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The China dilemma in foreign direct investment screening: Comparing the Finnish and Swedish approaches

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Summary

- For the past decade, Finland and Sweden have been among the largest recipients of Chinese foreign direct investment (FDI) in the European Union (EU). In cumulative terms, they were ranked the fifth- and sixth-largest destinations for Chinese FDI in 2000–2022.
- Finland amended its national FDI controls in 2020 following the introduction of the EU's FDI screening framework in 2019 (EU 2019/452), and Sweden's new mechanism is expected to enter into force in 2023. On a European scale, Finland's operational FDI legislation is arguably an example of a more liberal approach. Sweden's forthcoming scope for screening will showcase a more extensive model. China's global investment practice has been factored into developments in both countries. In Sweden, the security risks linked to Chinese FDI have directly shaped the process of drafting a legislative proposal.
- Until now, Chinese FDI in Finland and Sweden has focused on company acquisitions in knowledge-intensive fields, many of which are strategic or key sectors of the Chinese economy. The security risks of investments have been increasingly emphasized, but the positive contributions to economic development continue to be recognized, especially in business circles. The two countries are therefore faced with a "China dilemma" in their FDI screening: how to mitigate the risks of Chinese FDI while ensuring that desirable investments continue to be attracted in the future.
- The Finnish approach to FDI screening is shaped by a focus on safeguarding the provision of sufficient amounts of critical supplies and services in all circumstances (i.e., supply security), while Sweden also seeks to consider broader national security concerns and investor intentions. Sweden's broader scope with regard to the origins of investment (including by Swedish investors), and types of FDI and industry, is likely to result in the screening of a larger number of Chinese investments in the future. Nonetheless, the Finnish mechanism can in theory also cover most of the industries listed by Sweden.
- Finland is unlikely to proceed to formal blocking of Chinese investments by its government. Risks are more likely to be mitigated or Chinese investors might withdraw from the process to avoid major media exposure. Sweden's decisions will be made by an expert agency, which might be less vulnerable to influencing attempts. However, Chinese retaliatory measures could follow, since the entire breadth of political considerations cannot be taken into account.
- Finland's less clear rules and Sweden's more expansive scope of screening could create potential confusion and an administrative burden that has a negative impact on the investment climate. However, there is also a possibility that passing a screening process in these countries could provide "immunity" to public criticism and contribute positively to Chinese companies' global image and activities. Moreover, both countries' country-neutral approach to FDI screening is likely to reduce Chinese investors' feelings of being targeted.
- China's increasingly assertive global role will continue to present unknown and "unthinkable" security challenges to small open economies such as Sweden and Finland. Their ability to mould and adjust their respective FDI screening mechanisms will be a key factor in dealing with these challenges. There may also be lessons in this for other states.

- Finland's achieved and Sweden's likely NATO membership are also likely to affect their ability to take an independent stance on tackling their China dilemma on FDI screening. NATO's growing concern about China means that mitigation of risks could be increasingly emphasized over maintaining beneficial FDI flows, and each country might need to expand its list of sensitive industries that are subject to screening. In addition, any potential EU-level outbound investment controls will add another dimension to Finland and Sweden's ability to balance between investment risks and the benefits of openness.

Preface[1]

This report is part of a research collaboration between the Swedish National China Centre (NKK) and the "Foreign acquisitions and political retaliation as threats to supply security in an era of strategic decoupling" (ForAc) research project at the University of Turku, Finland. The ForAc Project is funded by the Academy of Finland (grant 338145).

1. Introduction

1.1 Background

Over the past decade, Finland and Sweden have been among the largest recipients of Chinese foreign direct investment (FDI) in the European Union (EU). Until the late 2010s, these two small open economies with liberal legislation and a positive stance on foreign ownership actively sought to attract Chinese investment instead of limiting it in any way. Although initial media reactions might not have been positive,[1] the acquisition of Volvo Cars in 2010 came to be greeted as a success story in Sweden.[2] In Finland, reporting on buyouts such as mobile game company Supercell in 2016 tended to emphasize Chinese ownership as a great opportunity rather than a risk.[3] Overall, a pragmatic approach to Chinese investments was frequently called for.[4] Tellingly, for many years one of the major concerns in both states was that the planned investment would often not be forthcoming.[5]

The scale of change was thus significant when, in the late 2010s and early 2020s, Finland and Sweden began to amend and re-establish controls on FDI that could in effect curb Chinese investments. These national processes took place in the context of the EU's FDI screening framework (EU 2019/452),[6] a regulation that encourages – but does not require – member states to monitor FDI "on the grounds of security or public order".[7] The regulation itself was largely driven by a European debate over Chinese acquisitions of technology companies – and inspired by legislative reforms in the United States.[8] Among the risks

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that became associated with China's economic outreach were strategic domination of key European industries, an outflow of sensitive dual-use know-how and industrial espionage.[9]

For Finland, the EU regulation opened a window of opportunity to amend an existing, modified but still outdated law from 2012 to become a more comprehensive *Act on the Screening of Foreign Corporate Acquisitions* in October 2020.[10] Despite the changing tone of the public debate, however, China was not a major driver of the Finnish process.[11] In Sweden, both the EU regulation and increasingly negative views on China motivated the government – somewhat later than in Finland – to set up a commission of inquiry on proposals for an FDI screening mechanism.[12] The result, *Screening of Foreign Direct Investments,* was published in November 2021.[13] A legislative proposal was presented to the Swedish *Riksdag* in the spring of 2023 and a new law is expected to enter into force in December 2023.[14]

Finland's amended and Sweden's forthcoming mechanisms share the same fundamental aim: to mitigate the security risks of foreign ownership. At the same time, however, their introduction could hinder all – not just risky – FDI inflows. Investing in these countries is being made somewhat more difficult and, perhaps even more importantly, mental barriers could be created as potential investors learn of the existence of tighter – and possibly less than totally clear – controls.[15] Such changes in the investment climate must be taken carefully into account since many public- and private-sector actors continue to underline the need to develop Finland's and Sweden's national economies through an inflow of foreign capital, knowledge and other positive contributions from FDI.[16] Despite the increasingly critical tone of the China debate in both societies, the perceived benefits of cross-border investments are still acknowledged in the context of China-originated investments.[17] This state of affairs creates what might be formulated as a *China dilemma on FDI screening* – an ambition to tackle Chinese investments with potential security implications (*risky flows*) while generally continuing to attract Chinese capital to contribute to economic growth (*beneficial flows*).

1.2 Purpose

This report adopts a comparative approach to analysing the ways in which Finland and Sweden deal with the China dilemma in FDI screening. In so doing, it starts from the premise that China's status as a source of both notable economic opportunities and particular security risks makes the effects of national FDI controls on investments originating from China of particular importance. We also argue, however, that the ability to tackle this dilemma is indicative of the broader value of national FDI screening mechanisms and Finland and Sweden's ability to balance between mitigating risks and maintaining an open economy. More specifically, the report has two purposes: (a) to describe and compare the existing and forthcoming national FDI legislation in Finland and Sweden; and (b) to evaluate and anticipate the potential effects of these mechanisms and their implementation on risky and beneficial Chinese investments. The report aims to answer two research questions:

1) What are the key similarities and differences between Finland's and Sweden's respective national FDI legislation? How will they play out in the particular context of China?

2) What might be the effects of Finland's and Sweden's national FDI legislation – and their respective implementation – on risky and beneficial Chinese investments? How might these differ between the Finnish and Swedish systems?

1.3 Structure

The report begins by briefly discussing our research design, methodological choices and sources. It then provides an overview of the current state and reasons for Chinese investments in Finland and Sweden. There follows a descriptive comparative analysis of the Finnish and Swedish screening mechanisms with a special emphasis on the relevance of the national differences for Chinese investments. We then evaluate, compare and anticipate how the national mechanisms – and the practice of screening – are likely to shape the ability and willingness of Chinese investors to make either risky or beneficial investments in Finland and Sweden. The report concludes by presenting final thoughts on tackling the China dilemma on FDI screening.

2. Research design, methodology and sources

2.1 Research design

In conducting a comparative case study of national investment screening mechanisms and their potential effects on Chinese investments, this report sheds light on an empirical setting with two very similar socio-economic systems and – at least seemingly – rather different types of national FDI controls.

The selected cases, Finland and Sweden, are Nordic EU member states with highly similar economic and social models, a long liberal tradition of foreign ownership and a strong emphasis on advanced knowledge-intensive industries. Both countries have also ranked high among China's top EU destinations for FDI over time.[18] The targeted fields have also been largely similar. On a European scale, however, Finland's operational FDI legislation is arguably an example of a more liberal approach, while Sweden's forthcoming screening is a more extensive take on FDI screening. Moreover, Finland has had FDI controls in place in their current form since 2020, and uninterruptedly since the 1930s, whereas Sweden is only now about to start investment screening after decades with practically no controls.[19] The comparative approach therefore serves to shed light on the meaning and potential effects of the scope of screening and provide insights from different stages of screening practice.

Through this research design, the report aims to share insights with other smaller European states and middle powers seeking to develop their national strategies on FDI screening. For Finland and Sweden, the results could serve as a reference for the practice of screening and further legislative reform in the future. In addition to state actors, the results could also benefit potential investors making an initial market analysis of foreign investments.

2.2 Methodology and sources

The report seeks to compare Finnish and Swedish approaches in two ways – by describing the content and evaluating the effects. It therefore analyses two distinct types of data. First, in providing a comparative description of the similarities of and differences between two national FDI mechanisms, we focused on analysing the *content* of national laws and proposals, EU regulations and official documents produced by ministries and agencies, as well as conducting interviews with Finnish and Swedish officials with a detailed knowledge of crafting the national mechanisms, conducting screening and monitoring foreign ownership.

For Finland, we conducted three interviews involving six state officials as part of the ForAc Project in November 2021 to March 2022. For Sweden, we conducted three interviews of three state officials between October and December 2022. In both countries, two of the interviews were conducted online and one onsite. Each lasted between 60 and 90 minutes. If permitted by the interviewees, we recorded the interviews; otherwise, we made detailed notes. Several individuals asked that their names be kept confidential. This practice serves to prevent third countries from "marking" individual state officials. The names of the institutions are included if allowed by the interviewees. In both countries, the core institutions responsible for screening – the Ministry of Economic Affairs and Employment (Finland) and the Inspectorate for Strategic Products (Sweden) – participated in the interviews.

Second, in conducting an evaluative comparison of the *potential effects* of the national screening legislation and its implementation, we drew insights from our descriptive comparative analysis, Swedish reports on the potential effects of FDI screening, foreign organizations', companies' and governments' reports analysing and providing data on China's FDI practice in other countries, general analyses of the impact of FDI controls and interviews with key stakeholders conducted as part of the ForAc Project. In addition to the above-mentioned state officials, the interviewees also included four representatives of four Chinese-acquired Finnish companies. These were conducted between November 2021 and September 2022 and lasted between 45 minutes and 4 hours. The names of the individuals and companies are anonymized at the interviewees' request, mainly to avoid adverse consequences for their businesses.

The background information on Chinese FDI in Finland and Sweden is mainly gathered from various databases and reports produced by public and commercial actors, such as Statistics Finland and Statistics Sweden, Business Finland, the Swedish Defence Research Agency (FOI), Merics and Rhodium Group. In addition, Chinese policy documents and the existing literature were analysed to highlight Chinese motivations for FDI.

Overall, the data set consists of sources produced in Finnish, Swedish, English and Chinese. The translations are either the authors' own or, if available, official translations.

3. The current state and nature of Chinese FDI in Finland and Sweden

Although other countries top the FDI statistics in Finland and Sweden, China has made notable investments in the two countries since the 2010s. According to Rhodium Group, Finland and Sweden were the fifth- and sixth-largest EU recipients of Chinese FDI after Germany, Italy, France and the Netherlands in 2023, measured as the cumulative value of transactions since 2000. In per capita terms, Finland was second only to Luxembourg and Malta.[20] Until recently, however, comprehensive awareness of Chinese forms of ownership was lacking in both countries. Now, studies by FOI and an unofficial database maintained by Business Finland's Invest in Finland, a unit of the Ministry of Economic Affairs and Employment, paint a relatively clear picture of the quantity and type of Chinese owned-companies.[21]

In 2021, the largest foreign investors in Finland were Sweden (23 percent of FDI), the United States (18 percent) and Germany (10 percent). These three countries also topped Finland's FDI statistics over the past five years, although with a few exceptions. Most notably, in 2019 China ranked third due to Anta's buyout of Amer Sports, which was one of the largest acquisitions in Finland's corporate history.[22] In 2021, China's share was approximately 6 percent, although this percentage does not include investments from Hong Kong. Moreover, only investments with a value over €1 million feature in these statistics.[23]

In Sweden, the top three foreign investors in 2021 were the United Kingdom (17 percent), Luxembourg (14 percent) and the Netherlands (13 percent). These three countries have also been Sweden's largest sources of investment over the past five years.[24] China's share was approximately 0.3 percent, but that does not include investments from Hong Kong.[25] Moreover, unlike Finland, the figures for Sweden are based on the immediate investor country, that is, the country through which the capital transited just before reaching the recipient economy, which means that a large share of the funds for these investments could have originated from third countries. In practice, this also means that many investments made by Chinese companies are not included in these figures. In addition, only those investments with a value above SEK 100 million are systematically included, although some smaller investments from a sample of investment deals have also been included. This threshold is almost eight times higher than that of Statistics Finland's, which makes comparisons problematic.[26] This also means that it is possible to derive a considerably higher estimate of the share of Chinese investments in all FDI in Sweden, as, for example, the Inspectorate for Strategic Products (ISP) has done.[27]

By definition, FDI takes the form of either an acquisition or a greenfield investment. In an acquisition, one company buys some of the shares in another enterprise. A greenfield investment refers to the setting up of a new company or a subsidiary. Generally, greenfield investments give more control to a foreign owner, whereas acquisitions often provide investors with a skilled labour force, existing networks of customers and suppliers, and, perhaps most importantly, knowledge, skills and technology transfer.[28] Acquisitions have thus far constituted the more common form of Chinese FDI in Finland and Sweden – a preference that has been typical in China's encounters with advanced economies.[29] Nonetheless, this trend may be changing. At the EU level, Chinese companies made more EU-bound greenfield investments than acquisitions in 2022.[30] This shift is also visible in Finland and Sweden, where an increasing number of greenfield investments have been made.[31]

In addition, Chinese companies make a notable amount of venture capital (VC) investments in Europe. VC investments differ from FDI in that the ownership share established with these deals is less than 10 percent. According to the Rhodium Group and Merics, Sweden's share of these capital flows was €121 million in 2021, a peak year during which a total of €1.2 billion was reported in the EU+UK.[32] It appears that no Chinese VC investments were made – or recorded – in Finland that year,[33] and, notably, in 2022, the record-high level of Chinese VC investments in Europe was evened out.[34]

Given that the Swedish economy is roughly twice the size of Finland's, it is unsurprising that Chinese actors have an ownership share of at least 10 percent in a larger number of enterprises in Sweden (172) than in Finland (109).[35] In addition, more majority acquisitions of Swedish companies (70) had been made than of Finnish (42) as of February 2023.[36] However, as the estimated accumulated value of Chinese FDI for 2000–2022 stands at €13 billion for Finland and €8.8 billion for Sweden,[37] it is clear that Chinese investment as a share of Finland's gross domestic product (GDP) is higher than as a share of Sweden's. This, however, can be largely explained by such "mega-deals" as Tencent's acquisition of Supercell in 2016 and the above-mentioned buyout of Amer Sports by Anta in 2019.

Together these two deals account for €11.3 billion, which means that without them, Finland would be far from China's top investment destination in the EU. Moreover, the figures do not include investments resulting in ownership shares below 10 percent, which reduces the total for Sweden in particular, where one of the highest value deals was Tencent's 9.2 percent investment in the audio streaming provider Spotify.[38]

Chinese FDI is largely concentrated on Finland and Sweden's knowledge-intensive industries. This is unsurprising, given the countries' industrial structure and high ranking in global innovation indexes.[39] For example, of the 42 majority acquisitions made in Finland as of February 2023, 19 were made in the ICT & digitalization (including electronics) sectors and three in health and biotechnology.[40] This reflects Finland's largest share of ICT professionals in Europe and highest rating in the EU's Digital Economy and Society Index.[41] In Sweden, the corresponding numbers were 14 in ICT & digitalization and 12 in health and biotechnology.[42] Moreover, reflecting the structure of Sweden's industrial production, the car industry and machinery also stand out as fields favoured by Chinese companies in Sweden. Six and 11 majority acquisitions had been made in these fields respectively.[43] In Finland, ICT seems to dominate but, notably, five majority acquisitions have been made in the machinery sector,[44] which also represents a large share of Finland's industrial production.

It is almost impossible to provide an informative figure for the ratio of private sector to state-owned Chinese FDI in Finland and Sweden. The ownership structures of Chinese companies are complex, non-transparent and hard to map, and the Chinese party-state often has an ownership stake in a seemingly private company.[45] However, approximately a quarter of the Chinese majority acquisitions in Finland have been made by a company that describes itself as a state-owned enterprise.[46] Similar data is not available for Sweden, but Datenna, a Dutch data intelligence platform enterprise which focuses on China, estimates that approximately one-third of Swedish acquisitions have been made by companies with an ultimate controlling shareholder that is part of the Chinese government.[47]

Some other features associated with Chinese ownership of companies in the two countries are also worth noting. At least in some sectors, the same individuals or companies own several enterprises – even if subsidiaries are not counted. Illustrative examples of this tendency occur in the Finnish ICT industry, where Tencent is a shareholder in at least five companies.[48] It is also possible to identify serial acquisitions in certain fields; for example, the same Chinese ultimate owner has ownership stakes in the Finnish and Swedish forest industries. Although this is a normal feature of the global economy, the vast resources of Chinese companies have sparked concerns that these types of investment patterns could result in China dominating sub-regions of Europe, such as the Nordic countries, even with no intentionality on China's side – a point identified as a supply security risk by at least one Finnish state official.[49] In essence, this views China's strong sub-regional industry-specific presence as a threat to Nordic countries' ability to safeguard the provision of sufficient amounts of critical supplies and services in all circumstances.

The number of future Chinese acquisitions is hard to anticipate even in the short term. In addition to China's fast changing political economy and weakening domestic economic situation, worsening attitudes to Chinese investments,[50] and both the intended and unintended consequences of the new FDI screening mechanisms, make the future particularly uncertain. Although notable acquisitions have continued to be made in both countries since they peaked in the period 2017–2019,[51] it is possible and even likely that a stronger shift will take place towards greenfield and VC investments. These alternative forms of investment often go unnoticed while acquisitions are screened and debated more intensely.[52] Moreover, recent crackdowns in China's technology sector have reduced the number of investments in China, which might result in companies seeking VC opportunities elsewhere.[53]

4. Chinese motivations for investing in Finland and Sweden

According to FOI's analysis, approximately 59% of the Chinese acquisitions made in Sweden by early 2023 were in industries listed in the government's *Made in China 2025* strategy of 2015.[54] These fields are crucial to upgrading China's manufacturing industry in a more knowledge-intensive direction. They range from high-end robots to energy-saving cars and equipment used in different types of vehicles (see Box 1).[55] In Finland, the proportion of deals made in these fields in the same period was roughly similar.[56]

The ten priority sectors in the Made in China 2025 strategy, 2015

1. New information technology
2. High-end numerically controlled machine tools and robots
3. Aerospace equipment
4. Ocean engineering equipment and high-end vessels
5. High-end rail transport equipment
6. Energy-saving cars and new energy cars
7. Electrical equipment
8. Agricultural machinery
9. New materials, such as polymers
10. Biomedicine and high-end medical equipment

Of the deals made since early 2020, all the buyouts in Finland and approximately 70% of the Swedish acquisitions fall within the scope of the "strategic emerging industries" in the Chinese economy.[57] These are the key focus areas for Chinese economic development outlined by the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Industry and Information Technology and the Ministry of Finance in 2020.[58] The document was drafted in conjunction with China's 14th five-year plan and, compared to Made in China 2025, the listed fields (see Box 2) indicate an even clearer shift to innovation in high-end products and from hardware and machinery to software and applications – a feature that is likely to dominate Chinese acquisitions in the two countries for the next period. Concentration on these fields is likely to intensify as the overall volume of China's Europe-bound FDI has been falling since 2016.[59] In practice, in recent years the Chinese government has been less encouraging regarding FDI outflows and companies have had fewer incentives to move capital out of China due to decreasing pressures from currency depreciation. In sum, there are fewer investments and these are directed at the most essential sectors.

The eight strategic emerging industries in the Chinese economy, 2020

1. New generation information technology
2. Biology/biotechnology
3. High-end equipment manufacturing
4. New materials
5. New energy
6. Intelligent and new motor vehicles
7. Energy conservation and environmental protection
8. Digital innovation.

The correlation between the fields listed and Chinese acquisitions in Finland and Sweden can be explained in part by the dynamics of China's political economy. In a nutshell, although there is no publicly available evidence that the Chinese government maintains a shopping list of overseas companies, different ministries and the National Development and Reform Commission do indicate which industries are crucial to achievement of the current development goals of the Chinese economy and society. This political guidance is provided in the above-mentioned five-year plans and steering documents, as well as other types of strategies and regulations, and acquisitions in the indicated fields are allowed and also prioritized in the granting of loans, and so on. Moreover, foreign policy initiatives such as the Belt and Road Initiative (BRI) can have the same effect. Chinese companies can expect to receive government support if they focus on BRI-related projects – even if they take place in countries such as Finland and Sweden, which are not officially BRI countries. Overall, therefore, Chinese companies have various government priorities to choose from in seeking support for their overseas investments.

Due to this dynamic, acquisitions by Chinese state-owned and private sector enterprises of Finnish and Swedish companies often – but not always or automatically – advance China's national goals as set out by the Communist Party. For the time being, these aims include a priority to break the country's dependence on foreign technology and meet the needs of its citizens through domestic innovation, that is, by transitioning the Chinese economy from the world's factory into a knowledge-intensive system.[60] For example, the acquisitions of the Finnish medical and dental technology company, Fimet, in 2021 and the Swedish car maker National Electric Vehicle Sweden in 2020 support China's national efforts to enhance the quality of domestic health and non-internal combustion engine car technologies.[61]

Finally, it should also be noted that, given China's authoritarian system and close state-business relations, it is possible for the Chinese government to use Chinese-owned companies for purposes that were not considered when they were acquired or established. These intentions could include advancing China's foreign and security policy interests. For example, the *National Intelligence Law* of 2017 requires all Chinese citizens to share information with Chinese government agencies if requested, including corporate information and personal data.[62]

5. Comparing the Finnish and Swedish Approaches to FDI Screening

Although drafted in the context of the EU's FDI screening framework, Finland's amended and Sweden's forthcoming FDI screening mechanisms differ in certain key aspects that could shape their attempts to tackle the challenge posed by the China dilemma for FDI screening.

5.1 Why was a screening mechanism initiated and maintained? What is its focus?

Both Finland and Sweden share the same ultimate motive for screening FDI: to mitigate the security implications of FDI – the effects of risky flows on their societies. How this is understood in practice differs in the two countries, however, and their corresponding ideas define the focus and purpose of their national FDI screening approaches.

The Finnish *Act on the Screening of Foreign Corporate Acquisitions* states that its purpose is to "screen, and, should a key national interest so require, restrict the transfer of influence to foreign nationals and foreign organizations and foundations in companies that are subject to screening".[63] By definition, this "key national interest" refers to "securing military national defence, functions vital to society, national security and foreign and security policy objectives, and safeguarding public order and security in accordance with Articles 52 and 65 of the Treaty on the Functioning of the European Union, if there is a genuine and sufficiently serious threat to a fundamental interest of society".[64] Based on the stipulations of the Act, it could potentially be at risk if an (intended) acquisition results in the transfer of influence in a company that: is located in the defence industry (i.e., produces or supplies defence or dual-use products, or material and services important for military defence); produces or supplies critical products or services related to the statutory duties of the Finnish authorities essential to the security of society; or is critical, when assessed as a whole, to securing functions vital to society on the basis of their field, business or commitments.[65]

Against this backdrop, it is clear that, although the stated purpose of the Finnish mechanism is broad, the focus of the approach is, in essence, on *supply security*. This means that its primary aim is to ensure that no acquisition could endanger Finland's ability to *produce* and *provide* sufficient amounts of critical supplies and services in all circumstances, including the outbreak of war. In other words, the Finnish approach focuses primarily on screening acquisitions that could alter the balance of supplies critical to Finland's comprehensive security – be that because the acquiring company might move production entirely out of Finland or because the foreign owner controls production in Finland. This key focus is also underlined by the fact that the "entities subject to screening" under the Act are companies registered in Finland – the potentially supply security relevant actors the services and products of which Finland is at risk of "losing". In practice, however, both the Finnish company and the acquiring foreign company would be subject to investigation in the process.

On the other hand, the Finnish mechanism does not generally place any immediate emphasis on other types of security risks created by foreign investments, let alone the malicious intentions of the foreign investor. A notable exception is the screening of companies producing dual-use products; it is perhaps Finland's broader foreign policy goals rather than supply security concerns that motivate this function of the Act.

China-specific concerns are not incorporated into the Act in any obvious way, which is in line with what has been argued above – China itself was not a major driver of the Finnish amendment process. Overall, the key China-related question here would be whether Chinese investments threaten Finland's supply security. According to our interviews, experience suggests that moving production abroad is not a prevalent practice with regard to Chinese acquisitions in Finland and Sweden; however, owning and controlling the production facilities and machinery poses risks in this regard. [66]

In Sweden, in turn, the aim is to cover investments that put at risk either "Sweden's national security" or "public order or security in the EU member state of Sweden".[67] The first aim is exclusively a national competence and thus does not fall under EU law, but the second does. In comparison with Finland, both narrower supply security considerations and broader national security considerations seem to have been emphasized. Since the stated purpose of the mechanism is to screen security and public order-related "buyouts and *strategic acquisitions* of undertakings domiciled in Sweden",[68] it is also the intentions of the foreign investors that are perceived as making certain investments risky. Given that the 2021 Proposal also discusses the *Made in China 2025* strategy,[69] it is clear that Chinese strategic acquisitions are at least one of the points at issue here, and therefore that mitigating risks in relation to them is one of the purposes of the mechanism – although the legislative proposal is presented as being country-neutral in its application.

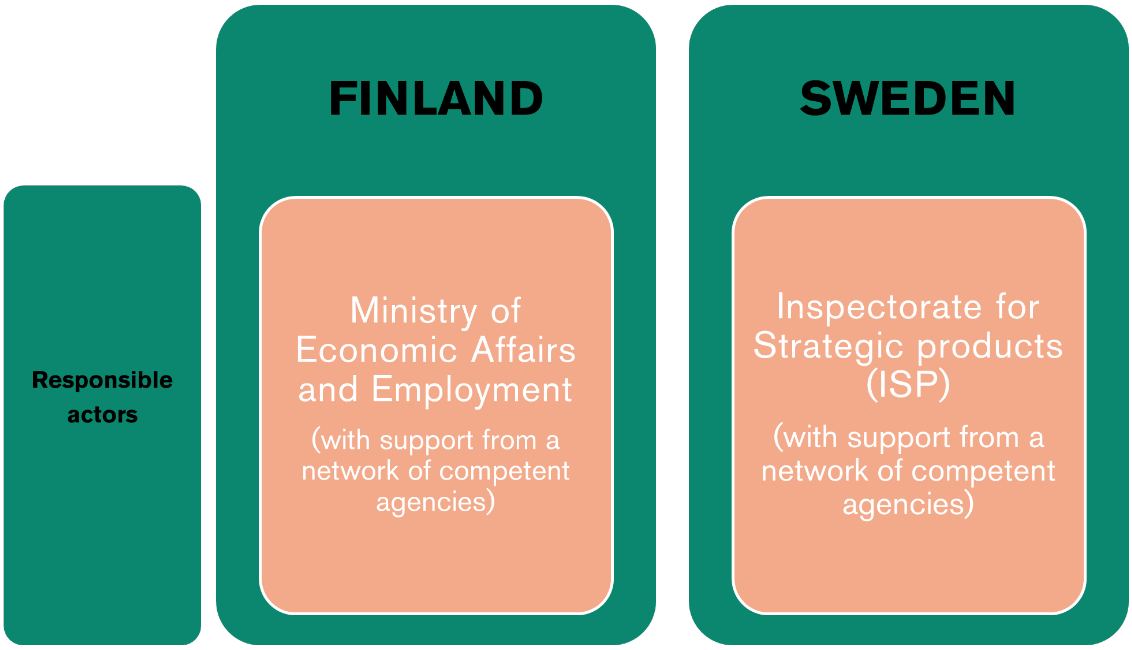
Given Finland's focus on broadly defined supply security, and the emphasis that has at least until now been on the positive effects of FDI,[70] it is unsurprising that *screening* – an evaluation of deals in the light of gathered data – is the primary purpose of the Act and a feature that dominates its implementation.[71] Screening allows for the criticality of the deal to Finland's key national interest to be assessed; and *restriction* only comes into the picture if risks, potential harms or dangers are identified. In practice, even restriction does not necessarily mean that a deal will be blocked. The amendments made in the Finnish Act in 2020 also make it possible to impose conditions on the ministry's decision to mitigate the risks of the acquisition.[72]

In Sweden, monitoring and data-gathering are not explicitly mentioned. Instead, the key function is simply to use the mechanism for preventing harmful deals[73] – without "intervening more than is necessary to protect Sweden's security interests".[74] This approach implies that it is *expected* that some deals will be curbed – an idea that is also in line with Sweden's more negative and wary views on China. Yet, as Sweden gains more experience of the practice of screening, it might begin to value the monitoring function of the mechanism per se as a significant output of the process – as is the case in Finland.

5.2 Who screens?

In Finland, the responsible government entity for FDI screening is the Ministry of Economic Affairs and Employment, and especially its Security of Supply and Resilience Team of the Department of Employment and Well-Functioning Markets. This location reflects Finland's strong emphasis on supply security – or broader economic considerations more generally – instead of national security and the malicious intentions of foreign investors. Moreover, and rather tellingly, the same ministry is responsible for attracting investment to Finland. Nonetheless, the ministry also collaborates widely with other ministries and authorities, most notably the Ministry for Foreign Affairs, which is responsible for the export control of dual-use items, and the Ministry of Defence, which deals with the export of defence material and focuses on defence industry transactions in FDI screening.

Figure 1 Actors responsible for screening in Finland and Sweden



In Sweden, the Inspectorate for Strategic Products (ISP), the agency under the Ministry for Foreign Affairs already responsible for export controls, will be the unit responsible for screening. The legislative proposal does not explicitly state this, but it is made clear in the accompanying commentary. This way the government reserves the right to designate another agency for the screening duty without changing the legislation.[75] Having an agency instead of a ministry as the location for screening is exceptional by international standards but can be explained by Sweden's constitutional requirement for this type of regulatory process to be the remit of an expert-level agency. The aim is to keep political considerations out of the exercise of legally regulated functions, but it may also serve to keep certain, sometimes sensitive, matters at arm's length from government.[76]

As part of its FDI screening function, the ISP will consult with several state institutions. In the government inquiry's proposal, it was suggested that the ISP be obliged to consult with the Swedish Civil Contingencies Agency (MSB), the Swedish Armed Forces, the National Board of Trade (Kommerskollegium) and the Swedish Security Police (Säpo).[77] This set of institutions – in addition to the choice of locating screening at the ISP instead of an economic agency – implies a strong focus on national security. In the legislative proposal, the exact agencies to participate in the screening are left for the government to designate and the legal text does not specifically mention the above listed agencies.[78]

When it comes to screening Chinese investments, the responsible unit at the Finnish Ministry of Economic Affairs and Employment is supported by the ministry's in-house China desk and the network of embassies. The persons working with tasks related to China possess language skills and have a comprehensive understanding of Chinese investments and China's politico-cultural context. This is crucial since detailed information on the foreign acquiring company – especially its ownership structure – can be challenging to find in English.[79] In Sweden, the ISP will rely on the contributions of several government agencies and the expertise of companies that provide commercial databases. However, the extent to which China-specific expertise will feature in those contributions is not yet clear.

5.3 Whose acquisitions are screened?

In the Finnish Act, "foreign" generally refers to non-EU/EFTA investors, but in the case of defence industry acquisitions, including companies producing and/or using dual-use products, it covers all non-Finnish entities. If a foreign citizen inherits the assets or obtains them through marriage, however, a deal is exempt from screening.[80] In addition, deals made by investors with a "golden passport" are not subject to formal screening. This refers to individuals who have obtained an EU passport from a member state that offers citizenships in exchange for notable investments in the country. Currently, such schemes are offered by, for example, Cyprus, Portugal and Malta.

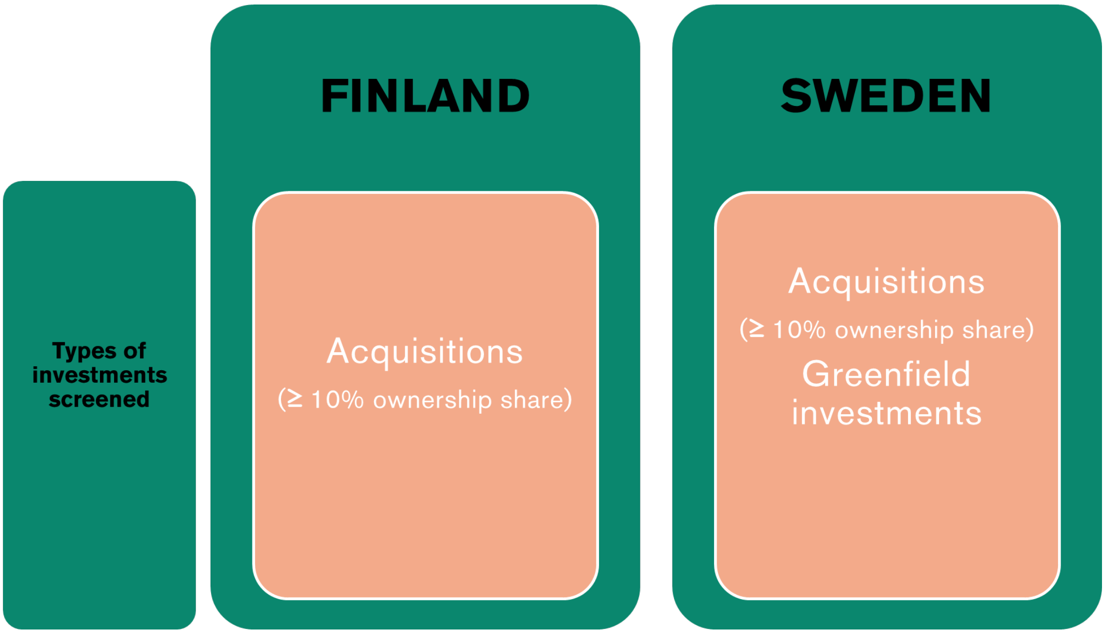
In Sweden, the upcoming Act will require all investments – including Swedish – to be subject to notification, meaning that the mechanism constitutes, in essence, a more general investment screening regulation. What makes it explicitly an *FDI* screening mechanism is its purpose: the aim seems to be to identify harmful foreign influence even in a Swedish guise since, in practice, most acquisitions made by Swedes are expected to be exempt from more detailed screening.[81] The broad scope of the Swedish mechanism is thought to make it more difficult to circumvent screening through proxies established in Sweden or other EU member states.[82] In Finland, the same goal is to be achieved by also including entities that are registered in the EU/EFTA region, but whose ownership structure either includes non-EU/EFTA investors (≥ 10 percent of shares) or in which a foreign investor has *actual influence* on the same scale.[83] In 2020, the Finnish Act was also amended by a new provision, which makes it possible for the ministry to request a transaction to be brought to its examination if circumvention of the Act is evident.[84]

Officials in both countries also underline the non-discriminatory nature of the reforms: screening is not targeted at any particular nationality.[85] Theory is different from practice, however, since more emphasis is put on risk mitigation when screening investments of certain origins. In Sweden, a notification informing the screening agency about an intended investment does not result in any proceedings if the investor only has Swedish citizenship or if the acquiring company is "ultimately owned or controlled" by Swedes alone.[86] In practice, this means that most applications made by Swedes are expected to be excluded from actual screening, even though there may be considerable challenges in determining the ultimate control or ownership of a company. In Finland, in turn, some state officials openly acknowledge that screening transactions by certain nationalities will be more important compared to others, and that Chinese investors belong in this category.[87] This point reflects deteriorating attitudes to China since the amendments were made.

5.4 What types of investments and which industries are screened?

The Finnish and Swedish approaches differ with regard to the types of FDI covered by the screening mechanism. Sweden's proposed mechanism takes account of both acquisitions and greenfield investments, whereas only acquisitions are screened in Finland. It is, however, possible for a greenfield investment to become subject of screening in Finland at a later stage if new investment partners join the scheme.[88]

Figure 2 Types of investments screened in Finland and Sweden



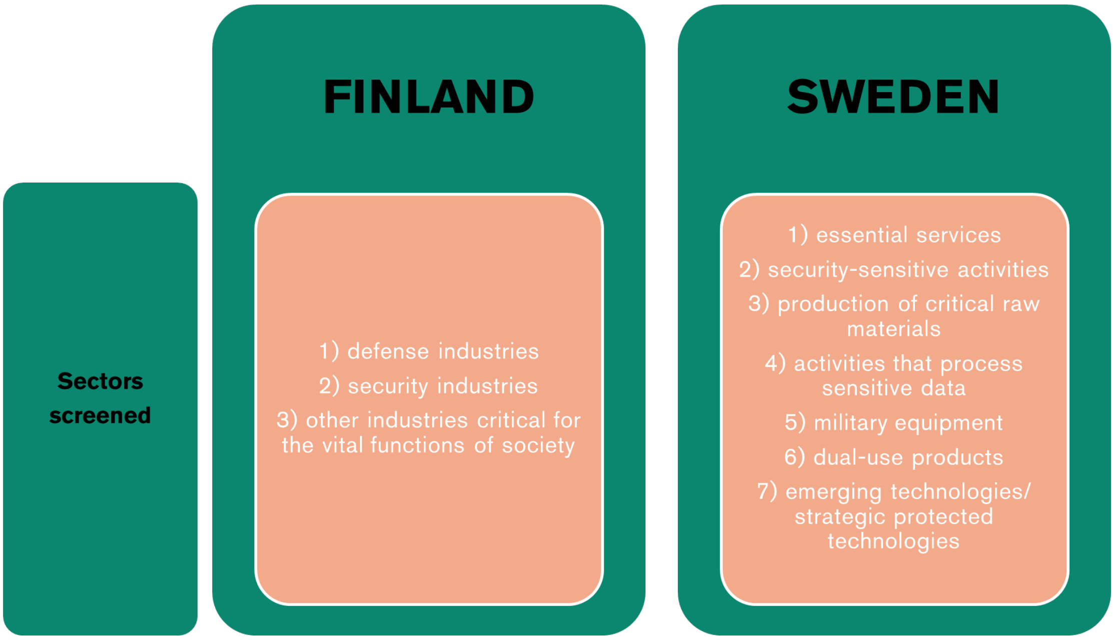
Both countries use the international standard definition of FDI by setting the threshold for screening at 10 percent of shares – or other corresponding actual influence in the target. This means that VC investments are generally not monitored in either country – unless they produce defence or dual-use products.

Unlike the practice in many other countries, neither the Finnish nor the Swedish legislation provide a detailed list of industries that must be subject to FDI screening. Instead, they indicate broader fields that fall within its scope. For Finland, compulsory screening is in place for acquisitions in the defence and security industries, while filing the case is recommended if the acquisition could be considered critical in terms of securing functions fundamental to society or for reasons of supply security. Acquisitions in the first two categories must be screened *before* the deal is made, whereas voluntary confirmation regarding acquisitions of other companies "critical for securing society's vital functions" could in theory be sought after the transaction. However, the latter acquisitions can equally be blocked based on the stipulations of the Act, so in practice it makes sense to screen the deal in advance, especially if there is any speculation about its risks to Finland's "key national interest".

In practice, therefore, making confirmation voluntary for the third category only gives more room – and responsibility – for the companies to consider whether they should go through the official screening process. Other types of companies can also file a request for voluntary approval if they wish. In such instances, however, the Ministry of Economic Affairs and Employment can decide not to explore the case. In such cases, the company receives an official legally binding notification of this decision.[89]

In Sweden, the fields covered are termed: (i) essential services, including services and infrastructure upholding functions "vital to society's basic needs, values or safety"; (ii) security-sensitive activities; (iii) activities that prospect for, extract, enrich or sell raw materials that are critical to Sweden; (iv) activities of large scale processing of sensitive personal data or location data; (v) manufacturing or development of military equipment; (vi) manufacturing or development of dual-use products; and (vii) activities related to emerging technologies and other strategic sensitive technologies.[90] Investments in all these sectors must be screened *before* the deal is made.

Figure 3 Comparison of sectors screened in Finland and Sweden



Only a small proportion of past Chinese acquisitions in Finland have concerned the industries now being monitored. In addition, only a handful of Chinese buyouts had gone through the screening procedure by June 2023. Among these were the acquisitions of the biotechnology company Hytest in 2021, the advanced silicon wafer producer Okmetic in 2016 and vehicle manufacturer Valmet in 2017. In Sweden, the proposed screening would probably have affected a larger number of past Chinese acquisitions such as the electronics industry buyouts of Silex Microsystems in 2015 and Norstel in 2017.

Both countries provide more detailed indications of the industries in the broad categories in separate government documents. These documents are issued regularly, and their content can be adjusted more easily than laws to the changing circumstances in which companies operate or Finnish and Swedish societal developments. For example, medical gear was made supply security relevant in Finland during the Covid-19 pandemic.[91] More specifically, in Finland, the Council of State issues documents on the aims and strategies linked to different aspects of Finland's security, including supply security, whereas in Sweden, the government will designate an agency, most likely the Swedish Civil Contingencies Agency (MSB), responsible for issuing documents containing concrete listings.[92]

Acquisitions made in any of the above-mentioned categories may also involve transfer of the ownership of real estate. In Finland, such elements of company acquisitions are screened by the Ministry for Defence, based on the stipulations of the *Act on Transfers of Real Estate Requiring Special Permission* (470/2019),[93] which came into force in January 2020. In such instances, the actual company acquisition might not be subject to FDI screening, but the transfer of the real estate would be. For example, had the new regulations been in force, the China Investment Corporation's (CIC) acquisition of a Finland-domiciled logistics real estate owner and manager Logicor (2017) would not have required screening, but the transfer of 1 million m² of warehouse space would have – even if the facilities had not been located close to Finnish harbour areas and airport premises, which was the case.

In Sweden, there is no legislation on screening foreign ownership of real estate. However, depending on the interpretation of the Security Protection Act (*Säkerhetsskyddslagen*),[94] which came into force in 2019, it might be necessary for a Swedish enterprise to conduct a security analysis if it is being acquired by a foreign company that will continue to operate in buildings that are vital to Sweden's security. One example of such a case might have been the 2015 acquisition of the Swedish wastewater management company Purac by the Chinese State Development and Investment Corporation Ltd. (SDIC) and the Beijing Drainage Investment Fund, since that entity is engaged in classified projects focused on critical infrastructure.[95]

5.5 What is the estimated number of cases? How long will the processing take?

Given Sweden's larger GDP and the broader scope of the country's proposed screening mechanism, it is unsurprising that the number of cases it is estimated will be notified in Sweden is far greater than the annual average thus far in Finland. While the ISP estimates that approximately 1000 cases will be notified annually, and around 10% of these will proceed to an actual screening process,[96] the number of applications in Finland was 35 in 2022. As a proportion, this figure accounted for approximately 16 percent of the number of foreign acquisitions in Finland.[97]

In Finland, the Ministry of Economic Affairs and Employment handles all acquisitions as 'urgent', which means that they typically proceed through the screening process within two months. It usually takes three to four weeks for the ministry to gather the reports of other state agencies, after which they will be analysed and the case will be presented to the minister.[98] The law itself places no exact time limits on making a decision.

In Sweden, 25 working days should be the normal timeframe to decide whether to initiate screening, and normally a final decision should be arrived at within three months of the decision to initiate actual screening.[99] The short time frame – despite the expected high number of applications – can be explained by the assumption that on many occasions, and especially with applications by Swedish nationals, there will be no need to proceed to the full screening process.[100] Furthermore, the ISP is set to almost double its workforce from 46 employees in 2021,[101] due to the new legislation.[102] However, additional resources on this scale may not be allocated to the other four agencies with which the ISP must consult as part of the process.[103]

It is impossible to anticipate the future number of Chinese investments that will be screened since Chinese FDI activity in Finland and Sweden is subject to the above-mentioned uncertainties. However, since Sweden aims to screen more extensively in terms of industries and also to focus on the increasing Chinese FDI trend for greenfield investments, the number of cases there is likely to be higher than in Finland. Moreover, given that only a few Chinese investments have been screened in Finland since the amended law came into force,[104] it is likely that the number of cases will remain low in the short term.

5.6 Who has the power to block a deal?

The ultimate decision to block a deal in Finland is always political: the government plenary session of the Finnish Council of State decides whether the acquisition in question threatens a key national interest.[105]

As argued above, the Ministry of Economic Affairs and Employment also has the power to place *conditions* on a deal instead of immediately proposing that it should be blocked. In practice, this means that, based on a round of consultations, the ministry could, for example, propose that certain functions, operations and products should be excluded from the deal. For a deal to pass the review, it may also suffice that the acquiring company makes a commitment to continue fulfilling certain supply security-related functions in Finland. Conditions may, however, be imposed only if both the foreign investor and the acquired Finland-domiciled company agree to comply with them.[106] Although no deals have thus far been evaluated or blocked in a government plenary session of the Finnish Council of State, some of these mitigating measures have been negotiated and conditions imposed on some occasions to achieve a conditional approval. Mitigating measures can also be adopted "unofficially", prior to the ministry's final decision.[107]

In Sweden, the ISP might decide to block investment deals. Like Finland, it will also be possible for the agency to issue conditions that must be met for a deal to proceed. Furthermore, the agency will be able to fine companies that do not comply with its regulations. The ISP's decisions on fines can be appealed in an administrative court, whereas appeals on blocked deals or the conditions set for deals to proceed must be appealed to the government.[108]

5.7 What kind of international collaboration do Finland and Sweden have on FDI screening?

The EU FDI screening regulation establishes a European information sharing arrangement on FDI. In Finland, this has come to mean that the Ministry of Economic Affairs and Employment is constantly sharing notifications and information with its EU counterparts.[109] The regulation also enables information requests to be made to other member states, and these pieces of information can also be commented on.[110] However, since several member states do not have a screening mechanism – and some have no plans to develop one – the Finnish experience has been that overall situational awareness in the EU has clearly improved but is not comprehensive.[111]

Finland is naturally interested in those investments in other member states that are relevant to Finland. The responsible national authorities collaborate particularly actively with like-minded countries, and Finland's cooperation with all Nordic countries is constant and active on both a bilateral and a multilateral basis. There are no established mechanisms for this purpose, however, and some Nordic countries share more information with each other than others.[112]

Although Sweden is only now about to start screening investments, as an EU member state it has participated in the information-sharing system since it became operational in October 2020. Earlier that year, the Swedish government appointed the ISP to perform this function. Thus far, the Swedish authorities have received plenty of valuable information through the mechanism, including on screened acquisitions that involve Swedish owners.[113] In addition, the ISP has European – including Finnish and Danish – and trans-Atlantic forms of bilateral collaboration.[114]

Since several European countries have already blocked Chinese investments,[115] and the country is a major investor in Europe, it is likely that China appears fairly frequently in the established communication mechanisms within the EU. There are, however, no publicly available reports on the number or nature of China-related information exchanges as part of this mechanism. It may well be that such country-specific arrangements are not desirable due to the negative impact on the investment climate. The European Commission's annual reports on the mechanism only present an overview of aggregated data and indicate that, for example in 2021, Chinese investments ranked third in the overall pool of screened cases.[116]

6. Assessing the effects of the national screening mechanisms

Given their differences, the Finnish and Swedish approaches to investment controls have distinct pros and cons with regard to tackling the challenge posed by the China dilemma in FDI screening: the aim to detect and avoid *risky flows* while continuing to attract *beneficial* flows. Drawing on the above discussion, this section analyses the likely effectiveness of the national mechanisms.

6.1 Tackling risky flows

Finland's amended and Sweden's forthcoming screening mechanisms are likely to have six key effects on the ability of these countries to tackle risky China-originated FDI flows.

Broad definitions of screened fields allow adaptation to a changing China-specific risk environment. Both countries are able to add or remove specific industries for screening in an agile manner, since they are (to be) specified in separate government-issued lists rather than in legislation. The only exception is the defence industry. As awareness and understanding of risks – potential harms and dangers – evolve, industries to be screened can be adapted to changing domestic, international and China-related developments. In this way, most of the resources of the responsible agencies can be allocated to those industries in which a majority of risky deals are deemed to be being made *in the prevailing circumstances*. At the same time, however, this will mean maintaining a considerable level of knowledge on political and security priorities, developments and corporate frameworks in China and other countries.

Screening fewer nationalities might leave opaque Chinese ownership arrangements unnoticed, whereas making all investments subject to notification could overload the system and, paradoxically, attract proxies. Apart from acquisitions of companies that are located in defence industry, the Finnish mechanism does not make all non-Finnish deals subject to screening. This can be problematic in terms of detecting potentially dangerous China-originated flows, given that proxies, local frontmen and opaque ownership structures are characteristics associated with Chinese investments.[117] However, golden passport holders are not a major issue in the China context as, unlike Russians, Chinese nationals cannot possess dual citizenship. Moreover, using proxies has become more difficult under the current media scrutiny faced by China and with the resources now available to the Security Police.

Regardless of the investor's nationality, all investments in a range of critical industries are subject to compulsory notification in Sweden. The Swedish system therefore emphasizes that potentially dangerous deals could originate from anywhere. However, given that in practice Swedish nationals are exempt from a more detailed screening process, it might be assumed that Swedes are covered in the mechanism only to "warn" those investors seeking to use the above-mentioned "proxy arrangements". This deterrence effect creates a major administrative burden, however, and could overload the system. Moreover, and perhaps paradoxically, it is possible that the proposed Swedish system might actually *attract* Chinese investors to use proxies with Swedish nationality since their acquisitions are subject to notification but, in effect, escape closer scrutiny.

Screening both acquisitions and greenfield investments places more Chinese investments with national security implications under scrutiny. Unlike Finland, Sweden will systematically monitor not only acquisitions, but also greenfield investments.

Although buyouts have been the dominant form of Chinese FDI in both countries, greenfield investments constitute an increasing trend in Chinese FDI. Sweden's focus is therefore likely to increase the number of risky cases to be covered by the national mechanism. Unlike acquisitions, however, which may result in a loss of domestic control over potentially critical supplies and services, it is difficult for a new, foreign-established company to emerge as an irreplaceable provider of critical products and functions. Therefore, the risks associated with greenfield investments are more likely to be related to broader national security concerns, including the dual-use of production facilities and leaking of personal data.

Although such national security concerns are by no means insignificant in the Chinese context – they are activities that the Chinese government could, at least in theory, oblige Chinese companies to do under the auspices of the country's *National Intelligence Law* – it is important to note that these risks can also be mitigated by other forms of surveillance. In both countries, this falls under the remit of the Security Police, and in Finland the *Act on Transfers of Real Estate Requiring Special Permission* can make parts of greenfield investments subject to screening if the deal involves the purchase of real estate. In addition, such sector-specific legislations as the *Act on Space Activities* (63/2018) call for prior authorisation for new activities, and the launched operations must be "compatible with the national security interests, Finland's international obligations and Finland's foreign policy interests".[118]

Despite the rising levels of Chinese VC investments in Europe, neither of the countries has plans to screen them. However, given the low level of influence that a foreign owner typically gains through a VC investment, they are not likely to pose major security risks to Finnish and Swedish societies.[119]

Broadening the scope of mandatory industry screening creates clarity and enhances the number of Chinese cases screened. Due to the broad scope of the industries included in the Swedish mechanism, and the fact that notification of all relevant investments is mandatory, Sweden will be monitoring numerous Chinese investments. This effect will be further strengthened by the fact that, unlike the Finnish Act, the Swedish Proposal specifies three types of flows that seem particularly relevant in the Chinese context: investments that seek to access or make use of raw materials, metals and minerals critical to Sweden; emerging technologies and other strategic protected technologies; and entities that engage in large-scale processing of sensitive personal or location data.

However, the impact of the broader scope and more China-specific set of industries on the screened mass may not be as significant as first appears. The Finnish categories of screened businesses are rather vague and could cover more than meets the eye. In fact, depending on the prevailing national aims set out in separate documents, all three of the above-mentioned types of investments could be subject to screening in Finland too. Both raw materials and emerging technologies can be considered supply security-relevant, while software that gathers data can be considered to have dual-use potential.

Therefore, the difference in what the mechanisms are *equipped* to do industry-wise might be rather spurious and, most significantly, the likely difference in the number of Chinese deals subject to screening may arise from the *clarity* that the Swedish rules create. The fairly detailed list of activities to be covered make it quite unlikely that companies would escape screening due to confusion in Sweden.

Screening nationally without established Nordic collaboration may allow Chinese serial acquisitions to fly under the radar. The EU information-sharing mechanism provides both countries with valuable data on Chinese investment patterns and deals that other member states consider risky; but the system has gaps. Moreover, although various Nordic forms of cooperation exist, especially at the bilateral levels, Iceland and Norway do not participate in the EU arrangement and there is no established mechanism that brings the five countries together to create situational awareness regarding sub-regional FDI, including Chinese investment patterns. Since the same Chinese investors (potentially through proxies) could own companies across the Nordic countries, the lack of such an established Nordic mechanism might hinder the detection of risky serial acquisitions in the region. This issue matters: given the interdependence of some of the Nordic countries regarding, for example, electricity production, the regional capabilities and risks associated with neighbouring countries should form an essential variable in national supply security calculations. For example, it is of immediate importance to Finland that Chinese companies own a notable share of Sweden's wind power parks.

Finland's achieved and Sweden's prospective NATO membership could in future provide increased motivation and opportunities for novel forms of Nordic security collaboration – especially given increasing concern in NATO about China as a security challenge. NATO's research networks and centres of excellence could, for example, facilitate critical dialogue on the risks of FDI among scholars. Generally, Nordic researchers could play an important role in pooling data, analysing Chinese investment patterns and raising awareness of the risks – and benefits – of Chinese FDI.

Governmental decision making could attract influencing attempts and make mitigation the norm, whereas expert agency decisions might result in neglect of broader political consequences. A striking difference between the Finnish and Swedish approaches is the level at which decisions on FDI deals are made. Although Finland's ministerial decision can take account of a breadth of political considerations, including the potential political fallout from blocking a deal, it can also be more susceptible to influencing efforts from other countries. In other words, the decision could be influenced by political pressure or coercive diplomacy – methods that China has been known to use in the past.[120] This could naturally affect Finland's ability to tackle potentially harmful flows.

Moreover, it is also possible – or even probable – that the Finnish model favours mitigation and the "informal blocking" of deals. Since all the attention that blocking deals receives is not likely to be received positively by, for example, Chinese investors, an appealing alternative might be to either accept the renegotiated conditions or even to withdraw the application before it reaches the Council of State. Here, the Finnish system is not that different from the US, where some notices are withdrawn because parties are unwilling to accept mitigation or do not want the matter to be referred to the president.[121] Overall, the tendency to deal with risks through mitigation rather than formal decisions could make the process less transparent and therefore less open to public and media scrutiny.

In the Swedish model – where decisions are made at the expert agency level – the screening process will supposedly be more formal or routinized. Instead of broader political considerations, such as potential political fallout or retaliatory consequences, it focuses strictly on the relevant legislation and on the fact-based assessments of other expert agencies. This might be unproblematic with clear-cut cases but issues could arise with more complicated ones. What constitutes national security is a matter of political debate and investments that threaten it are not always easily categorized into risks using factual arguments. At least in theory, the screening process of an expert agency might be less susceptible to influencing. However, this could lead to new risks, such as retaliatory measures, because monitoring has not taken all political and economic considerations into account.

6.2 Keeping the beneficial flows

The national FDI screening mechanisms are likely to have four key effects on Finland's and Sweden's ability to maintain beneficial China-originated flows.

Exposing more Chinese companies to extensive scrutiny or fewer to less straightforward proceedings could lead to investments going elsewhere. From the extensive scope of Sweden's screening mechanism, it follows that several Chinese deals are likely to be subject to screening, and therefore that various companies will be compelled to tackle an administrative burden and associated uncertainty about the outcome. This could have a negative impact on foreign investors' perceptions of the investment climate – a concern shared and expressed by Swedish stakeholders.[122] This, in turn, might result in fewer Chinese investments or a shift to smaller VC investments that fly under the radar – especially since there is speculation that China will attempt to avoid screening processes.[123]

The same does not necessarily apply to Finland due to the country's more limited scope of screening. However, even there FDI screening is, by definition, a hindrance to investments. At a minimum, having new controls in place creates mental barriers, which emerge as potential investors learn about the existence of tighter and, from their perspective, possibly obscure rules and regulations.[124] It is noteworthy that these barriers are not always a reflection of reality, but can also emerge through ungrounded or false assumptions. For Chinese investors, learning that Finland has amended its FDI legislation might be enough to conclude that the country has joined the EU group generally characterised by strict controls. That in itself could have a negative impact on the investment climate.

Although the Swedish screening process may prove arduous for a great number of companies, its stipulations are fairly straightforward. The Finnish rules, which make certain deals mandatory and others voluntary, and define the screened industries in a highly abstract manner, could be perceived as confusing by some Chinese investors. Moreover, in theory, the Finnish system could retroactively cancel a deal if an acquisition that was not voluntarily screened turns out to threaten a key national interest. Although similar retroactive effects may also come into play in the Swedish system, the initial requirement to notify all investments is likely to reduce the probability of such an occurrence. Having said that, it should be noted that the risk of this happening is also minimal in the Finnish system, in which most companies operating in 'grey areas' file an application and receive either a formal decision or a legally binding notification that the deal does not fall within the scope of the Act.[125] The negative impact of these factors is also likely to be short term, as evidence from the United States suggests the number of Chinese investments fell after the introduction of new FDI rules in 2018 but had risen again by 2021.[126] This development has been explained as Chinese investors adjusting to the new standards.[127]

In the final analysis, the degree to which either arduous processes or complex rules might affect companies' investment decisions is likely to depend on the ultimate motive for the deal. As a Swedish expert noted, most investment decisions are based, first and foremost, on the investor wanting certain qualities from a company.[128] In those cases, the particularities of either Finnish or Swedish screening systems may become one of many variables in an investment decision *only* if enterprises with the desired qualities exist in more than one country. This means that a Chinese investor looking to buy a high-tech company with a particular profile will primarily look for that company and not for a market that has the most lax screening system. Nonetheless, given the similarities in many respects between Sweden's and Finland's industrial structure, it is possible that the above-mentioned differences in screening systems could have an effect on investment decisions *between* the two countries. However, if the acquisition is made with the express purpose of gaining a foothold in the single market, the nature of the screening system is likely to be a much more important factor and a country with a more lax screening system would become a more attractive investment destination. This could be especially relevant in the context of greenfield investments in which the purpose is not to pick a specific company to be acquired at all.

Exposing Chinese investors to negative media attention on blocked deals could help to fuel the China threat debate. In Finland, the political nature of the ultimate decision on FDI screening would make any denial of confirmation inevitably a major, much publicized issue. In the event of such a precedent, a ministerial vote on a true instance of the 'China threat' would be likely to spark a massive media outcry. Such an instance would greatly stoke the public debate on China, which has recently intensified after years of caution.[129] As a result, Finland would probably start to be viewed by Chinese investors as a more hostile business environment.

Against a backdrop where Chinese investments have already been cast as risky in the Swedish media to a greater extent, and where certain acquisitions in the country have been widely considered harmful, the issue would perhaps attract less curiosity in Sweden. A blocked deal could be viewed as just another hiccup in Sweden-China relations or as a confirmation of already held beliefs in the public debate. For prospective Chinese investors, it would probably be perceived as an indication that negative public sentiment towards China had made it into official decision-making.

FDI screening approval can be a potential asset for Chinese enterprises in global markets. Although generally a hindrance to investments, FDI screening could also have positive consequences that, on the surface, might seem rather surprising. Given the overall negative attention attracted by Chinese investments globally, a screening process where the outcome was acceptance of a deal might be beneficial for a Chinese company. If these benefits are realized, the impact of FDI screening on Finland's and Sweden's investment climate might not be just negative in the eyes of Chinese investors.

In Finland and Sweden, cleared investment deals may be perceived as having been given a form of "immunity" from criticism in the public debate over risks – or at least they may be less prone to it. The Finnish and Swedish tendency to trust the authorities – in this case the officials conducting the screening – could add to this effect. Although many factors might explain it, none of the screened Chinese acquisitions have, so far, sparked media outcries in Finland, although the supply security relevance of e.g. silicon wafer producer Okmetic and atomic layer deposition manufacturing equipment producer Beneq could be high. These companies' products are important in the semiconductor industry and in quantum technology.

Moreover, since it has been publicly stated that the screening process entails investigation of the ownership structure of the acquirer, some private sector companies could use such clearance as further evidence of their non-state shareholding in global markets. Having a Western "ticket-to-ride" from some of the least corrupt countries in the world could therefore contribute positively to the enterprise's global activities. This effect may be particularly important in the United States, where, according to the experience of a Chinese-acquired Finnish company, there is heavy emphasis in business-to-business companies in some sectors on explicitly checking that no state interference from China is involved.[130] This idea is in line with the views of some of the Chinese-owned companies in Finland. Chinese investors do not just see screening as a negative phenomenon.[131]

Adopting a country-neutral approach to screening reduces Chinese investors' feelings of being targeted. Both Finland and Sweden emphasize that Chinese investors are not being targeted. Neither country screens all Chinese investments. Finland has so far screened only a handful of Chinese cases and blocked none, whereas Sweden will even monitor investments by Swedes. Maintaining an impression of neutrality could be particularly important to the Chinese as the entire FDI screening debate in the EU is already perceived as a form of "selective trade protectionism" (有选择性的贸易保护主义).[132]

There are, however, differences between the national approaches in the extent to which the Chinese might feel targeted. Given the explicit emphasis on China in the Swedish Government Inquiry's 2021 Proposal, it is highly probable that Chinese investors will now find the Swedish approach to be directly aimed at China. Nonetheless, the impression created by the proposal is likely to wane as the practice of screening begins, and Chinese investors' take on Sweden's approach will probably be based on the results of the individual screening processes.

7. Final thoughts

Given that China now constitutes an investment origin that is viewed as a source of both beneficial and risky forms of FDI, Chinese investments are likely to constitute a litmus test for whether the Finnish and Swedish investment screening mechanisms are equipped to balance between mitigating risks and ensuring the healthy development of an open economy. There may be lessons and takeaways in this for other small states and middle powers seeking to implement or develop FDI screening instruments.

Overall, Sweden seems to be adopting a more pre-emptive approach, whereas Finland is leaning more on the side of adjusting with its less extensive scope of mandatory screening and a focus on mitigating risky deals rather than formally blocking them. In this way, Sweden's stance reflects the country's stronger China-related threat perceptions. Moreover, these national approaches can also be viewed as extensions of their national foreign policy cultures; that is, Sweden's activist and declarative tradition and Finland's subtle and pragmatic line – standings that have also characterized the two countries' NATO application processes.

Finland's achieved and Sweden's likely NATO membership are also likely to have a direct impact on Finland's and Sweden's ability to tackle the China dilemma in FDI screening in future. NATO's concern that China is a security challenge may result in efforts to toughen the stances of its member states on security matters related to China. Although NATO states are not compelled to align with the United States on all issues, and even though there are member states with good China relations, it is possible that there will be pressure for Finland to adopt a more pre-emptive stance and seek to block a greater number of Chinese acquisitions. Moreover, both countries may need to consider expanding their lists of sensitive industries subject to compulsory screening.

In addition, the evolution of the EU FDI screening system is likely to influence both countries' investment screening regimes and their ability to deal with the China dilemma. The European Commission is currently identifying necessary amendments that would strengthen its FDI screening regulation. In this context, it will also evaluate the possibility of outbound strategic investments controls,[133] which have become central to the political debate in the United States.[134] Taking steps in this direction could be a further challenge to the professed openness of the Swedish and Finnish economies and their broader economic relations with China.

Overall, NATO membership and EU-level changes are likely to leave Finland and Sweden even better equipped to detect risky China-originated FDI flows. When it comes to maintaining the beneficial flows, however, all these developments could make Finland and Sweden less attractive as investment destinations for Chinese companies. In seeking to keep the beneficial flows, it is crucial to realize that carrots can – and *should* – complement sticks. FDI screening reforms could be developed in conjunction with national, and perhaps EU-level, arrangements to subsidize domestic acquisitions of strategic industries or find other ways to channel national or EU capital into critical investments. For example, incentives to lower the barrier for management buyouts – an acquisition made by an existing management team – could be considered nationally in both countries. There might, however, be economic arguments against such practices, as they could be considered interventionist or generate inefficiencies and market distortions.

Finally, it should be noted that it is not obvious that Sweden's more pre-emptive approach would automatically mitigate China-related security risks better than Finland's more liberal stance. FDI screening mechanisms are designed with particular potential dangers in mind, but these risks are mainly "known unknowns": possible developments that governments can already imagine. There are also "unknown unknowns" or "unthinkable knowns", however, or risks that governments are either not aware of or simply just not considering.[135] In essence, it is these risks that put national mechanisms to a true test, and in such circumstances the most security-enhancing feature of a mechanism is likely to be its adaptability to different risk environments. For example, in Finland, the Russian annexation of Crimea in 2014 initiated a process that resulted in the *Act on the State's Right of Pre-Emption in Certain Areas* in 2019, which is subtle in its ethos but gives the state certain tools to mitigate security risks, if needed. After the escalation of the war in Ukraine in 2022, and in a completely changed security situation, the Finnish government made use of some of the law's stipulations for the first time to prevent Russian nationals from making what were now considered risky real estate deals.[136] Moreover, the government was able to move quickly to modify the law.[137]

A potential "unthinkable known" that could put Finland and Sweden's ability to tackle China-originated risky flows to the test would be a situation in which China moves to take violent action against Taiwan. If the West then sought to minimize or cut economic ties with China – as is often anticipated – Finland and Sweden would need to have legal ways to greatly reduce Chinese FDI. In other words, the screening mechanism should allow the government to react to the changing security situation and adjust the scope of its screening from more liberal to more extensive – or, in other situations, in the other direction. Ultimately, reserving this leeway to the government is a matter of critical importance since, unlike in authoritarian states, in liberal democracies laws are binding in all circumstances.

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Both figures also include Hong Kong-owned companies. Bankrupt and ceased trading Chinese-owned companies are not included in these figures. Noteworthy, the 2020 figure for Sweden was clearly smaller than that of 2019 due to a change in the statistics compilation practice of Tillväxtanalys.

Statistics Finland has recently published figures for Chinese- (approximately 50) and Hong Kong-owned (approximately 15) enterprises in 2021 (Heljala, H., Lavikainen, K., Myllymäki, M. Raikamo, J. and Taskinen, K.: *Suomen ja Kiinan välinen kauppa* [Finland-China trade, in Finnish], Statistics Finland, Feb 3, 2023. These figures differ from the ones presented here because, unlike Business Finland, Statistics Finland only includes majority-owned companies.

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subsidiaries of foreign companies that were originally Swedish/Finnish mother companies (e.g. Supercell). Both figures also include Hong Kong acquisitions. The figures include bankrupt and ceased trading companies, but it is likely that such companies prior to May 2019 are missing from the Finnish figures. Overall, it is likely that some acquisitions are missing from both listings.

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About NKK

The Swedish National China Centre was established in 2021 as an independent unit at the Swedish Institute of International Affairs (UI). The Centre conducts policy-relevant research and aims to contribute to a long-term improvement in the state of China-related knowledge in Sweden. Any views expressed in this publication are those of the author. They should not be interpreted as reflecting the views of the Swedish National China Centre or UI.

About ForAc

Foreign acquisitions and political retaliation as threats to supply security in an era of strategic decoupling (ForAc) is a research project of the University of Turku, Finland. Funded by the Academy of Finland, ForAc studies how small open economies can shield enterprises critical for their supply security from strategic foreign acquisitions and political retaliation, while still maintaining their open economies. This question has become pressing, as recent years have seen active efforts by state-linked economic organisations to acquire foreign enterprises that possess critical technological know-how, or perform vital tasks in national supply systems. The project started in 2020, and it will end in November 2023.

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