Foreign investment and national security

European and U.S. response to investment from countries of concern

→ European and U.S. policymakers seek to balance their desire to attract foreign investment while enhancing regulatory scrutiny of acquisitions by geopolitically sensitive SWFs, state-owned enterprises, and associated entities.

→ The increased focus on investment screenings –both inbound and outbound– to safeguard national security and economic sovereignty could also contribute to geopolitical polarization, economic decoupling, and shifts in the global economic order.

Introduction

Recent cases of SWF interest in European companies highlight a broader trend of policymakers seeking to balance their desire to attract foreign investment while enhancing regulatory scrutiny of certain acquisitions by geopolitically sensitive entities

In January, news was released that Poland's state development fund, or PFR, was more seriously considering a takeover bid of Spanish train maker Talgo, which would then merge the Spanish train maker with its Polish rival Pesa Bydgoszcz, which PFR controls. Since Hungarian consortium Ganz-Mavag withdrew a 619- million-euro ($637 million) tender offer for Talgo in August following the Spanish government's opposition to the deal on concerns that the Hungarian consortium had ties with Russia, this represents one of several potential buyers that have approached the company.

In addition, in January 2024, BlackRock agreed to acquire a 20.64% stake in Naturgy by purchasing the infrastructure fund Global Infrastructure Partners (GIP). Given Naturgy's strategic importance in Spain's energy sector, the Spanish government exercised its authority to review and condition such significant foreign investments. In September 2024, the government approved the acquisition but imposed specific commitments on BlackRock to protect national interests.

As well, in September 2023, Saudi Telecom Company (STC), majority-owned by Saudi Arabia's sovereign wealth fund (SWF), purchased a 9.9 percent stake in Telefónica, Spain's major telecommunications firm. The Spanish government had to review the deal before it could proceed. In December 2023, the government acquired a 10 percent stake in Telefónica to obtain more than STC. It then gave its approval in November 2024 despite concerns about the deal's potential impact on Telefónica's national security business with the Ministry of Defense.[1]

In May 2023, the German government confirmed it would continue with a controversial plan to sell 24.99 percent of shares in the Hamburg port to China's state-owned Cosco.[2] The government approved the deal in October 2022, but it was later put in doubt after authorities designated the port "an operator of critical infrastructure," which could have resulted in more restrictions.

The Talgo, Naturgy, Telefónica and Hamburg cases highlight a broader trend in Europe – echoing sentiment in the United States – of policymakers seeking to balance their desire to attract foreign investment with enhancing scrutiny of certain acquisitions by geopolitically sensitive entities, primarily in China and the Middle East, to safeguard national security and economic sovereignty.

U.S. and EU responses

SWFs have grown significantly over the past 25 years. In 2000, 58 funds held approximately USD 1.2 trillion in assets. By the end of 2024, 118 SWFs managed USD 13 trillion.[3] In parallel as geopolitical tensions rise, U.S. and EU policymakers are increasingly considering national security in their trade and investment decisions.

In 2018, the United States passed a law expanding the jurisdiction and review process of the Committee on Foreign Investment in the United States (CFIUS) to address concerns regarding nonpassive, noncontrolling investments and real estate transactions near military installations.[4]

CFIUS received 19 percent fewer notifications in 2023 than in 2022 (233 to 286) but pursued more mitigation practices.[5] This is likely due to new national security risks and geopolitical changes. CFIUS stopped less than 4 percent of transactions in 2023, consistent with prior years.[6] The committee subjected countries of concern to lengthier reviews. As a result, many cases notified by China and the United Arab Emirates (UAE), the top two filers in 2023, were refiled. China's filings dropped from 46 to 33 from 2021 to 2023.[7] There was a sharp rise in UAE filings from 0 to 22 during this period.[8] The next largest Middle East filer was Saudi Arabia, with a total of 7, including 0 in 2023.[9]

On 3 January, President Biden announced he would block Japan-based Nippon Steel from buying U.S. Steel because he determined it would threaten U.S. national security and supply chains.[10] Biden's decision to block an investment from Japan, an important ally, underscores how broadly the country uses national security to justify efforts to advance economic sovereignty.

On 2 January, the U.S. government began implementing new U.S. rules that prohibit and require notification of certain types of investments by U.S. persons in Chinese companies.

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Significant differences exist among Member States in national FDI screening mechanisms, including what constitutes a formal screening, the sectors covered, and notification requirements to national authorities. As such, the Commission published a legislative proposal in January 2024 to update the FDI Screening Regulation, which to date has not yet been approved. The proposed reforms would require Member States to screen foreign investments in EU companies in sensitive sectors and notify fellow states that they are reviewing a foreign investment.

EU Member States reviewed 1,808 cases in 2023, a 25 percent increase from 2022.[11] That said, similar to 2022 totals, 1 percent of cases were blocked, 4 percent were withdrawn prior to a final decision, and 85 percent were approved with no conditions. This likely means the increase in screenings has not translated into a more restrictive investment climate. The UAE and China accounted for two of the top four countries of origin – after the United States and the United Kingdom – with 7 percent and 6 percent of cases, respectively.[12] The Chinese share increased slightly from 2022 (5 percent), while the UAE share more than doubled (3 percent).[13]

The EU also launched a public consultation in January 2024 to inform future actions to address possible security risks associated with outbound EU investment transactions in certain sectors.

Investment and geopolitical implications

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Increased investment screenings shield certain companies or sectors from foreign investors' influence in the name of national security. They also promote economic sovereignty by reinvigorating domestic industry, promoting homegrown innovation, and reducing dependency on foreign actors for key resources and technologies.

On the other hand, greater scrutiny could deter foreign investors from pursuing acquisitions, even if there are just a few denials. Reduced foreign investment in key sectors could slow innovation and growth, leading to a capital shift to markets with looser regulations. It could also result in reciprocal trade barriers and a more fragmented global investment landscape.

The increased focus on scrutinizing investments from countries of concern, particularly China, makes sense given the government's prevalent use of economic, industrial, and cyber espionage and other problematic trade practices. The EU and U.S. through 2023 show that screenings have been employed as a limited and targeted tool. However, if the parameters are broadened or decisions are arbitrary with limited transparency or questionable justifications, like President Biden's controversial decision to block the U.S. Steel-Nippon Steel merger, it could undermine trust in the screening mechanisms and signal an unfair or unstable investment climate.

A few steps could be taken to improve transatlantic approaches and collaboration. The EU could promptly adopt the updated FDI Screening Regulation to ensure all Member States implement a mechanism and have a common approach. It could also reject efforts to narrow the critical technologies subject to review.[14] Across the Atlantic, the United States could expand CFIUS authorities to cover additional Chinese investments, such as those in emerging technologies and agricultural land near military installations. Lastly, the two allies should consider meeting periodically to discuss best practices, share investment trends, and align policy responses.

Notes

[1] https://elpais.com/economia/2024-11-28/el-gobierno-autoriza-la-toma-del-99-de-telefonica-por-el-grupo-saudi-stc.html

[2] https://www.politico.eu/article/germany-doubles-down-china-port-deal-cosco-hamburg-new-security-concerns-olaf-scholz/

[3] https://globalswf.com/

[4] https://crsreports.congress.gov/product/pdf/IF/IF10177

[5] https://home.treasury.gov/system/files/206/2023CFIUSAnnualReport.pdf

[6] Ibid.

[7] Ibid.

[8] Ibid.

[9] Ibid.

[10] https://www.nytimes.com/2025/01/03/us/politics/us-steel-nippon-biden.html

[11] https://ec.europa.eu/commission/presscorner/detail/en/ip_24_5327

[12] Ibid.

[13] Ibid.

[14] https://www.politico.eu/article/eu-capitals-fdi-screening-rules-china/