, it should be observable that supranational and national interest groups are requesting European FDI regulation or ask for more European guidance.

Secondly, the hypothesis indicates that these interest groups lobby at the European level. Therefore, there should be an indication that these interest groups focus on the EU. These indications can be that interest groups openly call for European laws, write papers that are directed at the EU or that specific ideas for European investment screening are translated into the framework proposed by the Commission. It might be that certain ideas from interest groups overlap with the regulation. If these elements can be traced back to certain interest groups, and not to member state, this hypothesis can be confirmed.

The second hypothesis asserts that European integration will take place due to political spillover: Member States express their preference for supranational coordination.

In this hypothesis, the dynamic between national government and supranational institutions are important. For this hypothesis, there should be a specific request from the member states towards the European Commission. Member states ask deliberately for a supranational solution concerning investments screening or FDI coordination. According to the political spillover, it should be observed that government officials look upon the EU for help. They may request for stronger Commission involvement in the screening of investment or emphasize the need for European cooperation in this field. The motivation of the Investment Screening Regulation should be that such a European cooperation is essential for the future and works better than just making national regulations or laws. The hypothesis will exclusively focus on the dynamic between national governments and supranational solutions.

Moreover, neofunctionalism asserts that in the process of European integration, the European Commission plays a significant role in promoting or establishing further integration and cooperation.

The influence of European institutions lies at the core of neofunctionalist theorizing. It focuses on the role of supranational elites trying to expand their power. For this research, the focus lies on the role of the European Commission. It is assumed that this body has a significant impact on the decision-making process and the shape of treaties and regulations. The Commission is actively promoting further integration. Based on this, two possible scenarios are deduced and will be empirically tested. For example, in the process around the Investment Screening Regulation this can translate into two scenarios.

1) The screening regulation is not initiated by member states but by the European Commission. The Commission makes a proposal without a request from the member states.

Here, it is clear that the Commission is actively contributing to further integration.

The second possible scenario focuses on the action of the Commission if there is a formal request for the member states.

2) Member states request for specific elements (A and B) and the Commission activity tries to implement more elements (A, B and C).

Hence, the Commission does more than is expected based on the preferences of member states. The Commission is able to put its own preferences in the regulation.

3.2.2 Liberal intergovernmentalism

The fourth hypothesis states that the preference for further European integration originates from domestic interest groups, which express their preferences towards their national government.

For the Investment Screening Regulation, this hypothesis entails that preferences originate from domestic interest groups, which pursue economic or geopolitical goals of further integration. For this hypothesis, it should be observable that (a) domestic groups want an EU-level coordination considering overseas investments and (b) that governments take over these preferences. Hence, both the preferences of national interest groups and the preferences of national government will be observed. The analysis will only focus on Germany and France.

Maybe it seems quite strange to assume domestic companies prefer a stricter investment screening. However, stricter FDI regulation can certainly be something that is desired by national companies. For example, creating a common playing field for all European businesses instead of a divided investment climate would definitely be something desirable (economic and geopolitical) for companies. Especially because Germany and France are already possessing (strong) national screening mechanisms. Or asking the government to protect their market from disproportional foreign investments and takeovers. This would undeniably be an example of how national companies ask their government to handle globalization.

About the inclusion of FDI competence in the CCP, Fina and Lentner (2016) wrote that “most EU Member States’ governments believed that a comprehensive investment competence was necessary to adapt to the realities of the world economy” (p. 426). If something similar applies to the current Investment Screening regulation and if those preferences can be traced back to national interest groups, this hypothesis is confirmed. It should be observable that German and French lobby groups, important companies or industry associations speak out their preferences for better European screening mechanism or European coordination. Consequentially, the German and France government should adopt these opinions.

The fifth hypothesis asserts that further European integration takes place according to the preferences of the most powerful European Member States.

Liberal intergovernmentalism assumes a dominant role of member states, especially Germany, France and the UK. This analysis focusses on the role of Germany and France. According to the hypothesis, it should be observable that the preferences of these member states are best represented in the regulation. At least, Germany and France should be in favor of the screening regulation.

It should be observable that (a) Germany and France prefer further European integration in the form of the regulation and moreover that (b) their preferences are represented the best in the regulation. For this hypothesis to be accepted, both elements should be observed.

The final hypothesis claims that in the process of European integration, the European Commission is merely coordinating.

In line with the previous hypothesis, liberal intergovernmentalism does not attribute much power to the European institutions. For this hypothesis to be confirmed, the role of the European Commission should be limited, and the Commission should not be able to put its own preferences in the regulation. The empirical manifestations mainly focus on elements that should not be observed. For the limited and merely coordinating role, it entails that the Commission is not doing anything unexpected. It does not actively promote or pushes for an FDI regulation. The Commission should not do more than what the member states request. The second part entails that the Commission cannot include its own preferences in the regulation. Hence, it should be observed that everything in the Investment Screening Regulation can be traced back to the preferences of member states.

3.3 Data selection

The establishment of the European investments screening regulation is examined in this study by using two theories of European integration. The empirical analysis will find out where the preference for the established regulation comes from, how the European decision-making process went and what role the European institutions, most of all the Commission, played in this process.

According to Moravcsik (1998), it is the powerful member states who determine the process of integration. Hence, it is necessary to focus on Germany, France and the UK. This research will only focus on Germany and France, since the UK had already decided for a Brexit around the establishment of the Screening Investment Regulation and therefore does not play an important role in the implementation of this integration policy for 2020. The data that is used and needed for this research can roughly be divided into two categories. For the first and fourth hypotheses, information about national and international businesses, lobby groups and industry association are needed. These last two are particularly important to determine the origin of the preference for the regulation. These data include primary sources: position papers and formal statements. Secondly, media sources are taken into account. The other hypotheses focus on the member states and the European Commission in the process of decision-making. The necessary data consists of EU-documents like press releases, Council conclusions and EU communications. These data will be collected via the websites of the different European institutions. The data related for the position of national and supranational interest groups will be retrieved via their own website. Some organizations have been selected because they attended a meeting on 7th of November 2019, in which the commission gave an update on the implementation of the FDI screening regulation. This list was on the website of the European Commission. Other relevant actors that will come up during the process-tracing analysis will also be taken into account.

Furthermore, the analysis will also use external data or data that describes the process. The data mostly includes media and these sources help to get a clear overview of the events. The research is including both national and international media. These media sources are mainly retrieved via the database Nexis Uni or via the websites of international news service Reuters and political journalism company Politico. To get the required information, there will be searched on terms like: EU investment screening or FDI, in a timeframe from 2016 till May 2020.

3.4 Limitations

This study conducts a single-case process-tracing. This qualitative way of analyzing has its strengths but also its weaknesses. As mentioned in the research design, process-tracing is able to describe causal relationships in depth. With this method, it is possible to have an interpretive and broad understanding of the causal relationship. Process-tracing allows for strong within-case inferences (Beach and Pedersen, 2013). Meaning that the internal validity is high: the study shows a clear cause-and-effect relationship between the variables provided by the theories and the outcome. The external validity of this in-depth process-tracing is much lower. The

generalizability of this study is weaker: the conclusions are less suitable to apply outside the context of this case. Hence, the outcome of this study provides a strong answer about integration concerning the Investment Screening regulation but is less suitable to use to say something about further integration in Environmental policies for example. The results should be treated with care.

The second limitation concerns the data. Due to the variety of actors and the limited amount of time, this study will mainly focus on public sources. The intentions or motivations of actors are not directly measured via interviews or something similar. Media and public sources provide a good overview of the process and show the actions and statements of the involved actors. However, this also limits the strength of the results, since it lacks primary sources that are not publicly available and does not measure intentions or motivations directly from the actors.

Chapter 4: Empirical Research

In this chapter, the analysis is conducted as described in the methods section. First, a more general overview of events and dynamics is described, later all the individual hypothesis are discussed.

4.1 Overview of events

4.1.1 Germany

At the end of 2016, the German authorities withdrew their approval for the planned Chinese takeover of the German technology company Aixtron. Although the withdrawal did not come with a specific reason, concerns about Chinese investments are growing in Germany (Mozur, 2016). Concerns about Chinese investments are growing since these investments increasingly focus on the most advanced and successful companies of Germany. A potential takeover could mean a long-term loss of knowledge and important jobs. Deputy economics minister Machnig indicates that the withdrawal resulted after recuing new security-related information (Reuters, 2016b). The government feared that the acquisition was driven by the Chinse government in order to gain access to German technologies.

The German government is legally authorized to block takeover if they jeopardize the security, defense or financial stability.

Earlier that year, the German government failed to block a Chinese takeover of KUKA, a German manufacturer of industrial robots. Immediately after the plan of Midea Group to invest in the German company became public, political unrest arose. German politicians feared that this Chinese takeover of KUKA led to an outflow of important knowledge and technologies and the loss of Germany's leader in industrial automation (Sigmund, Stratmann and Woher, 2017).

Vice Chancellor and minister of Economic Affairs and Energy, Sigmar Gabriel expressed his concerns about a possible Chinse takeover. Therefore, the government did everything to prevent the tech company from falling into Chinese hands. After a Chinese offer on the company, Gabriel said that the government actively tried to formulate an alternative offer (Rinke and Schuetze, 2016). They were encouraging German and European companies to show interest in the company, in order to keep the company in European hands. German newspaper Handelsblatt even heads: Government Seeks White Knight for KUKA. Additionally, German

EU Commissioner Oettinger raised the possibility for a European white knight to save KUKA from a Chinese takeover (Sigmund, Stratmann and Wocher, 2017).

The Federation of German Industries, on the other hand, expressed its skepticism about the political interference surrounding the KUKA deal. Former president of the Germany's top industry lobby group claims that the governments should be kept out of business decisions. He reacts that the role of the state should be limited, it should only be providing a sensible regulatory framework (Handelsblatt, 2016).

Although this was the start of a more prudent attitude of Germany towards Chinese takeovers, it did not bring the desired effect. The commitment to free trade is stronger than the concerns regarding the loss of strategic technologies (Channel News Asia, 2017). Eventually, blocking the Chinese investment on security grounds turned out to be impossible.

In the months after, the German economy minister Sigmar Gabriel openly calls for a new Europe-wide security clause which could stop foreign investments aimed at taking over companies with vital technology (Reuters, 2016a)

“Should it remain the case that government agencies are only allowed to conduct preliminary investigations into investment in areas deemed relevant for security and defense? In my opinion, it's not enough” said Gabriel (Reuters, 2016a).

In a draft proposal, Vice-Chancellor Gabriel writes that he wants to empower Brussels to intervene and stop foreign investments aimed at taking over key technologies. Such a strengthened investment law at the European level should prevent important European technologies from falling into the hands of foreign governments (Handelsblatt, 2016b). Under the proposal, the European Commission could block foreign takeovers of companies producing key technologies if the investment comes from a foreign government or if European investors have limited market access in the country of origin of the investor. Hence, it gives Brussels the power to intervene in the free market.

Right after Gabriel's request for better tools for blocking Chinese takeovers in the German tech-sector, Eric Schweitzer, head of the German Chamber of Commerce and Industry, expresses

his disapproval for such a law (Chazan, 2016). He mentions that dangers of economic isolation for free-trade countries like Germany.

Later on, France and Italy joined this German proposal for stricter EU regulations surrounding FDI. The French claim that the need for a Europe wide regulation on this matter was already present for a long time and that the formal request for such a regulation was finally realized due to Germany's changed position (Asharq Alawat, 2017).

4.1.2 France

The French have indeed been active in this field much earlier. Already in 2003, the French parliament adopted a legislation that enabled the government to screen and cancel investments from third countries directed at national security sectors. In 2014, the scope of the law was expanded to cover more sectors, such as transportation and energy. Currently, the French approach for investigating and blocking possible adverse investments is based on the concept of golden shares. This entails that the government is empowered to grant itself golden shares of companies, which allows them to have special voting rights and the power to block takeovers of companies relevant to the national security. Whereas for Germany the takeover of KUKA triggered the awareness about Chinese investments, for France, China-related concerns started with the possible takeover of shipbuilder STX. At that time, STX owned the only shipyard in France that is large enough to build marine vessels and warships. A possible takeover by an Italian company with a strong jointed venture partnership with a Chinese state-owned enterprise, was not something France wanted (Alderman, 2017).

Eventually, the takeover went on, but under strict conditions. It agreed that STX could be renationalized if the new company failed to safeguard the non-transference of certain technology to China (le Monde, 2017).

4.1.3 The letter

In February 2017, Germany, France and Italy send a letter to Malmström, the European Commissioner of Trade. In this letter, the three European member states express their worries about the possible sell-out of European expertise and the loss of important companies due to the lack of reciprocity in the countries of origin of these investors. The three largest European economies emphasize the current inability to deal with foreign investment in sensitive areas due to the lack of effective instruments. These governments are requesting a discussion at

European level about under which conditions the member states are allowed to scrutinize and even block overseas investments (Zypries, Sapin and Calenda, 2017a).

In a common paper attached to the letter, Berlin, Paris and Rome reflect on some possible EU reactions. They write that the current national instruments are not sufficient enough to protect the economy of member states against strategic and one-sided investments in areas sensitive to security or industrial policies (Zypries, Sapin and Calenda, 2017b).

“What is needed is an additional protection based on economic criteria taking into account and with references to the Commission’s expertise” (Zypries, Sapin and Calenda, 2017b, p.1).

One of the proposed solutions entails that the member states would be able to prohibit FDI’s or make them subject to compliance with some proposed adjustments, based on a judgement of the Commission. Both the letter and the common paper empathize strong on the principle of reciprocity that is often lacking in the countries where these investments come from. Hence, the request of the three member states is about screening FDI based on economic criteria.

4.1.4 European Parliament

The letter triggered a debate in the EU, resulting in a proposal by 10 members of the European Peoples’ Party (EEP) for a Union Act on FDI screening strategic sectors (European Parliament, 2017). In this proposal, the MEP’s emphasize the importance of an open economy but address the lack of reciprocity of this openness in many foreign countries. They also state the unequal playing-field created by investments done by foreign companies that are subsidized by their government. Moreover, these FDI’s could lead to foreign takeover of entire European companies. Since the national instruments of member states are insufficient to guarantee reciprocity and fair competitiveness, they request the common EU approach. They propose a European approach that allows EU interventions when an investment is not in line with the market due to state subsidies, if the investment is likely to disturb the market and if European companies are not able to make investments in the country of origin of the investing company. They specifically request the EU to extend the scope of existing protections to strategic sectors, such as transport, telecommunications, energy, water and health. Moreover, a common EU approach should establish a principle of reciprocity of foreign investments and it should create an EU-Committee to review, investigate and control FDI’s.

The proposal shows that there is a request from a small number of MEP's to screen FDI. Such a European approach should include the screening of FDI based on economic criteria.

4.1.5 Summit June 2017

During the European Council summit at June 22-23, 2017, plans for a strong European screening tool to scrutinize investments from third countries were discussed. Macron took on the lead at his first EU Council meeting and stressed the importance of a common approach once again. Macron emphasized the concerns about globalization (Valero, 2017). Together with German Chancellor Merkel, the French president wanted a European consensus for a tougher European screening of investments from non-EU countries. With the proposal, Germany and France intended to show a strong Franco-German unity and motivation for further integration as a counter-note to the dynamics around Brexit. Macron wanted a strong European mechanism to vet and potentially block dubious investments and takeovers from third countries, especially from China. The idea was to jointly call upon the European Commission to examine possibilities in screening foreign investments directed at strategic sectors (Burchard, 2017).

However, the majority of the European leaders toned down Macron's call for investment scrutiny from foreign countries. The proposal of Germany, France and Italy, designed to control and even block FDI at European level, encountered a lot of resistance from the other EU leaders. Most of the critics were about the protectionist connotation of the proposal. Critics mainly came from southern Europe and the Nordic free-trading countries. Portugal strongly criticized the proposal since it was mainly due to these foreign investments that Portugal recovered from the economic crisis (Beesley et al., 2017).

Eventually, the majority of EU leaders rejected the proposal for establishing a mechanism to screen and block investments at the European level. The opposing member states managed to water-down Macron's attempt to vet foreign investments (Valero, 2017). Eventually, the request for a stronger EU FDI approach led to a small statement in the conclusion of the Council meeting. In the conclusion, it is stated that the Council welcomes a Commission initiative to think about ways to deal better with issues concerning globalization, for example on how to analyze investments from third countries in strategic sectors (European Council, 2017). This final outcome of the meeting is not only far less than Germany, France and Italy wanted and requested in the letter, the other member states also succeed in toning down the debate. The

request specifically included screening criteria that incorporated economic issues such as the lack of reciprocity, market disturbance and state-subsidized investments in a regulation.

Furthermore, where the three initiators specifically requested for ways of screening overseas investments, the Council stated that it only welcomes initiatives about analyzing investments from foreign countries in strategic sectors, while respecting member states' competences. Finally, the conclusion of European Council states that the members decided to return these issues in the future (European Council, 2017).

Nonetheless, before the next European Council Summit in October 2017, the Commission came with a proposal for the screening of incoming FDI's. Meunier (2019, p. 109) states that even though the Council decided to revert to these issues at a later summit, President Juncker went ahead and proposed an investment screening law in his speech on the State of the European Union. The European Commission has been pushing for a tougher line against China for a while (Burchard, 2019). The Financial Times reports that the European Commission needs to approach this FDI debate very carefully. It writes that the Commission "leapt to quickly towards backing an EU-wide screening mechanism" (Financial Times, 2017).

4.1.6 The proposal of the Commission

In September, President Juncker proposed a regulation for the screening of foreign investments. The proposal starts by stressing out that the EU is open to and benefits from foreign investments. At the same time, it shows the recent dynamics of inward investments (European Commission, 2017). Later on, it emphasizes why the screening of these FDI's may be necessary in certain circumstances, it summarizes the existing national screening mechanisms and it discusses that several EU partners are also in possession of FDI screening mechanisms. Eventually, it points to the lack of any EU-wide FDI screening mechanism. However, this proposal was not exactly what Germany, France and Italy had in mind. As stressed out in the introduction, this proposed regulation gives guidance and tools for national screening mechanisms and allows for further coordination and communication, without binding elements or a screening mechanism at the EU-level.

While Germany welcomed the proposal and expresses the added value of the tool, France and Italy called for larger EU powers and the need for EU-officials that scrutinize incoming

investments (Cerulus and Hanke, 2017). French President Macron actually wanted a tougher regulation but calls the proposed regulation a first important step (Brunsden, 2017).

The German mechanical engineering industry association VDMA (Verband Deutscher Maschinen-und Anlagenbau) also responded with disappointment, but not because the regulation was too soft. The European largest industry association states that this proposal on investment screening endangers the reputation of the EU as a good and open location for foreign investments (Plus Media Solutions, 2017).

Also, the Federation of German Industries (Bundesverband der Deutschen Industrie e.V., BDI) is not in favor of the proposal (BDI, 2020). Although they say to understand and respect the screening of investments on the basis of national security and public order, they strongly reject state interventions in private ownership and freedom of contract. They claim that: “the protection of certain technologies threatens to lead to harmful market distortions” (BDI, 2020).

According to the BDI, the proposal focusses too much on the screening of foreign investments and should instead focus more on creating an equal global playing field. In addition, Friedolin Strack, Head of the Department of International Markets, said that the position of the German industry is clear about Chinese investments: they are as welcome as others (BDI, 2018). In their policy paper on how to deal with China, it is stated that the BDI rejects any extensions of the national security in general to the protection of technologies (BDI, 2019). It claims that “Government investment controls must not be a means of industrial policy (BDI, 2019, p. 14)”. Furthermore, the BDI demands a clearer definition of ‘technologies relevant to the national security’. The loss of important technologies and companies due to the increased takeover of European companies combined with inability to invest in China, should not be resolved by more protectionism. The Federation states that the EU needs to do more to access Chinese markets and thereby puts an end to the asymmetrical relationship with the Asian country. It suggests using markets with a strong common interest, such as the health sector, as a lever for more market opening in China.

The responses of supranational interest groups are quite different. For example, the reaction of BusinessEurope is slightly more positive compared to that of the national interest groups. BusinessEurope is a lobby organization directed at Brussels. They speak for enterprises in 35 European countries and advocate for growth and competitiveness at the European level.

Although they express several elements of improvement, positive notes are definitely present. They welcome the efforts to increase cooperation and also make some recommendations for further European guidance (BusinessEurope, 2018). Although, no source could indicate a strong lobby for such a regulation before the proposal of the Commission was made.

Correspondingly, the European Service Forum reacts quite positive to the proposal of the Commission. The ESF is a network of high-level representatives from the European services sector. In their position paper, they declare that the ESF perceives the proposal as a step in the right direction, while emphasizing the importance of an open EU market (ESF, 2018). However, they additionally emphasize that the final decision to block or allow foreign investments should lie with the member states. Besides, they request a deepening of the regulation, a further clarification of definitions and more transparency considering the screening mechanism.

IndustriAll Europe Trade Union has welcomed the proposal and perceives it as a first step towards a more harmonized European FDI approach (IndustriAll, 2018). The supranational organization states “that it is important for the EU to dispose of the tools needed to avoid selling out strategic industrial assets and technologies” (2018, p.3). Besides the positive reaction to the regulation, it also suggests that the factor of reciprocity in markets should be included as a screening factor. It also expresses concerns about the vague definition of ‘critical’ that is used in relation to certain infrastructures or sectors. Furthermore, concerns about the non-voluntary character of the regulation are expressed.

After the announcement of the Commission, the proposed regulation was sent to the Council and the European Parliament (EP). In the EP, the regulation was discussed by the Committee of International Trade (INTA) with MEP Franck Proust as rapporteur. The amendments made by the Committee mainly focused on providing more specificity, but did not extend the proposal towards a centralized screening mechanism (Schueren et al., 2018). After several legislative procedures, for example the first reading of the proposal in the EP on the June 5, 2018 and the approval of the EU ambassadors on June 13, 2018, the Commission’s proposal went over in the Investment Screening regulation. On February 14, 2019, the majority of the EP voted in favor of the proposal. And on the fifth of March 2019, the regulation got approved by the European Council. In the voting about the framework, none of the member states objected, only the UK and Italy abstained. As already touched upon in the introduction, the regulation is mainly creating European cooperation and is providing tools for the establishment

of national FDI screening frameworks. In accordance with the proposal, the regulation focuses on the screening of investments based on the security issues. Whether the regulation actually leads to the blocking of foreign investments based on economic issues, is still the question. Namely, the regulation claims that the factor “government ownership or financial support” also relates to security and public order. Table 2 provides a short overview of the difference between the regulation and the member state preferences.

<i>National preferences</i>	<i>Investment Screening Regulation</i>
Germany, France and Italy request a stronger European FDI regulation. The EU should be able to block FDI’s	Framework for screening FDI based on security or public order criteria. Member states can use this tool to enhance their national screening mechanism.
A screening framework should include economic criteria and stronger EU involvement.	Creates a mechanism for cooperation between the member states and the Commission.
The majority of the Member states disapprove a strong European FDI regulation. Critical notes mainly focus on economic issues as free-trade and the potential loss of needed investments.	Allows the Commission to issue (non-binding) opinions about investment that might pose threats to the security or public order.

Table 2. *Overview of the preference and the outcome concerning FDI regulation.*

Another question that rises is: why would member states that disagree with the screening of FDI based on economic criteria, agree with this regulation? To answer this question, the motivation of Portugal and The Netherlands to vote in favor are briefly discussed. Portugal as representative for the southern European countries that are quite positive about Chinese investments and the Netherlands as representative for the traditional free-trade countries.

An article in the Financial Times pronounced that Portugal’s prime minister Anónio Costa stated: “it is one thing to use screening to protect strategic sectors, it is another to use it to open

the door to protectionism” (Wise and Hall, 2019). According to this article, Costa agreed that the screening of FDI’s in sectors related to security and defense is needed, but claims that the German French proposal was only positive for the powerful companies from the strongest economies.

The Netherlands voted in favor to show that they share the concerns about foreign investments by state subsidized companies (Zijlsta, 2017). The minister of Foreign Affairs wrote in a letter to the Dutch parliament that the Netherlands want to make an agreement on the European level to find a better balance with non-EU countries concerning these investments and takeovers. Therefore, the government supports the cause of the regulation. Furthermore, the Dutch government does not want a big role for the European Commission in the screening or blocking of FDI if the investment only affects a single member state.

Moreover, the Italian objection seems quite puzzling, since they had been an early supporter of a European investment regulation. According to international think-tank ECFR, the Italian change of position was due to strong Chinese lobbying (ECFR, 2018). It also claims that Italy’s unexpected change of position speeded up the adaptation of the regulation. The role of Italy considering investments and the European investment screening regulation is a case itself and worth investigating in the future.

Nevertheless, the new EU framework of the screening of foreign direct investments officially entered into force on April 10, 2019 and will be fully applied from October 11, 2020. In the run up to the application of the European screening regulation, both France and Germany have strengthened their national screening mechanism (FDi Magazine, 2020).

4.2 Hypotheses

After the general overview, in which the variables are implicitly discussed, this section will explicitly discuss the hypotheses.

Hypothesis 1:

The preference for European integration originates from national and supranational interest groups, which express their preferences at the European level.

For this hypothesis to be accepted, there should be a clear indication that interest groups are in favor of further European integration concerning FDI. Secondly, this preference should be expressed towards the EU. After reading several position papers of national and supranational interest groups, it can be concluded that there is no preference for a stronger European FDI screening mechanism. Nor can it be observed that there was a strong lobby from those interest groups towards the European Union. All found sources are responding to the proposal of the Commission or to the establishment of the Investment Screening regulation.

German interest groups are not in favor of screening FDI due to economic reasons. They fear that stricter European regulation of FDI will be at the expense of the free economy and will invade in the freedom of companies. The supranational interest groups respond more positive. They emphasize the importance of further European coordination around FDI. Even though they were not actively lobbying for stricter EU screening policies, they welcome the Commission's proposal. Their reaction is quite different than that of the national interest groups. Where the national interest groups focus on the negative economic consequences, supranational interest groups react positively on the increased European coordination and harmonization that the regulation brings.

Overall, the hypothesis that European integration originates from interest groups, which express this preference at the EU-level can be rejected. Considering the examined European screening regulation, this causal mechanism was not observed.

Hypothesis 2:

Further European integration will take place due to political spillover: Member States express their preference for supranational coordination.

Political spillovers are clearly observed in this case. After the takeover of the German tech company KUKA, German minister Gabriel openly calls for EU support. He openly requests a legal framework to investigate investments, and states that examining FDI's should not exclusively be done by the government. Also, French President Macron expresses the desire for supranational coordination regarding FDI screening and blocking. Instead of making stronger national FDI screening tools, both governments request EU involvement and a larger role of the Commission.

Furthermore, Germany, France and Italy request a European debate and in the attached common paper they reflect on possibilities of reacting at EU level. Here, the three member states request a supranational solution for national problems.

Overall, the hypothesis that further European integration is taking place because of political spillover is confirmed. Considering the establishment of the European Investments Screening regulation, the causal mechanism is present.

Hypothesis 3:

In the process of European integration, the European Commission plays a significant role in promoting or establishing further integration and cooperation.

On forehand, the hypothesis was operationalized. This operationalization asserted that the European Commission played a significant role if a) they initiated further integration or b) if they did more than expected based on the preferences of member states. The analysis shows a preference of both Germany and France for even further integration than the regulation brings. Together with Italy, the member states put this topic on the agenda. Hence, further integration was not initiated by the Commission.

However, it can be concluded that the European Commission did not have a wait-and-see attitude. The analysis shows that the Commission was in favor of further integration. And, even when the majority of the member states waters down Macrons initiatives and agrees to return on this issue later, the Commission actively presents a proposal for the screening of FDI based on public order and national security. And despite of the non-binding nature of the regulation, certain aspects do overlaps with economic criteria. For example, by including state-owned enterprises as a risk factor. The Commission included a new role for themselves in the regulation. Based on the regulation, the Commission is for the first time allowed to issue an opinion about FDI's that potentially undermined the plans of the Union. How easy it is for member states to neglect these opinions will become clear in de future.

Overall, the hypothesis about the significant and active role of the Commission can be confirmed. The analysis shows that in the establishment of the Investment Screening regulation, the Commission plays an active role, even though this integration was initiated by some member states.

Hypothesis 4:

The preference for further European integration originates from domestic interest groups, which express their preferences towards their national government.

As the overview shows, both the examined governments of Germany and France are in favor of the regulation. In fact, both governments are two important initiators of European integration concerning the screening of FDI's. It is even shown that these governments want more than the Investment regulation offers. Both Macron and the German Minister of Economy Gabriel, have openly called for more EU powers. However, these government preferences are not in line with the national preference formation hypotheses of liberal intergovernmentalism. Most of the German national interest groups reject any further restrictions of foreign investments. As shown in the previous section, the BDI recognizes the asymmetrical relationship with China, but offers a complete opposite solution. Instead of tightening incoming foreign investments, it suggests that the EU persuades the Chinese government to open its economy for European investments.

Hence, the liberal intergovernmentalism element of national preference formation is not present. This hypothesis about can be rejected.

Hypothesis 5:

Further European integration takes place according to the preferences of the most powerful European Member States.

For the fifth hypothesis, the role of powerful member states was examined. The hypothesis stated that further European integration will take place if the most powerful member states are in favor of the implementation of new policies aimed at further integration. Based on the analysis, it can be concluded that the debate about investments screening was put on the agenda by France, Germany and Italy. The analysis showed a preference of these states for a stronger EU competence and coordination. German minister Gabriel, with support of Chancellor Merkel voiced the preferences for stronger European regulation. Then, Macron took on the lead in the European Council Summit in June 2017. During this summit, the newly elected French President wanted the EU leaders to jointly call on the Commission to look for possibilities to screen FDI's in strategic sectors. It seems that this is in line with what the hypothesis expected. However, other member states opposed a stronger regulation of FDI's or increasing the EU's power. It were the Nordic free trade countries, together with the Southern, Mediterranean

countries that strongly opposed this further integration. According to Moravcsik's theory, is it precisely those European great powers that have to most impact on European decision-making. Based on this hypothesis, it would be expected that if Germany and France are in favor of further integration, this would occur. However, new regulation is not so much in line with their preference. In fact, the leaders of these countries were unable to translate their preferences into a European consensus during the Council Summit of 2017. The fact that the final regulation includes certain integrative elements, was more due to Commission then due to Germany or France.

Overall, the hypothesis that it is the powerful member states that determine European integration, can be rejected.

Hypothesis 6:

In the process of European integration, the European Commission is merely coordinating.

The sixth hypothesis asserted that the European institutions played a limited role in integration. The European Commission is only coordination interstate negotiations. Looking at the events, it can indeed be concluded that the preference for a better and stricter European investment regulation originated from the member states. It was the German, French and Italian government that put it on the table in the first place. However, this request was toned down by the European Council. However, as mentioned in the discussion of the third hypothesis, the Commission actively went ahead and made a proposal for the screening of FDI, before the Council could revert on the topic. Moreover, the analysis showed that the Commission was in favor of a stronger EU investment policy. It actively promoted European integration by including a cooperation mechanism into the regulation.

Overall, it can be concluded that the role of the European Commission was more than just coordinating. The sixth hypothesis can be rejected.

Chapter 5: Conclusion

5.1 Summary of the research

This thesis aimed to examine the establishments of the European investment regulation. The main feature of the regulation is providing a comprehensive European framework to screen incoming FDI's. Before this regulation, all member states screened incoming investment in different ways. The framework hands basic requirements to the member states concerning their national screening mechanisms. Furthermore, the regulation facilitates better European coordination. It tries to provide better opportunities and possibilities to share information and opinions between the member states. And finally, the regulation grants a greater role to the European Commission. However, most of the elements are on a voluntary basis.

In the introduction, it is outlined that the influx of Chinese investments is accompanied by European worries, i.e. an exodus of important technologies and security issues. However, foreign direct investments are perceived differently by the member states. Combined with the lack of a political climate for further integration, the establishment of the European Investment Screening regulation is puzzling. The central question of this study reads:

What explains the establishment of the European Investment Screening regulation?

To provide an answer to the question, two important and contradicting theories of European integration are used: neofunctionalism and liberal intergovernmentalism. These theories provided a framework and specific expectation about the occurrence of European integration. The theories focused on the formation of preferences for further integration, the role of powerful member states, the political spillover effect and the role of the European institutions, mostly the European Commission. Due to the different prediction of how integration occurred, there was also a theoretical puzzle present. The theoretical research question reads:

Which theory, neofunctionalism or liberal intergovernmentalism, is providing a better explanation for the establishment of the European Investment Screening regulation?

5.2 Final conclusion

5.2.1 Empirical question

Due to some Chinese takeovers in Germany and France, the side effects of foreign direct investment became more salient. In 2016, it was the German minister that openly voiced the

need for a better EU-law. Germany wanted a stronger EU involvement in the screening and blocking of FDI. This call was supported by France and Italy and led to a request letter towards the European Trade Commissioner. After this request, the European Parliament got into it. It started to develop a proposal for a Union Act. However, the Council Summit of 2017 showed that the clear majority of the member states was not in favor of such a strong law. For the Nordic countries, blocking FDI on the European level sounded as protectionism. For the Southern and East European countries, blocking FDI at the EU-level could lead to loss of some important investments for China.

Further integration in the form of a stricter European FDI regulation was not something that originated from German and French interest groups. Even though, important interest groups in Germany show concerns about Chinese investments, (stricter) EU policies was not something they desired in the first place. A variety of supranational interest groups did welcome the European screening regulation. However, the request for such a European regulation was not found. All organizations merely responded to the proposal of the Commission.

The concern about foreign investments expressed by Germany was embraced by France and led to a request for strong European involvement. This is very much in line with the concept of political spillover. German minister Gabriel actively requested supranational guidance. Instead of making stronger national laws, Germany, France and Italy specifically asked involvement of the European Union. The national government of the three biggest economies all looked upon the EU.

After the Council Summit in 2017, the call from Germany and France for a strong European investments screening regulation was obstructed by the other member states. At the end of the 2-days during Summit, the council concluded that it welcomed a Commission's proposal "to *analyze* investments from third countries in strategic sectors". It merely stated that the Council will revert on this topic, probably due to the widely divergent opinions of the member states.

However, before the Council could discuss more, the President of the European Commission Jean-Claude Juncker proposed a framework for the *screening* of foreign direct investments. The proposal acknowledged the need for a common FDI screening framework. The three most important aspects of the proposal: establishing a framework for the screening of incoming FDI's, establishing a mechanism for cooperation and enabling the Commission to give advice.

Due to smart work of the European Commission (and the European Parliament) the regulation includes more involvement of the European Commission. In the regulation, the Commission gains the competence to screen, coordinate and issue opinions about incoming FDI's. And even though the Commission's opinion is not binding, the member states need to have good reasons to neglect this advice. The regulation establishes a central role for the Commission. Hence, the European institutions were able to stretch the role of the Commission and promote a common European screening framework. And even though the regulation is not binding, the regulation can lead to more integration.

To answer the research question:

The establishment of the European Investment Screening regulation can be explained because of a preference of Germany and France for a stronger European regulation concerning foreign direct investments. After a strong European investment regulation failed to get the support of the other member states, the European institutions took over. Due to clever regulation making of the Commission, helped by the Parliament, they maneuvered stronger integration into the regulation. Via the non-binding character and a screening based on national security, the majority of the member states agreed.

5.2.2 Theoretical question

Based on the observed events, the following can be concluded concerning the theoretical puzzle and question.

Even though the preference formation did not occur according to liberal intergovernmentalism, the preference for further European integration originated from the national governments. It was the government of Germany, France and Italy that initiated further European cooperation and stronger Commission competences regarding FDI. Potentially, this would be a strong basis for a relatively large step toward further integration. However, this more liberal intergovernmental way of European integration failed. The strong member states were unable to translate their national preferences into European policy. It were the smaller member states that blocked integration.

The three member states wrote a letter to the EU and openly expressed their desire for European coordination and Commission involvement. This is clearly in line with the political spillover

concept. The national governments seek supranational solutions for problems experienced at the national level.

However, the preferences for further European integration did not originate from supranational interest groups. Although, multiple European organizations show their support for the investment regulation.

The analysis also shows an active role of the European institutions. The Commission actively went ahead in proposing a screening regulation. The regulation extends the role of the European Union and creates space for further integration in the future.

For the theoretical question, the answer reads:

Looking at the events around the European Screening regulation, the outcome can be explained by a combination of a strong preference of integration by the German and French governments and neo-functional elements of translating these preferences into European policy. Considering the political spillover and the active role of European institutions in the process of European integration, it can be concluded that neofunctionalism provides a better answer than liberal intergovernmentalism.

The future should give more clarity about the applicability of neofunctionalism. Potentially, this regulation could be a solid basis for further integration. If the voluntary character of this regulation leads to dissatisfaction or functional trouble, the regulation can spillover to further regulations. On the long term, it should be possible to conclude if this regulation was indeed a first step towards further European integration of FDI policies.

5.3 Implications and future research

This study contributes to the understanding of European integration concerning FDI. It shows that creating a strong European answer towards the negative effects of FDI's is embraced by France, Germany and the European Commission. These actors are actively seeking for new supranational solutions to screen, block or deal better with foreign investments. However, the majority of the (smaller) member states does not want further European integration. Even though they are aware of the disadvantages, screening incoming investments based on economic criteria on the European level is not something they desire. If certain actors want further integration to occur, these smaller member states should be persuaded. On the other

hand, the analysis also shows that despite the lack of consensus, the Commission is able to push through. Admittedly with a less powerful or broad regulation than desired by Germany, France and the Commission, the regulation could potentially expand or might have to a bigger impact than preferred by the majority of the member states.

For the theory of European integration, the results imply that the powerful member states do not dominate the EU. If the smaller states are unified, they are able to block a large step of integration. Secondly, the results imply an active role of the Commission. The European Commission has its preferences and can leverage further integration. Especially when in the future this regulation will extend.

Future research about the implementation of the Investment Screening regulation should provide more clarity about the role of the Commission and the power of the regulation. Furthermore, the role of Italy in this process could be studied more. This study shows a very interesting dynamic of the government of Italy in relation to Chinese investments. Future research could dive into the national preference formation of Italy. Future research could also focus more on the security element of FDI. As shown, FDI screening has economic and security related aspects. This study indicated that a regulation based on economic criteria was not preferred by domestic interest groups and was blocked by the majority of the member states. However, an FDI regulation based on security and public order was established. Future research might include (neo)realist theories to explain this outcome.

5.4 Limitations

Additionally, some limitations can be made about this research. The first limitation concerns data that is used. The analyses mainly focused on publicly available sources and external sources like media coverages and reports. However, a lot of inside information about Council Summit or national preference formation was not accessible. Another element is about the generalizability of this single-case study. As already touched upon in the method section, process-tracing is a qualitative research of a single-case. It allows to have a high internal validity but has a significantly lower generalizability. It means that the conclusion of the research is not per se applicable to other forms of European integration.

5.5 Final remarks

This study aimed to provide a clear explanation for the establishment of the Investment Screening regulation. This regulation provides a framework for the screening of incoming FDI, creates a cooperation mechanism and enables the Commission to issue opinions. Due to the growing amount of FDI's from China, some member states wanted the EU to adapt its FDI policies to the globalized world and to be able to better deal with the potential disadvantages that result from Chinese investments and takeovers. However, economic and ideological concerns stopped a large step of integration. Instead, the Investment Screening regulation was established. The future will tell the real impact of the regulation for the EU.

Bibliography

- Alderman (2017) Macron Vowed to Be Business Friendly. Now He Faces a Protectionist Uproar. The New York Times. Nexis Uni (Retrieved 17 June 2020).
- Asharq Alawsat (2017) EU Executive: Open to Review of EU Foreign Investment Rules. Nexis Uni (Retrieved 13 June 2020).
- Barbé & Morillas (2019) The EU global strategy: the dynamics of a more politicized and politically integrated foreign policy, *Cambridge Review of International Affairs*, 32:6, 753-770, DOI: 10.1080/09557571.2019.1588227
- BDI (2018) Chinese Investments in High Technology. URL: <https://english.bdi.eu/article/news/chinese-investments-in-high-technology/> (Retrieved 14 June 2020).
- BDI (2019). Policy Paper China, Partner and Systemic Competitor – How Do We Deal with China’s State-Controlled Economy?
- BDI (2020) Investment Screening Becomes More Rigorous. URL: <https://english.bdi.eu/article/news/investment-screening-becomes-more-rigorous/> (Retrieved 14 June 2020).
- Beach, D., & Pedersen, R. B. (2016). *Causal case study methods: Foundations and guidelines for comparing, matching, and tracing*. University of Michigan Press.
- Beesley et al. (2017). EU free-traders water down Macron’s plan to vet foreign takeovers. *Financial Times*. Nexis Uni (Retrieved 10 June 2020).
- Bickenbach, Frank; Liu, Wan-Hsin (2018) : Chinese Direct Investment in Europe - Challenges for EU FDI Policy, CESifo Forum, ISSN 2190-717X, ifo Institut – Leibniz- Institut für Wirtschaftsforschung an der Universität München, München, Vol. 19, Iss. 4, pp. 15-22
- Bickenbach, Frank; Liu, Wan-Hsin; Li, Guoxue (2015) : The EU-China bilateral investment agreement in negotiation: Motivation, conflicts and perspectives, Kiel Policy Brief, No. 95, Kiel Institute for the World Economy (IfW), Kiel.
- Brenton, P., Di Mauro, F., & Lücke, M. (1999). Economic integration and FDI: An empirical analysis of foreign investment in the EU and in Central and Eastern Europe. *Empirica*, 26(2), 95-121.
- Brunsdon, J. (2017) Juncker to lay out plans for screening foreign takeovers in EU. *Financial Times*. Nexis Uni (Retrieved 22 June 2020).

- Burchard (2017) Macron misses goal of screening foreign investment in the EU. *Politico*. (Retrieved 14 June 2020).
- Burchard (2019) EU demands tougher action against ‘systemic rival’ China. *Politico*. (Retrieved 18 June 2020).
- BusinessEurope (2018) Position Paper, Screening of foreign direct investment (FDI) into the EU – BusinessEurope’s views.
- Casarini, N. (2015). Is Europe to benefit from China’s Belt and Road initiative. *Istituto Affari Internazionali*, 15(40), 1-11.
- Cerulus and Hanke (2017) Enter the dragon: Chinese investment in crisis-hit countries gives Beijing influence at the European Union’s top table. *Politico*. URL: <https://www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe/> (Retrieved 10 June 2020).
- Channel News Asia CNA (2017) Don't expect Trump-style protectionism from Germany. Nexis Uni (Retrieved on 10 June 2020).
- Chazan (2016). Chinese snub of minister highlights tensions with Germany. *Financial Times*. Nexis Uni (Retrieved 13 June 2020).
- Cini, M., & Borragán, N. P. S. (Eds.). (2016). *European union politics*. Oxford University Press.
- Council of the European Union (2019). Screening of foreign direct investments into the European Union, Interinstitutional File: 2017/0224 (COD)
- Di Benedetto, Fabrizio, A European Committee on Foreign Investment? (December 4, 2017). *Columbia FDI Perspectives*, December 2017. Available at SSRN: <https://ssrn.com/abstract=3082725>.
- ECFR (2018) Investment Screening: A victory for Europe. URL: https://www.ecfr.eu/article/commentary_investment_screening_china_eu_victory_for_europe (Retrieved 15 June 2020).
- ESF (2018) ESF position paper on framework for screening FDI into the EU.
- EUR-lex (2019). Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union. URL: <https://eur-lex.europa.eu/eli/reg/2019/452/oj?locale=en>

- European Commission (2017a). Communication from the Commission to the European Parliament, the European Council, the Council, The European Economic and Social Committee and the Committee of the Regions - Welcoming Foreign Direct Investment while Protecting Essential Interests.
- European Commission (2017b). Proposal for a Regulation of the European Parliament and the Council, establishing a framework for screening of foreign direct investments into the European Union.
- European Commission (2018). Fact Sheet: Screening of foreign direct investments – An EU framework. URL:
https://trade.ec.europa.eu/doclib/docs/2019/february/tradoc_157683.pdf
- European Commission (2019). Foreign Investment Screening: new European framework to enter into force in April 2019.
- European Council (2017) European Council meeting (22 and 23 June 2017) – Conclusions.
- European Parliament (2017). Briefing – Foreign direct investments screening, a debate in light of China-EU FDI flows.
- European Parliament (2018). Briefing – EU Legislation in Progress
- FDi Magazine (2020) France increases investment screening; FRANCE. Nexis Uni (Retrieved 15 June).
- Fina, S., & Lentner, G. M. (2016). The Scope of the EU's Investment Competence after Lisbon. *Santa Clara J. Int'l L.*, 14, 419.
- Financial Times (2017). The EU's free marketeers struggle to hold the line. *Financial Times*. Nexis Uni (Retrieved 22 June 2020).
- Goldstein, I., & Razin, A. (2005). *Foreign Direct Investment vs. Foreign Portfolio Investment* (No. w11047). National Bureau of Economic Research.
- Götz, M. A. (2015). Pursuing FDI policy in the EU–Member States and their policy space. *Journal of Economics and Political Economy*, 2(2), 290-308.
- Handelsblatt (2016). Chinese Investment; Warnings Over State Intervention in Kuka Deal. Handelsblatt Global Edition. Nexis Uni (Retrieved 10 June 2020).
- Handelsblatt (2016b). Keeping Out Foreign Buyers. Handelsblatt Global Edition. Nexis Uni (Retrieved 10 June 2020).

- Hanemann, T., Huotari, M., & Kratz, A. (2019). Chinese FDI in Europe: 2018 trends and impact of new screening policies. *MERICS Papers on China, MERICS and Rhodium Group, Berlin*.
- Holslag, Johan (2017) How China's New Silk Road Threatens European Trade, *The International Spectator*, 52:1, 46-60, DOI: 10.1080/03932729.2017.1261517.
- Huang, Y. (2016). Understanding China's Belt & Road initiative: motivation, framework and assessment. *China Economic Review*, 40, 314-321.
- Hubert P. Janicki & Phanindra V. Wunnava (2004) Determinants of foreign direct investment: empirical evidence from EU accession candidates, *Applied Economics*, 36:5, 505-509, DOI: 10.1080/00036840410001682214.
- IndustriAll (2018) Policy brief – Screening foreign direct investments. Another step towards a fairer global level playing field?
- Jensen, C. S. (2013). Neo-functionalism. *European Union Politics*, 4.
- Kao, C. (2020). The EU's FDI Screening Proposal – Can It Really Work? *European Review*, 28(2), 173-184. doi:10.1017/S1062798719000395.
- Kaunert, C (2010) The area of freedom, security and justice in the Lisbon Treaty: commission policy entrepreneurship? *European Security*, 19:2, 169-189, DOI: 10.1080/09662839.2010.531705.
- Le Monde (2017) Le montage subtil de l'Elysée pour céder le contrôle des chantiers STX à Fincantieri. URL: https://www.lemonde.fr/economie/article/2017/09/27/stx-macron-invente-la-privatisation-a-l-elastique_5192124_3234.html (Retrieved 17 June 2020).
- Leustean, L (2009) What is the European Union? Religion between Neofunctionalism and Intergovernmentalism, *International Journal for the Study of the Christian Church*, 9:3, 165-176, DOI: 10.1080/14742250903168149 .
- Meunier, S. (2014). Divide and conquer? China and the cacophony of foreign investment rules in the EU. *Journal of European Public Policy*, 21(7), 996-1016.
- Meunier, S. (2015). A tale of two ports: the epic story of Chinese direct investment in the Greek Port of Piraeus. New York, Council for European Studies.
- Meunier, S. (2017). Integration by stealth: How the European Union gained competence over foreign direct investment. *JCMS: Journal of Common Market Studies*, 55(3), 593-610.

- Meunier, S. (2018) Beware of Chinese Bearing Gifts: Why China's Direct Investment Poses Political Challenges in Europe and the United States. *Forthcoming in Julien Chaisse ed., China's three-prong investments strategy: Bilateral, Regional, and Global Tracks* (London: Oxford University Press, 2018).
- Meunier, S. (2019). Chinese direct investment in Europe: Economic opportunities and political challenges. In *Handbook on the International Political Economy of China*. Edward Elgar Publishing.
- Monzur, P. (2016) Germany Withdraws Approval for Chinese Takeover of Aixtron. *The New York Times*. URL: <https://www.nytimes.com/2016/10/25/business/dealbook/germany-china-technology-takeover.html> (Accessed on 7 June 2020).
- Moravcsik, A. (1993). Preferences and power in the European Community: liberal intergovernmentalist approach. *Journal of Common Market Studies*, 31(4), 473-524.
- Moravcsik, A. (1995). Liberal intergovernmentalism and integration: a rejoinder. *J. Common Mkt. Stud.*, 33, 611.
- Moravcsik, A. (1998). The choice for Europe: social purpose and state power from Messina to Maastricht. *London and New York: Routledge*.
- Moravcsik, A. (1999). A new statecraft? Supranational entrepreneurs and international cooperation. *International organization*, 53(2), 267-306.
- Moravcsik, A. (2008). The new liberalism. In *The Oxford Handbook of Political Science*.
- Moravcsik, A., & Schimmelfennig, F. (2009). Liberal intergovernmentalism. *European integration theory*, 2, 67-87.
- Niemann, A. (2006). *Explaining decisions in the European Union*. Cambridge University Press.
- Niemann, A. (2013). EU external trade and the treaty of lisbon: a revised neofunctionalist approach. *Journal of Contemporary European Research*, 9(4).
- Niemann, A., & Schmitter, P. C. (2009). Neofunctionalism. *European Integration Theory*. A. Wiener and T. Diez.
- Plus Media Solutions (2017). VDMA: Investment screening puts good investment climate in Europe at risk. Premium Official News. Nexis Uni (Retrieved 10 June 2020).
- Pollack, M. A. (2001). International relations theory and European integration. *JCMS: Journal of Common Market Studies*, 39(2), 221-244.

- Reinisch, A. (2013). The EU on the Investment Path, Quo Vadis Europe-The Future of EU BITs and Other Investment Agreements. *Santa Clara J. Int'l L.*, 12, 111.
- Reuters (2016a). Germany's Gabriel seeks EU rule to block foreign takeover of key technologies. URL: <https://www.reuters.com/article/us-kuka-m-a-mideagroup-germany-idUSKCN0YV147> (Retrieved 10 June 2020).
- Reuters (2016b) Germany withdrew approval of Aixtron deal on new 'security-related information. URL: <https://www.reuters.com/article/us-aixtron-m-a-fujian-ministry-idUSKCN12O1JZ> (Retrieved 10 June 2020).
- Rinke and Schuetze (2016) Germany working on KUKA counter-offer: Economy Minister says. Reuter. URL <https://de.reuters.com/article/us-kuka-m-a-mideagroup-germany-idUKKCN0YN4GH> (Accessed on 7 June 2020).
- Schimmelfennig, F. (2010). Integration theory. In *Research Agendas in EU Studies* (pp. 37-59). Palgrave Macmillan, London.
- Schimmelfennig, F. (2013). Liberal theory and European integration. In *After Liberalism?* (pp. 253-269). Palgrave Macmillan, London.
- Schimmelfennig, F. (2015). Liberal intergovernmentalism and the euro area crisis. *Journal of European Public Policy*, 22(2), 177-195.
- Schimmelfennig, F., & Rittberger, B. (2006). Theories off European integration. *European Union: Power and policy-making*, 10, 73.
- Schueren et al., (2018) European Union: The EU's Proposed Framework for FDI Screening Mechanism Status and Prospects For Adoption. Mondaq Business Briefing. Nexis Uni (Retrieved 14 June 2020).
- Sigmund, Stratmann and Wocher (2017). HANDELSBLATT EXCLUSIVE; Government Seeks White Knight for Kuka. Handelsblatt Global Edition. Nexis Uni (Retrieved on 10 June 2020).
- Summers, Tim (2016) China's 'New Silk Roads': sub-national regions and networks of global political economy, *Third World Quarterly*, 37:9, 1628-1643, DOI: 10.1080/01436597.2016.1153415.
- Valero (2017). Leaders tone down Macron's call for foreign investment scrutiny. Eurativ. URL: <https://www.euractiv.com/section/economy-jobs/news/leaders-tone-down-macrons-call-for-foreign-investment-scrutiny> (Retrieved 10 June 2020).

Wise and Hall (2019). Portugal PM warns on EU protectionism over China investment screening. Financial Times. Nexis Uni (Retrieved 21 June 2020).

Wu, J., Li, S., & Selover, D. D. (2012). Foreign direct investment vs. foreign portfolio investment. *Management International Review*, 52(5), 643-670.

Zijlstra (2017). Kamerbrief: Nieuwe Commissievoorstellen en initiatieven van de lidstaten van de Europese Unie Nr. 2437.

Zypries, Sapin and Calenda (2017a) Letter - Germany, France and Italy to Malmström. URL: https://www.bmwi.de/Redaktion/DE/Downloads/S-T/schreiben-de-fr-it-an-malmstroem.pdf?__blob=publicationFile&v=5

Zypries, Sapin and Calenda (2017b) Common Paper - Proposals for ensuring an improved level playing field in trade and investment. URL: https://www.bmwi.de/Redaktion/DE/Downloads/E/eckpunkt Papier-proposals-for-ensuring-an-improved-level-playing-field-in-trade-and-investment.pdf?__blob=publicationFile&v=4