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# **Evolution of protectionism and FDI environment in the EU**

International Business  
Bachelor's thesis

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The purpose of this bachelor's thesis is to analyse the current two trends of the global economy, protectionism and FDI, and how the trends have interacted in the context of EU. The EU provides a suitable context to the analysis since the union is deeply integrated both politically and economically. The subject is motivated by the recent trend of protectionism that has risen in the 2010s and has affected globally. The trend has been influencing in the background of, for example Brexit and the US-China trade war. It has influenced also on the EU legislation since it has taken a more protectionist shift. Another motivation to the thesis is the FDI's more important role in the global economy. In the late 20<sup>th</sup> and the 21<sup>st</sup> the number of FDI globally has increased drastically and they have a greater impact in the economy. Since the founding of the EU, the union has been hosting many inward FDI and the FDI environment is traditionally described being open.

The thesis aims to provide an analysis on how protectionism has shaped the FDI environment in the EU. This thesis will describe the EU as a FDI environment, go through the reasons behind protectionism in the EU and introduces the phenomenon of global protectionism. Lastly the thesis examines how the protectionism has shaped the FDI environment through legislation. As a politically integrated union, EU mostly acts through legislation to change its FDI environment. For this reason, the FDI environment in the EU region is unique and can be examine widely through different kinds of factors.

The findings presented in this thesis are that the EU introduced a regulation about screening outside FDI and that the regulation follows the trend of global protectionism. The regulation will decrease the inflow of FDI into the EU and has made the EU's traditionally open FDI environment more restrictive. However, the long-lasting effects of the regulation are still unclear since the regulation is relatively new.

**Key words:** protectionism, foreign direct investment, EU, screening mechanism

## Kandidaatintutkielma

**Oppiaine:** Kansainvälinen liiketoiminta

**Tekijä:** Ria Autere

**Otsikko:** Protektionismin ja sijoitusympäristön evoluutio EU:ssa

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Kandidatutkielman tarkoituksena on analysoida maailmantalouden kahta nykyistä trendiä, protektionismia ja suoria ulkomaisia sijoituksia, sekä sitä, miten trendit ovat vaikuttaneet toisiinsa EU:n puitteissa. EU tarjoaa sopivan kontekstin analyysille, sillä unioni on syvästi integroitunut sekä poliittisesti että taloudellisesti. Aiheen taustalla on viimeaikainen protektionismin suuntaus, joka on noussut 2010-luvulla, ja vaikuttanut maailmanlaajuisesti. Suuntaus on vaikuttanut muun muassa Brexitin ja Yhdysvaltojen ja Kiinan välisellä kauppasodan taustalla. Nyt se on vaikuttanut myös EU-lainsäädäntöön, sillä se on ottanut protektionistisemmän suunnan. Toinen motivaatio tutkielmalle on ulkomaisten suorien sijoitusten tärkeämpi rooli maailmantaloudessa. 1900-luvun lopulla ja 2000-luvulla suorien ulkomaisten sijoitusten määrä maailmanlaajuisesti on kasvanut rajusti, ja niillä on suurempi vaikutus talouteen. EU:n perustamisesta lähtien liitto on isännöinyt monia ulkomaisia suoria sijoituksia ja ympäristöä on perinteisesti kuvailtu avoimeksi.

Tutkielman tavoitteena on tuottaa analyysi siitä, miten protektionismi on muokannut suorien sijoitusten ympäristöä EU:ssa. Tutkielmassa kuvataan EU:ta suorien sijoitusten ympäristönä, käydään läpi protektionismin taustalla olevat syyt EU:ssa ja esitellään maailmanlaajuisen protektionismin ilmiö. Lopuksi tutkielmassa tarkastellaan, miten protektionismi on muokannut sijoitusympäristöä lainsäädännön kautta. Poliittisesti integroituneena unionina EU toimii useimmiten lainsäädännön keinoin muuttaakseen suorien ulkomaisten sijoitusten toimintaympäristöä. Tästä syystä EU:n alueen suorien sijoitusten ympäristö on ainutlaatuinen ja sitä voidaan tarkastella laajasti erilaisten tekijöiden kautta.

Tutkielmassa esitetyt havainnot ovat, että EU otti käyttöön asetuksen, joka koskee ulkopuolisten sijoitusten seulontaa, ja että asetus noudattaa trendiä maailmanlaajuisesta protektionismista. Asetus vähentää suorien sijoitusten virtaa EU:hun ja on tehnyt EU:n perinteisesti avoimesta toimintaympäristöstä rajoittavamman. Asetuksen pitkäaikaiset vaikutukset ovat kuitenkin vielä epäselviä, koska asetus on vielä suhteellisen uusi.

**Avainsanat:** protektionismi, ulkomaiset suorat sijoitukset, EU, seurantamekanismi

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## 1 Introduction

The total amount of FDI reached globally in 2023 estimated 1,37 trillion dollars and represents an essential type of flow in international political economy. The FDI flow has been on the rise although it took a hit during COVID-19 and again in 2022 due to the Russia's invasion of Ukraine (UNCTAD 2023; UNCTAD news; Chan & Meunier 2022, 514.) FDI has become drastically more important economic flow in the global economy through the recent decades (Bauerle Danzman & Meunier 2023, 40-42). Since the 1970s most countries loosened their regulations towards inward investments and started even competing against each other to attract more FDI (Bauerle Danzman 2019, 7-10). A lot of research suggests that the FDI generate positive effects such as technological transfer, higher wages and economic growth which made them very attractive to nations. Also, EU has had an open attitude towards FDI inflows in the past. The EU has had more open regulations what it comes to FDIs compared to countries, such as China, India and the United States, and created an open environment to FDIs. (Chan & Meunier 2022, 513-515.)

However, in 2019 the EU introduced a new regulation about the screening mechanism to closer monitor the outside FDIs and joined the other advanced economies, such as United States, Japan and Australia. Especially in the 2010s the global economic context has experienced a rise in protectionism. (Bauerle Danzman & Meunier, 1-4.) The protectionist shift could be seen influencing behind, for example the UK's decision to leave the EU and Trump's election for president (Mariotti 2023, 231-234). Now EU has followed also the trend with the regulation of the screening mechanism. Today's protectionist measures against FDI drive to protect strategic sectors of the nation, especially sectors including high technology (Chan & Meunier 2022, 513-514). Also, the source of the investment has become more important, and some sources or nations face more restrictions than others (Mariotti 2023, 233-234).

In the EU, especially the increased Chinese investment in the 2010s to the EU region, has been the main reason behind the adoption of the screening mechanism (Bauerle Danzman & Meunier 2023, 40-41). The Chinese investments focuses greatly on very technological industries which is also feared to affect the national security in many EU member countries. Additionally, some of the investors being state-owned have raised concerns about the intentions of the investments in the EU region. (Zwartkruis & De Jong 2020,

447-453.) The new screening mechanism aims to detect and recognize the possible risks of these FDI's on the grounds of national security (Bauerle Danzman & Meunier 2023, 41). The screening mechanism defends the interest of the EU and aims to protect the EU's role in the global economy against the emerging competitors, such as China (Chan & Meunier 2022, 514). This has and will have in the future a significant role in the FDI inflows and in shaping the EU as a FDI environment.

UN (2007) has defined foreign direct investments (FDI) as an investment with a long-term relationship and an interest and control by foreign direct investor in an enterprise resident in an economy. Through FDI companies try to achieve competitive advantages. Dunning (1979) has developed the eclectic paradigm which identifies ownership (O), location (L) and internalization (I) advantages as structural characteristics to determine the FDI more closely, the so-called OLI framework. When describing a FDI environment, especially the locations advantages, are the ones that investors look for. The location advantages are associated with for example lower cost of production, favorable competitive conditions and favorable institutional and political environments. These advantages make the local operations more attractive compared to other modes of entry, such as exporting. The location advantages can differ a lot between different regions so the investors must evaluate which advantages are most essential to the operations, for example cheap labor force and advanced institutions can be difficult to discover in a same region.

Protectionism as a phenomenon isn't anything new and have existed through centuries in the global economy (Dingwerth & Weinhardt 2019, 32-33). However, the global shift towards protectionism, especially in the 2010s, has made the subject once again current and increased the number of research of the topic. However, the term of protectionism has altered since the 20<sup>th</sup> century and now the definition of protectionism is much wider which include more ways to apply protectionism. The new form of protectionism is called global protectionism. (Enderwick 2011, 325-326; Mariotti 2023, 227-2319.) This thesis combines the two trends of global protectionism and the more essential role that FDI's have in the global economy and analysis how they interact in the context of the EU. In addition, the context of EU is suitable to the thesis since the adoption of screening mechanism is current and an answer to the trends.



The aim of the thesis is to research *how the evolution of protectionism has shaped the FDI environment in the EU*. I will approach the topic with three sub-questions to view the topic throughout:

- What the EU is like as a FDI environment?
- What are the reasons behind the rise of protectionism in the EU?
- What legislative outcomes has followed affecting the FDI environment?

The first sub-question of the characteristics of the EU as a FDI environment are introduced in the 2. chapter through suitable factors to examine the FDI environment and the attractiveness of it to the investors. The second sub-question is gone through in the 3. chapter. In this chapter I will go through the meaning of protectionism and how it has been shaped to this day. In addition, the chapter views the reasons and events behind the rise of protectionism and how it appears in the EU and how it will affect the FDI environment. The last sub-question is viewed in 4. chapter which introduces the regulation of the screening mechanism as the effect of the rise of protectionism in the EU and views it detailed.

## 2 Foreign direct investments in EU

### 2.1 EU as FDI environment

There are many different factors through which FDI environment can be viewed. In this thesis the factors have been chosen based on the suitability to the theme and to get a comprehensive overview of the EU as a FDI environment. The European Union creates a unique FDI environment because of its deep regional integration, both economic and political. The Union consist of 27 countries which, through cooperation, pursue to improve their stance politically and economically in the global arena. (European Union: About the EU.) This makes the EU a unique environment compared to other regions.

In this thesis the environment will be viewed through institutional, agglomeration and economic factors. The institutional and economic factors describes both the political and economic sides of the EU. Especially the institutional factors are essential since EU's main ways of influencing is political decisions and legislation. However, also the agglomeration factors are valuable to view because EU is a densely populated region where the agglomeration effects appear. In addition, the point of view is how inflow to EU is affected by the different factors of the FDI environment.

#### 2.1.1 Institutional factors

There is a strong connection between institutional factors and the FDI attractiveness of the environment (Bailey 2018, 146). Host countries with reliable and stable institutions attract FDI since they allow the multinational enterprises (MNEs) to exploit their advantages. Good institutions increase efficiency and thereby reduce the costs for the MNEs. (Sethi et al., 2002, 2003.) The relationship between institutions and FDI attractiveness can be viewed through factors such as, rule of law, political stability, democratic institutions, corruption, tax policies and cultural distance (Bailey 2018, 139). In this thesis the institutional factors have been narrowed down to rule of law, political stability and democracy since they are most suitable for viewing the FDI attractiveness in the EU framework.

The rule of law factor reflects how citizens are abiding the law, the quality of the legal system and regulation enforcement. Strong legal system for example protects intellectual

property rights which decreases transaction costs and uncertainty. This allows the MNEs to increase efficiency and improve profitability which overall creates a positive environment to FDI. (Bailey 2018, 140-141.)

There are multiple different regulations by the EU that affect the FDI environment. One of the most effecting forms of regulations is the Single Market. The Single Market is a legislative binding free trade agreement of internal market between the EU-member countries. The agreement ensures free movement of goods, services, capital and people (EU: Single Market). The free trade agreement affects the FDI attractiveness in multiple ways. First, the higher custom duties on trade from outside the EU causes the external firms to favor FDI compared to exporting (Baldwin & Wyplosz 2012). Secondly, the large domestic market created by the Single Market makes EU unique and attractive environment and creates possibilities to exploit economies of scale and reduce transaction costs (Aristotelous & Fountas 1996, 571-583). Thirdly, the removed trade barriers increase the competition among the companies. The competitive environment can generate efficiency and innovation since the companies try to stand out from the competition. (Bruno et al., 2021, 803-804.) Especially, the EU is known for high technological competence and innovation (El-Agraa 2001, 126-136). The deep economic integration gives EU an advantage in attracting FDI compared to other regional integrations such as Nort American Free Trade Agreement (NAFTA) which have a lower level of integration (Bruno et al., 2021, 805).

In addition to the Single Market agreement, the different environmental regulations have a great impact on the FDI environment. For example, the EU has the largest multinational cap-and-trade scheme which seeks to reduce the emission of greenhouse gases. Research suggests that stricter environmental regulations correlate to less FDI since the investors have more requirements to fulfill to operate in the region (De Beule et al. 2022, 3, 13-14). Also, the food industry has been regulated by the EU to reach the same level of food safety in the region. The restrictions are higher in the EU compared to for example the United States which makes entering the market more complicated and the FDI environment less attractive. (Van der Meulen et al. 2009, 24-30.) So, in the EU there are different types of regulations and agreements which some advances the FDI attractiveness such as the Single Market agreement and some cause restrictions to the market and therefore disadvantages the FDI attractiveness, like the environmental regulations.

Democratic institutions can be defined as institutions that grant political freedom and civil liberties which makes them less prone to conflict and therefore more suitable to FDI (Jensen 2003, 592-596). The citizens participation in political process decreases the probability to dissatisfaction against the government and therefore reduces political instability (Ellingsen 2000, 244-246; Foran 2003, 73-82). Political stability is also increased since democratic states avoid conflicts with each other more compared to authoritarian states. The more stable the country is the more attractive it is for FDI and for that reason democratic countries are suitable to FDI (Bailey 2018, 142). In addition, democratic leaders are often held accountable for their action. For example, broken agreements with the MNEs can lead to backlash which is an advantage to MNEs. (Jensen 2003, 593.)

All in all, democracy is a highly valued value in the EU and therefore democratic practices are included in the conditions when a new country seeks for a membership. These democratic practices include liberal political norms such as human rights, democratic elections and open dispute for the rule of law. (Schimmelfennig & Scholtz 2008, 190.) Although democracy is an important value to EU, some member countries have had democratic backsliding in the past decade, most notably Hungary (Holesch & Kyriazi 2022, 4-6). In September 2022 the European Parliament stated that Hungary could not be considered a full democracy no longer and that EU must take it as a serious breach of EU values (European Parliament: News). This raises concerns among the EU about holding onto their core beliefs. However, compared to other regions EU is still considered one of the most democratic regions in the world which gives EU an advantage in attracting FDIs.

Political stability can be defined as the likelihood that the government will be destabilized or overthrown (Kaufmann et al., 2009, 223). The political instability can be showed as government crisis, strikes or even wars (Blanco & Grier 2007, 77). The founding of the EU was strongly based on creating political stability in Europe after the World War II and is something the union drives to preserve (Dinan 2004, 5-9). As said MNEs favor politically stable institutions since instability increases costs and affect negatively to the profitability (Bailey 2018, 140). There are multiple reasons behind political instability, for example regime type, high income inequality and poverty (Blanco & Grier 2007, 82-86).

Firstly, democratic regimes as mentioned before experience less instability since the citizens are allowed to participate in the political process (Ellingsen 2000, 244-246; Foran 2003, 73-82). Participation to the political process decreases the likelihood to turn to violence as an answer which preserves the political stability (Rummel 1995, 24-25). Secondly, high income inequality could be a big reason for political instability in a region, like in Latin America (Blanco & Grier 2007, 85). High income inequality between groups fuels social unrest and can lead to the discriminated groups to rebel against the government. This concerns also other types of inequalities such as ethnic inequality. (Alesina & Perotti 1995, 1204.) Lastly, also poverty or poor economic performance is considered a cause of political instability. In addition, poverty increases individuals prone to protest against the government about their living conditions. (Blanco & Grier 2007, 86.) On the EU-level there has been targets to reduce poverty and income inequality in the region. However, there is still a significant income inequality between the rich and emerging EU countries. The income differences between West and East Europe have been noticeable since the Eastern European countries joined EU and has been since then a goal to even these differences. (Kolluru & Semenenko 2021, 3-4.) However, extreme poverty is unusual in the EU region compared to other regions.

In the last couple of years, the Russia's invasion of Ukraine has affected the political and security environment in the EU. This have naturally affected the political stability in the region since there is an ongoing war right at the EU border. Especially, in the early stages of the war EU showed unity and great support to Ukraine since Ukraine does represent values that are also important to the EU. EU imposed sanctions against Russia which especially affected the energy sector and had significantly hard economic impact. Also, EU delivered additional military supplies to Ukraine. (Stolle 2023, 2-5.) Although some aspects did unify EU against Russia, the lengthy war has become more and more a dividing line in the EU. The donation packages to Ukraine are more argued over since EU itself is still overcoming economic trouble. (Chaban & Elgström 2023, 530.) This could be a source of political instability in EU since the countries have different levels of support to Ukraine. In addition to the war, populism and nationalism has created political parties to EU countries with more critical and anti-EU views (Gozgor 2022, 229-232). The parties often view the European integration as threatening to national power and culture and the membership too "costly" compared to the gained economic profits (Boomgaarden et al., 2011, 242-246; Fousiani & van Prooijen 2023, 565). Anti-EU views create more friction

inside the EU and can affect the political stability of the environment. Although the differences in opinions of the EU's future have not caused yet notable political instability, these frictions mentioned is good to keep in mind when assessing the environment of EU.

The institutional factors describe the EU as a FDI environment significantly since the union is political and the political measures are the EU's most effective way to influence the Single European Market. Based on the factors previously mentioned it is argued that the EU membership all in all increases FDI inflows to the country. Especially, the Single Market is a major driver of FDI but also the overall advanced institutions create a suitable environment for FDI. (Bruno et al. 2021, 803.)

### 2.1.2 Agglomeration factors

Agglomeration economies are formed from the geographic co-location of companies which can be a source of competitive advantage. This makes the agglomeration economies interesting to foreign investors and increase FDI environment attractiveness. (Porter 1998, 77-90.) Agglomeration economies generate specialized infrastructure, labor markets and knowledge spillover where the foreign investors could benefit from and help build their capabilities (Glaeser et. al. 1992, 1150-1151; Krugman 1991, 484-487; Venables 1996, 356-357). Firstly, clustered firms experience a decrease in information asymmetry which reduces the production costs of the company. The reduction is possible since the company has a better access to the pool of skilled workers, specialized and relevant suppliers and knowledge spillover. (Marshall 1920.) Secondly in addition to the reduced production costs, knowledge spillover offers companies possible new information about research, development and innovation. These factors can be used as inputs into the learning process of developing competitive advantage. (Jindra et. al. 2016, 206.) On top of the main two benefits of agglomeration economies, MNEs are attracted to them because they are also characterized by suitable infrastructure, financial facilities and attractive business environment with suitable corporate culture and the general openness to external operators (Cantwell & Iammarino 1998, 383-392).

EU is positively related to source of agglomeration economies and certain knowledge which foreign investors try to utilize when investing in the EU region (Jindra et. al. 2016, 213). Especially, the high technology competence and knowledge is something that foreign MNEs often want to incorporate in their operations to create competitive advantage (El-Agraa 2001, 126-136). By the reduction of cross-border restrictions that

the Single Market grants, the competition and specialization increase which are the background factors to generating innovation (Bandinger 2007, 515-516; Bruno et.al. 2021, 806). A stronger relation between innovation activity and competition is more likely to occur within an economically integrated area. This has influenced the high technology competence in the EU. The free movement of people, goods, services and capital also makes the forming of agglomeration economies easier since by removing barriers the benefits mentioned such as cost reduction and knowledge are generated. (Cantwell & Iammarino 1998, 383-392; Bruno et. al. 2021, 802-806.) This makes the EU region attractive as a FDI environment since the foreign MNEs can exploit the knowledge and competence that already exists in the region and reduce costs since they do not have to create the infrastructure themselves.

### 2.1.3 Economic factors

The “traditional” economic factors such as the market size, physical infrastructure and labour costs have also an effect on how attractive an environment is to FDI along with the institutional and agglomeration factors (Bailey 2018, 139). The economic factors can be roughly divided into two categories: cost and revenue since they have a direct impact on either the revenue or costs. For example, market size and affluence of the destination affect the revenue whereas labour cost and infrastructure affect the costs. (Nielsen et. al. 2017, 65-66.)

Firstly, it is discovered that market size and FDI inflows has a strong positive relationship (Bevan & Estrin 2004, 785). The large market size offers larger revenues but also increases opportunities to reach cost effectiveness (Kang & Jiang 2012, 47). Additionally, markets with high gross domestic product (GDP) per person has a positive impact on FDI inflow (Tsai 1994, 152-153). Foreign investors are attracted to regions where consumers have a greater purchasing power, and the firms can receive a higher return on their capital (Jaiblai & Shenai 2019, 6-7). As previously stated, the Single Market agreement has by unifying the markets across Europe created a large domestic market which increases the EU’s attractiveness in the eyes of foreign investors (Aristotelous & Fountas 1996, 582). The average GDP per person is over 50 000 euros in a year and consumers in EU have on average a high purchasing power although there are significant differences between the member countries (Eurostat: GDP per capita). The large domestic market and high purchasing power makes the EU an attractive FDI environment economically.

The next factor infrastructure can be divided into soft and physical infrastructure. The physical infrastructure includes such as roads, airports, fast distribution networks and telephone and internet connections. There is a positive relationship between FDI inflows and physical infrastructure which gets stronger the higher level the infrastructure is on. (Jaiblai & Shenai 2019, 7.) Good physical infrastructure reduces costs since it enables more efficient production of goods and services and thereby raise the MNEs margins. The EU drives to reduce economic disparities between the member countries. One action toward this goal is that the EU funds the development of infrastructure in the less developed member countries. For example, the European Commission allocated over 70 billion euros to develop core infrastructure during 2014-2020. (Maciulyte-Sniukiene & Butkus 2022, 1-4.) The infrastructure is something that the EU wants to develop further across the region, especially the transportation across EU, which makes the region attractive FDI environment.

Lastly, the labour costs in the EU are relatively high compared to other regions which affects the FDI environment negatively. This has raised concerns that the jobs move to low-wage countries (Konings & Murphy 2006, 268). However, there are a lot of differences between the areas inside the EU itself since the Eastern European countries have a lower level of labour costs compared to the Western countries. These workers from the Eastern European have been for example a concern in United Kingdom and was reason behind the Brexit-decision. (Lo Truco & Parteka 2011, 612-614.) Instead of lower labour cost, the EU have a lot of skilled workers and high technological competence which also determines the type of FDI that is direct in the EU (Bruno et al. 2021, 802-803).



### **3 Evolution of protectionism in the EU**

#### **3.1 The origin and determinants of global protectionism**

The term protectionism is not new and has been debated over for many centuries. However, since the 19th century the term protectionism has been understood as a trade policy designed to protect and promote domestic business from foreign competition. The concept and definition of protectionism have stayed unchanged for many years but instead the reasons policies through which protectionism is practiced has changed. (Dingwerth & Weinhardt 2019, 32.) However the recent rise of protectionism beginning from the end of 20th century till today, differs from the traditional form of trade protectionism. The new form of protectionism has been termed as global protectionism. (Meunier 1999, 4-12.) While the traditional trade protectionism identifies tariffs, quotas and nontariff barriers as protectionist instruments, global protectionism identifies a wider range of complex instruments. These instruments associated with global protectionism include for example capital restrictions, state ownership and subsidies. (Enderwick 2011, 328.) Also, the global protectionism differs from the traditional trade protectionism in that the global protectionism is based on economic nationalism (Enderwick 2011, 328; Evenett 2019, 14-16). Economic nationalism emphasizes domestic economic activities and economic security to increase national power and unity. The term bases on the broader concept of nationalism. (Pickel 2022, 1-6.) These are the characteristics that differs the traditional trade protectionism and global protectionism.

The term global protectionism gets often mixed up with the term neo-protectionism in the literature and the terms can be seen used in parallel. Neo-protectionism is a newer form of protectionism which also identifies a wider range of protectionist instruments and is based on securing the national interest. However, global protectionism identifies in addition the recent trend of protectionist policies across many countries globally. (Enderwick 2011, 328-330; Panchenko & Reznikova 2017, 96-101.) Consequently, I will continue to refer the term global protectionism.

The topic of the global protectionism in the world economy has been fairly covered over the ten years in literature. Many of the articles name the financial crisis in 2008 as a kick-off to the phenomenon of global protectionism. (Fajgelbaum et al. 2020; Mariotti 2023; Heo & Choi 2023; Evenett 2019.) The financial crisis revealed the realistic effects of the

free market economy. The effects included many benefits but also some downsides such as income inequality, unfair competition and unemployment. (Rodrik 2017, 487-488; Stiglitz 2017, 369-370.) Unrestricted free trade can be harmful to countries but undeniably the free market has also a lot of benefits to the economies around the world (Rodrik 2018, 1-4). However, the financial crisis triggered a protectionist movement that differed from the previous postwar era as an answer to the free market downsides (Mariotti 2023, 231-232). Nowadays protectionism affect the broaden economic activity, like foreign direct investment and offshore sourcing, besides only trade (Endewick 2011, 328).

There have been numerous events in the recent history influenced by the global protectionism. One is the escalation of the US-China trade war that took place during the Trump Administration. Also, the Trump Administration challenge the legitimacy of the world trade organization (WTO) which main goals is to advance the trade between countries. (Mariotti 2023, 232-233; WTO: about the WTO.) This derived the WTO to a crisis about its power to influence the world trade (Evenett 2019, 14-16). In addition, the United Kingdom's exit from the EU is an example of global protectionism. In conclusion, the policies of governments since 2008 have gradually change more discriminatory against FDI. In the G20 countries the percentage in favour of FDI had decreased from 60 to 40 between 2009 and early 2020s. (Mariotti 2023, 231-234.)

The modelling of the global protectionism determinants is more difficult what it seems. One issue with the modelling has been to understand on which levels the determinants interact with each other. (Enderwick 2011, 332.) The determinants of global protectionism have been structured into three levels of where the determinants interact: international economy, national economy and historical considerations. The determinants demonstrate what affects to the desire to adopt protectionist measures. Firstly, the international level consists of three different factors. The first factor is the rise of new competitors, especially from the emerging economies like China and India. This has changed the structure of the world economy and the increased pressures on balance of payments between countries. For example, US is more attracted to use protectionist measures since the US is heavily in debt to China. The second factor is the change in the international relations. (Endewick 2011, 332-334; Evenett 2019, 14-16.) National security has become a more important concern to nations and this has increased the desire to protect the countries' critical industries from inward investments (Lai 2021, 499-502).

The last global factor is technology and more specifically communication technology. The number of workers that are exposed to international competition via communication technology have increased. These workers are more open to work abroad which could mean losing competent workers for certain nations. Nations are willing to protect their competent workers and critical knowledge. (Enderwick 2011, 332.)

At the national level, there can be identified again three factors that influences global protectionism. The first factor is the competitive strength of an economy. The comparative weakness or political sensitivity in certain industries increases the attraction to protect them through protectionist measures. The next factor is the prevailing cost structure. The high-cost industries where the costs do not reflect the productivity or efficiency are more vulnerable to overseas competition and therefore more likely to be protected with protectionist measures. The last factor is the level of foreign economic involvement in an economy. The higher the degree of involvement is, the higher is the desire for protectionist measures. Lastly, the historical factors and cultural traits can affect the degree of desire to adopt protectionist measures. (Endewick 2011, 332-334; Evenett 2019, 14-16.) Examples of nations with these historical factors are France and Russia since these nations are prone to heavily protect their own culture (Meunier 1999, 4-12). These are the key factors behind the rise of protectionism and global protectionism.

### **3.2 The reasons behind the rise of protectionism in EU**

Protectionism have been seen in the history of EU before for different reasons. Especially certain industries are more protect and have more restrictive regulations. One of these industries is the previously mentioned food industry which have a lot of restrictive regulations in the EU compared to other regions. However, the basis to the restrictions is to ensure a good level of food safety across the region. (van der Meulen 2009, 24-25.) Another industry that the EU sets restrictive regulations is the companies that manage personal data such as Apple and Android. In 2016 the EU introduced the GDPR that applied restrictions on the use of user's data. However, also this regulation is based on protecting individuals' confidential data from profitmaking of big corporations. (Ucar & Yalcintas 2023, 1080-1081.) Despite the restrictions on some industries, the EU have been considered traditionally one of the most liberal regions to FDI's compared to many others, such as China and India (Hindelang & Moberg 2020, 1432-1435). Although now

in the 2010s, the EU has taken steps towards more protectionist measures where the basis is on protecting their own interest.

### 3.2.1 Techno-nationalism

An important term that the global protectionism is inspired by and a reason behind the it is techno-nationalism. It combines economic, political and ideological ideas and links technological capabilities to a country's national security and geopolitical benefits. The term involves legal and regulatory restrictions against foreign investors in the key technological industries. (Luo 2022, 551.) The term originates from the 1980s by Reich (1987, 62) but has surfaced since the trend of emerging competitors challenging the developed economies (Mariotti 2023, 233). More and more governments try to enhance economic growth and competitiveness through advanced technology. This has been described also as the fourth industrial revolution. (Capri 2020.) Technology has become a key part of the power competition, and now countries seek advanced technologies, like AI and robotics, to utilize in building of military, industrial and information power (DeNardis 2014, 107-130; Luo 2022, 553).

These characteristics can be seen echoing in global protectionism as well. Globalization and free trade are not just seen as strengthening to national economies but also as an arena of competing against other nations. (Luo 2022, 557; Mariotti 2022, 762-766.) Techno-nationalism has sparked the strategic protectionism of key sectors which have further triggered globally restrictions against inward FDI (Mariotti 2023, 233-234). Actions influenced by techno-nationalism can be seen by many different countries. The term originates from the 1980s when the US government wanted to protect the "future of the American technological breakthroughs" especially from the Japanese (Reich 1987, 62). Now, especially under the Trump administration, the United States' action has shifted against China which the US receives as a potential national security risk. The risk is considered threatening especially through technologies such as 5G (Luo 2022, 553). These characteristics can also be seen in the action of the EU which then shapes the FDI environment.

### 3.2.2 China

The trend of techno-nationalism can be seen in EU, and it has changed the FDI environment. The Single Market agreement guarantees the free movement of capital

which applies not only between member countries but also between a member country and a third country as well. (Zwartkruis & De Jong 2020, 448-450; Gadocha 2020, 42-44.) Traditionally, EU has had one of the most liberal FDI environments but there has been a shift to a more protectionist direction. Especially, the growing number of FDIs from Chinese investors in the highly technological industries during the 2010s has brought up concerns in EU. (Hindelang & Moberg 2020, 1432-1435.) The investments raise two main concerns to the EU: the endangerment of the economic security and national security. Firstly, it is a big concern to lose the strategic technological knowledge since the economic competitiveness of many EU countries rely on advanced high technology (Zwartkruis & De Jong 2020, 451-452). There are concerns that the technological edge over emerging economies, such as China, may be lost through Chinese FDIs, especially via cross-border acquisitions (Lin 2020, 91-92). Secondly, the investments in key industries, some of which are technological, can have an impact on the national security. These kinds of industries can be related to military equipment as well as other critical infrastructure such as telecommunication, energy and internet networks. Resistance to Chinese FDIs is also driven by concerns that Chinese companies do not compete on an equal manner since the companies receive support and protection from the Chinese state. (Zwartkruis & De Jong 2020, 450-451.) Some scholars argue that the private investors, in addition to the state-owned companies, act on behalf of the Chinese State through FDIs (Meunier et al. 2014, 111-116).

The program 'Made in China 2025' by the Chinese government is partly the force behind the increase in the Chinese FDIs. The program especially encourages companies to invest in strategic natural resources and in areas where Chinese firms hold a comparative advantage. The goal is to develop competitive multinational enterprises (MNEs) through FDI. The cross-border acquisitions in the EU are suggested to facilitate the China's desire to upgrade their technological knowledge in a short span. (Lin 2020, 92-94.) The Chinese economic activity in the EU is analysed to advance specific type of policy objective, helping to achieve the program's main goals of self-sufficiency and independence from foreign technology, while also becoming an internationally competitive superpower (Gadocha 2020, 42-43). In addition, the program restricts FDI into China to achieve the goals of the program. For example, foreign companies must transfer technology to their Chinese competitors in exchange for market access and compete with domestic companies that receive subsidies from the Chinese State.

The Chinese FDI flow into the EU is many times larger than EU's FDI into China since the Chinese market ranks amongst the most restrictive in the world. (Zwartkruis & De Jong 2020, 452.) The increased amount of FDI, encouraged by the Chinese government in the EU, has triggered EU member countries to adopt more protectionist measures, such as screening investor's background to especially protect key industries and preserve national and economic security. The policies are to correct the current imbalance in FDIs between EU and China. (Zwartkruis & De Jong 2020, 453-454; Hindelang & Moberg 2020, 1432-1438.)

### 3.2.3 The United States and Trump administration

The EU is not the only region that is concerned about the China's rising influence in the world's economy. The United States has shifted towards protectionist measures against China in response to China's aggressive actions to update its technological knowledge and thereby challenge America's power status. (Luo 2022, 553.) Under Trump's administration the China-US trade relation spiralled to a trade war between the countries with threats of custom barriers and boycotts (Goulard 2020, 56-57). The Trump administration changed the US' attitude towards global trade by implementing the 'America First' approach. He promised to protect certain industries from foreign competition and save jobs for Americans by implementing more protectionist measures against their trading partners. (Men et al. 2019, 124-125.) The protectionism is hidden behind the vision of putting 'America First' which evokes the voters to protect their country (Bauerle Danzman & Meunier 2024, 12). As mentioned previously, Trump's protectionist activities and suspicions of the global trade is a great example of the trend of global protectionist. (Dingwerth & Weinhardt 2019, 44-45; Mariotti 2023, 232.) The large trade deficit with China is seen as national security risk (Enderwick 2011, 332).

The US' protectionist measures are also a concern in the EU. The Trump administration started to impose taxes to steel and aluminium from EU. This endangered the car industry which is economically important industry to the EU. (Men et al. 2019, 125-126.) In addition, the negotiations on the Transatlantic Trade and Investment Partnership (TTIP) were difficult under the Trump administration (Jungmittag & Welfens 2020, 260-261). The 'America First' policy had a negative impact on the US-EU relationship. The US policies under Trump made the Western allies, mostly EU, doubtful about the strength of their relationship. (Goulard 2020, 61.) It can be argued that the shift in the United States'

policies under Trump administration created a need for the EU to protect its interest and ‘Trump-proof’ its economic relations (Bauerle Danzman & Meunier 2024, 12-13). The election of Trump changed the global environment towards a more protectionist direction and EU adapted their own policies to the trend (Koeth 2019, 12-13). Although the protectionist measures mentioned here mostly focus on trade, they are part of the wider protectionist shift in policies which also affect the FDI environment.

In addition, as both the USA and EU have concerns about the China’s state-owned companies, the US State Office has officially discouraged EU countries from using the Chinese company Huawei’s products. The US authorities believe that Huawei poses a threat to national security and encourage the EU to use protectionist measures against the company. (Goulard 2020, 60-61.) The US has not had a direct effect on the rise of protectionism in the EU as China has, but the global environment has changed in many ways since Trump’s election, which have subsequently affected the EU. Also, the course of United States is again uncertain since Trump is running for president in 2025.

#### 3.2.4 Russia’s invasion of Ukraine

In addition to the increased Chinese investments generated by the Made in China 2025 program and the United States’ shift towards a more protectionist direction, another separate phenomenon has had an impact on the protectionism in the EU. The Russia’s invasion of Ukraine in 2022 has caused great instabilities to the global economy and political environment which had has a significant impact on the EU’s FDI environment (Mariotti 2022, 761). The EU was very dependent on the Russian gas and oil since the Russia’s share of Europe’s energy supply reached 25% in oil and 40% in gas annually (Korosteleva 2022, 1-2). Still in the 2010s the EU countries, like Germany, increased their dependence on the Russian gas with the Nord Stream construction (Cottey 2022, 215-216). The dependence of the Russian energy has endangered the national security of many EU member countries since energy supply is part of the critical infrastructure (Cottey 2022; 215-216; Mariotti 2022, 763-766).

The idea of ‘Strategic Autonomy’ had already been introduced before the Ukraine war to prompt the EU to become a more self-reliant actor in energy resources, critical technology and defence sector (Mihir & Pierobon 2024, 250). However, the recent impacts of the invasion provided a lot of additional urgency to become more self-reliant, especially in the energy sector (Schmitz & Seidl 2023, 385). In addition, the global shift toward a more

protectionist direction during the Trump presidency, along with aggressive international growth by China, increased the EU's desire to protect its own interest and become more self-sufficient in key industries (Miro 2023, 315-318). The increased desire of Strategic autonomy in the EU led to greater willingness to adopt protectionist measures, especially to protect key industries to the infrastructure (Schmitz & Seidl 2023, 841). So, the Ukraine war functioned as a catalysator to EU to become more autonomous in the critical sectors and implement more of protectionist measures to achieve that.



## 4 Legal outcomes on the FDI environment

The increased Chinese investments and the overall trend of global protectionism induced the EU to make changes in their FDI environment. As a political union the EU acted through their legislation and introduced a new regulation. (Chan & Meunier 2021, 514-515.) In 2017 the European Commission launched a proposal for regulation of screening inward FDI from outside the EU (Gadocha 2020, 36-37). The President of the European Commission Jean-Claude Juncker stated in his speech in 2017: “We are not naïve free traders. Europe must always defend its strategic interest.” (According to Chan & Meunier 2021, 514.)

Already in 2019, the regulation was adopted in number of EU member countries. Adopting of the regulation was rapid even though the member countries have been receiving inward FDI since the formation of the EU. (Gadocha 2020, 36-37.) The regulation allows member countries to have a national screening mechanism for FDI from outside of the EU based on national security. Also, a cooperation mechanism is established at the EU-level between the European Commission and the member country. The regulation was greatly lobbied especially by the big EU countries, such as Germany, France and Italy. (Zwartkruis & De Jong 2020, 447-448.)

The core purpose of the regulation is to address the increased number of FDIs, especially the acquisitions of EU companies by Chinese investors, which partly owned by the Chinese State. These investments mostly focus on the technological industries, such as automotive, and the EU countries fear of losing their core know-how to Chinese companies (Gadocha 2020, 36-38). This reflects also in the lobbying countries. The countries with higher technological levels, such as Germany and France, are more supportive of the screening mechanism and more willing to protect themselves from the technological transfer. (Chan & Meunier 2021, 514-515.) However, the adoption of the regulation also reflects the growing economic nationalism and protectionism in the EU. Like the other countries, such as United States, also EU follows the trend of global protectionism with the introduction of the screening mechanism. The new regulation is not an isolated incident. (Enderwick 2011, 328-330.)

#### 4.1 The legal basis and the scope of the regulation

The article 63 Treaty on the Function of the European Union (TFEU) prohibits all restrictions on the movement of capital between member states and between a member state and a third country unless allowed by the Treaty <sup>1</sup>. So, as the screening mechanism maintained by member country is a restriction to the free movement, the new regulation does require justification (Zwartkruis & De Jong 2020, 457). The EU law provides public security and public policy as justification for these restrictions. The restrictions based on public security and public policy must generate “genuine and sufficiently serious threat to a fundamental interest of society” and cannot be purely economic or administrative grounds. (Chan & Meunier 2022, 518.)

In addition to the need to justify the restrictions, what comes to the free movement of capital, the regulation was in need to define its scope. The first area, that needed a more precise definition, was the definition of the concept ‘foreign direct investment’. (Zwartkruis & De Jong 2020, 460.) The FDI is definite as an aim to establish “lasting and direct links between the foreign investor and the entrepreneur” <sup>2</sup>. The definition includes different forms of FDI, greenfield operations, mergers and acquisitions, but does not apply to portfolio investments (Chan & Meunier 2022, 518). However, the definition leaves still space for interpretation regarding investments in form of shareholding. These investments do not result in active participation in the company, such as the percentage of shares or the percentage of voting rights. (Zwartkruis & De Jong 2020, 461-462.)

Another issue is the type of asset that the screening involves. The definition of the FDI lines that the regulation does not apply to transactions directly aimed at intellectual property, land or real estate. This means that the regulation does not provide a full protection of public interest. (Zwartkruis & De Jong 2020, 461-462.) Foreign investors can reach critical infrastructure or technologies by buying them directly <sup>3</sup>. The last scope issue is about the geographical scope. The question is about if the screening mechanism apply only FDI from third countries or also intra-EU FDI. (Zwartkruis & De Jong 2020, 459.) At first glance the regulation does imply that the first alternative is correct, but the definition of foreign investor does also include the intra-EU investments <sup>4</sup>. To be effective

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<sup>1</sup> ECJ C-271/09 (Commission v. Poland), para. 55.

<sup>2</sup> ECJ C-446/04 (Test Claimants in the FII Group Litigation), para. 181.

<sup>3</sup> Framework Regulation, Article 4

<sup>4</sup> Framework Regulation, Article 2

the regulation does cover both, but the main purpose of the regulation is to screen investments from outside EU (Zwartkruis & De Jong 2020, 459-460).

## 4.2 Process and Screening criteria

Although many member countries adopted the regulation rapidly, the regulation is not required to be adopted by the member countries (Chan & Meunier 2021, 514-515). The same is stated in the Article 3 of the regulation: “Member States may maintain, amend or adopt mechanism to screen foreign direct investment in their territory on the grounds of security or public order.”<sup>5</sup> The adoption of the regulation is voluntary. Instead, the regulation introduces a cooperation mechanism between member countries and between a member country and the European Commission which creates then screening mechanism at the EU-level<sup>6</sup>. The new framework of the regulation is meant to complement the nation-level mechanism, not replace them (Chan & Meunier 2022, 519).

At the domestic level, instead of imposing obligations upon a member country, the regulation sets out guidelines for existing domestic screening mechanism or for those who will be introducing a mechanism in the future. The regulation provides a list of factors that should be considered when reviewing the FDI’s possible effects on public security and public order. (Gadocha 2020, 56-57.) The factors cover the five most critical areas of infrastructure. These areas are physical infrastructure such as energy and defence, critical technologies such as robotics and artificial intelligence, supply of critical inputs such as food security, access to sensitive information and freedom of media<sup>7</sup>. However, all the sectors in the list do not correspond with the Chinese investments since most of the investments are made in automotive and transport industry and not so much in areas like media and food security (Gadocha 2020, 57).

Secondly, the regulation introduces additional three factors that may be considered when screening FDI into any of the five sectors. These three factors are to be assessed if the foreign investor is controlled by a foreign government, the investor has been involved in activities which could form risks for security or public order, or the investor has a possibility of been engaged in illegal activities.<sup>8</sup> Lastly, since 31 March 2021 a member

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<sup>5</sup> Framework Regulation, Article 3

<sup>6</sup> Framework Regulation, Article 1

<sup>7</sup> Framework Regulation, Article 4

<sup>8</sup> Ibid

country has had an obligation to submit an annual report to the European Commission regarding the FDI activity in their territory and assemble information to other member countries if requested. This is part of the cooperation mechanism. Also, the European Commission has an obligation to submit an annual report about the implementation to the European parliament.<sup>9</sup> These are the highlights of the criteria and process concerning the regulation.

### 4.3 Cooperation mechanism

The main new feature of the regulation is the introduction of the cooperation mechanism firstly between member countries and secondly between member countries and the European Commission (Chan & Meunier 2022, 518). The purpose of the mechanism is to exchange information about investments that could raise concerns in security and public order<sup>10</sup>. As said above the regulation does not obligate the member countries to adopt the screening mechanism. However, those member countries that have already amended a screening mechanism to the national legislation are obligated to function as part of the cooperation mechanism and give out a notification<sup>11</sup>. The notification by the member country should include the ownership structure of the investor and the undertaking, value of the FDI, business operations of the investor and the undertaking, the source of the funding and the date when the FDI is completed. Also, a list of member countries who could be affected by the FDI can be included in the notification.<sup>12</sup> In addition, the regulation provides a self-checking mechanism where a member country that is undertaking a FDI screening can request comments from either the European Commission or other member countries (Gadocha 2020, 64). However, the final screening decision is the sole responsibility of the member country where the FDI is planned<sup>13</sup>.

On the one hand, the regulation can cause difficulties and disagreements within the EU. The cooperation can cause difficulties between the member countries since sensitive issues are handled and the interests of the member countries do not always meet. Also, identifying the critical risks is a hard task since the subject is complex and the meaning

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<sup>9</sup> Framework Regulation, Article 5

<sup>10</sup> Framework Regulation, Preamble rec. 16

<sup>11</sup> Framework Regulation, Article 3

<sup>12</sup> Framework Regulation, Article 6

<sup>13</sup> Framework Regulation, Articles 6 & 7

of critical changes over the years. On the other hand, the cooperation provides potential benefits since the member countries are political allies and share interest of protecting national security from an outside country. Also, the smaller member countries benefit from the increased security insight from the larger countries which have a wider capacity to scout out information. The cooperation mechanism is balancing between the required additional scrutiny and protecting the EU's common interest. However, to function effectively the cooperation mechanism requires willingness amongst all the countries to make an effort for the common cause. (Zwartkruis & De Jong 2020, 469-470.)

#### **4.4 Effects of the regulation**

The new protectionist instrument has impacted the investment environment in the EU. Firstly, the number of member countries with a national screening mechanism has increased significantly. In 2017 only 11 member countries had the mechanism in place but after seven years all the member countries have a screening mechanism since in March 2024 Bulgaria finally adopted the mechanism. (Bauerle Danzman & Meunier 2024, 8-9.) The increased number of countries has generated over 400 FDI notifications to the EU mostly about investors from the United States, China, Canada and the United Arab Emirates in manufacturing, financial services and information and communications technology (European Commission: RepowerEU). Although all the EU member countries have implemented the screening mechanism, there are variations in how restrictive the regulations are. It is studied that countries with a higher level of research and development are more prone to having more restrictive measures to protect their intellectual property. Germany and France are good example of countries described. (Bauerle Danzman & Meunier 2023, 46, 51.) The screening mechanism shapes the FDI environment through the legislation to a more protectionist direction compared to the previous version. EU joins the other advanced economies, such as United States and Australia, for screening the foreign investors (Chan & Meunier 2022, 514). However, the regulation is still relatively new, and the true long-lasting effects of the regulation are still unclear.

Although the regulation is still somewhat new, some assumptions are of possible effects are made. Firstly, the regulation allows the European Commission to form a unified approach towards foreign direct investments although it is not mandatory to adopt (Schill

2019, 20; <sup>14</sup>). However, there could be threats about the regulation being used as a bargaining chip for more preferential treatment in other EU activities. For example, the Chinese investors invest in the less developed member countries in Southern and Eastern Europe where the investments could have a bigger boost to the economic development compared to countries such as Germany. (Gadocha 2020, 48.) Secondly, it is argued that the regulation does not explicitly seek to reduce the increased FDI inflow into the EU but would allow the EU to use it as a negotiation tool for market access in third countries (Schill 2019, 20-22). In conclusion, the legislative change, the regulation, shapes the FDI environment in the EU to be less attractive to the foreign investors since the restrictions are increased (Chan & Meunier 2022, 535-536).

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<sup>14</sup> Framework Regulation, Article 6

## 5 Conclusion

This thesis has examined the effects that the rise of protectionism has had on the FDI environment in the EU. The goal of the thesis is to review literature of both current trends in the global economy, FDI and rise of protectionism, and examine the effects in the context of EU. The EU gave a suitable context to review these trends since the union took action to change the union's legislation due to the trends and shift in the global economy and wanted to reinforce their position in the global arena. There were three sub-questions aimed to answer in the thesis to examine the main goal comprehensively; "What the EU is like as a FDI environment?", "What are the reasons behind the rise of protectionism in the EU?" and "What legislative outcomes have followed affecting the FDI environment?". All the sub-questions were answered in their own chapters.

In chapter 2, it was discovered that EU as a FDI environment has many different features that make it an attractive FDI location. The FDI environment has been analysed through three different groups of factors: institutional, agglomeration and economic. However, the most defining sets of factors of the FDI environment are the institutional factors since the political measures are the EU's main way of influencing. This also makes the EU unique compared to other regions since although there are other regional economic integrations such as NAFTA, but political unions are rare, and the EU is the most politically integrated region. The singular most defining political decision of the EU is the Single Market Agreement which is unique globally and makes the environment attractive to foreign investors since investing in one country opens up the market of all 27 EU-member countries.

The rise of protectionism has become a global trend in the 2010s which also the EU has taken a part in. In chapter 3.2, it was named multiple reasons why protectionism has risen particularly in the EU. The invasion of Ukraine woke up the EU to be more self-sufficient especially in the critical sectors such as energy and food and the US' protectionist shift under the Trump administration encouraged the EU to do the same since the cooperations suffered and weakened between regions. However, the main reason behind the protectionist measures are the Chinese investments in the EU. The aggressive growth of China in the global scene has threatened both the US and EU and has bubbled up ideas of economic nationalism. The Chinese investments targeting mostly technology-heavy industries, the EU feared to lose their key competence and economic edge to China.

At the same time the Chinese market is difficult to enter since the government requires foreign companies to transfer their technology to the Chinese competitors in exchange of the market access. The uneven playing rules between China and the EU provoked the EU to change the open FDI policies into the Single Market to protectionist and defend the EU's role in the global economy.

The screening mechanism which is analysed in the chapter 4. is the EU's protectionist answer mainly to the increased Chinese investments. Some nations in the EU had already adopted national screening mechanisms but the EU's regulation unified the nations and created an EU-level cooperation mechanism. The regulation was adopted rapidly across the EU but the clear effects of it are still unclear since the adoption was under five years ago. The Chinese investments are probably going to decrease after the screening mechanism, but the regulation could also cause disagreements inside the EU since the more economically vulnerable member countries could be more eager to accept still risky Chinese investments. The screening mechanism is still optional for the members and the criteria open to interpretation and can be modified in ways that are beneficial more single member nations. There is a possibility that the EU fines down parts of the regulation to be more in favour of the EU's common interest.

There were a limited number of research about the effects of the screening mechanism since the regulation is still fairly new and the adoption periods of the regulation in the member countries have varied. The research of the screening mechanism focused mostly on the legal framework. Additionally, the research of the background for the rise of the protectionism in the EU context heavily focused on the Chinese investments. It is understandable since China is the main reason behind the protectionism in EU but other impact factors such as the invasion of Ukraine was covered quite marginally in this context. In this thesis context the Ukraine war was usually mentioned in couple of sentences. For future research it would be suggested that the effects of the screening mechanism and overall, the protectionism in the EU would be research further. Also, the background reasons for the rise of protectionism could be broadened from the Chinese investments and including other perspectives as well.



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