East Asia
https://doi.org/10.1007/s12140-023-09397-6

MANUSCRIPT

Changing Causal Narratives and Risk Perceptions on Foreign Investment: the Riskification of Chinese Investments in the Nordic Region

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Received: 3 October 2022 / Accepted: 17 January 2023

Abstract

This article surveys recent legislative and policy changes on foreign investments in four Nordic countries (Finland, Sweden, Denmark and Norway). Until recently, only Finland had national legislation on foreign investments, although historically the Nordic countries were forerunners in introducing foreign investment controls. A general rethink in the USA and the European Union on the links between liberal economies, investment policies and security has occurred in recent years. This has cast investments by enterprises from major authoritarian countries, foremost China, in a different light. Rather than investment numbers as such, or realised risks related to Chinese investments, a 'causal narrative' has emerged in the Nordic countries that draws attention to the nature of the Chinese party-state and its' unclear relationship to Chinese companies, underlining potential strategic motivations and security risks behind Chinese investments. Rapidly changing risk perceptions have driven legislative and policy changes on foreign direct investment (FDI), e.g. investment screening. Chinese investments have thus become *riskified*, to use a term coined by Olaf Corry. Shifting risk perceptions have similarly preceded previous 'formative epochs' in Nordic FDI legislation in the early twentieth century, after the Second World War and at the end of the Cold War. Each formative epoch has been characterised by a distinctive 'risk profile'. We postulate that these shifting risk perceptions significantly shape the reception of FDI as a key channel of cross-border connectivity.

Keywords FDI · Riskification · Causal narratives · Nordic countries · Authoritarian states · China

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Published online: 14 March 2023

Introduction

The Nordic countries (Denmark, Finland, Norway, Sweden and Iceland) have been regarded as open economies with liberal foreign investment regimes at least since the 1980s. Before that, however, most Nordic countries maintained highly restrictive foreign direct investment (FDI) rules [1]. Over the past years, restrictions designed to mitigate potential national security risks embedded in cross-border takeovers have resurfaced across the Nordics. While this policy shift reflects the global trends in securitization of foreign investment [2], the Nordic experience is distinctive because of its long historical backdrop. In particular, changes in Nordic FDI policy can be regarded as a bell-weather for the evolution of the investment-security nexus—from emphasizing free and open markets and liberal investment policies towards the return of national and economic security, as well as national borders as relevant issues in trade and investment.

The research question that we seek to answer in this article is: *What has driven bouts of legislative and policy changes on foreign investment in the Nordic countries?* In explaining the development of the investment-security nexus, we analyse how the varying internal and external security parameters and risk perceptions in the Nordic countries have been reflected in Nordic FDI legislation and policy. We employ three building blocks in our explanation—*formative epochs*, *causal narratives* and *riskification*—the combination of which is necessary for a fuller understanding of the phenomenon. Our focus is on recent developments, especially regarding perceptions of Chinese investments, but we embed these changes in a historical context by tracing three previous formative epochs and shifts in legislative approach to draw out both similarities and differences between the Nordic countries.

Using the four time-periods as 'political weathervanes', our article gauges the effects of lessening and growing geostrategic competition on FDI legislation and policy in the Nordics. We suggest that throughout more than a century of FDI policy, each formative epoch has been epitomised by perceptions of a (as yet unrealised but) potential risk related to specific types of foreign investors and investments. This insight allows us to re-examine recent FDI legislative and policy changes that are usually explained by concrete security threats related to growing Chinese investment [3].

Rather than real investment flows or materialised security threats driving incremental change in Nordic FDI policy, we suggest that the resurgence of Nordic FDI controls is better explained by the quick adoption of a new causal narrative on Chinese investment (which builds on a range of Anglo-American and European influences). After 2017, the Nordic countries saw a rapid shift in perceptions of risk associated with Chinese FDI. This in turn have led to several policy and legislative changes in the four Nordic countries, i.e. *riskification* [4], in order to prevent perceived risks from materialising. Beyond the Nordic context, these findings may have broader implications for analysis of the foreign investment-security nexus and global connectivity.

Theoretical Framework

FDI controls have been a standard topic across international relations, political economy and economic law [see e.g. 31, 80]. The recent resurgence of FDI controls in Europe and the USA is often explained as a response to security threats prompted by China's state-coordinated foreign investment practices [2, 6, 26]. Babić and Dixon have argued that China's rise as an investor in the global economy induced a gradual and incremental ideational shift during the 2010s among European policymakers—from viewing Chinese investment as an economic opportunity towards viewing it as a national security risk because of increasing investments in strategic and sensitive sectors by state-led investors. This ideational change has resulted in the adoption of protectionist measures, such as the investment screening mechanism [3]. This view, however, does not fully fit the Nordic cases.

We make use of the riskification framework proposed by Corry [4]. In Corry's words, 'the key feature of risk-security is that it focuses on the conditions of possibility for harm rather than direct causes of harm (the latter are essentially threats)'. Riskification, or activating risk-security logics, thus adopts a precautionary principle, focusing on *potential risks* rather than *actual threats*. Corry wrote his seminal article with the aim of carving out space for risk and riskification separately from the (existential) threats and securitisation of the Copenhagen school.[1] According to Ulrich Beck, who famously coined the term 'risk society', a risk is a scenario necessarily located in the future, which is connected to a policy proposal that offers a way of preventing that risk from materialising into real harm [8]. Riskification is thus closely connected to a plan of action to tackle the danger, but not to defend a specific valued referent object against a threat, but instead to govern the conditions of possibility for harm, e.g. by increasing resilience [4: 247].

The riskification framework fits well with our discussion on Nordic legislative changes in relation to foreign investments, as it concerns potential and somewhat ephemeral future risks and changing risk perceptions of investments from authoritarian states, such as China, rather than the immediate existential threats that are emphasised in the Copenhagen School's securitisation framework. In our theoretical framework, we merge riskification with insights derived from research on normative change and recent research work on causal narratives in a historically informed comparative study on four Nordic countries' changing legislation on foreign direct investment.

Literature on policymaking and norms have long recognised the possibility that items on policy agendas [9], policies or new norms may emerge or change rapidly due, e.g. to external shocks [10] or contingent events [11, 12]. External shocks create 'windows of opportunity' for introducing new norms [13]. Goertz has formalised a model of how norms change in what he calls the punctuated equilibrium model. In Goertz's view, new norms typically evolve during a period of radical growth and may similarly decline rapidly (when circumstances change). In between, there is a period

[1] Note that risks may also be catastrophic, although they are not intrinsically existential in nature [4: 244].

of relative stasis with only incremental change to the norm, a period that may be very long [15: 136–137].

We focus on four periods of normative change in the Nordic countries' views on the foreign investment-security nexus. All periods of normative change were prompted by changes in external circumstances: in the first case by the First World War and apprehensions regarding foreign investors (primarily German and British) getting control of domestic natural resources. The second period occurred in the Post-War period, when concerns related to multinational enterprises (especially American) took precedence, as economies were divided into Western and Eastern blocs. The end of the Cold War, dissolution of the Soviet Union, expansion of the European Economic Area and globalisation, saw a major reduction in perceptions of risk related to foreign investment. Finally, in the latest period that we analyse in more depth, changes were prompted by a relatively brief influx of Chinese investments to Europe, and growing security tensions between the USA and China.

We contend that the recent change in perceptions of foreign investment risks was not incremental, but rather rapid in the Nordic countries between 2017 and 2020. Moreover, the shift in risk perceptions was not directly prompted by a significant increase in state-led investments to strategic or sensitive sectors, but rather due to the emergence of a particular *causal narrative* on the nature of the Chinese authoritarian party-state's relationship to enterprises; that it is able to control Chinese enterprises regardless of their ownership, and thereby cause many forms of harm to the host country.

Narratives generate beliefs and create a lens through which to interpret data causally. They simplify complex policy issues 'by telling a story that includes assertions about what causes what, who the victims are, who is causing the harm, and what should be done'. [16]. Following Eliaz and Spiegler [17], political narratives can be regarded as causal models that map actions to consequences. Recent experimental work applying insights from psychology have shown that people tend to exhibit a strong preference for causal narratives, especially so-called lever narratives, that fill in the logical gaps between actions and outcomes by 'weaving in' auxiliary variables [17, 23]. In this case, Chinese FDI is the action, the role of the Chinese state and its relationship to Chinese companies the auxiliary variable and adverse security consequences in the host country the outcome.

In other words, the main reason for why we are currently seeing legal and policy changes on FDI (our *explanandum*) in the Nordics is not any specific 'external shock' related to Chinese investments in the Nordic countries. Rather, it is the emergence and rapid adoption of a new causal narrative on risks associated with Chinese investments (our *explanan*). Crucially, this contemporary dynamic finds close parallels in prior experiences of Nordic FDI policy change, including the initial roll-out of FDI restrictions in the early 1900s as a response to perceived risks related to German and British ownership interests.

Research Design and Data

The article surveys legislative and policy changes in the Nordics related to foreign investment, specifically legislation and their preparatory materials, as well as various parliamentary committee reports. We first analyse changes in FDI controls in the four Nordic countries (excluding Iceland) over a period covering more than 100 years. Against this background, we then examine more closely the most recent period of legal and policy changes that we argue has been prompted by a new causal narrative and changing risk perceptions of foreign investment from authoritarian states, in particular China and Russia. This analysis is based mainly on policy and legal documents. Additionally for Finland, we have a decade of data on foreign acquisition screening.[2]

The Nordic countries are often viewed from the outside as a homogenous group, and in comparative political studies have often been compared, given that they share many features such as shared history and similar socio-political systems. However, on closer inspection, there are marked differences between the Nordic countries when it comes to economic and security policy. This also applies to FDI policy where differences are due, *inter alia*, to different security traditions and perceived risks, as well as to historically varying relationships with the EU and NATO. Three of the countries are EU member states (Finland, Sweden, and Denmark), while the last one (Norway) tends to closely align itself with the EU. Furthermore, two countries are long-term NATO members (Norway and Denmark). Sweden and Finland long preferred neutrality or military non-alignment. But both countries have in recent years strengthened and deepened their security relations with the USA, the UK and NATO,[3] culminating in the unexpected applications by both countries to join in the military alliance in 2022, after the new phase of the Ukraine war.

The EU has, since the Lisbon Treaty, enlarged EU competence *vis-à-vis* foreign direct investment and has introduced common investment screening procedures in October 2020 [25, 26]. However, when it comes to the security-investment nexus, EU competence is curtailed by national security being a member state prerogative [27]. Divergence in member state policies highlights continuing challenges in adopting a common approach to foreign investments. Our research finds legislative convergence between the Nordic countries, but also highlights how the processes of 'norm domestication' taken in the four Nordic countries have depended on local circumstances: on local interests, ideas and institutions, i.e., the societal influences prevalent in a particular society at a particular point in time [28], and how new normative ideas fit with existing ideas in a historical setting [cf. 22].

[2] In interpreting the data, we indirectly also draw on insights previously gained from anonymous background discussions with government officials and representatives of the private sector done by one of the authors for a previous related paper [37], as well as anecdotal evidence.

[3] Since 2016, Finland and Sweden have, e.g. signed several defense-related cooperation agreements with both the USA and the UK and each other [see e.g 7] and greatly increased joint operational military training.

Our analysis is limited to the ‘foreign investment narrative’ that emerges from official sources, such as legislation, law proposals and reports by governmental or parliamentary committees. We support legislative data with analysis of recent governmental practice on FDI controls in Finland, the only Nordic country that has a decade plus worth of data on reviewed FDI deals. While not conclusive, these materials expose the rationales of law and policy at critical junctures. Comparing the evolution of FDI regulation over extended time-periods allows us to hypothesise the unique conditions that set the most recent investment controls apart from previous iterations. Given that concrete policy shifts are hard to register and that there are often inconsistencies between policy domains (e.g. innovation and employment policy), political parties and governmental agencies, our focus on the end-products of policy contestation and maturation in adopted FDI legislation provides a ‘hard indicator’ of the changing FDI preferences [3].

Previous research on Nordic investment controls is limited. This is surprising as the Nordic countries provide a relatively similar group of countries to analyse similarities (e.g. geography) and differences (e.g. economic structure) in shaping FDI policies both within the Nordic region and as a unit when compared with other states. Beyond economic history [29, 40, 77], most existing studies on restrictive investment policies have taken an economic or financial perspective, often analysing the investment into Nordic countries by multinational enterprises [1]. Solid IR approaches, in particular, have been lacking until very recently, but some recent analyses focusing on other countries do exist [3, 24, 60]. Comparative legal analysis is also rare. Most of the existing scholarship focuses on a single country, and the few comparative accounts are technical and descriptive [32]. Specific analyses of the dynamics of Chinese investment and Nordic investment screening are also rare, although these issues surface in many reports and policy papers that deal with China-EU economic relations [33]. Specific questions, such as technology or military investments, have also occasionally been tackled from a sub-regional point of view [34, 35]. However, the historical evolution of Nordic FDI controls is almost completely neglected in current research, with the contemporary FDI restrictions being portrayed as exceptional measures.

Historical Background to Nordic Legislation on Foreign Investments

Like many other advanced economies, the Nordic countries commenced a fast reassessment of their investment controls in the late 2010s [32]. This recalibration has widely been attributed to the overall rise of Chinese FDI in Europe and the ensuing regulatory response by the EU [36, 37]. Unlike many other EU member states, however, most Nordic countries have a long history of foreign investment regulation, also on security grounds [1]. With legislation dating back to the early 1900s, Norway, Sweden and Finland have gone through various iterations of FDI controls targeted at a broad range of investor nationalities, including Germany, the UK and the USA. While Sweden and Norway annulled their FDI controls in the 1990s and early 2000s, and Denmark never had such legislation in place until the present day. For much of the past century, the Nordic countries have thus maintained robust FDI control mechanisms capable of limiting foreign acquisitions and ownership interests across their economies.

In the following, we trace the development of FDI control legislation in the Nordic countries from the early 1900s onwards through four formative epochs. We focus primarily on the regulatory rationales and legal techniques used to administer foreign ownership and acquisitions. In our view, this focus better serves to contextualize the contemporary FDI controls levied against China and allow for reflection on the evolutionary paths between different Nordic countries.

The first time-period refers to the shared origins and similar features of Nordic legislation on foreign investment in the early twentieth century (roughly between the run up to the First and end of the Second World War). The second period denotes the Post-War economic boom years (1950–1985). The third period marks the end of the Cold War, accession to the European Economic Area (EEA) and rapid globalization that saw divergence in approaches between countries (1985–2005), reflecting different constellations of ideas, interests and institutions prevailing at the time in the individual countries [cf. 28]. The most recent period (2015–) has been characterised by intensifying geoeconomic competition, sometimes called the Age of Geoeconomics [39, 82], that has seen a re-convergence between the Nordic countries' legislation, due to the perceived risks and implications of investments from major authoritarian countries, such as China and Russia.

Investment controls have been a standard feature of Nordic legal systems for over a century. The early restrictions on foreign acquisitions of natural resources in Norway (hydropower) and Sweden (ores) in the early 1900s, and in Finland (ores, forest) in the late 1930s, were targeted against the largest European economies of the day [40]. The common perception was that German and British companies sought to benefit from Nordic countries' ample natural resources and lack of domestic capital, but the true scope of foreign ownership was hard to verify [29, 43, 46].

Regardless, the perceived risk of 'foreign exploitation' of natural resources shaped the legal responses [5, 42]. In Norway, the first Nordic country to adopt robust control mechanisms, foreign investors—usually British and German but also Swedish—were seen to dominate several capital-intensive industries such as power generation and mining [43]. The fear 'that foreign capital … [was] threatening to make the economy dependent on foreign interests' led to the passing of a series of 'Concession' Acts, the first of which was known as the 'Panic Law', in the early 1900s [44, 77]. The Concession Act system regulated foreign real estate transactions but also covered share purchases indirectly, as it was expected that most foreign buyers would acquire Norwegian companies to gain ownership of real estate and natural resources [19].

Similarly, the Swedish Restriction Act framework, adopted in the mid-1910s, made foreign acquisition of land, forests and mineral resources and the acquisitions of Swedish companies owning real property contingent on government authorisation [45]. As in Norway, the investment legislation was a direct response to the perceived growth of foreign, principally German, ownership interests in the Swedish industry. The bill explained the restrictions 'as natural measures to protect the industrial base against foreign exploitation' [5], but prior government data suggest that substantial foreign ownership was limited to a few sectors, such as mining and forestry [46].

Finland followed suit in 1939 when the Act on the rights of foreigners and specific societies to own and control real estate and shares was adopted. The Finnish Restriction Act was motivated by unwillingness to yield control over mineral and forest resources to foreign nationals, but unlike in Norway and Sweden, the restrictions also covered the ownership of strategic companies and sectors, particularly armaments [47].[4] Legislation had stalled for two decades because the scope of foreign ownership interests had previously been considered minor [29]. In 1938, however, as the European security situation deteriorated and Finland was facing a hostile Soviet Union (that attacked one year later), the risks for 'hostile foreign takeovers or foreign influence' had grown especially in the armaments industry, although there was disagreement over the negative implications of the planned FDI controls on Finnish companies' ability to raise capital [48].

In sum, the early Nordic FDI controls were largely driven by rather abstract fears related to foreign ownership of natural resources [40]. Even though German and British investors were identified as the primary threats, government studies were generally unable to confirm outsized foreign ownership interests outside a few sectors. Worth noting is that in the early twentieth century, Nordic economists were strongly influence by German scholars, such as Friedrich List, who emphasized economic nationalism and infant industry protection [on List, see 74]. In terms of the connectivity framework applied in this special issue, this was an example of the *containment* logic.

Over the period of 1950–1985, both inward foreign investment and the reach of Nordic FDI controls grew. Nordic FDI controls also diversified considerably. Except for Denmark, the Nordic countries regularly updated their investment regulations, often adding to their objectives. Resource nationalism mostly gave way to motives based on national competitiveness and labour policy, thinking that was described by Milton Friedman as 'we are all Keynesians now'. Norway and Sweden, especially, shifted the regulatory focus from the protection of natural resources to innovation and industrial policy. The primary source of FDI risk also changed, as multinational companies were perceived to potentially engage in asset stripping. Besides generalised Keynesian thinking, a driver was the perceived risk of domination by multinational firms, usually of US origin, as foreign investors, which was a widely shared European concern at the time [1, 21, 81].

Norway again led the way with stringent performance obligations and obligatory technology transfer from foreign to Norwegian companies as uses of the concession system diversified from the protection of natural resources to industrial policy [1, 44, 49]. The perception of investment risk shifted from foreign exploitation of natural resources to managing extraction of rents from multinational investors. Isolated calls for liberalisation of the FDI regime were thwarted, [50], and new regulation introduced [51].

In Sweden, the fast growth of US multinationals as key employers and acquirers of Swedish businesses was noted in the early 1970s, as US companies made up 40%

[4] For example, it is clear from the words and expressions used in the preparatory report for the Finnish law that allowing foreigners to control Finnish companies, or allowing them to become targets for influence, was deemed undesirable [48: 1].

of all foreign acquisitions across diverse industries. Noting how the protection of natural resources was not as crucial a priority, the government updated the Restriction Act to cover 'more important' intellectual properties, including technology, know-how and patents, from foreign acquisitions [62: 7-8]. Later on, exploitative labour policy and fears of asset stripping were also included as rationales to limit further acquisitions of foreign multinationals, but sharp domestic disagreements on the pros and cons of FDI controls started to develop [30, 52, 53].

Similar developments took place in Finland as well, where the government continued to emphasize the significance of FDI controls to keep Finland's 'natural resources in national hands and to protect its industries from excessive foreign influence' [56]. The scope of foreign ownership in Finland was, however, extremely modest, as foreign companies amounted to only 4% of total industrial output. Under these circumstances, intellectual property or labour questions did not rise on the regulatory agenda, but the government sought to close existing loopholes and thus to further limit the operations of foreign companies [57]. In terms of the connectivity framework, this approximates the *contestation* logic.

By the mid-1970s, the benefits of FDI controls came under increasing scrutiny, and all Nordic countries were prepared to relax their investment legislation by the late 1980s [1, 30, 51]. The end of the Cold War and economic liberalisation saw the establishment of the normative idea that cross-border investment is economically beneficial and ought to be encouraged, even when it involves the acquisition of domestic companies by foreign entities [59, 80]. The Nordic FDI controls responded to the same idea.

In Norway, foreign corporate acquisitions were separated from the Concession system with a view of reducing obstacles to international competition. However, the new Acquisition Act continued to allow government intervention in deals that could endanger R&D efforts, until the system was disbanded in 2001 [78]. Similarly, Sweden abolished all FDI controls outside of armaments in 1992 to attract and stimulate foreign investments [79]. Liberalisation finally took place in the early 1990s, when Sweden discontinued and both Norway and Finland radically redesigned their FDI frameworks. Finland remained the only Nordic country to keep in place a dedicated FDI control mechanism throughout the 2000s, but also radically scaled down its reach and intensity to principally cover concrete security risks [61]. Thus, the perception of FDI as a source of various risks that had dominated the majority of the 1900s was quickly replaced with a perception of missing out on FDI's economic opportunities [31]. The connectivity logic had moved firmly towards *cooperation*.

The Riskification of Chinese Investments in the Nordic Region

The most recent formative epoch has seen the re-emergence of an older norm that states should actively monitor and, if necessary, block foreign investments that may have adverse security consequences, in other words, resurrecting the *containment* logic. This change is instantiated in a tightening of investment laws and related policies across the Nordic countries. Nordic FDI controls remained non-existent or inactive until the 2010s, when all four countries either passed or started the process towards new investment screening laws. Finland modernised its FDI regime in 2012 (with amendments in 2014 and 2020) and Norway passed a new National Security Act with an ownership control chapter in 2018. The most radical policy shifts took place in Denmark, where the first ever dedicated Investment Screening Act came into force in 2021, and in Sweden where the legislative process for creating a tough FDI control regime is currently under way [38]. In addition, Sweden revised its national security protection law (Nationella säkerhetsskyddslagen), which took effect on 1 December 2021. Similarly, Finland passed a series of new laws amending its real estate transaction regime after 2020. The amendments, which were widely perceived to primarily target potential Russian real estate acquisitions that were regarded in a different light after the Ukraine war and annexation of Crimea in 2014, introduced new restrictions on foreigners' ability to buy land in strategic areas.

The updated Finnish and Norwegian FDI controls centred principally on protecting domestic companies critical for defence and infrastructure, whereas the Danish and Swedish FDI control models opted for more wide-ranging rationales, including the protection of domestic technology capacities.[5] In all countries, the risk assessment was contingent on the qualities of the acquired entity, as well as the foreign acquirer. While Denmark and Sweden were late entrants, their new rules greatly expand both the rationales, scope and techniques of Nordic FDI regimes. In Denmark, for instance, FDI controls increasingly cover non-acquisition-based FDI strategies, such as research collaboration and licencing agreements.

Apprehensions related to Chinese investments, especially in critical infrastructure such as ports and telecom networks, increased around Europe following a significant jump in Chinese investment on the continent in 2015–2017, publication of China's controversial *Made in China 2025*-strategy in 2015, and China's active promotion of its BRI projects [3, 33, 83, 84]. This gave rise to calls from the large EU members states, Germany, France and Italy, to enact EU-wide investment screening.[6] The European Council in June 2017 urged the Commission to 'analyse investments from third countries in strategic sectors, while fully respecting Members States' competences' [63]. Support for EU-wide screening has been higher in members states with more Chinese investment in strategic sectors, such as the three biggest member states [36]. Recent research has argued that this 'China effect' affects advanced European economies similarly through convergence pressure [3]. An EU-wide coordination and information exchange mechanism on investment screening eventually took effect in October 2020; however, actual screening mechanisms are still national and voluntary.

The narrative on China has changed markedly in Western countries after Donald Trump's administration put China front and centre as a revisionist power and primary security challenge (together with Russia) to US national security in the 2017

[5] The most comprehensive Swedish survey available of Chinese acquisitions in Sweden pointed to a high correlation between acquisition targets and technological priorities of the Chinese state [35, see also 38].

[6] Ironically, a year earlier Germany had no objections to a Chinese investor directly under the Chinese State Council buying a majority stake of Greece's Piraeus port—the most important port in the Mediterranean.

US National Security Strategy [14]. What were previously deemed as separate policy issues related to China, such as human rights violations, market-distorting practices, cyberespionage, investment in developing countries and Taiwan, are now woven together in the currently dominant Western policy discourse to an almost seamless picture of a menacing and revisionist China with a long-term grand strategy[7] to challenge the West and displace American leadership. The US government further took to talking about Chinese lending as 'predatory financing' and investments as 'debt-trap diplomacy'. The most systematic effort to make this point is by none other than Rush Doshi—the Director for China in the Biden administration US National Security Council [64]. However, as another astute observer of China, Andrew Scobell, recently argued, we should remember that the existence of China's grand strategy is not an objective scientific fact, but rather a subjective social science interpretation [73: 159]. In his classical book on perceptions and misperceptions in international relations, Jervis cautioned that the behaviour of others is often seen as more centralised, planned and coordinated than it actually is [66: 319].

The significance of this narrative on China has been consequential also in the Nordic region. Public views on China have become markedly critical across Western countries and Japan, as attested by Pew Research Center opinion polls. The survey includes only one Nordic country, Sweden, but shows a jump of those holding unfavourable views of China from 52% to 80% between 2018 and 2020 [65].[8] Policy debates on the security implications of Chinese investments in the EU, the USA and Australia were quickly echoed also in the Nordic countries, especially among experts and policymakers, although less so in the public debate [37]. Once again, changing external circumstances is affecting Nordic foreign investment legislation.

However, Nordic responses to Chinese investments, either on a national or subregional level, have not been defined by single high-profile events of major realised investments in sensitive or strategic sectors. In the UK, for example, the involvement of a Chinese state-owned enterprise in Hinkley Point C nuclear reactor project prompted major political backlash [67]. In Germany, Midea's acquisition of robotics company Kuka and China State Grid's attempted bid of a large energy grid operator, which was ultimately deflected through the federal government's aggressive stock purchase, similarly accentuated the fear of technology transfer [83]. The only recent instance where Nordic countries have blocked a foreign investment took place in early 2021, when the Norwegian government opposed the sale of Bergen Engines, a maritime technology company, to a Russian transport engineering company TMH on undisclosed national security grounds.

By contrast, the Nordic countries are yet to experience a major conflict related to Chinese investments. In Denmark, actual realised Chinese investments are

[7] Doshi defines grand strategy as 'a state's theory of how it can achieve its strategic objectives that is intentionally coordinated and implemented across multiple means of statecraft—military, economic, and political' [64: 8].

[8] This was also a time-period when relations between Sweden and China were tense, due *inter alia* to an unresolved diplomatic dispute related to a Swedish national detained in China, the sanctioning of the leader of the Swedish National China Centre, and a Chinese 'wolf warrior' ambassador, who was very vocally defending Chinese interests in the public debate in Sweden.

minuscule, cumulatively only 1.2 bn € over the entire time period 2000–2021 [68]. This represents a tiny fraction of Denmark's total inward FDI stock of over 154 bn € [55].[9] To be sure, each Nordic country has gone through policy and public debates on the potential implications of China-led acquisitions or development projects. Notable instances include a harbour purchase on Gotland Island close to military installations by a Hong Kong national (the harbour was later sold to the Swedish defence forces for a low sum), as well as very preliminary plans by Chinese investors to acquire an airstrip in Finnish Lapland that is adjacent to the largest artillery shooting ground in Europe.[10] In Finland, the largest public debate has been related to a proposed tunnel linking the two capitals Helsinki and Tallinn that would have been funded by Chinese loans, mainly from state-linked lenders [37]. Foreign acquisitions which 'involve attempts by state actors to exert influence' have also been identified as security risks in recent government report on changes in the security environment [58: 48]. In Denmark, the debate has centred on 4G and 5G, as well as proposed development projects in Greenland [69].

However, most of these plans have floundered at early stages. Few cases have even made it to the formal screening procedure. Data that the authors obtained from Finnish FDI authorities indicate that in the 10-year period 2012–2022, only five cases out of around one-hundred screened cases that have gone through the screening procedure have involved Chinese investors.[11] Given that Finland has, relatively speaking, received the most investment from China of the Nordic countries and all of the EU [e.g., 37], this cannot be regarded as a large number, either in absolute or relative terms.

The shift in causal narrative is evident in Finnish government documents. A 2016 authoritative report by the Finnish government on foreign and security policy mentions China only six times. The longest passage deals with strengthening relations with China in areas of interest to Finland, such as environmental technology, renewable energy sources, good governance and rule of law questions [41]. In 2017, Finland and China also agreed on a comprehensive Joint Action Plan for 2019–2023 on bilateral partnership and cooperation, following a state visit by Chinese leader Xi Jinping to Finland [70]. Contrast this to the 2020 Finnish government's foreign and security report, when China was mentioned no fewer than 25 times in less than forty pages, with a new narrative emerging on potential security challenges related to China, e.g. Great Power competition and conflicts; attempts to change

[9] For Finland, Chinese investment has been more important, representing around 6% of the inward stock [see also 55, 68].. However, most of this investment is due to the acquisition of two relatively low-risk enterprises, gaming company Supercell in 2016 and sports goods brand company Amer Sports in 2019.

[10] On planned Chinese investments in the Nordic Arctic region, see [18].

[11] We used freedom of information requests to obtain the data on FDI review decisions by the Finnish authorities. We received information on 94 decisions. The decisions were heavily redacted, but we were in most cases able to identify the nationality of the ultimate investor. It should be noted, however, that according to the recent government data, the number of reviewed FDI applications is slightly higher (around 120). Thus, our sample does not cover the entirety of reviewed transactions. Finland is the only Nordic country that has a substantial body of recent FDI review decisions, given that Norway only reinstituted its screening regime in 2019 and Denmark in 2021.

the rules-based international order; rapid growth of military capabilities; geopolitical and economic interests and use of power in various regions; as well as China's deteriorating human rights and media climate [71]. The 2022 Finnish government report on the changing security environment devoted one of five sections to protecting critical infrastructure through screening foreign acquisitions and land purchases [58]. In 2022 the Finnish Prime Minister Sanna Marin also on several occasions publicly called for reducing economic dependencies on authoritarian countries such as China.

The new Nordic FDI restrictions are primarily targeted at non-Western companies, especially Chinese companies. For example, in the comprehensive 690-page background report by the Swedish government for the proposed investment screening law, the chapter that motivates why the law is needed deals extensively with China, with separate subchapters on the *Made in China 2025* -plan and another one on the government's work on issues related to China. A third subchapter on countries that most threaten Sweden (China, Russia and Iran) also focuses primarily on China. Overall, 'China' or 'Chinese' was mentioned no fewer than 90 times in the main text compared to only 23 mentions for Russia/Russian [38]. The main risks identified are as follows:

- Closing down production or restricting Sweden's access to spare parts
- Restricting access to competences
- Influence and pressure operations due to dependencies
- Transfer of competences, capabilities or information out of the country
- Gaining insight into Sweden's supply security and preparedness
- Swedish abilities and competences that are now of security interest to Sweden may be of security interest to other countries [38: 239-240]

Even when China is not always explicitly mentioned in the legislative materials, the key legal triggers, such as reliance on state-led investment or certain technology transfer practices, as additional risk factors, are clearly proxies for Chinese investment.

In the absence of direct public evidence of investment by Chinese companies having harmed national security, Nordic national intelligence and security agencies have tended to resort to pointing out the *potential risks* related to Chinese investments. Repeated reference is made to the nature of the Chinese party-state and specifically Art. 7 of the 2017 PRC National Intelligence law[12] that entails an obligation by all Chinese nationals and Chinese companies to assist state intelligence when requested, as well as a Chinese policy on civil military technological fusion [38: 230]. This fits well with the notion of riskification. In the absence of concrete 'smoking gun' cases where some terrible security risk has been realised following a

[12] Article 7 states that 'All organizations and citizens shall support, assist, and cooperate with national intelligence efforts in accordance with law, and shall protect national intelligence work secrets they are aware of'. See https://cs.brown.edu/courses/csci1800/sources/2017_PRC_NationalIntelligenceLaw.pdf for a translation.

Chinese investment, the ambiguous and somewhat ephemeral potential for a broad range of risks take centre stage. Recall that it is the existence of constitutive causes, 'conditions of possibility' or 'permissive causes' of future harmful effects, that 'riskifying actors' point to [4: 246]. Crucially, this mode of justifying restrictions as a response to construed foreign investor risk profiles closely resembles prior formative epochs of Nordic FDI controls.

For Corry, riskification is not connected to specific threatening external agents. Typically, foreign investment is not done directly by an external, threatening state (an 'Other'), but rather, e.g. by enterprises with mixed ownership.[13] It is then the nature of certain major authoritarian states where the investment originates, their unclear relationship with enterprises from the same country and general distrust towards them that becomes the basis for risk-mitigating measures. The Swedish governmental preparatory report for the recent legislative tightening on foreign investment, e.g. specifically states that China, Russia and Iran are the greatest security threats in this regard [38: 229]. The Finnish Security and Intelligence Service in its 2021 national security overview similarly warns that 'Authoritarian states can also access Finland's critical infrastructure through legitimate activities, such as business acquisitions and joint ventures' , including through 'foreign acquisitions [by] state actors to exert influence' [76]. The conditional causality of riskification [4], e.g. implies that while an investment by a Chinese private company need not be a direct security threat to our state, economy, society or values, it could create conditions for various adverse consequences in the future, such as leakage of intellectual property rights, sensitive research data or personal data to an authoritarian state.

The latest round of legal-normative changes were not initiated in the Nordic countries, rather one can observe a process of 'domestication' of emerging international norms [13: 57]. The EU FDI regulation, which put forward an obligation for Denmark, Sweden and Finland to align domestic legislation on investment screening with the EU, can be seen to have channelled some critical aspects of the new norms. This effect is most obvious in Denmark, where the EU FDI Regulation prompted the creation of an unprecedented investment screening legislation that covered risk scenarios, such as technology transfer and state-controlled investment. The effect was less pronounced in Finland and Norway, where the preparation for novel FDI risks had commenced prior to EU-level harmonization and where the legacy of earlier screening regimes was greater. As a whole, however, the resurgence of Nordic FDI controls reflects the global drive towards riskification of foreign trade and investment, where seemingly anything can potentially be weaponised [72, 75]. The new screening regimes approximate international best practices [2, 54].

[13] Note that Chinese state agencies also have a role in coordinating nominally private Chinese outward investments and some sources argue that they are de facto governed in the same way as investments by state-owned enterprises, both being effectively state-*led* [3: 114-118].

Table 1 Formative epochs in Nordic legislation on foreign investment

		Norway	Sweden	Finland	Denmark
1905–1945 **Resource nationalism**	Instrument	Concession Act (1917, 1931)	Restriction Act (1916, 1934)	Restriction Act (1939, 1942)	x
	Protected asset	Natural resources and real estate	Natural resources and real estate	Natural resources, real estate, key defence companies	x
	Primary target	Western European companies	Western European companies	Western European companies, Soviet Union	x
1950–1985 **Embedded liberalism**	Instrument	Concession Act (1972)	Acquisition Act (1982)	Restriction Act (1974, 1982)	x
	Protected asset	Natural resources and real estate	Technology, employment	Natural resources, real estate, key companies	x
	Primary target	MNEs	MNEs	MNEs	x
1985–2005 **Liberalization**	Instrument	Acquisition Act (1994, repealed 2002)	Acquisition Act (repealed 1991)	Screening Act (1992)	x
	Protected asset	Industry, R&D, tech transfer	x	Public order, defense, industry, employment	x
	Primary target	MNEs	x	Non-EU nationals, MNEs	x
2015– **Geoeconomics**	Instrument	National Security Act (2018)	Screening Act proposal (2021)	Screening Act (2012, 2020)	Screening Act (2021)
	Protected asset	Public order, sovereignty, security of supply, strategic production	Public order, security-sensitive assets, technology, personal data	Public order, defence, critical companies	Security, technology, production capacity
	Primary target	Third country operators	Non-EU nationals, state-controlled entities[a]	Non-EU nationals	Non-EU nationals, state-controlled entities

[a]While the Swedish law proposal mainly targets non-EU nationals, the proposal also requires Swedish citizens to report to the screening authority

Discussion

The history of Nordic FDI controls is long and complex, and it is hard to accurately summarise the sprawling legislative developments, or their drivers. However, the brief historical exposition presented in this article helps to contextualize the development of current FDI regimes within broader domestic trends, also regarding responses to Chinese investment. The four formative epochs earlier discussed are summarised in Table 1 for all four countries.

Our analysis of changing Nordic FDI regimes illustrates the gradual evolution in their primary targets and policy rationales. The early Nordic FDI regulation was firmly rooted in resource nationalism. The activity of German and British companies in the Norwegian hydropower sector, the Swedish mining industry and Finnish forestry sector were identified as the drivers of FDI controls when restrictions were first adopted. Later, the focus shifted to guaranteeing the competitiveness of domestic industries. The disbandment of FDI controls in the early 1990s was largely driven by the end of the Cold War and European economic integration, which also provides a curious backdrop for the current EU-level harmonisation in investment screening policy [20].

Two key findings emerge from this broad historical backdrop of Nordic foreign investment regulation. First, each respective era of Nordic investment controls has been marked by a distinctive policy rationale. While resource nationalism and industrial policy motives obviously share key characteristics, the driving policy rationales are clearly different. Similarly, the EU-led competitive neutrality idea that gave shape to liberalisation of investment controls from 1990s onwards conveys a distinctive policy rationale in support of removing obstacles to foreign investment. Second, until the 2010s, there is a curious lack of security-related policy objectives (notwithstanding the Finnish legislation, which was heavily embedded in defence and armament policy from the start, perhaps partly due to its origin just before WWII) [85].

The current FDI regimes deviate from these historical antecedents in several key ways. First, the recent FDI controls have introduced wide-spanning policy rationales that essentially combine the core rationales of the previous eras, including actively protecting emerging technologies that could unlock major financial opportunities and accounting for risks in reducing competition, e.g. through unorthodox uses of state-controlled enterprises.

Second, security aspects of FDI have been brought to the front and centre of FDI controls in all Nordic countries. Defence and public security (e.g. in critical infrastructure) form the core of all Nordic FDI regimes, but the security rationales also resonate with the broader notions of economic sovereignty, e.g. through the development and protection of emerging technologies and personal data. The current risk conception is both broad and pervasive, particularly in Denmark and Sweden.

Third, the contemporary FDI control policies are, for the first time, explicitly targeted at non-Western companies, although the Soviet threat was undoubtedly a factor in the design of early Finnish restriction system, especially in the armaments industry. It is unclear, however, to what extent the novel targeting is driven by domestic policy-setting and to what extent it is of an EU-level origin. It has already been established that Sweden and Finland were initially sceptical of the EU FDI

Regulation and naturally Norway is not directly bound by the EU legislation [36]. However, especially the most recent FDI changes in Denmark and Sweden, which explicitly refer to the EU's screening criteria, are more attuned to curbing and mitigating potential threats of Chinese FDI than the Norwegian and Finnish investment regimes that were amended before. In this sense, the unique characteristics of the Chinese political economy–large SOEs that are active investors globally, and heavy involvement of the party-state in the economy, including in nominally private enterprises–have seeped into the Nordic FDI landscape.

Conclusions

Comparing the evolution of FDI policy and adopted investment control legislation over extended periods and amidst various perceived threats allows us to hypothesise the unique conditions that set the most recent investment controls apart from previous iterations. Nordic legislative procedures and materials, as well as cross-jurisdictional analysis, reveal significant changes in the perception and construction of FDI risks among policymakers that reflect the broader policy developments across the EU and the USA. However, the new regulatory modalities prompted by the 'China effect'—most notably the integrated notions of economic, political, technological and security risks [3]—become evident only against the broader historical backdrop of Nordic investment controls, where each respective policy iteration has been marked by a distinctive FDI risk profile. Our analysis points to the prospects for the new norm (that states ought to actively monitor and if necessary, block external investments) to become widely established in Europe. However, it also draws attention to significant local variation in how the norm is implemented in domestic legislation and policy, depending on idiosyncratic features in the local economic and political context and prior national legislation and policies.

A more assertive, and at times rhetorically aggressive, Chinese foreign policy and concrete changes to several Chinese laws on national security have heightened risk perceptions. We do not wish to dismiss the possibility that there are potential security risks related to Chinese FDI. Nevertheless, we suggest that changed perceptions, or *gestalt shift* [37], related to Chinese investments in the Nordic countries have also been affected by increasingly close security ties to the major Western countries, the USA and the UK, as well as the harmonizing effect of new EU FDI rules and sensibilities. Nordic policymakers are thus sensitised and susceptible to the new causal narrative in these countries on China that emphasises the unknown potential risks—or as Donald Rumsfeld famously said, the 'known unknowns'—related to Chinese investments under conditions of an increasingly authoritarian one-party system with ambiguous, but suspected close, ties to investing enterprises.

Greatly increased attention to the nature of the Chinese party-state, and its potential to strategically exploit foreign investments made by Chinese enterprises, is the 'auxiliary variable' that makes Chinese investments different from other foreign investments. Stricter FDI legislation and associated policies are the policy action that allows Nordic governments to better manage such an unknown risk entity and maintain societal resilience.

Acknowledgements The authors would like to thank the two anonymous reviewers, Marjaana Aarnikka Oscar Almén, Shaun Breslin, Lasse Puroma, Elina Sinkkonen, Henri Vogt, Mikael Wigell and Matti Ylönen for excellent comments on the article manuscript. Earlier drafts of the manuscript have been presented at the EISA-PEC conference in September 2021, the ISA Annual Convention in Nashville, March-April 2022, the annual conference of the Finnish Political Science Association in Helsinki, May 2022, and the EISA-PEC conference in Athens, September 2022.

Funding Open Access funding provided by University of Turku (UTU) including Turku University Central Hospital. The authors acknowledge financial support from the Academy of Finland for the research for this article (grants number 338145 and 338645).

The second author of the paper Mikko Rajavuori has in 2019 acted as an external consultant to the Finnish government on developing domestic foreign investment screening legislation.

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