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Paweł Paszak

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Chinese investment policy in Europe between 2011 and 2017 Challenges and threats to the security of European Union countries

Abstract

This paper aims to assess the impact of Chinese investments between 2011 and 2017 on the level of economic and political security of EU member countries. The size, structure and geographical concentration of the investments were subjected to an examination. In order to explain its underlying motivations and objectives, the author investigates the Chinese government's strategies, links between the private sector and authorities as well as selected transactions. The results of the study indicate that Chinese investments, despite possible short-term benefits, in the long-term perspective lead to the weakening of the EU's economic power and pose a challenge to political security. Technology transfer and the lack of reciprocity in the treatment of investors undermine the competitiveness of European economies and limit their development opportunities. Investments give Chinese companies access to strategic infrastructure and technologies that can be used by authorities to pursue their agenda. The expanding economic influences can also serve as an instrument of pressure on individual states to shape decision-making processes within the EU.

Key words: China, European Union, foreign direct investment, economic security, political security

Introduction

From the beginning of the 21st century, the gradual process of strengthening economic relations between China and the European Union has led to the creation of strong interdependence links. The Union has become the essential goods market for China as well as a vital source of capital, financial services and technology. However, since 2011 Chinese investments in the EU have surged to unprecedented levels. This historical shift aroused concerns among European governments and the public opinion about the potential security implications. In September 2017 the European Commission presented a draft of new screening mechanism designed to better address potential risks associated with investments in strategic assets. This development has been accompanied by the heated discussion about the increased presence of Chinese capital in Europe and its consequences. On the one hand, during the world financial crisis, many cash troubled European companies on the verge of bankruptcy were bailed out by Chinese investors. On the other hand, it has been argued that a rapid influx of capital from China comes with strings attached and can bring negative political and economic consequences. The article aims to examine the effects of increased investment activity of Chinese companies in the European Union on the level of economic and political security of its member countries. The period of 2011-2017 will be subjected to the study, as it has been marked by the unparalleled growth of capital inflow from China. An accurate diagnosis is crucial as it may determine the Union's power and security in the coming future. By its very essence, the state of security is impossible to measure therefore the threat

perception becomes of paramount importance¹ An erroneous assessment of objective reality (states of obsession or false security in the typology of Daniel Frei)² poses a real threat to the national security. Therefore, it is necessary to settle whether Chinese investments lead to improvement of development opportunities or rather pose a security challenge. Intending to resolve this issue, the author will examine the structure, size and geographical dispersion of the investments. This paper also attempts to identify underlying motivations by exploring Chinese national policies and selected transactions. Finally, based on acquired knowledge, impact on economic and political security of the EU will be assessed. This paper employs the concept of sectoral security advanced by Barry Buzan, Olle Weaver and Jaap de Wilde, which divides security into five sectors (military, economic, political, social, environmental)³. This approach helps to recognise risks and threats specific to each of the sectors and to precisely indicate its reference object (state, economy, the sovereignty of the decision-making process, political identity, values). A narrow, traditional approach limiting security issues to military threats in the case of investment analysis is only of limited use. Likewise, if we want to assess Chinese authorities' ability to influence the decision-making process in the EU, a traditional definition of security will prove ineffective. The dynamic growth of Chinese investment in the EU attracted

¹ J. Pawłowski, J. Marczak, K. Gąsiorek, *Definiowanie bezpieczeństwa narodowego (państwa)* [w:] J. Pawłowski (red.), *Podstawy bezpieczeństwa narodowego (państwa)*, Wydawnictwo Akademii Sztuki Wojennej: Warszawa, 2017, p. 32-33.

² J. Stańczyk, *Współczesne pojmowanie bezpieczeństwa*, Instytut Studiów Politycznych PAN: Warszawa, 1996, p 17.

³ B. Buzan, Ole Weaver, Jaap de Wilde, *Security: A new framework for analysis*, London: Lynne Rienner Publishing, 1998.

considerable attention among scientific institutions, private analytical companies and think-tanks. Both in Poland⁴

⁴ A. Gwiżdża, *Globalna ekspansja gospodarcza Chin*, Wydawnictwo Uniwersytetu Kazimierza Wielkiego: Bydgoszcz, 2013; *Współpraca inwestycyjna Chin kontynentalnych z zagranicą*, L. Pałys (red.), Instytut Badań Rynku, Konsumpcji i Koniunktur: Warszawa, 2014; Ł. Zamecki, P. Borkowski, A. Wróbel, *Wewnętrzne uwarunkowania aktywności międzynarodowej Chińskiej Republiki Ludowej i jej relacje z Unią Europejską*, Wydział Dziennikarstwa i Nauk Politycznych. Uniwersytet Warszawski: Warszawa, 2013; Ł. Zamecki, P. Borkowski, *Relacje Unia Europejska- Chińska Republika Ludowa: uwarunkowania wewnętrzne i międzynarodowe*, Uniwersytet Warszawski. Wydział Dziennikarstwa i Nauk Politycznych: Warszawa, 2011; *Unia Europejska -Chiny: dziś i w przyszłości*, red. Józef M. Fiszer, Instytut Studiów Politycznych Polskiej Akademii Nauk: Warszawa, 2016; T. Kamiński, *Sypiając ze smokiem: Polityka Unii Europejskiej wobec Chin*, Wydawnictwo Uniwersytetu Łódzkiego: Łódź, 2015; R. Koszek, *Przejęcia europejskich firm jako przykłady chińskich inwestycji bezpośrednich*, „Prace Komisji Geografii Przemysłu Polskiego Towarzystwa Geograficznego”, Tom. 31, Numer 4 (2017) p. 133-147; Idem, *Kraje Europy Środkowo-Wschodniej wobec ekspansji chińskiej gospodarki*, „Prace Komisji Geografii Przemysłu Polskiego Towarzystwa Geograficznego”, Tom. 30, Nr 1 (2016), p. 176-191; K. Bąkowska, *Próba zwiększenia kontroli napływu do Unii Europejskiej bezpośrednich inwestycji z zagranicy z krajów trzecich*, „Unia Europejska”, Numer 4 (2017); J. Sulmicki, *Przechodzenie Chin od portfelowych do bezpośrednich inwestycji zagranicznych*, „Zeszyty Naukowe Uczelni Vistula”, Nr 34 (2014), p. 38-51; K. Koziół-Nadolna, *Uwarunkowania internacjonalizacji działalności badawczo-rozwojowej na przykładzie Chin*, „Studia i Prace WNEiZ US”, Tom 41, Nr 31 p. 119-130. M. Kaczmarski, *Niezbędny partner drugoplanowy. Europa w polityce Chin w okresie rządów Xi Jinpinga*, „Prace OSW”, Nr 56, Warszawa, 2016; J. Jakubowski, M. Kaczmarski, *Nietrafiona oferta Pekinu: „16+1” a chińska polityka wobec Unii Europejskiej*, „Komentarze OSW”, Nr 250(2017); J. Jakubowski, M. Kaczmarski, *Chińskie zagraniczne inwestycje bezpośrednie w ramach „16+1”: strategia, instytucje, rezultaty*, „Komentarze OSW”, Nr 191 (2015); A. Gradziuk, D. Wnukowski, *Rocky Road to a Level Playing Field in EU-China Investment and Trade Relations*, PISM Policy Paper, No. 8 (91), April 2014.

and abroad⁵ it resulted in numerous publications exploring different aspects of this new phenomenon. Sophie Meunier's works⁶ are of particular value as they address main features of Chinese investments in Europe, the effects they can bring on host states and their reception by the public. Meunier in her articles points to the increasingly cautious and sceptical attitude of governments and societies towards investors from China. Alongside the challenges and threats, her works show the potential benefits that Chinese capital can bring to the EU. Wiebke Rabe and Olivia Gippner⁷ also discussed the perception of Chinese investments in strategic infrastructure. In their article, they showed that investments from China in the UK and Germany began to be perceived through the prism of a potential threat to the security, prompting the governments to opt for new investment regulations. Research

⁵ P. Le Corre, *China's offensive in Europe*, Washington, D.C. : Brookings Institution Press, 2016; S. Rein, *The war for China's wallet : profiting from the new world order*, Berlin: De Gruyter Press, 2018; J.-P. Koch, *Chancen und Risiken von chinesischen Direktinvestitionen. Steuert Deutschland in eine Abhängigkeit von China?* München, GRIN Verlag, 2017. D. Jolly, B. Belloc, *Investissements chinois sortant de Chine : quelles en sont les motivations?* „Annales des Mines – Gerer of Comprendre”, Vol. 2, No. 124 (2016), p. 5-13. Ch. Fisch, J. Block, Ph. Sandner, *The impact of acquisitions on Chinese acquirers' innovation performance: an empirical investigation of 1545 Chinese acquisitions*, „Journal of Bussiness Economics”, <https://doi.org/10.1007/s11573-018-0905-0>, (accessed: August 2018); F. Spigarelli, *Ping Lu, Chinese FDI in the EU: learning from the renewable energy sector*, „Columbia FDI Perspectives”, No. 179 (August 2016).

⁶ S. Meunier, B. Burgoon, W. Jacoby, *The politics of hosting Chinese investment in Europe- an introduction*, „Asia Europe Journal”, Vol. 12, No.1-2, 2016, p. 109–126; S. Meunier, *A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe*, „Asia Europe Journal”, Vol. 12, No.1-2, 2016, p. 143–158.

⁷ W. Rabe, O. Gippner, *Perceptions of China's outward foreign direct investment in European critical infrastructure and strategic industries*, „International Politics”, Vol.54, No. 4, 2017, p. 468–486.

and analyses published by the Mercator Institute for Chinese Studies and Rhodium Group⁸ provide another valuable source of information and allow to track quantitative and qualitative trends of investments. Research conducted by the European Council on Foreign Relations⁹ offers valuable insights into relations between the European Union and the People's Republic of China. An evident scepticism towards Chinese activities in Europe and an inclination to perceive them as a challenge/threat to security is a common thread of these works. In the first section, the author will present the Chinese economic expansion in the world since the global financial crisis and the main features of FDI in Europe. In the second section, key motivations and determinants of Chinese investment activity in the EU will be discussed. In the third part, selected case studies of investments will serve as a starting point for a reflection on the impact of capital inflow from China on the economic and political security of the EU.

Chinese investment expansion in the world and European Union

The financial crisis of 2007-2008 has become a symbol of an ongoing shift in the global balance of power, so far based on the indisputable advantage of the United States and its allies. The crisis has initiated a new stage characterised by the growing role of rising powers, among which China plays an incomparably most substantial role. The economic meltdown

⁸ T. Hanneman, M. Huottari, *Record Flows and Growing Imbalances. Chinese Investments in Europe 2016*, MERICS Papers on China, No.3, January 2017; T. Hanneman, M. Huottari, *Chinese FDI in Europe in 2017. Rapid Recovery after initial slowdown*, MERICS.

⁹ F. Godement A. Vasselier, *China at the gates*, European Council on Foreign Relations, London 2017.

of 2007 in the first place affected the US market, and within a year other developed economies were locked in recession. The collapse of the financial markets resulted not only in an apparent decline in demand but also in the volume of investments directed to developing countries. While western economies have limited the number of direct investments, in China a reverse trend has become apparent. In 2007, according to the United Nations Conference on Trade¹⁰, the value of direct investment from China stood at \$26.5 billion. For comparison, in the same year entrepreneurs from the United States invested \$393,5 billion abroad¹¹. It illustrates a substantial asymmetry between the position of China and the USA in the investment market at that time. However, over the next years, the growing economic power of the Chinese economy, favourable international environment and government strategies have contributed to a gradual increase in the outflow of capital from China. During the 2007-2017 period, Chinese investors' share in global investment market expanded from 1.21% in 2007 (\$26.5 billion) to 12.61% in 2016 (\$183.1 billion). In 2007, the difference amounted to \$367 billion in favour of the US, but in less than a decade it fell to \$115.903 billion¹². As seen above, even though the gap between China and the US in the area of FDI remains substantial, it has also been significantly reduced. Shifting balance of power can also be observed in continual decline of OECD's share in global GDP (calculated as purchasing power parity). In 2008, its share dropped below 50% for the first time since

¹⁰ *Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016*, United Nations Conference on Trade and Development, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>.

¹¹ *Ibidem*.

¹² *Ibidem*.

the establishment of the organisation (in 1990, this ratio for OECD countries stood at 63.68%, in 2018 it fell to 40.75%)¹³. During 2008 while developed economies struggled with financial breakdown, China celebrated the summer Olympics and surpassing Japan's as the second largest economy in the world. In the subsequent years, the European debt crisis and the political failures in Georgia, Ukraine and the Middle East reinforced the Chinese in their belief that the western dominance on the global stage is coming to an end. At least since 2002, the authorities have been perceiving the international situation as the "window of strategic opportunities". It is defined as an unprecedented advantageous international situation allowing China to safely pursue domestic development and the status of a global superpower¹⁴. This perception of the international environment by the Chinese authorities is closely related to the activities of private and state-owned enterprises in the EU investment market. The global financial crisis and Eurozone crisis forced many underinvested companies to sell their shares in order to avoid bankruptcy. Chinese investors prompted by the government decided to seize this opportunity and strengthen their position in the global market. As early as 2010, the value of Chinese FDI in the EU stood at €1.6 billion. Over the next three years (2011, 2012 and 2013) the influx of capital from China tripled rising to €6-8 billion. However, the breakthrough came in 2014 when the inflow of Chinese capital into the EU amounted

¹³ *IMF Data Mapper*, International Monetary Fund, <http://www.imf.org/external/datamapper/PPPSH@WEO/OEMDC/ADVEC/WEO-WORLD>, Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016.

¹⁴ E.S. Madeiros, *China's International Behavior: Activism, Opportunism, and Diversification*, RAND Project Air Force, Santa Monica: 2009, xvi-xvii.

to €14 billion. The following years - 2015 and 2016 – have witnessed a further intensification of investments, reaching respectively: €20 and €35 billion¹⁵. The first slight decrease in the value of investments took place in 2017 when it dropped to €28.5 billion¹⁶, yet still a significant number. The presented figures illustrate that Chinese enterprises have firmly established themselves as important actors on the European market. However, to fully understand the ongoing process it is necessary to take a closer look at the qualitative features of the phenomenon. The structure of Chinese investments is dominated by M&A (mergers and acquisitions) which constitute a large majority of all transactions ranging from 86 to 95%¹⁷. What is more, as much as one-third of the capital invested goes to companies from the high-tech sector which are the main drivers of research and development activities¹⁸. Renewable energy, ICT, transport and infrastructure, areas defined as “critical” or “strategic” also play a considerable role in the structure of investments. Alongside the structural trends, geographical distribution of capital is another important aspect of investments. Chinese FDI focus on the largest and most advanced economies in the EU: Germany, UK and France. In the 2011-2016 they accounted for more than a half of total investment value on average

¹⁵ T. Hanneman, M. Huottari, *Record Flows and Growing Imbalances. Chinese Investments in Europe 2016*, MERICS Papers on China, No.3, January 2017, p 5.

¹⁶ T. Hanneman, M. Huottari, *Chinese FDI in Europe in 2017. Rapid Recovery after initial slowdown*, MERICS, <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe> Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016, (accessed: August 2018).

¹⁷ J. Hellström, *China's Acquisitions in Europe: European Perceptions of Chinese Investments and their Strategic Implication*, Swedish Defence Research Agency, FOI-R—4384—SE, December 2016, p. 13.

¹⁸ T. Hanneman, M. Huottari, *Record...*, p. 5.

(54,3%). If Italy is included in the estimation, the percentage will rise even further. High concentration of Chinese investments in leading economies becomes even more striking in comparison with the new EU members. In 2016 the collective value of cumulated investments in V4 countries (Czech Republic, Hungary, Poland, Slovakia), Romania and Bulgaria (€4,83 billion) was still significantly lower than in each of the biggest EU economies (France €11,46 billion, Germany €18,82 billion, Italy €12,84 billion, United Kingdom €23,63 billion)¹⁹. While these economies have to be regarded as the main target due to their technological advantage, Chinese investors will allocate their resources wherever they can acquire valuable assets. Takeovers of Swedish Volvo, Finnish Supercell, Hungarian BorsdomChem or various ports and container terminals in Netherlands, Belgium, Spain and Greece provide examples of a typical asset-seeking FDI. So far greenfield investments constitute only a small share of all transactions, failing to meet expectations of Central-Eastern European Countries participating in “16+1” format. Likewise, Belt and Road Initiative hailed as the New Silk Road and the greatest investment endeavour since Marshall Plan has not lived up to its promises²⁰.

Motivations

The key to explaining the new dynamics of Chinese investments in the EU lies in identifying the primary motivations

¹⁹ Ibidem, p. 10.

²⁰ K. Iwanek, O. Pietrewicz (red.), *Chiński projekt „Nowego Jedwabnego Szlaku”. Retoryka a rzeczywistość*, Raport Ośrodka Badań Azji Centrum Badań nad Bezpieczeństwem Akademii Sztuki Wojennej, sierpień 2017.

of Chinese authorities and entrepreneurs. Yanting Wang and Lin Zhao²¹ point to a shift that has taken place in China's investment policy in recent years. In the first decade of the 21st century, Chinese FDI was predominantly motivated by investors' interest in accessing and exploiting natural resources²². In recent years, however, a new trend has emerged as investors started to change their targets in favour of high-value-added sectors²³. These changes have to be attributed to a complex interplay of internal and external factors, among which the most prominent role is played by the following: 1) striving to acquire knowledge and advanced technologies that will facilitate the modernisation of the Chinese economy and help it withstand internal and external pressures 2) the desire to improve and stabilise access to strategic markets by taking over companies with an established position and a reputable brand. 3) national strategies pursuing a technological advantage in strategic sectors, which will enable China to achieve the status of military and economic superpower. As shown in the previous section, the structure of Chinese FDI is dominated by M&A which leads to faster diffusion of technology and knowledge between developed European economies and China. Wang and Zhao further claim that investments serve as a useful tool for technological advance and enhancing operations of the investor in other markets²⁴. Presented motivations fit into the narrative of "Made in China

²¹ Y. Wang, L. Zhao, *Outward Foreign Direct Investment from China: Recent Trend and Development*, „The Chinese Economy”, No. 50, 2017, p. 359.

²² P.J. Buckley, J. Clegg, A.R. Cross, Xin Liu, Hinrich Voss, Ping Zheng, *The determinants of Chinese outward foreign direct investment*, „Journal of International Business Studies”, No. 38, Vol. 4, p. 504.

²³ Ibidem, p. 359.

²⁴ Ibidem, p. 356.

“2025” strategy²⁵ adopted by the China Communist Party in 2013 and are congruous with the goals of the 5-year development plan for 2016-2020²⁶. Analysts believe that these policies pose a serious challenge for western economies since they aim to eliminate foreign technologies and replace them with those offered by local manufacturers. According to the strategy, the share of domestic components in total industrial production is expected to reach 70% by 2025²⁷. It also plans to boost the competitiveness of Chinese producers by increasing innovation in ten sectors designated as strategic. These include information technologies, robotics and automation, aviation, railway, shipbuilding industries as well as new energy vehicles and renewable energy. The ultimate goal is the transition away from labour-intensive industries, climb up the value-added chain and avoid being trapped in a so-called middle-income trap. If these plans succeed, China will become a “manufacturing superpower”, and export-driven economies in Europe will have to face tighter competition. Risks arise not only in the economic sphere, as acquisitions of high-tech enterprises can strengthen China’s military capabilities and contribute to the evolution of military power balance. Given the low standards of intellectual property

²⁵ *Made in China 2025*, State Council, July 7, 2015, <http://www.citadellascienza.it/cina/wp-content/uploads/2017/02/IoT-ONE-Made-in-China-2025.pdf>, Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016.

²⁶ *The 13th Five-Year Plan for Economic and Social Development of The People’s Republic of China*, Central Compilation & Translation Press, <http://en.ndrc.gov.cn/policyrelease/201612/P020161207645766966662.pdf>.

²⁷ J. Wübbecke, M. Meissner, M. J. Zenglein, J. Ives, B. Conrad, *Made in China 2025. The making of a high-tech superpower and consequences for industrial countries*. MERICS Papers on China, No. 2 December 2016.

rights protection in China²⁸, the tradition of industrial espionage²⁹, and the far reaching CCP's influence, it is justified to assume that at least some of the civilian technologies can be adopted for military purposes. In particular, this applies to software, nevertheless, other technological advances in the aviation, shipbuilding or nuclear industries can be adapted for similar use. What's more, access to telecom and energy networks opens the way to their infiltration and increases the risk of an attack on government websites and data of individuals and institutions. This significantly increases the power projection capabilities of PLA in cyberspace, which implies a decrease in the military, economic and political security of EU countries. The presented process should be seen as part of the broader strategy of the Chinese government seeking to weaken the United States and its allies and regain its 'rightful' place in the international system.

Chinese investments in Europe and their impact on the economic and political security of EU countries

In the 2011-2017 period, Chinese FDI in the high-tech industry has gained a strong momentum attracting substantial attention of politicians, academia and the public. During the coming years, numerous iconic European brands have become the property of Chinese investors. At the turn of 2010

²⁸ *Report on the protection and enforcement of intellectual property rights in third countries*, European Commission Staff Working Document, Brussels, 21.2.2018 SWD (2018) 47; http://trade.ec.europa.eu/doclib/docs/2018/march/tradoc_156634.pdf, Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016,.

²⁹ M. Hjortdal, *China's Use of Cyber Warfare: Espionage Meets Strategic Deterrence*, „Journal of Strategic Security”, Vol. 4, No. 2 (2011), p. 1-24.

and 2011, the Swedish car manufacturer Volvo was sold to the Geely group for \$1.8 billion. In January 2011, for the sum of \$5 billion, Midea took over the leading producer of industrial robots - German Kuka AG. In 2015, a similar fate was met by the Italian tire manufacturer Pirelli, which became the property of the ChemChina as a result of the transaction worth €7.1 billion. In 2016, the Finnish game producer Supercell passed into the hands of the Chinese Tencent Holdings for \$8.6 billion. Attention was also drawn to the acquisition of 49% shares in the British Global Switch for £2.5 billion - the most significant European company dealing with data storage. In 2017, Swiss Syngenta AG, the global leader in the production of pesticides was sold for \$43 billion. The investments presented above do not exhaust the list of acquisitions, at the same time, smaller investments in innovative enterprises located in strategic sectors or market niches have been carried out. The observed phenomenon poses a potential threat to the power of EU countries on multiple levels. Firstly, it leads to the weakening of competitive advantage held by European companies. For China, the transfer of technology and building research and development capabilities constitute top priorities. To ensure that the investment relations work in favour of the Chinese economy, market restrictions and non-tariff barriers are kept in place by the government. The EU investment market is relatively open not only when compared with Chinese but also in comparison with American or Japanese ones. Without these favourable conditions, the investment expansion of Chinese enterprises would not be possible at such a rapid rate. This asymmetry in the treatment of investors leads to one-sided transfer of technology, which fundamentally differs relations with China from the relations between the EU and other economic

powers. That is why EU institutions have vastly increased their efforts to ensure a level playing field for European entrepreneurs. The report of the European Commission points out that “EU enterprises face numerous and permanent barriers in China, including requirements for joint venture investments, restrictions on market entry, the need to transfer technology or meet unjustified technical requirements”³⁰. So far attempts made by the EU have been mostly ignored by Chinese authorities, however, if they hope to finalise the ongoing negotiations on Comprehensive Agreement of Investment, an adjustment of their stance will be necessary. Statistics show that in the last few years EU FDI in China have experienced a steep decline. In 2013, investors from the member states invested in China over €21 billion, however, in 2015 and 2016 these values plunged to €6 billion, which illustrates a clear downward trend³¹.

The potential weakening of the EU’s economic power is just one of many security threats that investment from the Middle Kingdom may create. Another dimension of threats is associated with the overwhelming influence of the Chinese authorities on the behaviour of domestic investors. This leads to a far-reaching integration of economic policies with military strategies. To show the mechanism of action, an example of the behaviour of Chinese entities towards the Italian manufacturer of luxury yachts, the company Ferretti, will be used. In 2012, state-owned Shandong Heavy Industry Group

³⁰ *Report from the European Commission to the European Parliament and the Council on Trade and Investment barriers*, 1 January-31 December 2016, European Commission, p. 17.

³¹ *EU-China Economic Relations*, Eurostat, <http://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20170601-1?inheritRedirect=true>, *Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016*.

acquired the controlling interest in Ferretti for €0.5 billion. Soon after the completion of the deal the new management of the Company decided to expand its business into military boats segment and created a new department - Ferretti Security and Defence. The new direction of Ferretti's activities soon gained a strong momentum as the company announced plans to partner military giants as Finmeccanica, Saab and Thales in building a range of naval platforms. Concurrently, in February 2017 a seemingly unrelated transaction took place. China State Shipbuilding Cooperation signed an agreement with the Italian shipyard Fincantieri for the construction of passenger crafts in Shanghai, involving also transfer of technology. Simultaneously, Fincantieri has made an offer to take control of the STX port, the largest manufacturer of passenger ships in the world, responsible also for the service of the French navy units. While the negotiations about the takeover of the port by Fincantieri were being held, in Abu Dhabi, Fincantieri and Ferretti began cooperation in the production of boats for military use. The sequence of events shows how transactions with a seemingly civilian nature, conducted by proxies can serve the implementation of military goals³². It should be noted that China State Shipbuilding Cooperation is a conglomerate of 58 companies subordinated directly to the Chinese State Council, and among the units produced by the company are atomic submarines, destroyers and frigates for the People's Liberation Army. Technologies acquired as a result of civilian deals can be converted to strengthen China's military power and it may happen despite the remaining EU arms embargo. Classifying Chinese

³² F. Godement A. Vasselier, *China at the gates*, European Council on Foreign Relations, London 2017, p. 41-42.

private enterprises as economic entities par excellence is unjustified and inconsistent with their behaviour. A number of studies indicate a strong correlation between economic success and the degree of linkages between entrepreneurs and the China's Communist Party³³. Since the 1990s, the authorities have taken measures to stimulate cooperation between the private and government sectors. In consequence, many former CCP members, owing to personal connections in the Party, made quick and profitable careers³⁴. It is symptomatic that in 2017 the collective wealth of 152 delegates to National Congress, according to Hurun report³⁵, amounted to \$650 billion, more than Poland's current GDP (\$524,51 billion in 2017)³⁶. The person of Ren Zhengfei, the founder of telecom giant Huawei, provides a great example of such linkages. Before the start of his business career Zhengfei worked in a military research centre and was also a delegate to the 12th CCP's National Congress. Incorporating private enterprises and economic policies into military strategies constitutes a definite trend in Xi Jinping's administration policy. On 19th National Congress Chinese President Xi called for deepened military-civilian integration: "We must place greater focus on combat, encourage innovation, build systems,

³³ H. Li, L. Meng, Q. Wang, L. An Zhou, *Political connections, financing and firm performance: Evidence from Chinese private firms*, „Journal of Development Economics”, No. 87 (2007), p. 299.

³⁴ B.J. Dickson, *Integrating Wealth and Power in China: The Communist Party's Embrace' of the Private Sector*, „The China Quarterly”, No. 192 (Dec., 2007), p. 827-854.

³⁵ *Hurun Report Releases China Rich List 2017 in Association with 36G*, <http://www.hurun.net/EN/Article/Details?num=5A320E03FD31>, Foreign direct investment: Inward and outward flows and stock, annual, 1970-2016.

³⁶ *GDP (current US\$)*, The World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

increase efficacy and efficiency, and further military-civilian integration”³⁷. However, the convergence of economic and military policies does not exhaust the list of potential challenges to EU security. Investments in the area of energy, logistics and telecommunications infrastructure have also gained a strong momentum driven by leading SOEs (state-owned enterprises). In May 2018, China Three Gorges offered €11 billion for the purchase of a block of shares in Energias de Portugal - the largest energy supplier in Portugal. The finalisation of the agreement will mean that the Chinese company will administer a significant part of the power grid in a member state of the European Union and NATO. The example of Energias de Portugal is not an isolated case, since between 2011 and through 2017, Chinese COSCO took control of the port of Piraeus, the terminal at Zeebrugge in Belgium, the port of Valencia and obtained a 49% of shares in the Italian port of Vado. In the telecommunications sector, the growing position of the Huawei group deserves attention. In the United States and India, for national security reasons, this group was excluded from government tenders for the supply of equipment and services. In Europe, the corporation is one of the leading providers of telecom services and equipment with a market share of 15%. Its products are used by leading service providers like Vodafone, Telefónica, Deutsche Telekom or Orange. In the face of the transformation towards the 5G Internet, the so-called “internet of things”, it

³⁷ X. Jinping, *Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era*, Delivered at the 19th National Congress of the Communist Party of China October 18, 2017, http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf, p. 21.

creates a risk of interference in the control over many technical aspects of life such as intelligent buildings, energy networks, or industrial plants³⁸. Even though the awareness of potential risks and challenges is growing, the inflow of Chinese capital was welcomed by some European governments. In many cases it prevented the bankruptcy of private enterprises giving a boost to several economies struggling with financial uncertainty³⁹. In fact, Chinese investments may be associated with short-term economic benefits in the form of modernisation of industrial plants, equipment, new jobs or better market access. This has been proved by previous examples of investments not only in Europe but also in Africa or Latin America⁴⁰. At the same time, the asymmetry of benefits between China and recipients of investment as well as the growing political dependence is widely documented in the literature⁴¹. For some EU members as Portugal, Greece, Hungary, Belgium and Sweden potential benefits outweigh the risk. In the opinion of Viktor Orbán, Hungarian Prime Minister, EU countries are in “harsh competition” for Chinese

³⁸ A. Rot, *Zagrożenia wynikające z implementacji koncepcji internetu rzeczy w wybranych obszarach zastosowań*, „Studia Ekonomiczne”, Nr 341 (2017) p. 331-339.

³⁹ S. Meunier, *A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe*, „Asia Europe Journal”, Vol. 12, No.1-2, 2016, p. 144.

⁴⁰ C. Mlambo, A. Kushamba, *More Blessing Simawu, China-Africa Relations: What Lies Beneath?* „The Chinese Economy”, No. 49 (2016), p. 257–276.

⁴¹ H. Li, *China's growing interest in Latin America and its implications*, „Journal of Strategic Studies”, 30: 4-5 (2007), p.833-862; N. Castaneda, *New Dependency? Economic Links between China and Latin America*, „Issues & Studies”, Vol. 53, No. 01(2017); W. Nowak, *Ekspansja handlowa azjatyckich gigantów w Ameryce Łacińskiej*, „Finanse, Rynki Finansowe, Ubezpieczenia” nr 3/2016 (81), p. 201–212;

capital. This intra-European rivalry can be used by Beijing to influence decision-making processes in the European Union institutions. China's relations with the EU are not free from unresolved issues, and many key agreements are still in the phase of talks. These include China's human rights record, the EU arms embargo, and the granting of market economy status. What's more, negotiations regarding the Comprehensive Agreement on Investment and investments screening procedures are still under way. Such a broad spectrum of issues involving differences of interest forces Chinese diplomacy to seek allies among the EU member countries. China may deploy "divide and rule" strategy and use investments as leverage to impede progress on screening mechanism or weaken EU's stances on China human rights record and the South China Sea dispute. It does not come as a surprise that an enormous rise in Chinese FDI caused negative reactions among EU officials and politicians of some Member States⁴². In August 2017 the former German Foreign Minister Sigmar Gabriel urged EU Member countries to maintain a unified position on China and warned: "If we do not succeed for example in developing a single strategy towards China, then China will succeed in dividing Europe"⁴³. Similarly, most of the statements emphasised the risk of using the gained economic position to influence the situation inside the Union. In February 2017 French, German and Italian ministers of

⁴² *European Parliament resolution of 16 December 2015 on EU-China relations* (2015/2003(INI), European Parliament; European Commission – Press release State of the Union 2017 – Trade Package: European Commission proposes framework for screening of foreign direct investments, European Commission.

⁴³ L. Poggetti, *One China- One Europe? German Foreign Minister's Remarks Irk Beijing*, <https://thediplomat.com/2017/09/one-china-one-europe-german-foreign-ministers-remarks-irk-beijing/>.

economy sent a formal letter to EU Trade Commissioner Cecilia Malmström. Ministers urged the Commission to take immediate measures with the aim of protecting strategic assets⁴⁴. Due to their efforts, in September 2017 the Commission officially presented the proposal of new legislation that would establish a common European screening framework⁴⁵. As the member states remain divided in their stances towards China, there is little indication that this proposal will win a majority in the Council. In June 2017, during the European Council summit, supporters of regulations sought to take a unanimous stance on the issue. Their plans were foiled by a coalition of traditional free trade supporters and countries that benefited from Chinese investments, including Finland, Sweden, the Netherlands, Portugal and Greece⁴⁶. China's growing political influence has become noticeable in relation to normative issues such as the South China Sea dispute and the human rights record. On the 12th of February 2016, the International Court of Arbitration issued a ruling unfavourable to China, dismissing their claims to the South

⁴⁴ *Proposals for ensuring an improved level playing field in trade and investment*, Berlin, Paris, Rome February 2017, 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.

⁴⁵ *Proposal for a Regulation of the European Parliament and of the Council establishing a framework for screening of foreign direct investments into the European Union*, European Commission, Brussels, 13.9.2017 COM(2017) 487 final2017/0224 (COD), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2017:487:FIN>.

⁴⁶ L. Cerulus, J. Hanke, *Enter the dragon. Chinese investment in crisis-hit countries gives Beijing influence at the European Union's toptable*, „Politico”, <https://www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe/>, (accessed: August 2018).

China Sea as unjustified. Despite remaining a party to the United Nations Convention on the Law of the Sea, China stated that it does not intend to respect the Court's judgement⁴⁷. It took three days for EU member states to take a stand on the issue which is of fundamental importance for European values. Ultimately, the final resolution did not directly condemn China, due to strong opposition from Hungarian and Greek governments. It is worth noting that the difficulties with adopting resolutions were caused by the states maintaining friendly relations with Beijing. A similar situation took place on the UN Commission on Human Rights in June 2017 when the Greek government blocked a resolution criticising human rights violations in China. Examples of interventions, though still limited, are a phenomenon that should be further analysed as China expands its economic and political influences in Europe. These findings suggest that as China acquires more effective instruments of pressure, it can use them to shape the EU legislative and political processes.

Conclusions

The analysis of Chinese investments in the EU indicates that their long-term consequences can be detrimental to the economic and political security of EU countries. The structure of investments is dominated by acquisitions and mergers in the high-tech, knowledge-intensive industries, energy sector and the infrastructure that forms part of the global transport

⁴⁷ *China Adheres to the Position of Settling Through Negotiation the Relevant Disputes Between China and the Philippines in the South China Sea*, *The State Council*, http://english.gov.cn/state_council/ministries/2016/07/13/content_281475392503075.html.

and logistics chain. While Chinese investors focus on acquiring cutting-edge technologies, their own market remains highly restricted to investors from abroad. This asymmetrical and one-sided technological transfer leads to a relative decrease in EU scientific and technical potential. To a degree, the recent surge of capital inflow into Europe has to be attributed to the strategies and development plans introduced by Chinese authorities. These policies aspire to accelerate the transformation of the Chinese economy, improve its competitiveness and ensure stable access to foreign markets. There is also a high probability that Chinese enterprises, heavily linked to the government, will be used to implement its policy objectives. Acquired dual-use technologies can be used to modernise the People's Liberation Army. More powerful Chinese army will further contribute to changes in the global balance of power to the disadvantage of the West. Investments in digital infrastructure create an additional challenge for the security, as the obtained access to telecom networks and data may facilitate attacks on management systems and government websites. The expanding economic influence equips Chinese diplomacy with instruments fitted for deepening divisions within the EU whenever it is necessary to secure Chinese *raison d'état*. The risk of exerting pressure on EU countries through economic means limits the sovereignty of the decision-making process and is equivalent to lowering the level of political security. In the future, it is necessary to conduct further research that will take into account the quantitative and structural changes of Chinese investments as well as the degree of their instrumentalization by China's Communist Party.