China´s Foreign Direct Investment in the ‘West’

Is there a security threat?

Sveinn K. Einarsson

Lokaverkefni til MA-gráðu í alþjóðasamskiptum

Félagsvísindasvið

Júní 2013

HÁSKÓLI ÍSLANDS

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Félagsvísindasvið Háskóla Íslands

Júní 2013

Kennitala: 281282-3289

Reykjavík, Ísland

Abstract

A debate has been on-going among the countries of Europe and North-America regarding the costs and benefits of foreign direct investment originating in China. While some policy-makers and members of the public welcome the much-needed infusion of finance and the employment it creates during these times of economic depression, others perceive it as not only being made with commercial interests in mind, but rather as a part of a larger strategy by China aimed at gaining a strategic foothold in the region.

This thesis examines whether the trend of increased foreign direct investment by Chinese business entities in the West poses a threat to the national security of the host countries. Mercantilist theories from the field of international trade will be applied in order to explain the key drivers behind the recent influx of Chinese outward foreign direct investment as well as developments in China´s official OFDI policy. Western public and official reactions to the phenomenon will be explained utilizing the theory of political realism from the field of international relations as well as the 'securitization' concept. Finally, Barry Buzan´s definition of security will be applied in order to determine whether and what kind of threats Chinese foreign direct investment poses to the security of Western states.

The thesis concludes that the phenomenon of foreign direct investment originating in China does not pose an imminent threat to the military security of the host countries nor their allies. On the contrary, it seems that the strategic threat posed by increased Chinese investments in the West is overstated by the Western public as well as some governments. Chinese foreign direct investment certainly poses challenges to some aspects of the security of Western states but these do not include hard national security threats. The obvious question arising is whether and how Chinese behaviour may be modified to reduce those risks that do exist.

Preface

This 30 ECT-credit thesis is in partial fulfilment for a Master of Arts degree in International Relations at the University of Iceland, under the joint supervision of Alyson J.K. Bailes and Ingjaldur Hannibalsson. Being a long-time China enthusiast with a special interest in China´s foreign relations, my inspiration for the subject of this thesis came in the wake of a lively debate that took place within Iceland in 2011, regarding the possible security threats posed by an investment proposal by a Chinese tycoon to buy up one of the largest single plots of Icelandic land. I soon discovered similar discussions taking place among other Western nations that prompted me to dig deeper and conduct a further research on the subject. I hope I have been successful in addressing at least some of the possible security implications posed by the increase in foreign direct investments by Chinese companies in the West.

During the whole time of research and writing I received invaluable support from my family, friends and colleagues for which I am eternally grateful. But most importantly I would like to thank my advisors, Alyson J.K. Bailes and Ingjaldur Hannibalsson, for all their guidance, support and encouragement. This thesis would have been a lot less substantial had it not been for their numerous comments and ideas. I feel honoured to have had the opportunity to work under the supervision of such wise and experienced academics.

Sveinn Kjartan Einarsson
Reykjavík, 5 May 2013

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I. Introduction

The rapid economic development that has taken place in China since 1978 is unique in world economic history. The country has consistently been the most rapidly growing economy on earth, sustaining an annual growth rate of 10% from 1978 through 2005 (Naughton, 2007, p. 3). This remarkable economic development was made possible through a gradual economical transition away from a state planned socialist economic model to one more dependent on the markets.

During this 35 year period, state owned companies have been made more efficient through privatization or managerial reform while competition has been greatly enhanced with the introduction of the private sector as an active player in the economy. At the same time, the market has become the tool of choice for conducting economic transactions. Industrialization has been facilitated by the attraction of foreign capital as well as robust saving and investment, which along with agricultural reforms have accelerated urbanization[1].

The large population of farmers turned industrial workers, in turn forms the backbone of China´s export oriented growth strategy. The low wage level of the Chinese labour market has worked to attract multinational manufacturing companies from around the world to invest and set up factories in China, successfully turning the country into the world´s biggest exporter in 2010 (BBC News, 2010). China of today has been dubbed as 'the factory of the world´ and its continuous trade surplus has resulted in the accumulation of the largest level of foreign reserves in modern history[2].

China´s economic rise has not gone unnoticed in the West where its rise has sparked admiration as well as fear. Issues like an undervalued currency and state subsidies have drawn the most attention of statesman and the public alike while at the same time, little attention has been paid to the trend of increased outward direct investments made by Chinese companies, both private and public, until recently.

In fact, the attention of western observers and media outlets regarding the matter has mainly been on Chinese investments in Africa and other developing parts of the world, with many warning about a new phase of colonization taking place in those regions. While others have taken a more sober view of the intentions of Chinese companies in the African economy

[1] The number of people living in China´s cities outnubered those living in the countryside for the first time in history as of the end of 2011 (Xinhua News, 2012).
[2] The People´s Bank of China´s holdings of foreign currency assets amounted to USD 3.24 trillion dollars as of June 2012 (The Wall Street Journal China Econtracker, 2012).

the fact remains that the rising trend of Chinese investments in the more developed parts of the world did go unnoticed until recently. This observation is furthermore supported by the fact that Chinese outward investment in the Western world more than doubled compared to that going to Africa between 2005 and 2010. (Scissors, 2011).

The failed bids by Chinese state companies CNOOC and CHINALCO to acquire controlling stakes in American oil company UNOCAL and some entities of the Australian mining giant Rio Tinto respectively are a case in point. Both investment plans made headlines in the west, particularly among the business community. The same is true of the US government´s persistent blockings of investments made by Chinese telecommunications company Huawei[3]. At the same time, China Investment Corporation - China´s sovereign wealth fund - has mainly been criticized from within China, for its failed investments in Western financial corporation in the wake of the 2008 financial crisis.

1.2 Research questions and methodology

In this thesis, a qualitative research method will be used to analyse the trend of Chinese outward investments flowing into the western world, with a special attention to be paid to possible security implications it may pose to the recipient countries. By reviewing the relevant literature and analysing economic data, attention will be given to the differences between the Western economic systems and the Chinese one, where a large part of the economy is controlled by the state. The reasons behind increased overseas investments by Chinese companies will be evaluated while the increased public and political discussion taking place in the west regarding Chinese investments will be analysed and put in context to real figures. The two following hypothesis will be put forward:

Hypothesis 1: Increased investments by Chinese companies and state entities in the West are not only made with commercial interests in mind. The trend can also be seen as part of a bigger plan by China to gain a strategic foothold in the region and is thus a threat to the national security of the host country (and possibly its allies).

[3] CNOOC withdrew its US$17 billion bid to aquire American oil company Unocal after its plans met with strong political opposision the company described as ‘‘regrettable and unjustified‘‘ (CNOOC-Limited, 2005). Rio Tinto´s decision in 2009 to walk away from a US$19.5 billion bid by CHINALCO to aquire an 18% stake in the company was thought by many within China to be politically motivated (Cai, 2009). Telecomunications equipment maker Huawei had its 2011 bid to take over American server company 3Leaf limited blocked with the US concern of a threat to the national security (BBC News, 2011).

Hypothesis 2: The strategic threat posed by increased Chinese investments in the West is overstated by the public (and some governments) in the West. Chinese investments certainly pose challenges to some aspects of the security of Western states but those do not include hard national security threats.

1.3 Structure of the thesis

Since the subject of the thesis falls between the two fields of international relations and global economy, theories of both schools will be applied in the effort to explain and analyse possible security threats posed by increased Chinese investments in the west. The school of mercantilism will be used to discuss the general thinking and methods that have been applied by Chinese policy-makers in order to reach China´s present stage of economic development. Mercantilism furthermore, gives a good description of China´s economic interactions with other countries within the world economy.

For the IR part, a concise overview will be given of political realism, since that seems to be the theory of choice by western foreign policy makers when dealing with China. As put forth by Hans Morgenthaeu and Kenneth Waltz in particular, with his notion of the balance of power, the theory is particularly convenient when trying to understand China´s recent economic rise and what implications it might have to the security situation within the international system. The recent increases in China´s outward foreign investment is therefore likely to be perceived by western policy makers on those realist terms. The section will be concluded by a short introduction of the term of securitization, since that can be a useful tool when trying to understand the political, as well as the public discussion regarding the trend of increased Chinese investments within the host countries.

Data on Chinese outward investments will be analysed in the former part of the economic section of the thesis, followed by an attempt to explain the main reasons that lie behind this trend of increased Chinese outward investment. Both official data as well as figures provided by independent research funds will form the basis for the data analyzation on Chinese outward investments. The section will demonstrate that the total flow of outward direct investments made by Chinese companies has been increasing continuously for the past two decades with the trend starting to seriously accelerate by the turn of the millennium. The ratio of Chinese investments flowing into the west, compared with other regions, will furthermore be evaluated along with industry and country division. The section will furthermore differentiate between investments made by private companies as well as state owned entities.

In order to explain the reasons behind the increase in Chinese outward investment, the official investment policies of the central government will be discussed. The role state owned financial institutions, such as the Import-Export bank of China, play in investment facilitation will furthermore be assessed. The section will conclude that some of the main factors driving increased Chinese outward investments, such as the need to secure natural resources to fuel rapid economic growth and the movement of production units to even cheaper overseas locations do not apply to the western world. Chinese companies investing in the west are more likely to be in search for services such as shipping and insurance, globally established brands and technology. The need for international diversification and experience might also be driving outward direct investments of large state owned companies that are expecting increased competition within their home market in the future.

The latter part of the thesis will look into the political implications increased Chinese investments pose to their host countries in the West. An overview will be given of the on-going public as well as the political discussion regarding the topic within three different countries and international entities, namely Iceland, the EU and America. It will reveal a great deal of confusion and controversy among both groups. Chinese investments are usually welcomed by political groups responsible for economic policies and growth promotion (except within certain sensitive industries), while being met with more hostility among the public. The reaction of the business community is again mixed, depending on if the investment under consideration is likely to increase competition or provide long needed funds for local companies in need of cash.

An assessment will be made of the validity of claims by various groups of a possible threat to national security posed by investments made by Chinese companies in their home countries. The discourse usually maintains that being an authoritarian communist regime, the Chinese state is implementing a carefully worked out plan of buying up local economic sectors strategically import for the future growth and strengthening of the Chinese state. Furthermore, the Chinese government is utilising its vast army of state controlled companies as a means to this end helped by the huge amount of wealth at its disposal through its massive holdings of foreign reserves.

The final section of the thesis will point out some challenges to other aspects of security that Chinese investments clearly pose, but those seem to have been neglected at the expense of an overemphasis on the strategical security threats visible from the public debate discourse.

That fear of China as an emerging ruthless super-state will be shown to be highly exaggerated and overstated with possible reasons behind this misunderstanding to be addressed in the concluding section.

1.4 Key concepts

1.4.1 The West

There is no agreement as to how exactly to define a region. The classic approach is based on the premise that there is a natural, essential core of economic, security, religious or cultural links between states and peoples that define a region (Jayasuriya, 1994). Other studies have focused on identity or the shared perception of being a part of a definable region as a key factor in the definition of a region. Such perceptions can in turn reflect both internal factors like a common culture and religion, and external factors such as a shared economic or security threat (Mingst & A., 2010).

Building on those definitions, the notions of ‘the West’ or ‘the Western world’ in this thesis will be defined as comprising the whole of Europe and the North American states of the USA. and Canada. The states in the region hereinafter referred to as ‘the West’, share a common culture and religion as well as agreeing upon common values such as a secular state and political and personal freedoms. The vast majority of the countries in the region are economically developed compared to other parts of the world and the level of economic interdependence within the region is comparatively high. The region shares a common historical heritage and even though the level of economic development and political freedom varies among countries within the region, such differences are ones of degree rather than of kind.

Even though countries such as Australia and New-Zealand would arguably fit the definitions laid out above, for the present purpose they constitute too much of a special case because of their relations and geographical locations vis-a-vis China, as well as the pattern of investment flowing into them from the PRC. They are therefore not included when referring to ‘the West’ in this thesis.

1.4.2. Foreign direct investment (FDI)

The following definition of foreign direct investments, framed by the OECD will be applied in this thesis:

> “Foreign direct investment reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment
> enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and
> the direct investment enterprise and a significant degree of influence on the management of the enterprise. The direct or indirect ownership of 10% or more of the voting power 26 of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship (OECD, 2008).”

1.4.3 (National) security

No universally agreed upon definition exists on the concept of national security. Back in 1952, Walter Lipmann concluded that a nation is secure ‘...to the extent to which it is not in danger of having to sacrifice core values, if it wishes to avoid war, and is able, if challenged to maintain them by victory in such a war’ (Buzan, 2007, p. 36). This is a statist definition which mixes together the absence of threats and the ability for the state to prevail in case of such threats materializing.

Lippman´s understanding is typical of how national security was viewed during the cold war period, when the concept traditionally included political independence and territorial integrity as main values to be protected. But the fall of the Soviet Union made the security situation within the world system much more complex than before. The United States´ *National Security Strategy* of 2010 maintains that: ‘Instead of a hostile expansionist empire, we now face a diverse array of challenges’ (National Security Strategy, 2010, p. 17). In other words, the remodelling of the international security system has prompted a need for revision of the security concept to include factors other than traditional military security challenges.

One such attempt is made by Barry Buzan, who while still emphasising the freedom from threat, makes a distinction between the security of states and the security of societies which do not necessarily go hand in hand. The security of a society and the individuals that live in it cannot simply be viewed as an extension of state security. Buzan maintains that the security of states and societies is about their respective abilities to maintain their independent identity and functional integrity. Security is not only about survival but also includes a range of concerns about the conditions of existence (Buzan, 2007, p. 37).

It is the latter part of Buzan´s definition that provides a basis for a detailed expansion of the security concept for contemporary conditions. He goes on to categorize security into five main dimensions, which do not operate in isolation from each other, but are woven together in a strong web of linkages:

1. Military Security - which concerns the two-level interplay of the armed offensive and defensive capabilities of states and states´ perceptions of each other's strategic intentions;
2. Economic security – which concerns access to the markets, resources and finance necessary to develop and maintain acceptable levels of welfare and state power;
3. Political security - which concerns the system of government, the organizational stability of the state and the ideologies that give them legitimacy;
4. Societal security – which concerns the ability of societies to reproduce their traditional patterns of culture, association, language and religion and national identity as well as customs within acceptable conditions of development; and
5. Environmental security – which concerns the maintenance of the local and the planetary biosphere as the essential support system on which all other human enterprises depend (Buzan, 2007, p. 38).

States are still the principal object of security since they are both the framework of order and the highest source of governing authority in an international system that is characterized by anarchy. But the dynamics of national security are nevertheless highly relational and interdependent between states. Domestic insecurities can dominate the national security agenda and external threats will almost always comprise a major element of the national security problem (Buzan, 2007).

The following thesis will define security as a mixture of the traditional understanding of security as the ability of a nation to protect its values, and more modern definitions that differentiate between the security of the state and the security of societies that make up states. Security can furthermore be divided into numerous different dimensions that go even beyond the ones suggested by Buzan. Energy security, information security and human security are all emerging parts of the modern security spectrum and are constantly evolving, for instance to incorporate more recent elements such as cyber security.

II. Theoretical Approach

2.1 Introduction

Post-1978 economic developments in China and the subsequent rise of the Chinese economy can be described in relation to mercantilist economic theories and late nineteenth century German mercantilist writings in particular. The notions of the balance of trade, infant industry development and export promotion are all familiar aspects of Chinese economic policy as well as recurrent themes throughout the mercantilist literature. The role of the state in the development of industries and the economy as a whole is furthermore a core element of Chinese economic policy-making.

At the same time, the IR theory of political realism has been widely used to interpret Chinese foreign policy and the role China will play on the global stage. Even though it can be argued that other theories might be more useful when it comes to Chinese foreign policy analyses, political realism is the approach most commonly applied by Western foreign policy-makers and IR scholars when dealing with China, and will thus be addressed in this chapter.

Both sets of theories, mercantilism and political realism, have some aspects in common. Both maintain a zero-sum vision of the world as well as emphasizing the importance of the role of states in the international system or world economy. But the two theories also differ on important aspects, since mercantilism has to do with international trade, while realism tackles the power politics and consequent security issues arising among states in the international system.

In order to shed a clearer light on the mercantilist aspects of recent Chinese economic development as well as modern economic policy making by the Chinese authorities, the history of mercantilist thinking will briefly be discussed here before addressing the influence of mercantilism on the Chinese economy.

A concise outline of core concepts and writings on realism in the field of international relations will then be followed by a discussion on other theories that may be relevant to understanding other actors' analyses of and reactions to modern Chinese foreign policy.

2.2 Mercantilism

2.2.1 Early mercantilism

Although scholars commonly refer to the time between the sixteenth and the late eighteenth century as the age of the mercantilist system in Western economic policy, the words ´mercantilist´ and ´mercantilism´ were relatively unknown during that same period. The notion of ´the mercantile system´ only acquired its meaning at the hands of Adam Smith, who again probably borrowed it from the writings of the physiocrats, where it appeared sporadically (Wilson, 1971). What Smith meant by his choice of name for the system under discussion was that it was in fact a system of economic policies designed by the merchant class to cater for the needs and further enrich that same merchant class (Smith, 1776).

Taking into account the fact that all of the more important authors on mercantilism in its heyday were themselves merchants, Smith's idea starts to make sense. The works of the mercantilists often consisted of short pamphlets aimed at convincing public opinion, or better still, the authorities to implement the policies most favourable to their trading companies. No major theoretical treatises are to be found in this early stage of mercantilism. At best there are tracts presenting the practical rules and norms of commerce (Vaggi and Groenewegen, 2006).

Certain common ideas can nevertheless be identified among the large volume of early mercantilist literature, most important of which is the emphasis on the hoarding of precious metals through trade. For the mercantilists, gold and silver (often referred to as bullion in mercantilist literature) were the substance and definition of both private and national wealth. The power of the state depended on the amount of gold and silver in its coffers, because this international currency made it possible to build ships and to pay the salaries of armies. National wealth was thus measured by the amount of ´international reserves´ at the disposal of the state. Moreover, national wealth could be increased by bringing more gold or silver within the borders of the state, or by preventing them from going out (Vaggi and Groenewegen, 2006).

From the different sources of early mercantilist writings we can thus identify a pattern where the main goal of a state's economic policy is to accumulate international reserves. Some of the policy tools which were encouraged in order to achieve this goal were the exportation of raw materials, since those would be purchased with precious metals, as well as the discouraging of imports, which usually had to be paid for in gold and silver. Different kinds of taxes, tariffs and duties were thus applied to steer international trade into the desired directions: directions that at the same time were seen as increasing the revenue of the state. In short, ‘what was good for the merchant seemed to be good for state finances as well, a recurrent theme in mercantilist literature’ (Vaggi and Groenewegen 2006, 17).

2.2.2 Mercantilism and the industrial revolution

Mercantilism evolved along with the development of the industrial revolution during the seventeenth century. The accumulation of international reserves as a state´s main goal was slowly replaced by a new concept more fitting to the environment of the industrial age: ´the balance of trade[4]´. Although money is still the ideal measure of wealth under this approach, it is not the only one. According to Thomas Mun - a successful merchant, Director of the East India Company and one of the leading writers of the period on mercantilism - wealth can also be considered to consist of produced commodities; and the main source of increase in national wealth does not have to be the influx of precious metals but rather, a positive balance of trade. The wealth and power of a nation depends on its capacity for international trade and a surplus in the trade vis-à-vis other countries is depicted as the best indicator of a successful state (Mun, 1664; Wilson, 1971).

This new understanding of national wealth required a rethinking of economic state policies which produced an almost complete reversal of the measures applied during the early period of mercantilism. Mun and his followers advocated the exportation of manufactured commodities, since they have much higher value than the raw materials they were made from. The export of raw material on the other hand, needed to be discouraged since that would only give the merchants and workers of rival states (in Mun´s case Holland) an opportunity to increase production and hence increase their balance of trade through international commerce. High protective tariffs were also advocated for the development of local industries, which is another recurrent theme throughout the Mercantilist literature.

The outflow of money was furthermore rationalized since in certain circumstances it could serve to increase the balance of trade in the long run: ´It is not therefore said that then we should add our money thereunto to fetch in the more money immediately, but rather first to

[4] The difference between a country's imports and its exports. The balance of trade is the largest component of a country's balance of payments. Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy. A country has a trade deficit if it imports more than it exports; the opposite scenario is a trade surplus (Investopedia n.d.).

enlarge our trade by enabling us to bring in more forraign wares, which being sent out again will in due time much increase our Treasure´ (Mun, 1664, p. 15).

The change that took place in Mercantilist thought during the seventeenth century should not be considered a radical shift in the definition of wealth, but rather as an adaptation to the economic realities of a time when merchants were gradually transforming themselves to become industrial manufacturers and entrepreneurs.

2.2.3 Adam Smith’s critique of mercantilism

Book IV of Adam Smith’s enormous work *An Inquiry into the Nature and Causes of the Wealth of Nations* is more or less devoted to the task of exposing the Mercantilist system for being a set of economic policies aimed at creating and/or defending a market advantage held by the powerful merchant class.

The core of Smith’s argument was that market distorting mechanisms, such as monopolies, subsidies and protectionist tariffs, served the interests of a small class of merchants and manufacturers at the expense of the rest of the population. Smith’s message for policy makers was that (almost) all foreign trade, no matter if it was exportation or importation, was beneficial to society as a whole and should thus be encouraged.

The benefits, according to Smith, are twofold: first, trade takes away the surplus part of the produce of a particular country for which there is no demand at home, and brings back something else for which there is a demand. Second, it gives value to the surplus produce, which, because of a lack of domestic demand, would otherwise have no value. According to Smith, it was not the discovery of gold and silver in the American colonies that enriched Europe, but the provision of a new and ample market with which to trade (Smith, 1776).

Another part of Smith’s criticism on Mercantilist thought is his obsession with precious metals as the only measurement of a nation’s wealth. According to Smith, bullion is a commodity like any other which just so happens to be a useful tool of trade because of its small size compared to value and relatively low rate of shrinkage. Gold and silver in a nation’s coffers is not a sign of real economic health and national policies aimed at holding on to bullion are not any more useful than the hoarding of kitchen utensils (Wilson, 1971).

Finally, Adam Smith attacks one of the main themes of Mercantilist thought, the notion of the balance of trade. He makes the point that when two countries exchange with one another in a free market situation, without the imposition of bounties or the strain placed by monopolies, that exchange is always advantageous, though not necessarily equally advantageous to both. If it were disadvantageous to one country, the trade would not be carried out in the first place. The prejudices and suspicions that exist in trade are based on fear and the desire of certain interest groups for building monopolies. Trade is not a zero-sum game, but, when conducted freely, benefits all involved (Smith, 1776).

The main impact of Smith´s *An Inquiry into the Nature and Causes of the Wealth of Nations* on the development of mercantilist thought lay in its being the first work that explicitly destroyed the mercantilists' narrow conception of wealth (Vaggi and Groenewegen, 2006).

2.2.4 The German mercantilists

The publishing of *the Wealth of Nations* had a huge influence on future economic policies and the development of political economic theory. Viewed as marking the beginning of classical political economics which dominated economic thinking for the next two centuries, it still exerts considerable influence on modern day economic thinking. It is one of the original sources for the *laissez-faire* approach to macro-economic policy making, where the 'invisible hand' is expected to move markets toward equilibrium without any outside intervention.

Nevertheless, Mercantilist economic thinking and policy-making never fully disappeared from the realm of the political economic theory and many policy makers, especially outside the developed world, were to stand up and criticize different aspects of Smith´s arguments. The German political scientist, Friedrich List, developed a theory in the nineteenth century that was tailor-made for the so called late-comers to the industrial revolution, countries which at that time included Germany. According to List, Smith´s theory of free trade for the maximization of global welfare was actually designed with the interests of Britain, not the whole of mankind, in mind. Britain had already developed advanced manufacturing and commercial industries which had a lot to gain by free trade. The same was not true for countries with less developed industries.

According to List, for countries not yet industrialized, industrialization would only become possible through free trade if all countries were at the same low level of development. When countries are not at the same level of industrialization, the protection of infant industries is essential to enhance the productive power of a nation with a low industrial base (List, 1856).

List´s main argument was that since industrialization does not take place naturally in the face of foreign competition, infant industries need to be protected. Incentives should be given for initiating new industries and a high importance should be given to industrial training and education. The state was seen as the facilitator of industrial development and some of the measures that should be applied in order to achieve that goal were import duties, subsidies and low or no duties on the import of raw materials (List, 1856). Those are all familiar themes from the mercantilist literature, as well as methods widely used by Chinese policy makers in their successful effort to develop local industries.

Protection of industries should not be universal but selective and implemented according to needs. Once the protected industries have been developed, others can be chosen for protection, and the degree of protection needed in their case might well be lower. List admits that his theory is unable to determine a specific level needed for production since the special conditions for the country under consideration must be taken into account. Finally, List is well aware of the dangers of monopoly power rising from the protection of certain sectors of the economy. Firms through Pressure should be applied to protected domestic competition, in exchange for incentives provided through protection (Shafaeddin, 2005). This policy was later applied widely in East Asia and is especially apparent in modern-day Chinese economic policy, where gigantic state-owned entities are made to compete among themselves for an increased market share within certain core sectors of the economy.

Later in the century and under the euphoria accompanying unification of Germany, List´s disbelief in *laissez-faire* found a new and more historical expression in the writings of the so-called ´historical school´ of economists such as Gustav Schmoller. His studies on the mercantile system gave an entirely new interpretation and were to have great influence (Wilson, 1971).

Schmoller´s main idea is that economic institutions are dependent on political bodies, a notion which is very alive in modern-day Chinese economic thinking. While other states had made rapid economic progress, the same was not true for Germany at the time and the reason for that according to Schmoller was a lack of ‘politico-economic organization’ (Schmoller, 1884, p. 48). What Schmoller is referring to is a comprehensive state economic policy, seen as a vital prerequisite for industrial development. Mercantilism under this view was synonymous with a combined form of ‘state-making and economy-making’ (Schmoller, 1884, p.50).

Even though the policy initiatives advocated by Gustav Schmoller were not much different from those of earlier mercantilist writers, namely encouraging exports of manufactured goods by the use of export bounties and a ban on the importation of manufactured goods and the exportation of raw materials, it is his emphasis on the role of the state and state power that distinguishes him most from the mercantilist literature up to his time. This emphasis on the role of the state as a prerequisite to the development of industries, as well as other aspects of nineteenth century German mercantilist thinking, were to have a huge influence on post-1978 developments in Chinese economic planning.

2.2.5 Modern day mercantilism

Starting in the late nineteenth century, democratization in the West slowly eroded the concept of the state as an entity standing over and above its citizens, and ultimately as the instrument of a ruling class high above the masses. The commercial aspects of mercantilism have become gradually transformed into what we today refer to as protectionism, and arguments for mercantilist policies now have to address themselves to a concept of the general good rather than simply the good of the state. In other words, modern day mercantilism now has to justify itself by reference to the economic interests of the citizens of the state, rather than to the economic and political interest of the rulers of the state in maximizing the wealth and power of the state they command (Johnson, 1974).

Although the democratization that took place in the Western world never really reached China, the degree of absolutism and totalitarianism practised by Chinese rulers has gradually decreased during the last century. An authoritarian state by Western standards, the current Chinese government nevertheless bases its legitimacy to a large extent on the economic and material wellbeing of its citizens. Mercantilist economic policies in China, much as in the West, are thus justified as protecting local industries or the local labour market.

The economic approach that has been applied by the East Asian countries in the latter half of the twentieth century and in China since 1978 has been dubbed by many as financial mercantilism; an export-oriented growth strategy based on an under-valued real exchange rate (Aizerman and Lee, 2008). In line with the German mercantilists of the late nineteenth century and Schmoller in particular, the state plays an integral part in the economic development of industries and nowhere to such an extreme extent as in China, where 80% of the companies traded on the Shanghai stock exchange are state-controlled – The economist 21 April 2012.

Although some form of private investment is allowed in the Chinese banking sector, the lion´s share of the Chinese financial system is controlled by the state. The remarkable economic growth China has experienced for the last 35 years can mainly be explained by the prevalence of export promotion by preferential financing, which has effectively subsidised investment in targeted sectors. Some of the methods that have been applied as a means to this end are direct subsidies funded by state banks as well as a kind of financial discrimination where favoured sectors have enjoyed preferential access to cheaper external borrowing. Credit has, in other words been channelled to certain ´core sectors´ (mainly the export sector and infrastructure) with mercantilist intentions (Aizerman and Lee, 2008).

At the same time, numerous measures have been undertaken for the development of local industries. Foreign companies that want to gain entry into any of the many core sectors of the Chinese economy can only do so through formation of joint ventures with local entities, usually under Chinese control. At the same time, many sectors are closed to foreign competition and up to the time of China´s accession to WTO in 2001, protective tariffs were commonly used.

State subsidies, combined with VAT rebates (which would have been called bounties in the age of the mercantile system) on exported products received by exporters, an allegedly under-valued currency, and numerous entry barriers for foreign players to the Chinese market have helped China realize a continuing trade surplus, resulting in the accumulation of the largest holding of foreign reserves in recent history.

The reasons behind the persistent reserve accumulation that has been taking place among China and other East Asian countries in recent decades, and which has sometimes been described as ´monetary mercantilism´, are not clear. Aizenman and Lee point out that in the case of South Korea and Japan, the hoarding did not take off until those countries´ economies started to realize economic difficulties along with slowing growth rates; it could thus be explained as a precautionary measure for any future economic difficulties (Aizerman and Lee, 2008). This explanation does not apply to China, however, where the accumulation of foreign reserves took off amid double-digit growth figures at the turn of the century.

China has realized an enormous economic growth for the past 35 years that can mainly be explained by its adoption of a combination of new and traditional mercantilist economic policies. The development of infant industries, be they privately or state owned, has been taking place at a faster rate than most economists dared to hope for when those policies were introduced more than three decades ago. A large number of Chinese companies are now more than capable of competing on the global stage. Since this mercantilist economic approach has turned out to be such a success within the Chinese economic system, what is there to restrain Chinese economic policy makers from applying it to the global economy as a whole?

2.3 Realism

Like mercantilism, realism sees the world in zero-sum terms and both theories attach great importance to the role of the state. One of the major theories in the field of international relations, realism was first articulated by Hans Morgenthau in his book, *Politics among Nations*, in 1948. It emphasizes the role of states as the main actors within the international system and the importance of the concept of power within the world of international relations.

Societies, according to Morgenthau, are governed by objective laws that have their roots in human nature, which Morgenthau defines as being driven by individual interests in terms of power. Just as this logic applies to the average individual, it also applies to political leaders and statesmen. It makes it possible for us as researchers to look over the shoulders of policy makers in the international system and understand their courses of action as being driven by their pursuit of interests in terms of power. Admitting the moral significance of political action, realism still maintains that universal moral principles cannot be applied to the actions of states (Morgenthau, 1961). The defining factor is and always will be *interests in terms of power*.

Morgenthau´s ideas can be traced back to the philosopher Thomas Hobbes and his writings on human nature in the natural world. According to Hobbes, humans first and foremost act out of self-interest and the main priority of every individual is to secure his own well-being. Human interaction is characterised by constant competition which results in enmity and distrust. Since some men are selfish, full of pride and eager for revenge, everyone fears for his safety and each is out to injure the other before being injured himself (Waltz, 1954). This does not mean that everyone is characterized by this kind of human nature, but the mere knowledge of its existence is enough to force individuals to be on guard at all times.

These ideas of humans being in a constant state of war and constantly seeking to increase their relative power form the basis of political realism. Human nature is presented as the driving force that decides which courses states will take, since those states are controlled by human beings who seek to maximize their interests in terms of power.

In societies in the traditional Weberian sense of the word, human beings agree to a certain framework of laws that works to restrain their insatiable hunger for power. An authority is appointed that determines what can and cannot be done within a certain society and it is this authority, usually in the form of some kind of central government that makes it possible for societies to work properly, by upholding the rule of law and thus protecting individuals from unlawful aggression.

Like men, states are in a constant struggle for survival but unlike in the societies of men, there is no social contract present within the society of states. Even though a vast amount of international laws and regulations do exist, no authority has been agreed upon in the international system that is accorded a monopoly on the use of power. It is up to the states themselves whether they abide by the rules, since there is no judging institution that has the authority to force its decisions upon them. The international system is thus characterized by a state of anarchy that makes wars among states inevitable (Waltz, 1954).

2.4 Neo-realism

These core ideas of political realism are based on the judgements of human nature, but there will always be problems in clarifying what is and is not part of the nature of human beings. In order to avoid this problem and prevent the discussion from revolving around different understandings and definitions of the nature of human beings, neo-realism offers a different take on the forces driving the decisions of states.

Neo-realism emphasizes the structure of the international system as the driving force behind the decisions of states. The fact that authority is absent from the international system forces states to live in a constant state of anarchy, competing among themselves with the possibility of war always looming in the background. The resources of the world are limited and states are constantly looking to increase their material capabilities vís-a-vís other states. Even though states do participate in cooperation, they only do so on selfish terms. (Waltz, 1986). Genuine peace is not likely to last forever and the possibility of conflict is ever present.

According to Mearsheimer, this pessimistic view of how the world works can be derived from realism´s five assumptions about the international system.

1. The international system is anarchic. This use of the word 'anarchy´ by the realists does not imply that the system is chaotic or characterized by disorder. It is an ordering principle, which says the system comprises independent political units (states) that have no central authority above them. There is no government over governments.
2. States inherently possess some kind of offensive military capability, which gives them the wherewithal to hurt and possibly destroy each other.
3. States can never be certain about the intentions of other states. Specifically, no one state can be certain that another state will not use its offensive military capabilities against the first. This is not to say that states necessarily have malign intentions.

Another state might be reliably benign, but it is impossible to be certain of that judgement because intentions are impossible to divine with 100% certainty.

4. The most basic motive driving states is survival. States' main instinct is to maintain their sovereignty.
5. States think strategically about how to survive in the world system. States are instrumentally rational, but nevertheless they may miscalculate from time to time since they operate in a world of imperfect information (Mearsheimer, 1994/95).

These assumptions alone do not necessarily dictate that states will behave competitively. But taken together, they can create incentives for states to think and act aggressively, and that is one of the main characteristics that separate political realism from mercantilism. Realism deals with the security competition among states while mercantilism addresses the economic competition prevalent within the international system. Material capability as understood by political realists is measured by military strength and not by economic output, and it is the military expression of strength that results in states within the international system fearing each other.

This constant fear that war might be in the offing forces states to regard each other with suspicion and fear danger. Since there is no central authority that a threatened state can turn to for help and there is no mechanism to punish the aggressor in case of war, states have every reason to view their counterparts with the utmost suspicion. This naturally results in a state of constant distrust within the international system and states have ample reason to take steps to be prepared for war.

The possible consequences of falling victim to an aggression are grave and cannot be compared to the stakes involved in commercial competition among states. Political competition can lead to war and war usually means huge losses of lives accompanied by human suffering as well as economic costs. In extreme cases, war can even lead to the complete destruction of a state, resulting in states not only viewing each other as competitors but as potentially deadly enemies (Mearsheimer, 1994/95).

States within the international system all strive to guarantee their own survival. States cannot look to each other for protection and because of a lack of central authority, have to rely ultimately on themselves. This self-help system does not preclude states from forming alliances but such arrangements are only temporary and entered into for selfish reasons. It pays to be selfish in a self-help world (Mearsheimer 1994/95, p. 11).

Finally, the states within the international system look to maximize their relative power vis-à-vis other states. This is simply because the more military power a state has over other states, the more secure it is. Each state would like to generate the most formidable power since that would guarantee survival within this system of self-help. This logic creates strong incentives for states to take advantage of one another, including going to war if the circumstances are right and a victory seems likely. The aim is always to increase one's own military power at the expense of potential rivals. The ideal outcome would be to end up as a hegemon within the system since that would almost guarantee survival.

It is therefore understandable that realists fear the on-going rise of China and its increasing share of the world economy. The faster the Chinese economy grows and the larger its foreign reserves gets, the better equipped it will become to increase its military capability. This development can already be seen by the continuous rise in China's military budget and the USA's subsequent response with its new strategic doctrine of the Asia 'pivot'[5]. Increased foreign investments by China, especially those made by state-controlled entities, are likely to be perceived by the West on those realist terms.

2.5 Securitization

The concept of securitization can be helpful when seeking a methodological framework for determining whether a perceived security threat is genuine or not. The notion is connected with the 'Copenhagen school' of security studies led by Ole Wæver and represents a constructivist approach to security studies.

The Copenhagen school developed in the late 1990s a new definition of the concept of security which went beyond that of solely involving hard military security. Apart from the military aspects of security, the concept was also meant to include non-military aspects that affected the safety and welfare of societies and individuals as well as nation-states, such as environmental, economic, societal and political security. With this broadening of how the concept of security can be understood, the Copenhagen school has added depth to the studies of security by including players such as non-state actors and noting that a state's security choices do not necessarily coincide with societal and individual interests (Emmers 2010).

The Copenhagen school furthermore provides a spectrum along which the handling of potential security issues can be plotted. Any specific matter can either be non-politicized,

[5] The strategic doctrine of the Asia ´pivot´ refers to the Obama administration´s policy of military rebalancing away from the Western hemisphere and into Asia. The doctrine was formally introduced in Hillary Clinton´s *Foreign Policy* article ´America´s Pacific Century´ (Clinton 2011).

politicized or securitized. A non-politicized issue does not come to the attention of the state and is not included in the public debate while a politicized one has to be managed within the standard political system and as ‘part of public policy, requiring government decisions and resource allocation or, more rarely, some form of communal governance’ (Buzan, Wæver and Wilde, 1998). Finally, when an issue requires extreme emergency actions by the state beyond the limits of normal politics and perhaps outside normal democratic process, it has become *securitized* (Emmers 2010, Buzan, 2007).

An issue can be securitized – framed as a security issue and moved from the politicized to the securitized end of the spectrum – through the act of securitization. A securitizing actor - which can come in the form of a government, ruling elite, the military, powerful interest groups or civil society for example – elevates an already politicized issue and makes it out to be an existential threat to a referent object – which can for example be a state, social groups, national sovereignty, ideology, the economy etc. In response to the existential nature of the threat, the securitizing actor asserts that it has to adopt extraordinary measures that go beyond the norm of the political domain (Emmers, 2010). Therefore, securitization ‘is the move that takes politics beyond the established rules of the game and frames the issue either as a special kind of politics or as above politics. Securitization can thus be seen as a more extreme version of polticization’ (Buzan, Wæver and Wilde, Security - A New Framework for Analysis 1998).

An act of securitization refers to the accepted classification of certain and not other phenomena, persons or entities as existential threats requiring emergency measures. It can be initiated by states but also by non-state actors, though it tends to be a process dominated by powerful players (Emmers, 2010).

The use of language of security is not enough, however, to transform an issue into a security question. The act of securitization is only completed when the relevant audience – public opinion, politicians, the political elite – has been convinced of the referent object being existentially threatened. Only then can extraordinary measures be imposed, since the urgency of the accepted existential threat to security justifies the use of counteractions outside the normal bounds of political procedures (Emmers, 2010).

Securitization was initially portrayed by the Copenhagen school as a top-down process typically used by those in power to justify extreme measures for their own benefit. The implication was that it might be in the best interests of society, and of democracy, to avoid excessive securitization and even to 'de-securitize' any issues that could be resolved by milder means. However, in a changing security environment where globalization and other factors breed genuinely new risks, failing to securitize may sometimes also be a failure in the state's duty towards its citizens. In such cases the appropriate response may be for the people, or specific societal groups, to 'securitize from below' by urging state action (Emmers, 2010); but it must be borne in mind that popular attempts at securitization can also be misguided if led by prejudice (e.g., against immigrants or other non-conforming groups).

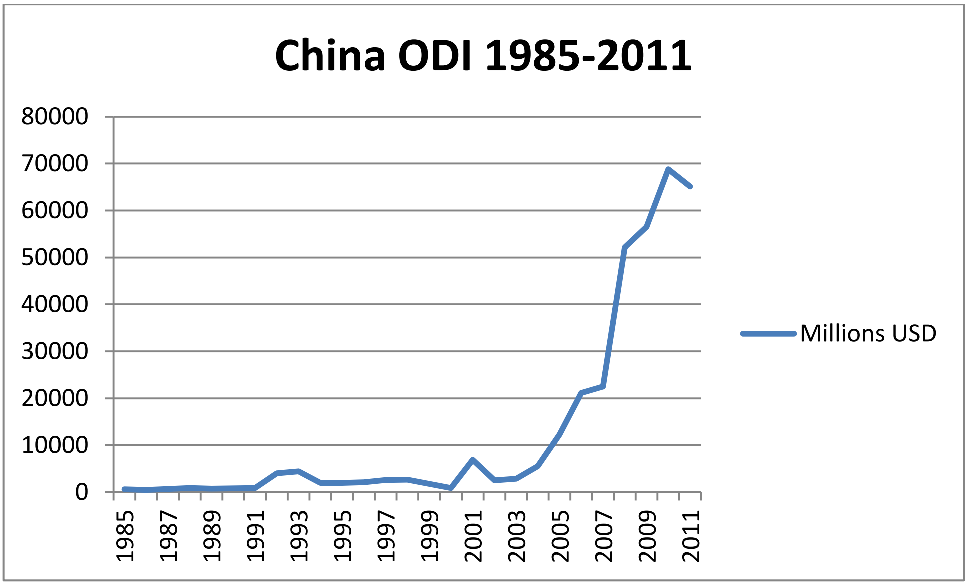
The value of securitization theory for a study like the present one is that it does not *tell* us what is a security threat, but shows us what questions to *ask* to get closer to an understanding of why, and by whom, a specific threat is being depicted as such.

III. An Overview of Chinese Outward Foreign Direct Investment

Different organizations collecting data on China´s outward investment publish different numbers on the total flow and stock of Chinese foreign investments. China´s outward FDI flows totalled $US 65.11 billion in 2011 according to figures compiled by the United Nations. That is a slight decrease from the previous year when total outflows reached US$68.8 billion, and it represented the first year-on-year decrease in China´s investment outflows compiled by the UN since 2001-02[6] (UNCTADstat, 2012). At the same time, official Chinese figures posted an 8.5% increase in China´s outward investment for the same period with total outflows at US$ 74.65 billion (Xinhua News, 2012). The Heritage Foundation, which is the NGO that has done some of the most extensive research into Chinese foreign investment, estimated total outflows for 2011 at US$73.2 billion (Scissors, 2012).

Which numbers give the most accurate picture of Chinese outward FDI flows is difficult to determine, but all sources point to the same trend of continuous increase in Chinese foreign investment for the past decade. As can be seen from chart 1 below, the outward investment flow of China started to accelerate quickly around the year 2000:

Figure 1 - China total ODI 1985-2011



(UNCTADstat, 2012)

[6] Following the UNCTAD´s publication of the investment data for 2011, officials from the Chinese Ministry of Commerce released a statement claiming that the UNCTAD´s numbers were based on wrong premise. According to the statement, UNCTAD had based its results on preliminary data provided by the Ministry of Commerce but not the final figure.

If we take official Chinese figures and compare them to the rest of the world, we see that Chinese investment outflows accounted for 4.4% of the world total. That would make China the sixth largest global investor, behind the United States, Japan, the United Kingdom, France and Hong Kong. Table 1 shows the world top ODI countries in terms of flow in 2011.

Table 1 - 2011 World Top OFDI Countries (flow)

	Country	**US$ million**
1	United States	396656
2	Japan	114353
3	United Kingdom	107086
4	France	90146
5	Hong Kong	81607
6	**China**	**74650**
7	Belgium	70706
8	Switzerland	69612
9	Russian Federation	67283
10	British Virgin Islands	62507
11	Germany	54368
12	Canada	49569
13	Italy	47210
14	Spain	37256
15	Netherlands	31867

(UNCTADstat, 2012; 国外经济合作统计: Ministry of Commerce of the People's Republic of China, 2012)

Hong Kong is of course a special administrative region of China and can thus be regarded as a part of the Chinese economy. But in accordance with the ´One country – Two systems´ idea, the economic and political system of Hong Kong is very different from what exists on the mainland. The region is economically as well as financially independent from China, and has the power among other things to make its own commercial treaties with other countries, so it is usually considered a separate economic entity.

If we add the foreign investment outflows of Hong Kong and China together we would in fact get the second largest global investor after the United States with total outflows of US$ 146.72 billion. However, a large part of China´s investment outflow goes through Hong Kong, so adding the two numbers together would actually lead to double counting of a large proportion of China´s investment outflows. This problem with official Chinese investment numbers in relation to Hong Kong will be addressed later in the chapter.

China’s total outward investment stock totalled US$ 424.78 billion by the end of 2011, according to official Chinese data. That amounts to about 2% of the world’s total foreign investment stocks, putting China in thirteenth place globally. Table 2 below demonstrates the world top ODI countries in 2011 in terms of investment stock:

Table 2 - 2011 World Top OFDI Countries (stock)

	Country	US$ million
1	United States	4499962
2	United Kingdom	1731095
3	Germany	1441611
4	France	1372676
5	China, Hong Kong	1045920
6	Switzerland	991966
7	Japan	962790
8	Belgium	944056
9	Netherlands	943086
10	Canada	670417
11	Spain	640312
12	Italy	512201
13	**China**	**424780**
14	British Virgin Islands	401468
15	Australia	385470

(UNCTADstat, 2012; 国外经济合作统计: Ministry of Commerce of the People's Republic of China, 2012)

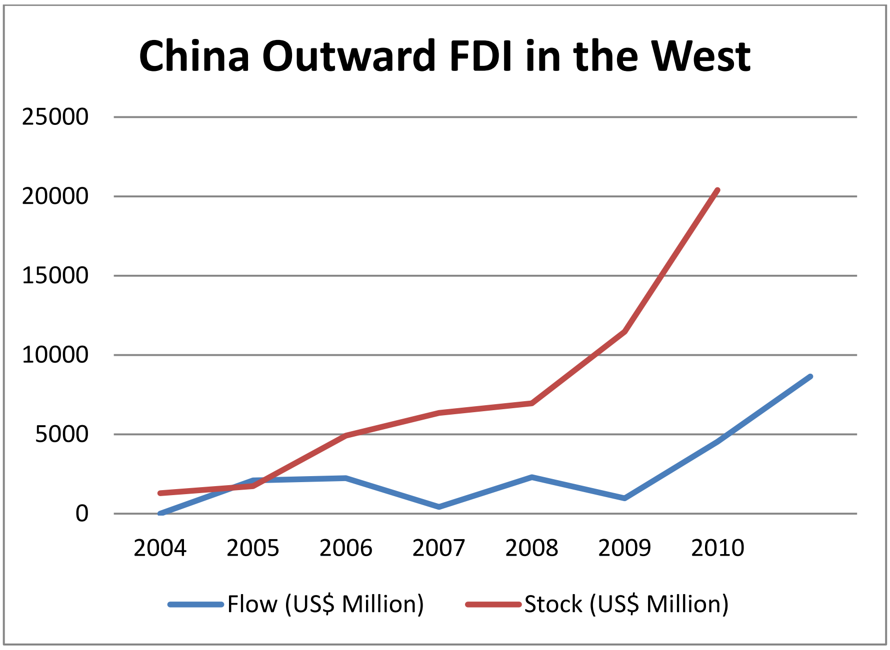
3.1 Chinese investment by region

The latest official data available for China´s outward FDI flows and stock by country and region date back to 2010. During that year, total investment flows from China into Europe amounted to a sum of US$ 6.2 billion, roughly double the level of the year before. More than half of that amount went to Luxembourg (US$ 3.2 billion), with Sweden (US$ 1.4 billion), Germany (US$ 412 million) and Hungary (US$ 370 million) following suit.

During the same period, Chinese outward investment flows to North America (U.S. and Canada) amounted to US$ 1.3 billion and US$ 1.14 billion respectively, a year-on-year increase of 61.6% for the region combined. Compared with a total investment outflow from China to the West in 2010 amounting to US$ 8.64 billion, this means that North America accounted for 12.56% of China´s total investment outflows for that year.

China´s total outward FDI stock in Europe amounted to US$ 15.7 billion by the end of 2010. China´s total outward FDI stock in the U.S. and Canada during the same period amounted to US$ 4.87 billion and US$ 2.6 billion respectively. That puts China´s total outward FDI stock in the West at US$ 23.17 billion which is 7.3% of China´s world total investment stock. Chart 2 below shows the increase in China´s ODI flows and stock in the West since 2004.

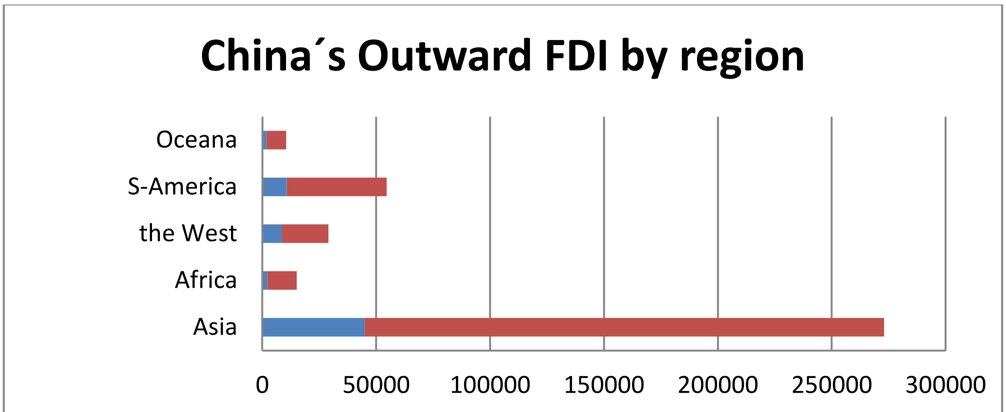
Figure 2 - China´s 2004-2010 OFDI flows and stock in the West



(2010 Statistical Bulletin of China´s Outward Foreign Direct Investments, 2011)

Asia was the main destination for Chinese investment flows in 2010 according to official Chinese statistics, attracting some 65.8% (US$ 44.9 billion) of the total. It is furthermore home to 77% (US$228.1 billion) of total Chinese outward investment stock. South America attracted 15.7% (US$10.7 billion) of total Chinese outward investment flow and holds 13.8% (US$ 43.9 billion) of China´s total outward FDI stock while the West came in third place, attracting 12.7% (US$ 8.6 billion) of the total flow and 6.4% (US$ 20.4 billion) of the total stock of Chinese outward FDI. Africa´s share in China´s outward FDI flow and stock in 2010 amounted to 3% (US$ 2.11 billion) and 4.1% (US$ billion) respectively while Oceania attracted 2.8% (US$ 1.9 billion) of China´s total outward FDI flows and 2.7% (US$ 8.6 billion) of its total outward FDI stock for the year. Chart 3 below demonstrates the geographical division of China´s outward FDI in 2010.

Figure 3 - China´s outward FDI by region:



	Asia	Africa	the West	S-America	Oceana
Flow (US$ Million)	44890,46	2111,99	8643,05	10709,08	1888,96
Stock (US$ Million)	228145,97	13042,12	20399,34	43875,64	8607,29

(2010 Statistical Bulletin of China´s Outward Foreign Direct Investments, 2011)

3.2 The Hong Kong factor

The independent research institution that has done some of the most extensive research on Chinese outward investment is the Heritage Foundation. This U.S.-based think tank publishes regular reports on Chinese outward investment trends, as well as offering the only public dataset on Chinese outward investment which dates back to 2005[7].

The foundation has tracked all Chinese investments abroad of US$ 100 million or more from the beginning of 2005, and the overall investment figures that it publishes are very similar to official Chinese data. But when looking at the geographical distribution of Chinese outward investment as documented by the foundation, we see a very different picture from the official figures published by the Chinese Ministry of Commerce.

According to researchers at the foundation, official Chinese government figures for outbound investments have a number of serious flaws, one of which is treating Hong Kong as the final destination for almost two-thirds of its outward investment, when in fact it is almost entirely a trans-shipment point. These figures also show Chinese investments in Britain at

[7] The Heritage Foundation, China Global Investment Tracker dataset is accessable at: http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map

US$ 1.3 billion through 2010, while investment in the British Virgin Islands was supposedly US$ 23.3 billion. Official Chinese data are thus not useful in determining the distribution of investment around the world, according to the Heritage Foundation, which claims to offer a far more useful information about the geographical and sectoral distribution of Chinese investment (Scissors, 2012).

The Foundation´s data, which covers the period from the beginning of 2005 through July 2012, records total Chinese outward investment at US$ 505.3 billion dollars during the period, with 8.3% (US$42 billion) flowing to the US, 3.4% (US$ 17.2 billion) to Canada and 11.9% (US$ 60.3 billion) to Europe. That amounts to a total of 21.7% (US$ 109.5 billion) of total Chinese outward investment flowing into the West between 2005 and mid-2012, a relatively higher proportion than official Chinese figures indicate (The China Global Investment Tracker Dataset, 2012).

3.3 Chinese investment by sector

Although official data are available on Chinese outward investment by sector, this dataset does not classify the geographical distribution of those investments. The same can be said of figures compiled by the Heritage Foundation, which makes it difficult to determine with certainty the sectoral distribution of Chinese outward investment in the West. Different sources furthermore publish different figures which can often be explained by different methods of defining a 'sector'.

According to figures released by the Chinese Ministry of Commerce for the year 2010, the majority of Chinese investment abroad is made within the ‘leasing and business service sector’ which accounted for 44% (US$ 30.3 billion) of Chinese total outward investment flows and 30.7% (US$ 97.2 billion) of Chinese total outward investment stock in 2010. The second largest destination sector for Chinese outward investment was the ‘banking sector’, which attracted 12.5% (US$ 8.6 billion) of the total flow and 17.4% (US$ 55.3 billion) of the total stock, followed by the wholesale and retail trade sector which accounted for 9.8% (US$ 6.7 billion) of total Chinese outward investment flows and 13.2% (US$ 42 billion) of total Chinese outward investment stock for the year 2010 (2010 Statistical Bulletin of China´s Outward Foreign Direct Investments, 2011).

The Heritage Foundation claims to offer a more accurate account of Chinese outward investments by sector. According to Derek Scissors, a researcher at the institution, official Chinese data are unhelpful when determining which sectors are receiving the most investment. The largest category ('leasing and business services') is difficult to interpret. In his analysis, Chinese global business activity changed in nature following the financial crisis with traditional commodities still dominating, but energy investment and construction moving away from oil toward gas and alternative energy. Chinese investments in the 'finance sector' slightly declined in favour of real estate spending and transportation contracts (Scissors, 2012). Table 3 below shows Chinese post-crisis sector patterns of Chinese outward investment dating from mid-2009 through mid-2012:

Table 3 - Chinese outward investment by sector – Mid-2009 to mid-2012

Sector	**Investment (US$ billion)**
Energy and power - Total	98,7
Energy and power - Oil only	35,8
Metals	36
Real estate and construction	18,1
Transport	9,2
Agriculture	9,2
Finance	6,9
Technology	5,6
Chemicals	5,2
Other	4,9
Total	**193,8**

(The China Global Investment Tracker Dataset, 2012)

Again we see a difference between the Chinese statistics and the numbers compiled by the Heritage Foundation, but this time the difference can mainly be explained by different methodologies applied by the two sides. While the Chinese Ministry of Commerce uses wide definitions for what constitutes a ´sector´, the Heritage Foundation applies narrow and concise definitions which may give a clearer picture of the sectoral division of Chinese outward investment. Both sets of data nevertheless lack a geographical division of Chinese outward investment flows. For determining into which industries Chinese investments are flowing in the West, we are forced to rely on fragmented information and research focusing on single countries or customs unions such as the EU.

3.4 Chinese sectoral investment in the West

According to the U.S. Bureau of Economic Analysis, China´s role as a direct investor in the U.S. economy is still marginal, accounting for a mere 0.25% of total foreign investments in the country. The numbers nevertheless demonstrate a steady increase in Chinese FDI stock in recent years, rising from US$ 1.2 billion in 2008 to US$ 5.9 billion in 2010, which is an increase of 380% in just two years (Hanneman, 2011).

According to figures published by Rhodium Group, which tracks Chinese investment in the U.S, the main industries attracting Chinese investment in the U.S. in 2011 can be seen in the table below:

Table 4 - Main U.S. industries attracting Chinese FDI in 2011

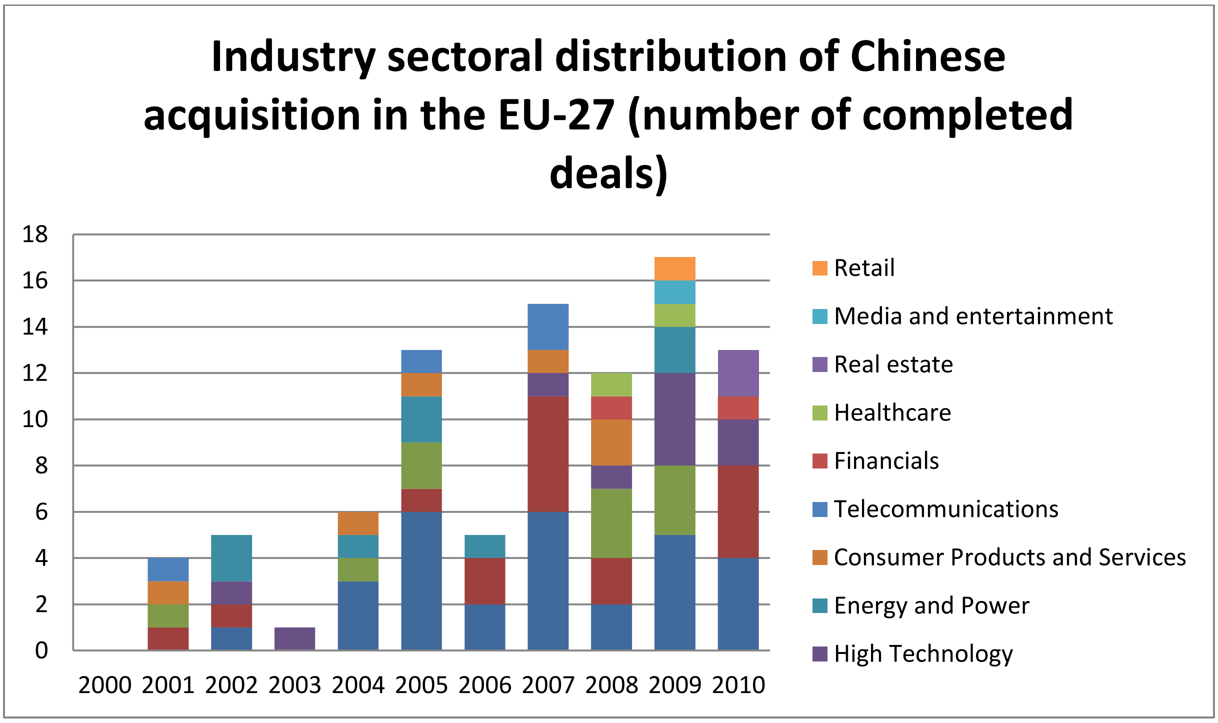
Sector	**Investment (US$ billion)**
Fossil fuels and Chemicals	1,9
Hospitality and Real Estate	0,96
Aero, Auto and Transport	0,63
Electronics and IT	0,42
Total investment	**4,5**

(China Investment Monitor - Tracking Chinese Direct Ivestment in the U.S., 2011)

The industry division of Chinese outward FDI emerging from those numbers is strikingly similar to the analysis published by the Heritage Foundation which covered the whole world. Oil and Chemicals top the table, with Real Estate and transport following suit. Electronics and IT, on the other hand, seem to be attracting a larger proportion of Chinese investment in the U.S. than the world total, at the expense of agriculture and finance.

According to a research report on Chinese investment in Europe commissioned by the EU, which relies on data from both Eurostat and Thomson Reuters, European firms in the 'industrials' and 'materials' sectors have been the main targets of acquisition by Chinese companies in the first decade of the twenty-first century. The 'consumer staples' industry sector is a constant feature in the acquisition pattern, but 'high technology' firms have only recently become targets of Chinese companies investing in Europe. The chart below demonstrates the sectoral distribution of Chinese investment in Europe from 2000 through 2010 as measured by the number of deals.

Figure 4 - Industry sectoral distribution of Chinese acquisition in the EU-27 2000 - 2010



(Clegg & Voss, 2012)

The evidence of Chinese company acquisitions in the EU zone, apart from the telecommunications and infrastructure sectors, also suggests that the Chinese are looking to acquire the operational networks of firms that have become multi-nationalized in Europe, particularly since the mid-1980s. Since the year 2000, the range of industries in which Chinese firms have bought out EU companies has broadened appreciably, both at the member state level as well as around Europe as a whole. From an early focus on high technology, infrastructure and heavy industry, Chinese firms have now moved into the service sector, including health care, finance, media and entertainment, as well as into liberalised infrastructure sectors such as telecommunications equipment. This points to the growing strength of Chinese firms outside the traditional manufacturing sector (Clegg & Voss, 2012).

3.5 Which Chinese companies are investing in the West? - State vs. Private

The role of the state in the Chinese economic system is relatively larger than what is typical in the West. The Second National Economic Census conducted in 2008 reveals that of all the 208 trillion RMB total assets of the secondary and tertiary sectors within the Chinese economy, 63 trillion – or 30% of total – was held by SOEs (SOEs here correspond to state sole funded corporations and enterprises with the state as the biggest share-holder). The same numbers furthermore demonstrate that SOEs are on average 13.4 times the size of non-SOEs in terms of their assets, which makes them much better equipped for making investments abroad (National Bureau of Statistics of China, 2009).

Yet it would be a mistake to assume that all Chinese firms making foreign investments are tied to the government. The reality is that ownership in China is diverse, and this is reflected in foreign investment patterns. Chinese investors, globally, run the gambit from the state sovereign wealth fund to state-owned enterprises, firms with hybrid ownership structures, wholly private firms, and wealthy Chinese individuals.

According to the Heritage Foundation, more and more private Chinese firms are breaching the US$ 100 million minimum required to enter the institution's dataset, with the gross level of private deals rising strongly in the past few years. SOEs on the other hand, absolutely dominate in terms of the large deals. SOEs accounted for 96% of the dollar value of Chinese investments from 2005 to the middle of 2012 (Scissors, 2012).

Another report found that the vast majority of recorded outward direct investment from China derives from large state-owned enterprises (SOEs) (84% of both stocks and flows by end-2005, according to MOFCOM figures), but that this trend appears to be gradually declining and is likely to be an over-estimate, since private-sector ODI is less likely to go through official procedures (Sauvant, Jost, Davies, & Garcés, 2011).

Due to a lack of research on the topic, the geographical distribution of investments by Chinese companies categorized by ownership can only be determined from fragmented information and different research reports. The Rhodium Group estimates the share of SOEs of the total investments in the U.S. in 2011 to be 56% (China Investment Monitor - Tracking Chinese Direct Ivestment in the U.S., 2011). State-owned enterprises (SOEs) are less important than the global average in China's investment portfolio in Europe, where the overwhelming majority of deals are done by private players. The data show that 359 of 573 deals (63%) from 2000-2011 were done by privately owned companies, acquiring mostly small and medium-sized enterprises, such as German machinery makers (Haneman & Rosen, 2012).

3.6 Conclusion

Chinese total foreign direct investment flows in 2011 were somewhere between USD$ 65 billion and USD$ 75 billion while China's outward investment stock totalled US$ 424.78 billion by the end of 2011 according to official Chinese data. That amounts to about 2% of the world's total foreign investment stocks. China´s outward investment flows started to accelerate quickly around the year 2000 and by comparing official Chinese figures with total world investment flows, we see that Chinese investment outflows accounted for 4.4% of the world total.

Asia has traditionally been the main destination for Chinese investment flows according to official Chinese statistics, attracting some 65.8% (US$ 44.9 billion) of the total in 2010 while only 12.56% (US$ 8.64 billion) went to the West. However, many analysts regard the official Chinese figures as unhelpful when determining the geographical distribution of Chinese foreign direct investments, i.e. since Hong Kong is mainly a trans-shipment point for those investments rather than a final destination. According to researchers who take this factor into account, Chinese foreign investment flows into the West totalled of 21.7% (US$ 109.5 billion) of total Chinese outward investment between 2005 and mid-2012, a relatively higher proportion than official Chinese figures indicate.

Chinese investments globally have mainly been flowing into the energy, metals, and real estate and construction sectors. The same pattern can be seen in the West, but with electronics and IT attracting a larger proportion of Chinese investment than the world average, at the expense of agriculture and finance.

IV. Key Drivers of Chinese Outward Foreign Direct Investment

4.1 Introduction

The continuous increase in Chinese outward investment visible since the year 2000 has been attributed to both favourable government policies as well as the commercial interests of Chinese companies. Both factors will be discussed in the following chapter followed by a conclusion of the main drivers behind the outward investment strategies of modern day Chinese companies.

4.2 Official outward foreign direct investment policies in China

Shifts and adjustments in the government policy and economic strategy have always been among the most significant factors explaining developments in outward foreign direct investment within China´s heavily controlled economic system. Since the start of the so called ‘reform and opening up’ policy in 1978, the government has made incremental adjustments to the policies governing the state of outward direct investment in China, in response to its perception of the political and economic needs of the country. Overall, China‘s outward foreign investment policy has been shaped by the government‘s considerations of the reform needs of state-owned enterprises (SOEs), its industrial policies, the gradual relaxation of cross-border capital flow controls and bilateral relationships with host countries.

The government‘s introduction of the ‘go global’ policy regarding Chinese outward investment has led to the establishment of a complex set of administration involving different governmental bodies meant to guide the size and pattern of China’s outward direct investment flows. New organisations and regulations have been established specifically to encourage outward investment, with supportive measures including workshops and conferences on outward FDI as well as, under certain conditions, the provision of finance in the form of equity and debt financing. Conditions of support are usually fulfilled if outward investment promotes domestic development by securing natural resources, stimulates Chinese exports or focuses on R&D-oriented enterprises. At the same time, some measures of support are industry-specific (Clegg & Voss, 2012).

The administration framework governing China’s outward investment policies furthermore covers a range of issues, ranging from the examination and approval process to the system of foreign exchange control and the SOE assets management and monitoring procedures. As the government’s approach toward outward direct investment has evolved from one of tightly restricting capital outflows to one of encouraging Chinese enterprises to invest abroad, the policy framework has been adjusted to reflect the government’s degree of willingness (and sometimes unwillingness) to allow Chinese enterprises' outward investment (OECD Investment Policy Reviews – China, 2008).

4.2.1 Post 1978 developments in Chinese official outward direct investment policy

In the early years of reform and up to the mid-1980s, overseas investment activities were limited to state-owned foreign trade corporations. Even though the government placed more emphasis on formulating policies intended to attract FDI into the Chinese economy rather than encouraging FDI outflow, these state-owned enterprises nevertheless expanded business overseas by taking advantage of their high degree of autonomy in operation to establish international business links.

In August 1979, the State Council released a document stating that the setting up of overseas operations by Chinese enterprises was one of thirteen official policies for opening up the economy. There was however no coherent framework intended to regulate overseas investments by Chinese enterprises put in place which resulted in all decisions on overseas investment projects having to be made by the State Council on an ad-hoc basis.

Due to the tight control of the State Council, it is thought that overseas direct investment projects during this period were closely linked to the government's political considerations rather than the enterprise's commercial motivation. Projects during this period were often approved on the basis of their contribution to China's political and economic influence and trade relationships (OECD Investment Policy Reviews – China, 2008). This feature of Chinese official outward investments policy can still be seen today, albeit on a much smaller scale (Li & Liang, 2012).

In the mid-1980s, the Chinese government made a major move to standardize the regulations governing China's outbound foreign direct investment with the introduction of a new set of regulations. These regulations extended the right to apply for permission to invest abroad to any legal-entity enterprises which could demonstrate access to sufficient capital, adequate technical and operational know-how, and alliance with a suitable overseas joint venture partner. These regulations constituted the core of China's outbound direct investment administration and remain applicable today after going through several revisions.

Domestic liberalisation and decentralisation, initiated by Deng Xiaoping's journey to the South in 1992, encouraged local governments at the provincial and municipal levels to promote actively overseas business operations of the enterprises under their supervision (OECD Investment Policy Reviews – China, 2008).

Controls on financial outflow was tightened in the wake of a streak of state asset losses from speculative investments in the early 1990s but by the end of the decade the government's attitude toward outward direct investment changed from merely allowing to actively encouraging Chinese enterprises. Related support programs were usually targeted to certain industries and large SOEs, rather than universally implemented.

4.2.2 Going global – China´s post-2000 official outward investment policy

Since the early 2000s the government policy to promote outbound foreign direct investment has been given increased impetus under the title of 'Go global'. This policy was officially initiated in the year 2000 by then premier Zhu Rongji in his report to the National People's Congress on the work of the government. Accordingly, every Five Year Plan[8] that has been implemented since then has emphasised the importance of overseas investment by Chinese enterprises for the future development of the Chinese economy.

This reform of the OFDI administration within the Chinese bureaucracy has taken the form of streamlining approval procedures and relaxing foreign exchange controls for outward investment. Approval authority has furthermore been centralised from the central-level to the local while application requirements have been simplified and the application process has been made more effective.

In parallel, the government has carried out step-by-step liberalisation of the restrictions on the use of foreign exchange for outward direct investment purposes. A large portion of the administrative process has been decentralised, with more power being given to local-level branches of the State Administration of Foreign Exchange (SAFE), the official agency in charge of China's foreign exchange reserves. Compulsory repatriation of overseas profits back to China has been abolished to allow Chinese enterprises to re-invest their profits overseas. And finally, the government abolished the long-imposed quota on $US 5 billion per annum on foreign exchange allocation for outbound foreign direct investment in 2006 (OECD Investment Policy Reviews – China, 2008).

China's official 'Go global' policy furthermore includes methods of credit facilitation aimed at Chinese companies planning on investing abroad. In 2011, China's Ministry of Commerce announced that state owned banks should increase 'Go global' credit support for

[8] The People´s Republic of China began implementing Five Year Plans in 1953 in order to align the economy with top policy goals and to communicate this directive throughout the governemnt bureaucracy. Five Year Plans are designed to be roadmaps for regulators and provincial-officials, who are resposible for their implementation. Five Year Plans are key indicators of the direction and changes in economic development philosophy at the highest level of Chinese leadership.

enterprises within certain sectors. The Export-Import Bank was told to improve its offers, local governments should improve their guidance of funding and that the granting of support for equity investment and bond financing should be accelerated. Other instruments of support also came under the spotlight for improvement, such as the provision of credit insurance and the strengthening of cooperation between international organizations and foreign insurance institutions (Clegg & Voss, 2012).

The priority sectors eligible for such government assistance may include: projects to develop natural resources which are in short-supply within the China, manufacturing and infrastructure projects leading to exports of domestic technology, products, equipment and labour as well as R&D projects accessing advanced global technology, managerial skills and talents. Merger and acquisition projects with a potential to strengthen Chinese enterprises´ international competitiveness have also been given access to such government-subsidised capital (OECD Investment Policy Reviews – China, 2008).

The Chinese government has also started to include the provision of information and guidance as an integral part of its efforts to support Chinese enterprises planning to invest abroad. The Chinese Ministry of Commerce for example provides useful information on a range of issues such as: investment demand in host countries, opportunities for participation in business fares as well as information on FDI policies and regulation in a range of host countries. The Ministry also started to collect information on problems, obstacles, and/or barriers faced by Chinese investors which is used to inform other fellow Chinese investors as well as to react promptly on problem solving through bilateral mechanisms if necessary (OECD Investment Policy Reviews – China, 2008).

Overall, developments in the outbound direct investment policy of the Chinese government since 2000, the so called ´Go global´ policy can be characterized as a transformation of the government´s role from one of approving and controlling to one of monitoring and facilitating investment projects. At the same time, efforts by policy makers to move towards a more transparent and open policy framework have been hugely successful.

This turn in Chinese OFDI policy was a logical consequence of the country´s success in attracting FDI and promoting exports in previous decades and is consistent with the overall framework of continuing reform and liberalisation of the Chinese economy. What has triggered this policy shift according to experts within the OECD, however, is the government´s recognition of two major developments:

1) The successful expansion of Chinese exports has been increasingly causing protectionist reaction in many host countries; and
2) The large accumulation of foreign exchange reserves has given rise to pressures from other countries on China to achieve equilibrium in its international financial flows by revaluing the currency. The government started to consider the implementation of OFDI-friendly measures as a way to circumvent trade frictions as well as to mitigate revaluation pressure (OECD Investment Policy Reviews – China, 2008).

4.3 Economic drivers of Chinese outward foreign direct investment

The liberalization of China´s outward investment regime has been an important factor explaining the recent boom in China´s OFDI growth, as has been outlined in the previous section. But when examining the key drivers and patterns of China´s outward direct investment, economic logic offers the best explanation.

Academic research on outward direct investment details numerous reasons why firms decide to go abroad. Microeconomic explanations of outward FDI focus on four main motives: securing natural resources, exploring new markets, buying strategic assets and improving the efficiency of operations across borders (Dunning & Lundan, 2008). All these motives apply to the investments patterns of China´s companies, where past investments were focused on trade facilitation and natural resources. Macroeconomic adjustments in China as well as firm-level pressures are increasingly forcing Chinese firms to look abroad for deeper market penetration, service provision opportunities as well as assets that can give them a competitive edge at home and abroad (Sauvant, Jost, Davies, & Garcés, 2011; Haneman & Rosen, 2012). Following are the five key drivers of China´s outward direct investment:

(1) The most reported motivations in the international media as well as in some academic writings is China´s need to secure natural resources to fuel growth. Although an important driver of Chinese outward foreign investments, its share of the total has been decreasing in recent years.
(2) Chinese firms export large volumes of goods and need services such as shipping, insurance and other trade facilitation measures. Chinese enterprises have realized continuous year-on-year increases in investments made in the service sector.
(3) China´s major enterprises are starting to acquire brands in order to obtain, among other things, technological know-how, foreign market share, management skills and talents.

(4) Large state owned enterprises are slowly losing their monopoly positions at home and are looking to diversify internationally; and
(5) Some enterprises – despite China´s ample labour supply – are seeking to move their labour-intensive operations to cheaper overseas locations in South-East Asia and Africa.

The following sections include a more detailed discussion of those key drivers of Chinese outward foreign investments, except for the last factor which has little relation with Chinese investments in the West.

4.3.1 Pre-2000 Chinese outward foreign direct investment

Chinese outward investment in the early-1980s was limited to a handful of select, specialized state-owned firms -- foreign trade corporations (FTCs) and foreign business oriented corporations (FBOCs). These firms invested in Hong Kong and other parts of Asia to promote trade and upgrade technology, or made politically-motivated investments in developing countries that had been deemed strategically important.

As inward FDI started to flow into the country during the second half of the 1980s, growth in Chinese outward direct investment started to accelerate since many local firms had a new incentive to make investments abroad, namely trade facilitation.

Outward investment grew further in scale and complexity during the 1990s. The post-Tiananmen decision to accelerate economic reforms and global integration led to a more active encouragement of ODI with the main goal being to increase the competitiveness of Chinese businesses, with a special focus on so called state-owned national champions. Facilitation of exports remained a core motive, but access to technology and know-how to enhance competitiveness became more important. Increasingly, facilitation of imports – most notably raw materials – emerged as an additional motivation. The late 1990s saw a drop in Chinese outward investment caused by tighter capital controls invoked as a safety measure against the Asian financial crisis (Haneman & Rosen, 2012).

4.3.2 Post-2000 Chinese outward foreign direct investment

China´s role in global trade rose rapidly following the country´s accession to the WTO in 2001. This acceleration as well as diversification of external demand further increased the incentives of Chinese enterprises to expand market-seeking and trade-facilitating outward FDI across the globe.

The scale of trade-facilitating investments remained comparably low, however, with the major change in China´s outward investment occurring in the mid-2000s when a sharp increase in Chinese demand for raw materials made it necessary for China to give up its long held insistence on resource autarky and look beyond its borders.

China's big state-owned commodities firms were caught off-guard by this new situation. Decades of self-sufficiency had left them laggards when it came to overseas reserves and global operations with China's big three oil companies – China National Petroleum Corporation (CNPC), Sinopec and China National Offshore Oil Corporation (CNOOC) -- having virtually zero stakes in overseas resources extraction by the mid-1990s. Import dependency made them vulnerable to price volatility, market power of foreign suppliers and external shocks. At the same time, corporate restructuring and a partial listing of assets in domestic and Hong Kong stock markets imposed greater pressure on firms to improve profitability and shareholder value with overseas investments being one way to increase profitability (Haneman & Rosen, 2012).

This loss of self-sufficiency led to a widespread concern within China about supply security of energy and other commodities. This resulted in a major push, starting in the mid-1990s, for energy companies (with oil companies in particular) to buy into equity production of energy and other resources. This overseas resource investment boom - that accelerated quickly around the year 2000 as a result of increased government support of ´Go global´ - was led by China´s state owned oil companies with other resource sectors coming close behind. What motivated those firms to turn abroad was to counter growing demand and low domestic reserves. China´s oil firms have emerged as major players in global oil and gas M&A, competing with traditional buyers from Europe and North-America. Aside from oil and gas, iron ore, bauxite and copper assets were major resource targets for Chinese acquisition (Haneman & Rosen, 2012).

Other motives for Chinese outward foreign direct investment arise from the rebalancing that is underway of China´s economic growth model. While the old model of excessive fixed-investment and exports of overcapacity to overseas markets has served the Chinese economy well, the rise in land prices, regulatory compliance costs, capital costs and wages along with a stronger RMB has rendered it all but obsolete. Rebalanced growth will be focused on domestic consumption, higher value-added manufacturing, and service sector activity.

The capital scarcity that impeded Chinese enterprises in the past is no longer an issue for many firms – or for the nation as a whole for that matter – and a stronger currency has made overseas investments cheaper for Chinese firms. Although natural resource acquisitions will remain a major driver of Chinese outbound FDI in the years ahead, a larger portion of the total Chinese outward investments are starting to flow toward other segments of the global economy.

Chinese manufacturers are presently very strong in the production of goods – usually low-value light manufactures – which has relatively low profit margins. When it comes to parts of the value chain with higher profit margins, such as R&D, branding, distribution and retail, Chinese manufacturers have traditionally been relatively weak. But rising wages and other business costs within China in recent years has forced Chinese firms to start move up the value chain to capture more of the value added in these more profitable segments, and to do so many firms have looked beyond China´s borders.

Chinese firms have started to make overseas acquisitions to achieve this move into higher value-added manufacturing by gaining firm access to competitive assets and human talent. – The Volvo and IBM acquisitions. Capturing more value-added in the distribution and retail segments has also required a greater investment abroad for Chinese firms – not only to serve customers in overseas markets directly, but also to strengthen competitiveness in the fast-growing domestic market.

Rebalancing the economy away from manufacturing will furthermore accelerate the already growing outward FDI in the service sector. Exporting higher quality-goods such as machinery or self-branded electronics will requires an on-the-ground presence of a much greater scope such as significant investments in brands and marketing, sophisticated distribution networks and the provision of after-sales services.

Outward investment in services is also increasing in areas other than exports. Service firms in old growth model industries such as construction, utilities, shipping and real estate are expanding overseas as they have increased their competitiveness, accumulated funds and sought to diversify outside the domestic market.

Another major incentive for service firms to go abroad is to strengthen competitiveness in the fight for domestic market share. Along with the rebalancing of the Chinese economy, the service sector will have to grow faster than industry and agriculture in the next decade. High growth prospects will increase competition among Chinese firms for market share, while also attracting foreign firms, whose experience gives them a significant advantage. Outward investment is one way for domestic firms to strengthen competitiveness for the much anticipated service boom.

V. Western Discourse Regarding the Various Security Aspects of Chinese Outward Foreign Direct Investment

5.1 Iceland

There is not a long tradition of Chinese companies investing in the Icelandic economy. A bilateral agreement is in place between the governments of Iceland and China concerning the promotion and reciprocal protection of investments (Stjórnartíðindi, 1997) but that has not been to seriously increase Chinese investment inflows to Iceland. In fact, the number of Chinese direct investments made in the Icelandic economy since the start of economic reform in China total only three incidents, all of which have taken place after 2009.

In two of the incidents, the investments did not reach the public´s (nor official) attention until after completed, but an investment proposal in late 2011 by a Chinese entity to invest in Icelandic land has been met with fierce resistance from the public as well as some elements of the Icelandic government.

A Chinese company bought a 43% stake in the Icelandic fishing corporation Stormur Seafood in 2010 through two separate subsidiaries (RÚV, 2010). The issue of foreign investments in the Icelandic fishing industry has historically been a sensitive one among Icelandic policy-makers as well as the public. Fearing a loss of control over one of the country´s most valuable resources and the most important source of foreign currency inflow, on entering the EEA-agreement Iceland managed to negotiate an opt-out from the principal of free flow of capital regarding the fishing sector. According to the legislation, foreign entities´ direct share in Icelandic fishing companies cannot exceed 25% (Nefnd um erlenda fjárfestingu, 2011).

The minister for fisheries and agriculture at the time, mr. Jón Bjarnason, maintained that the investment by the Chinese company was not in conformity with Icelandic legislation and took a stance against it (mbl.is, 2010). A special committee on foreign investments later concluded that the investment was in fact legal since apart from the 25% direct share, foreign entities were allowed to own indirect shares of up to 24% (Nefnd um erlenda fjárfestingu, 2011). Apart from that, the investment did not cause much debate in Iceland.

In 2011, a Norwegian company that operated an alloy production plant in the south of Iceland was acquired by a Chinese entity named National Bluestar. Bluestar, in turn, is owned by China National Chemical Corporation, a large Chinese SEO (Vísir.is, 2011). Although the acquisition sparked some debate in Norway, where union leaders and the public at large was weary of losing one of the country´s leading heavy-industry corporation into foreign hands, the investment did cause a reaction within Iceland.

The most controversial Chinese investment in the Iceland economy has in fact not yet materialized, since it was originally rejected by the Icelandic Ministry of the Interior. In August 2011, a Chinese company bought a large piece of land in the north of Iceland for a reported US$ 8.8 million (Vísir.is, 2011). The investment was conditional upon the approval of Icelandic and Chinese authorities. Since Icelandic legislation forbids citizens from outside the European Economic Area from investing in Icelandic land, a special government approval was needed for the investment to go through. In late November 2011, the Icelandic interior minister Ögmundur Jónasson, rejected the application on the grounds that it would set a 'dangerous precedent' (Financial, 2011). Some of the municipalities around the area of the land in question supported the plan of the Chinese company which maintained it was planning on developing the area as an international tourism destination with a US$ 200 million additional investments in building a hotel, a golf course and a racecourse among other things (Bloomberg, 2011). Eying the potential injection of capital into their local economies the municipalities decided to buy the land with the intention of signing a long-term rental contract with the Chinese entity reported to last for 40 years (mbl.is, 2012). At the time of writing, that deal has yet to be finalized.

The news of a Chinese company investing in Icelandic land and the government´s subsequent rejection of the investment sparked a heated debate within Iceland. Sceptics from all political parties doubted Zhongkun´s motives for the investment, sighting the company´s owner´s past posts as a governmental employ within China´s ministries for propaganda and construction. The investment was said to be part of the People´s Republic of China´s long-term plan of gaining a strategic foothold in the North-Atlantic.

The interior minister Ögmundur Jónasson, warned about the 'international ramifications' of land purchases of the Chinese that 'are slowly buying up the world while being known for their long-term thinking' (Jónasson, 2011). In an advertisement that was published in all the major newspapers in Iceland on August 31 2012, a group of 156 individuals appeal to the Icelandic parliament to buy the land in question, hence making it the national property. Among the signatories to the appeal where former president, Vigdís Finnbogadóttir, musician Björk, along with former politicians, famous athletes and literary figures (Vísir.is, 2012). Former ambassador to China, Eiður Guðnason, accused Huang Nubo in a blog post of having made his fortune through corrupt business dealings and that it would be best for all Icelanders that his plans in the north of the country be terminated as soon as possible (Guðnason, 2012).

A former Permanent Secretary of State advised against the investment because of his prediction of a major war braking out in Asia resulting from China´s aggression towards its neighbours (Árnason, 2012) while another former ambassador maintained he was an undercover agent of the Chinese state working to increase China´s influence in the Arctic region (Benediktsson, 2012).

Those who supported the investment plan, on the other hand, pointed out the need for foreign investment into the Icelandic economy[9] and a strong Icelandic legal framework that would prevent the Chinese company from exploitation of the lands resources. Government ministers from the National Democratic Alliance were among the plan´s supporters in accordance with the government´s manifesto of working toward increasing foreign investment in the Icelandic economy (Viðksiptablaðið, 2011; Stjórnarráð Íslands: Ríkisstjórn, e.d.) while the local municipalities supported the plan because of the positive effects they foresaw it would have on the local economies of the surrounding area (RUV.is, 2012).

It can be argued that the reason for the different reactions within Iceland regarding Chinese investments in country´s fisheries and heavy-industry sector compared to the one in Icelandic land can be attributed to the timing of news regarding the matter breaking out. In the case of the former two, the deal was already done before the public got wind of it. Therefore, no public nor official debate could be maintained before the decision went through. In Zhongkun´s case, on the other hand, the approval of the government was needed, offering the public, parliament and interest groups a chance to engage in a heated debate about the matter. The fact that the investment in Stormur Seafood did not give the Chinese side a controlling share in the company should also be taken into consideration as well as the size of the land bought by Zhongkun (0.3% of the total size of Iceland).

Even though the future of the Chinese entity´s business plan of building a tourist resort in the northern Icelandic hinterland remains uncertain at the time of writing, the whole affair highlights the controversy as well as difference of opinion regarding Chinese investments in the Icelandic economy.

5.2 The US

Foreign direct investment is an essential component of the US economy according to a policy report published by the U.S. Department of Commerce. It contributes to productivity growth,

[9] Iceland was ranked behind countries such as Russia, Tunisia and Mexico in OECD´s 2012 FDI Regulatory Restrictiveness Index (OECD: Investment Statistics and Analysis).

generates U.S. exports and creates high paying jobs. ‘The United States welcomes foreign investment and provides international investors a stable and open economy’ (U.S. Department of Commerce, 2008).

According to the U.S. Bureau of Economic Analysis, China´s role as a direct investor in the U.S. economy is still marginal, accounting for a mere 0.25% of total foreign investments in the country. The numbers nevertheless demonstrate a steady increase in Chinese FDI stock in recent years, rising from US$ 1.2 billion in 2008 to US$ 5.9 billion in 2010, which is an increase of 380% in just two years (Hanneman, 2011).

Having long held the spot as the country attracting the highest proportion of international foreign direct investment, the American public has long gotten used to seeing parts of their local economy being snapped up by foreign corporations, be they from Japan, Qatar or the U.K. But some numbers point to a slightly different attitude when it comes to Chinese companies making investments in the U.S. economy.

A 2012 survey found that although a large majority of American elites expect Chinese investment in the US will create jobs and improve US-China ties, the American public is concerned about potential loss of US technological advantage or even control of its economy. Apart from that, the prevalent trade deficit to China and concern about intellectual property rights in US-China trade are a major concern amount the American public (US-China Public Perception Opinion Survey 2012, 2012). Another survey found out that attitudes in the U.S. toward the outsourcing of American jobs to China were shaped less by the economic consequences of the phenomenon than by what can be described as a feeling of ‘us‘ versus ‘them‘ (Mansfield & Mutz).

Whether the different attitudes among the American public towards foreign investments made by Chinese companies is rooted in a general fear of China overtaking the US as the world‘s superpower or the explanation is to be found in cultural factors, evidence of it can already be detected in the official discourse. China has been a frequent source of blaming for the US economy‘s shortcomings during recent presidential election campaigns from both parties with US president Barack Obama blocking an attempt by a Chinese-owned company to invest in wind-farms in the run-up to the 2012 elections. It was only the second time in US history a president had blocked a foreign investment deal on national security grounds (Financial Times, 2012).

Persistent security concerns have furthermore been mounted regarding Chinese companies operating within what can be described as sectors of the U.S. economy sensitive to the national security concerns. There is no better example of that than the networking and telecommunications equipment company Huawei. The company has been repeatedly challenged by U.S. security officials that Huawei made communications equipment is designed to allow unauthorized access by the Chinese government and the People´s Liberation Army. Questions were raised among members of the U.S. congress regarding Huawei´s bid to supply to Sprint Nextel Corp, which again supplies equipment to h U.S. military and law enforcements agencies (Reuters, 2010). Huawei withdrew its purchase of software company 3Leaf Systems Inc. in 2011, following a negative review by the U.S. Committee on Foreign Investment (Xinhua News, 2011).

That prompted the chairman of Huawei USA to write an open letter to the US government where he complained that his company´s push into the United States had been undermined by false allegations and mistaken suspicions that the company had close ties with the Chinese government and the military, and that it did not respect intellectual property rights. In a somewhat unusual move the United States to formally investigate its background in the hopes of clearing the company's path to expand and make deals in United States (Hu).

In October 2012, the House intelligence committee of the U.S. Congress concluded a year-long investigation into the Huawei and a second Chinese communications firm, ZTE, by concluding that the corporations did pose a security risk to the US. The conclusion was based on the committee´s findings that the equipment provided by the companies could be used for spying on Americans. The committee recommends that the U.S. block acquisitions or mergers involving the two companies through the Committee on Foreign Investments in the U.S. It also recommends that the U.S. government avoid using equipment from the firms, and that U.S. companies seek alternative vendors for telecommunications equipment (Rogers & Ruppersberger, 2012).

5.3 The EU

The year 2010 can be viewed as a watershed year for Chinese-European economic relations. China overtook Japan to become the world´s second largest economy after the United States during that year as well as passing Germany to become the world´s largest exporter. But more importantly however, the European sovereign debt crisis emerged in Greece during the spring of 2010 and quickly spread to other EU member states.

As the Euro-crisis unfolded during 2010 and onwards it was a common perception in Europe that China would use the opportunity presented by the economic turmoil within the European Union and invest heavily in the region at drop-down prices. China did acquire major stakes in Greek telecommunications and real estate as well as leasing the port of Piraeus for 35 years in 2010 (Fiaola, 2010). A Chinese company went through with a massive investment in Ireland in the same year to build a “Euro Chinese Trading Hub”, which it hopes to turn into a base for Chinese companies to promote trade and commerce with Europe and the Western world at large (McDonald, 2012). The Chinese state furthermore invested in Spanish sovereign debt after the Spanish economy ran into trouble following Greece, Ireland and Portugal and it was even talk of the CIC – the Chinese Sovereign Wealth Fund – injecting capital into the ailing Spanish banking sector (Reuters, 2013).

China has also shown a particular interest in Central and Eastern European countries (CEE countries) since the outbreak of the Euro-crisis. Hungary received more direct investment from China than all the other CCE countries combined in 2010 and in April 2012, China announced the creation of a new investment cooperation fund which would initially boast US$ 500 million to assist Chinese investments in the CEE region. The recent rise of Chinese foreign direct investments in the region has been attributed to the CEE economies´ role of serving as a manufacturing base supplying Western Europe as well as the common perception that the political climate is more conducive to Chinese investments than in Western Europe (Meunier, 2012; Voss & Clegg, 2011).

As a result, it is fair to say that the economic power of China has become somewhat of an obsession in the European media since the outbreak of the Euro-crises, with respected European publications frequently depicting menacing images of ´the awakened dragon´ on their covers. *The Economist*’s “Facing Up to China” (The Economist, 2010a), “Buying Up the World” (The Economist, 2010b), and “The Dangers of a Rising China” (The Economist, 2010c) were all cover stories published in 2010.

The EU´s official response to increased Chinese investments in the region has also raised suspicion at the highest levels with Herman Von Rumpuy, Europe´s president, saying that Chinese purchases of euro-zone bonds might be made with ´political´ motives by strengthening the Euro – in turn making Chinese exports cheaper (Evans-Pritchard, 2011).

The German Marshall Fund has conducted a comprehensive annual survey since 2003 on public opinion in the United States and 12 European Union member states: Bulgaria, France, Germany, Italy, the Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden and the United Kingdom. One aspect of public opinion that has been analysed since 2006 is whether respondents view the rise of China as representing economic opportunity or a threat. In 2006, a total of 36% of respondents in Europe viewed China as an economic threat but this number had risen to 45% in 2012. At the same time, 42% of respondents in Europe view China as an economic opportunity in 2012. Opinion on the issue was divided among the 12 EU member states, with respondents in the Netherlands and Sweden (58%), as well as in the U.K. (56%), being most likely to see opportunities in China´s economic rise, while respondents in France (65%), Portugal (54%) and Spain (51%) agreed most with the threat perception (the German Marshall Fund of the United States 2013).

It should be noted that the media coverage about the increased investments of Chinese companies in ailing Eurozone economies after the outbreak of the Euro-crises seems not to have influenced the public´s view of China on this issue. 48% of Europeans viewed China as an economic threat before the outbreak of the financial crises in 2007 but that number had actually dropped to 43% in 2012 (the German Marshall Fund of the United States, 2013). It is nevertheless a worrying trend that a majority of respondents in Europe view China as an economic threat rather than an opportunity.

On the whole, it seems that the increasing Chinese penetration into the European market is instilling some fear among political elites and the public alike who perceive China as using the opportunity presented by the weakening of the EU economies to snap up deals and increase its influence in the region. At the same time, the influx of Chinese capital has been encouraged by cash-strapped European governments burdened by the sovereign debt crises in the Eurozone. At the same time, an overestimation of China´s economic clout is taking place among the EU public and a statistical analyses reveals that while it is steadily increasing, the total volume of China´s OFDI in Europe is minute, representing only 0,2% of total stock of FDI (versus EU investment accounting for 6.5% of the stock of FDI in China).

5.4 Conclusion

Political and public fears surrounding increased FDI from a rising superpower have happened before, both in Europe and the United States. The so called ‘coca-colinization’ by American corporations in Europe which started in the sixties met fierce resistance in many European states, most notably France.

Yet, the best historical parallel is probably the explosion of FDI flows in the United States originating in Japan during the 1980s. Highlighted by deals such as the 1989 purchase of Rockefeller Center by Mitsubishi Group and the buyout of Columbia Pictures Entertainment by Sony corp. during the same year, the conspicuous spike in Japanese OFDI took place against a political backdrop that bears striking similarity to that underlying Chinese investment today: trade frictions, currency disputes, debates over state subsidies and perceptions over economic threat and relative decline (Meunier, 2012; Alexander, 1997).

The difference is that today, it is an accepted view that on balance the consequences of FDI are positive: economic vitality and efficiency, creation and preservation of jobs, high wage jobs, innovation and spill-overs from R&D, and greater economic interdependence. A look back at historical precedence suggests that OFDI will gain mainstream acceptance as it leads to economic growth, despite initial domestic political resistance (Meunier, 2012).

VI: Broader Security Threats Posed by Chinese Outward Foreign Direct Investment in the West

5.1 Introduction

In the first section of this thesis we discussed what theories from the studies on international trade and international relations might be the most useful when explaining and describing the phenomena of the expanding Chinese economy and the Chinese state's subsequent increased economic influence internationally. The main drivers of Chinese FDI in the West were analysed on that basis, as well as the way it might be viewed by Western policy makers and the public at large in terms of national security. The second section revolved around the actual data on Chinese investments internationally and in the Western hemisphere in particular. The conclusion was that while Chinese OFDI stocks and annual flows are not significant in the international context, they have been accelerating quickly since the turn of the century. This can mainly be explained by official government policy regarding the matter, which in turn reflects trends and pressures within the Chinese economic system. In the third part the public discourse regarding the matter in three different regions of the world was analysed. We found that while opinion is divided within public and official circles alike, Chinese FDI in the West has at least been met with more scepticism than similar investments coming from other regions of the world. Some similarities and differences were noted with Western attitudes toward the Japanese investment boom - mainly in the US - during the late 1980s.

In this section I will proceed to offer a judgement on whether the increases in Chinese FDI flows into the West do – objectively speaking - pose any threats to the national security of the receiving states, as sometimes maintained in the Western media. The question will be addressed separately under each of five security dimensions, as identified by Barry Buzan: (1) military security, (2) political security, (3) economic security, (4) societal security and (5) environmental security (Buzan, 2007). The judgement is based both on existing research work from various parts of the Western hemisphere and on personal assessments, taking account of multiple media reports as well as policy analyses. Although in some cases a separate assessment is needed for the more developed parts of the region in Western Europe and Northern America, and for the less developed countries in Eastern Europe, respectively, I will on the whole strive to present a general assessment for the region as a whole.

5.2 The concept of national security

As noted in the introduction to this thesis, a universally agreed definition of the concept of national security does not exist within the field of international relations. Definitions developed during the cold war period tended to overemphasize the importance of military aspects for the security of a nation as a whole, which does not fit well with the more complicated and fragmented situation of modern-day international relations (National Security Strategy, 2010).

In his book *People, States and Fear,* Barry Buzan makes a distinction between the security of states and the security of societies, which do not necessarily go hand in hand. The security of society and the individuals that live in it cannot simply be viewed as an extension of state security. Buzan maintains that the security of states and societies is about their respective abilities to maintain their independent identity and functional integrity. Security is not only about survival but also includes a range of concerns about the conditions of existence (Buzan, 2007).

It is the latter part of Buzan´s definition that provides a basis for a detailed expansion of the security concept for contemporary conditions. He goes on to categorize security into five main dimensions – recalled just above - which do not operate in isolation but are woven together in a strong web of linkages.

The result is that our understanding of the concept of security today is a much more complex one than, say, twenty to thirty years ago. National security does not only include strategic military matters and cross-border espionage but rather touches upon a wide variety of sectors which will no doubt multiply further along with the development of new technologies as well as the subsequent evolution of our societies. The concept of security is not a static one but rather constantly changing (Buzan, 2007).

In the following sub-sections I will expand on Buzan´s definition and look into each of these five aspects of national security in relation to FDI by Chinese business entities in the West.

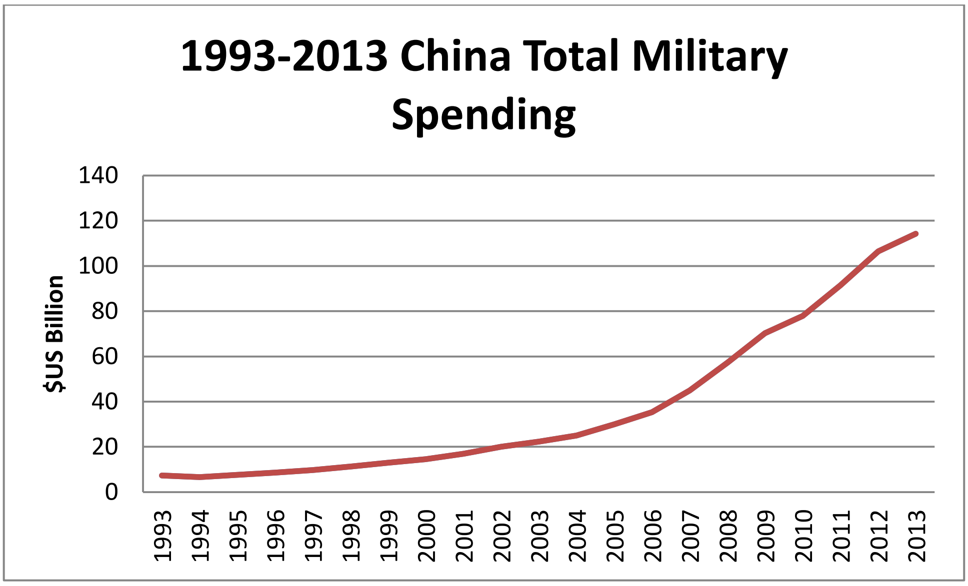
5.3 Military security

Barry Buzan defines military security as concerning a dual-level interplay of the armed offensive and defensive capabilities of states, and states´ perceptions of each other's strategic intentions (Buzan, 2007). Traditional 'hard' military security issues within the field of international relations are generally viewed by scholars and policy-makers alike through thick realist glasses. Military matters are a zero-sum game where the increase in the military capabilities of one state poses an automatic threat to the other states within the international system.

5.3.1 Chinese military strength

Along with persistent economic growth within the Chinese economy, Chinese military capabilities are universally judged to have been increasing rapidly during the past 10-20 years. Chinese military spending has been increasing steadily, although it should be noted that its share relative to the Chinese economy has stayed solid between one and two per cent of the country´s GDP.

Figure 5 - 1993-2013 China Total Military Spending



(www.globalsecurity.org, n.d.)

The table above clearly demonstrates how Chinese military spending has been increasing steadily for the past 20 years and even longer than that. But it is still comparatively lower than total military spending in the Western military organization NATO, where the combined military budgets of its member states totalled a little over a trillion dollars in 2011 (NATO, 2012). Given that the military budget of the United States alone amounted to US$708 billion (United States Department of Defence, 2010) in 2011, it is at least premature to see China´s present military capabilities as a real threat to the West.

Chinese foreign policy has long maintained a principle of non-interference in the internal matters of countries, which some scholars have traced back to the early periods of its "Century of Humiliation" starting with defeat by British forces in the First Opium War. Even though the notion that the Chinese are culturally not an expansionist nation is a highly contended one among sinologists, it is nevertheless a fact that China does not possess any overseas military bases while countries such as Britain, Russia and the United States maintain hundreds of military installations around the globe (Rogers, 2012). A brief look at China´s history furthermore reveals that during the period between the end of the Yuan dynasty in 1368 and the outbreak of the First Opium War in 1839, China fought only two inter-state wars - a remarkably low number in comparison with the nations of the West (Kang, 2010). The best indicator of China´s policy of non-interference, however, is to be found in its voting behaviour in the UN Security Council where it has usually vetoed or abstained from any resolution proposing foreign military interventions within sovereign states (UN General Assembly, 2004).

Overall, China´s military capabilities may be expected to continue increasing in both quantity and quality in step with the continued growth of the Chinese economy while at the same time the West´s military superiority vis-a-vis China is likely to decrease in the decades to come. However, the role that increased foreign investments by Chinese business entities in the West may play in this shifting 'hard' security development is minimal at best.

5.3.2 Sensitive technology and know-how

Perhaps the most tangible way in which Chinese FDI affects 'hard' security is the possible leakage of sensitive technology or know-how within industries connected with national security. A proposed foreign acquisition offers the buyer some productive or managerial expertise that it did not formerly possess. This in turn provides the home government of the foreign parent with an opportunity to control or influence the ways in which that expertise is deployed. Often this additional production or managerial expertise can be seen as strengthening, even if only marginally, that government´s national defense capabilities (Moran, 2012).

There are numerous examples of Chinese companies investing in the West running into obstacles on grounds of a perceived threat to national security. Most of those cases have happened in the US and many of them have been discussed in other chapters of this thesis. In 2005, CNOOC´s (China National Offshore Oil Corporation) proposed acquisition of US oil company Unocal fell through following fierce political resistance in the US (White, 2005). In 2012, the President of the United States blocked an attempt by a Chinese-owned company to build wind farms in Oregon near a navy site used to test drones and train for electronic warfare and air combat on grounds of a threat to national security. This was only the second time in US history that a President has issued such an order (Crooks, 2012). The Chinese telecommunications manufacturer, Huawei, saw a number of its investment plans in the US rejected before a Congressional committee concluded a year-long investigation in October 2012, which found that Huawei along with ZTE, another Chinese telecommunications maker, pose a security risk to the US. The Committee subsequently recommended that the two companies should be barred from doing future deals in America (Rogers and Ruppersberger, 2012).

Much has been written about the pro and cons of these specific actions by the US and other governments against Chinese companies involved, and they will not be discussed further in this thesis. What they mainly serve to demonstrate is the nature of threats to the military security of the host countries seen to be created by Chinese foreign direct investments. The key points to keep in mind regarding the actual threat are not only how sensitive the products/know-how at issue are, but also how broadly the additional production or managerial expertise will become available, and how big a difference the acquisition would make for the new home government.

Theodore H. Moran discusses the landmark case of proposed acquisition of LTV Corporation´s missile business by the French company Thomson-CSF in 1992 in order to illustrate the potentially worrisome technology transfer involved in foreign direct investments. Some of LTV´s missile division capabilities at the time were sufficiently close to those of multiple alternative suppliers that Thomson-CSF could obtain them from elsewhere, but three product lines had few or no comparable substitutes. Another product included highly classified technology that was at least a generation ahead of rival systems.

The French government had a 58% stake in Thomson-CSF and the company had a long history of following French government directives. It had sold products to Libya and Iraq and the sole U.S. plane lost in the 1986 U.S. bombing raid on Tripoli had been shot down by a Thomson-built missile. The U.S. Department of Defence thus initially informed Congress that it would insist upon involving the Pentagon in security assessments on LTV programs, with the result that planned acquisition was finally rejected when the two sides failed to reach an agreement (Moran, 2012).

The key lies in calculating the concentration or dispersion of the particular capabilities possessed by the acquired entity. When the entity possesses unique or tightly held capabilities that might be deployed in ways that could damage the national security interests of the home country, the risk is genuine. And as has been demonstrated above, that principle even applies to foreign direct investments originating among political allies.

It should be noted that almost all Western nations do have some legal measures in place regarding the approval of foreign direct investments. Usually foreign direct investments over a certain amount of money have to be approved by a relevant governmental entity which considers, among other things, the possible threat that particular investment might pose to the host country's national security.

5.3.3 Acquisitions of strategic bases

The surge in foreign direct investments flowing out of China in recent years has seen some acquisitions by Chinese (often state controlled) entities that might be regarded as military strategic in the geopolitical context.

In 2013, China took over management of the Pakistani port of Gwadar. Gwadar port is located in Pakistan's Balochistan Province. As it lies close to the Strait of Hormuz and Pakistan's border with Iran, it is considered strategically important. It is widely believed that the port will serve as the starting point of an energy corridor that will connect China to the Arabian Sea and the Strait of Hormuz and also provide a strategic branch for China to influence the situation in the Persian Gulf (Global Times, 2013). Some Indian analysts have seen the move as part of a Chinese "string of pearls" strategy aimed at encircling India (Reuters, 2013) while others perceive it as the prospect of a 'Chinese California': a borrowed west coast on the Indian Ocean, linked to China by a railway and oil pipeline to Xinjiang. Similar plans that have been mooted in the past for Myanmar have been met with equal distrust (Myint-U, 2011).

In the West we have seen similar worries regarding the 2010 Chinese take-over of the Greek port of Pireaus and even the proposed investment of Chinese businessman Huang Nubo in Icelandic land in 2011. The theory is that control over such strategic physical bases and infrastructure by Chinese business entities might be used by China to build up its military operating capabilities or be used as a way of infiltration, espionage or disruption of Western operations. In other words, the acquisition of those assets could afford the Chinese government a platform for clandestine observation and/or disruption.

As has been outlined above, the Chinese government has not shown any signs of planning to expand its military operations worldwide. Regarding the port of Gwadar and despite other signs of Pakistan actively wooing China (along with the country's deteriorating relationship with the U.S.), Beijing has been extremely leery of getting too enmeshed in that country, having rejected repeated requests for military basing (Drezner, 2013).

The fact also remains that national ports and other strategic physical bases do adhere to the surveillance and regulations of the host country. If, for example, a (military) vessel has been denied permission to dock by the host country, all companies managing ports within that country will have to adhere to that decision. Foreign ownership of such strategic infrastructure assets has not been seen as a security threat in the past, with London's Heathrow airport – for example - being owned partly by a Qatari as well as by Chinese sovereign wealth funds (BBC, 2012).

Chinese investments in such assets do therefore not pose an imminent security threat to Western nations. Western governments furthermore have a wide range of methods at its disposal if such investments are seen to present a possibility of a security threat. In such cases, national authorities could reject the proposed acquisition, or they could impose conditions similar to those used for foreign takeovers involving classified technologies and materials – such as a requirement to set up separate compartmentalized divisions in which employees require home country citizenship and special security vetting (Moran, 2012).

Investments by Chinese companies in the telecommunications sectors have been met with more scepticism. Many Western policy-makers fear that the running of their countries' telecommunications sectors by Chinese companies or companies using Chinese technology might give the Chinese government power to eavesdrop or even disrupt communications in times of crisis. Multiple attempts by the Chinese telecommunications manufacturer Huawei to invest in the U.S. have thus been rebuffed by American authorities with the company being branded a "security risk" by a U.S. panel (Rogers and Ruppersberger, 2012). Huawei has also been excluded from bidding on projects in countries such as Australia and the U.K.

5.4 Economic security

Economic security mainly concerns the access to markets, resources and finance necessary to develop and maintain acceptable levels of welfare and state power, according to Buzan (Buzan, 2007). The Chinese market is projected to be a major source of future growth for corporations around the world. China´s middle class already outnumbers the whole population of the United States on some estimates, and the spending power of this rapidly growing group of mainly urban dwellers is projected to transform the Chinese market and become one of the major drivers of future international trade.

5.4.1 Access to the Chinese market

The Chinese economic model has long relied on exports and fixed asset investments for economic growth. This mercantilist system of export promotion which has resulted in huge trade surpluses vis-à-vis Western countries and ever-growing foreign-exchange reserves held by the People´s Bank of China (the Chinese central bank) is not thought to be sustainable for the future (Naughton, 2007).

The 2008 financial crisis exposed the vulnerability of the Chinese economic system inherent in its over-reliance on external demand from the West. The State Council´s most recent five-year plan highlights the need for the Chinese economy to shift away from being driven by exports and fixed-investment to one driven by local consumption (The State Council, 2012), and according to some analysts that trend seems to be taking off already (The Economist, 2012). It is thus highly likely that exports to the Chinese market will become a vital part of the economic growth of many Western countries in the near future.

The Chinese government has been known to economically punish countries which it perceives as going against its core interests. These unilateral sanctions usually take the form of unofficially denying those countries´ products access to the Chinese market. Exports of Norwegian salmon (Norway´s main export product to China) plummeted by more than 50% in the first eight months of 2011 (Relly, 2012). Although China never officially admitted to sanctioning the Norwegian salmon industry, the decrease in Chinese demand for Norwegian salmon was widely believed to be a result of the Norwegian Nobel Committee's awarding Liu Xiaobo, a jailed Chinese dissident, the 2010 Nobel Peace Prize.

A similar trend was noticed by Andreas Fuchs and Nils-Hendrik Klann who conducted an investigation into the extent to which the state of bilateral relations has an impact on exports to China. They ran a gravity model of exports to China by 159 partner countries between 1991 and 2008. The study´s results indicate that China punishes countries that receive Dalai Lama at the highest political level. The punishment is usually characterized by a decrease in exports to the Chinese market and has led to the coining of the term 'the Dalai Lama Effect' (Fuchs and Klann, 2010).

In terms of the implications of Chinese inward investment which are under study here, the question is whether China could deny (or threaten to deny) a Western country's products access to the Chinese market as a way of forcing better treatment for Chinese-owned companies within that Western state. Could the government of the receiving country be tempted to over-favour the interests of those Chinese-invested entities in order to avoid economic punishment by the Chinese government in the form of being cut off from the Chinese market?

The first thing to keep in mind regarding this scenario is what China might gain by such an action. As was discussed in section two, Chinese companies tend to invest in Western companies within such sectors as energy, resources, consumer products and manufacturing of high value-added products. The reason for Chinese companies to invest in the energy and resources sectors is China's need for those materials in order to maintain economic growth within the Chinese economy. Chinese companies furthermore invest in Western hi-tech corporations in order to gain access to technological know-how, management experience and human talent. In any of those sectors it would not make much sense to forbid such Chinese controlled companies access to the Chinese market, since it would both hurt those companies financially and deprive China of access to valuable resources needed for future economic growth.

If China should, on the other hand, try to sanction other non-Chinese controlled companies within a specific host country and deny their products access to the Chinese market, it could prompt retaliation by the government of that specific country against Chinese companies within its borders. Such an action could even have the unwanted effect of making other Western countries wary of foreign direct investment originating in China and thus possibly do damage to China´s overall FDI strategy in the West.

Following this reasoning and given that China wants to be perceived as a responsible business partner, it can even be argued that increased presence of Chinese companies as 'hostages' within a Western state could minimize the possibility of China's politically motivated economic punishment against that state.

5.4.2 Access to resources

As was demonstrated in the second section of this thesis, China has emerged as a major international player in the scramble for the world´s resources. This has been particularly notable in the oil, gas and minerals sectors, with a marked surge in Chinese investments from

2008 onwards. Chinese entities within the oil and mineral sectors have become competitors to international oil companies and global mineral conglomerates.

The potential threat that this has been seen to represent has resulted in extreme political responses to Chinese investment proposals. CNOOC's failed 2005 bid to acquire UNOCAL has been mentioned before, but there are also known cases of hostility towards Chinese investment bids within the extractive sectors in Australia and Canada (McClearn, 2012).

The main reason behind increased investments by Chinese companies in the oil and mineral sectors is simply China's need for those resources. China had always insisted on being self-sufficient regarding food, energy and resources, but already by the late 1990s it became obvious to Chinese policy-makers that if the Chinese economy was supposed to keep growing, at least part of the resources needed to fuel that growth had to be imported from abroad. Chinese (mostly state-owned) companies therefore started to invest in the overseas production of those resources in order to guarantee continuing supply.

The main concern that this trend of increased Chinese investments within the above-mentioned sectors has spurred revolves around the possibility of Chinese companies 'locking up' the global resource base. Will those investments result in cutting off other (non-Chinese) buyers from access to the world supply?

Researchers at the Peterson Institute for International Economics have investigated this trend of Chinese acquisition in the resource sector and identified four forms of Chinese procurement of capital to procure natural resources:

1. Chinese investors take an equity stake in a large established producer so as to secure a share of production on terms comparable to other co-owners.
2. Chinese investors take an equity stake in an up-and-coming producer so as to secure a share of production on terms comparable to other co-owners.
3. Chinese buyers and/or the Chinese government provide financing to a large established producer in return for a purchase agreement to service the loan.
4. Chinese buyers and/or the Chinese government provide financing to an up-and-coming producer in return for a purchase agreement to service the loan.
   (Moran, 2010)

These four forms of investment provide the basis for giving operational definition to the concept of tying up supplies. If the procurement arrangement simply solidifies the Chinese partner's legal claim to a portion of the output of an established large producer (the first and third examples above,), ´tying up´ or gaining preferential access to supplies has zero-sum implications for other consumers. However, if the procurement arrangement expands and diversifies sources of output more rapidly than growth in world demand (as in the second and fourth examples above), the zero-sum implication vanishes as other consumers gain easier access to a larger and more competitive global resource base.

A further study carried out by the Peterson Institute for International Economics concludes that the majority of Chinese investments within the resources sector come in the form of equity investment in "a smaller player or a new entrant" (Moran, 2012, p. 19), with an estimated 63% of projects having the effect of diversifying and making more competitive the relevant portion of the world natural resource base.

Even though the bulk of Chinese foreign direct investments in the West have been flowing into the resource sector, that sum only constitutes a fraction of China´s total investments within the same sector globally. The majority of Chinese investments within the sector are made in Latin America with Africa and Oceania following suit, where Chinese companies are competing with Western and local business entities.

There has been much debate over export restrictions placed by China on rare earth minerals. China controls 97% (AFP, 2011) of global production of rare earth minerals, so such export restrictions mean rocketing prices for elements critical to manufacturing everything from iPods to low-emission cars, wind turbines and missiles. China´s official explanation for the restriction relates to consideration for the environment and the sustainable utilization of resources, rather than export protection.

The important point to grasp is that even though China does control such a large proportion of the global production of rare earth minerals, the same elements are is to be found in numerous countries around the world. The fact is that the world price for these resources has traditionally been so low that it has not been economically viable to exploit them until now. China´s monopoly of the production of rare earth is thus a temporary situation which will resolve itself once other countries start to dig up their own deposits of rare earth minerals (Badkar, 2012).

Keeping in mind the fact that China is nowhere near gaining a monopoly on global production of either oil or minerals (except for rare earths), it is difficult to single out Chinese foreign direct investments in the sector of natural resources as posing a direct threat to the security of Western nations. China only accounted for 1% of the total value of metal production worldwide in 2009, with the figure for oil production an even smaller fraction (Dannreuther, 2012).

5.4.3 Access to finance

Being the largest single foreign holder of U.S. debt, China held over US$ 1.2 trillion in bills, notes and bonds in 2009 according to U.S. official statistics. China´s foreign exchange reserves have increased over 35% since that data was collected so it is fair to assume that its share of U.S. debt has at least not decreased during that time (Murse, 2009).

Most EU governments do not disclose the composition of foreign holders of their public debt, but according to reports and media articles written since the outbreak of the Euro-crisis in 2010, China has been increasing its holdings of the public debt of cash-strapped EU governments (Ross-Thomas, 2011, The Telegraph, 2012). China has bought and/or promised to buy Greek, Spanish, Irish and Portuguese government bonds since 2010.

It is impossible to be certain of Chinese bond purchases in Europe. China does publish its total currency reserves but the composition of those reserved by country is a state secret. At the same time, Europe does not publish any aggregated or coordinated data on foreign purchases of public debt in the EU 27. Few member states reveal any of this information.

The question here is whether these holdings of Western public debt by China place it in a position where it can dictate the policy of Western states regarding fiscal and monetary matters. If China is already in or close to gaining such a position, do increased foreign investments by Chinese companies in the West increase the likelihood of China taking advantage of such a position?

Occasional commentaries published in the Chinese media have urged the selling of mainly U.S. Treasury securities in response to U.S. policies that run contrary to China´s interests. In 2010, three high level major generals in the People´s Liberation Army were quoted in an official Chinese publications as calling on China to ´dump´ U.S. Treasuries as punishment for the Obama Administration´s notification to congress that it would provide a package of arms to Taiwan (Carpentier, 2010). Ding Gang, a senior editor with China´s People´s Daily, wrote in an editorial in August 2011 that China should directly link the amount of U.S. Treasury holdings with U.S. arms sales to Taiwan, stating that ´now is the time for China to use its "financial weapon" to teach the United States a lesson if it moves forward with a plan to sale arms to Taiwan´ (Gang, 2011).

There is no evidence, however, that Chinese authorities have acted upon these recommendations. On the contrary, China has continued its purchases of large amounts of U.S. Treasury securities with officials at China´s State Administration of Foreign Exchange

(SAFE), which manages China´s official foreign exchange reserves, repeatedly stating that they base the operation and management of foreign exchange reserves on the principle of safety, liquidity, and potential revenue (China Daily:USA, 2012).

The Western treasuries market is a deep and liquid one, with a large pool of potential investors, both domestic and foreign. It does not depend on any single investor. China´s holdings of U.S. Treasury securities at the end of March 212 were only slightly more than 2% of total U.S. credit market debt estimated by the Federal Reserve´s Flow of Funds data (Office of the Secretary of Defence, 2012), and there are indications that its holdings of European debt have been highly exaggerated in Western media reports (Godement, Parello-Plesner and Richards, 2011). These figures indicate that the ability of China to affect the markets for treasury bonds and finance more broadly is limited.

Should China decide to reduce its holdings of Western government debt suddenly and significantly, it could cause short-term disruption in the secondary market leading to an increase in the interest rate required by the market for debt issued by the central banks of Western governments. This dramatic option, however, would also impose significant costs on China itself. By abruptly attempting to sell off large quantities of Western debt, China would dramatically increase the supply of those bonds on the secondary market, and their subsequent value could fall sharply. This would in turn lead to China´s own holdings of the debt falling in value, thus causing direct financial losses to China.

Apart from undermining the value of its own holdings, a policy decision by China to reduce suddenly and significantly its holdings of a Western state’s government bonds would fundamentally change the international finance and business community´s perception of China as a respected economic and financial partner.

China could surely decide to stop buying government bonds of a Western country as a way of putting pressure on the government of that country to cater to the interests of Chinese invested business entities within that country, but as was mentioned above, the international bonds market is a deep and liquid one with China in a limited position to influence its workings. If China decided to stop buying Western bonds per se, it would face the difficult predicament of finding alternate investments. No other market offers the same level of depth, liquidity and safety as the Western bonds market. Investing in developing country debt offers the potential of higher returns but at a much higher risk with very limited liquidity and volume.

A 2012 Pentagon report to Congress which assessed the national security risks posed to the United States as a result of the U.S. Federal debt owed to China concluded that attempting to use U.S. Treasury securities as a coercive tool would have limited effect and likely would do more harm to China than the United States. As the threat was not credible, the effect would be limited even if carried out and did not offer China deterrence options, whether in the diplomatic, military or economic realms (Office of the Secretary of Defence, 2012).

5.5 Political security

According to Buzan´s analyses, political security concerns the system of government, the organizational stability of the state and the ideologies that give them legitimacy (Buzan, 2007). The question we face here is whether increased Chinese investments in the Western world could have the effect of increasing China´s cultural influence over the minds of the citizens of Western states to the extent that the ‘Chinese Model’ of running a society might become more attractive than the current ‘Washington consensus’ in the U.S. or the free market social-democratic model of many European states. Will increased investments by Chinese companies in the West increase China´s capacity to influence other nations to identify with China´s interests as their own?

This discussion inevitably leads us to China´s efforts to strengthen its so-called “soft power” capabilities. Joseph S. Nye, Jr. defines the concept of soft power in his 2004 book, *Soft Power: The Means to Success in World Politics* as being a country’s ability to influence events through persuasion and attraction, rather than military or financial attraction (Nye, 2004). It is a widely held view among analysts that China has been working purposefully to advance its soft power abilities in recent years.

In his keynote speech to the 17th National Congress of the Communist Party in 2007 the then President, Hu Jintao, stressed the need to enhance the role of Chinese culture as an instrument of soft power “to better guarantee the people´s basic cultural rights and interests” (People's Daily Online, 2007). In 2013, China inaugurated its first non-profit organization dedicated to the promotion of soft power – the China Public Diplomacy Association (CPDA). Foreign Minister Yang Jiechi attended and spoke at the unveiling ceremony for the group, which elected as its president Li Zhaoxing, the chairman of the Foreign Affairs Committee of China's National People's Congress. Among the aims of the association will be to work towards the goal of China´s wider acceptance by the international community, as well as deepening cultural exchanges and telling the world the story of China´s peaceful development (Yunbi, 2013).

This all coincides with the Chinese government´s considerable financial and human resources investment in its promotion of Chinese language and culture, best seen in the expansion of the government-sponsored Confucius institutes, which from the inauguration of the scheme in 2004 up to 2012 grew to 358 institutes situated in 104 countries and regions (Liu, 2012; Ren, 2012).

Further, China Radio International and China Central Television (both state-run media outlets) today broadcast in English around the clock. In 2009-10, Beijing invested $8.9 billion in external publicity work, including 24-hour cable news channels (Nye, 2012).

But is the investment paying off? In reality, there are many indications that it is not. A major point here is the simple fact that the Chinese government (the Communist Party of China) lacks political legitimacy compared to most Western governments in the eyes of the Western public: it is not democratically elected, it does not allow free speech, it does not have to answer to the judicial system and it is rife with corruption. Data released by the Pew Research Global Attitudes Project demonstrate that while China generates favourable views among respondents in Russia and the Middle East, all the Western countries surveyed except for Greece hold a negative attitude towards the country (Pew Research Global Attitudes Project, 2013). It should be noted that a different survey commissioned by the BBC demonstrates that attitudes toward China, while still generally negative among Western nations, might be showing signs of improvement (BBC World Service, 2012).

China has long complained about the so called ‘China-bashing’ habits of Western media when reporting on Chinese politics and society. As seen by Beijing, Western media outlets neglect the overall positive social developments that are taking place within Chinese society and tend to focus on negative news, thus doing damage to China’s hopes of increasing its overall soft power. While this complaint may not be completely unfounded, the fact remains that ‘in an Information Age in which credibility is the scarcest resource, the best propaganda is *not* propaganda‘ (Nye, 2004).

Major international events that China has hosted in recent years such as the 2008 Olympic Games and the 2010 Expo have been great successes and did much to advance China´s soft power. But those success stories have coincided with the jailings of Nobel Peace Prize Laureate Liu Xiaobo and internationally renowned artist Ai Weiwei, as well as over 100 self-immolations of discontented Tibetans campaigning for increased autonomy. Such attempts to suppress information and silence dissidents have fed the perception among the Western public that, despite all its power and remarkable achievements, the CCP remains at its core an authoritarian government with zero tolerance towards views and opinions that might loosen its grip on power.

China’s efforts to increase its soft power through the entertainment industry have furthermore been far from successful. Chinese music is little known outside of China and Chinese diaspora communities in the West, while Chinese movies have been even less successful in Western markets. Many have pointed to the fact that influential works of art are not to be expected from a Chinese entertainment industry that has been traditionally restrained by censorship.

The Chinese State Administration for Radio and Film (SARFT) is an executive agency with the main task of administrating and supervising the Chinese media industry. It is responsible for censoring any material that offends official sensibilities and in 2009 issued a directive highlighting 31 categories of content that are prohibited, including violence, pornography, and other content that may “incite ethnic discrimination or undermine social stability.” In 2011 SARFT expressed particular disapproval of programs with a plot that involved time travel back to a Chinese historical era (Perkowski, 2013), and in 2012 it banned remakes of TV dramas adapted from online games and urged dramas to cut back on excessive family content - to name just a few examples (Globaltimes.cn, 2012).

The environment of censorship has also led to artists in every field being forced to self-censor their content, leading Perry Link to describe the current state of censorship in China with the image of an ‘anaconda in the chandelier.‘ Like the giant snake, the Communist Party does not need to do much. It is simply there, as everyone knows, and what provokes it is unclear. The anaconda's constant, silent message is "You decide." This kind of threat, usually silent but occasionally and unpredictably enforced, has the effect of forcing artists to constantly self-censor their content, thus stifling creation (Link, 2002).

It should thus not come as a surprise that in the current Chinese media environment, prominent directors have refrained from tackling current subjects and tend to focus on historical epics. Chinese media art lacks a cutting edge, with the commercially most successful and influential cinema feature celebrating China´s rich cultural history - Kung Fu Panda - actually being an American production.

China´s current efforts to advance its soft power in the West have thus not been met with any marked success. When those efforts are coupled with the low levels of political legitimacy enjoyed by the Chinese Communist Party in the eyes of the Western public, there seems little probability of a Western nation starting to identify with China´s interests as being its own; and prominent scholars have gone as far as deeming China´s soft power moves ‘doomed to fail’ (Keck, 2013).

The other side of the coin is the Western public support for the Western way of democratically running a society, including its practical benefits. Some might argue that the Western economic system experienced what some have called a systemic failure in the wake of the 2008 financial crisis, with political repercussions that include high levels of public discontent in many countries in North America and especially Europe. But the current political model of democratic votes, freedom of speech and social equality as such has never really been called into question by more than a very small extremist fringe among the Western public. And indeed, the lessons of the economic crash have led serious Western journalists to probe harder for weaknesses and uncertainties in China’s own economic, social and political models.

Overall, it is fairly safe to say that the chance of China´s soft power efforts having the efforts of attracting Western public support for a more ‘Chinese way’ of running a society is minimal. And even if is such efforts by the Chinese state should in the end prove successful, the role foreign investments by Chinese companies in the Western world would play in such an evolution would be minimal.

5.6 Societal security

Societal security, according to Buzan´s definition, concerns the ability of societies to reproduce their traditional patterns of culture, association, language and religion and national identity as well as customs within acceptable conditions of development (Buzan, 2007). With its emphasis on the reproduction of traditional patterns of culture, language and religion, the concept of societal security bears a distinct relation the concept of political security discussed above in the sense that it revolves around the society´s ability to resist unwanted influences stemming (among other things) from others’ efforts to promote their soft power abroad

But patterns of association, national identity and social customs, religion and language do also involve aspects that do not fall so clearly under the concept of political security and should thus be addressed separately. The concept of societal security moves the focus from state-based definitions of independence, sovereignty and integrity to the importance of such factors – both objective and subjective - for a nation´s society as a whole. It covers general economic and social conditions as well as the effectiveness of key infrastructures, social services, and emergency response. As Alyson Bailes has pointed out, the main executors of societal security at the official level are mainly civilian departments and agencies that are grouped and coordinated in a variety of ways (Bailes & Gylfason, 2008). Those entities might include private sector actors, NGOs and various pressure groups as well as specialized governmental agencies.

Any reflection on possible threats to societal security of Western nations posed by increased foreign direct investments originating in China should include possible threats posed by those Chinese business entities operating within Western nations to the traditional patterns characterizing Western societies mentioned above. One of the main influences Chinese business entities operating in the West have on social issues within the host countries is the issue of labour practices. The labour market environment of Chinese companies operating within China is different from what we are used to in the West, with the main difference lying in the Chinese government´s insistence on not allowing the formation of independent labour unions. This prevents Chinese workers from connecting together to collectively negotiate their labour rights.

This lack of freedom of association for Chinese workers vis-à-vis their Western counterparts, coupled with the stark difference in economic development between China and the West, results in Chinese workers working longer hours than their counterparts in the West for less pay and in poorer health and safety conditions. The average Chinese worker gets fewer holidays than the average worker in the West and the general bargaining position of the Chinese workforce vis-a-vis their employers is generally much weaker than what we are used to in the West.

It can be argued that the labour conditions record of Chinese companies investing in mainly third world countries has done much harm to China's image abroad, particularly because of the visibility and sensibility of a subject that affects the poorest of the poor. A 2011 report by the Human Rights Watch on Chinese activities in Zambia details the persistent abuses in Chinese-run mines, including poor health and safety conditions, regular 12-hour and even 18-hour shifts involving arduous labour, and anti-union activities, all in violation of Zambia's national laws or international labour standards. The Chinese-run copper mining companies in Zambia are subsidiaries of a large state-owned enterprise under the authority of China's highest executive body (Human Rights Watch, 2011). Similar studies conducted in other African countries as well as in Latin America have reached similar conclusions regarding the labour rights record of Chinese companies investing in mainly the natural resource sector and mining (Kotschwar, Moran, & Muir; Kabemba, 2012).

Complaints from trade union officials within EU member states have also become louder in the wake of the Chinese outbound investment boom that has been taking place since 2010 following the Euro-crisis. China´s largest (state-run) shipping corporation, China Ocean Shipping Company (COSCO), leased half of the port of Pireaus - Greece´s largest port – for 25 years in a deal that supposedly put 500 million Euros into the coffers of the cash-strapped Greek government (Alderman, 2012). Since the deal went through, Greek union leaders have complained about COSCO importing the Chinese labour model into EU territory, with workers at the Chinese side of the dock not being allowed to organize trade unions and complaining about too much work, not enough pay and violations of safety regulations by their Chinese employer (ShippingOnline.cn). Similar concerns have been heard from trade union representatives in other EU states such as Hungary.

Another aspect characterizing outbound investments by Chinese companies - mainly in large construction projects as well as mining - that has been worrying trade union representatives around the world is the companies´ tendency to use a Chinese workforce brought from home. Due to the different labour rights environment between China and the West, Chinese workers are usually willing to work longer hours for less pay than local ones. Union leaders around the world, including those in Europe, have raised concerns that such practices by Chinese business entities operating abroad could spill over into other industries and damage general conditions in a manner often described as 'social dumping'. The result might be that other non-Chinese run companies might be influenced by what the Chinese are doing towards lowering their labour costs and reducing workers´ rights.

Legislation passed by the Greenlandic government in December 2012 indicates that those worries have a very real basis. Greenland is rich in oil, gas and minerals and latest satellite data reveal that 97% of the surface of the Greenland ice sheet underwent surface melting over four exceptionally warm days in July 2012, indicating that natural resources will become more available for extraction in the coming decades (Harvey, 2012). This development has put Greenland on the map for large Chinese corporations seeking mineral wealth and oil resources to exploit and the authorities in Greenland have generally welcomed this development. In order to encourage foreign investment, the Greenlandic parliament passed a law that would relax labour regulations for foreign (mostly Chinese) companies seeking to take advantage of the natural resources of the Arctic island (IceNews: News from the Nordic, 2012). The law would pave the way for foreign business entities operating within the mining and explorations sectors in Greenland to employ foreign workers at a lower salary than the Greenland minimum wage (Chicago Tribune, 2012). The regulation was widely perceived to having been passed to allow large Chinese mining corporations to import their own workforce to work on their projects for lower wages than the average local worker would demand. It should be noted that this legislation never entered into force, caused considerable controversy in the Danish Parliament, and has been linked by many with the then government of Greenland´s loss in subsequent elections (The Economist, 2013).

The protection of the basic labour rights of workers through strong labour legislation is an integral part of the national identity and social systems of the vast majority of Western nations including the U.S. Authorities and labour unions in the West will have to be extremely vigilant to ensure that Chinese controlled business entities in the West adhere to the labour regulations in the host countries they are operating within. It is important here to grasp that labour legislation in any given country as well as the power of enforcement lies solely in the hands of the host country´s government. Even though it can be tempting for economically sluggish Western states to cater to the demands of potential investors from China and other countries, insistence on compliance with the state´s legal framework as well as its society´s basic values should never come into question.

As experience has demonstrated in the developing world as well as in the less developed parts of Europe, societies where lax regulations and weak political institutions are prevalent are more vulnerable when it comes to standing up to financial power of large business entities. In such cases, independent advocacy groups and Non-Governmental Organizations will play an especially important role in resisting threats posed by increased outbound investments of Chinese business entities to the societal security of their home nations.

5.7 Environmental security

Environmental security, according to Buzan´s national security definition, concerns the maintenance of the local and the planetary biosphere as the essential support system on which all other human enterprises depend (Buzan, 2007). Unlike many of the security concepts discussed above, the concept of environmental security is not merely confined to security at the national level but can have trans-national implication. The question of environmental pollution is a global one where environmental degradation in one state can cause threats to environmental security in nations far away from its borders. This is particularly true in densely populated regions with multiple nation-states such as Europe.

The environmental problems currently facing the P.R.C. are known around the world. The break-neck economic growth that has been taking place within China has taken its toll on the environment in a country with an underdeveloped environmental protection framework and where official corruption is rampant. Environmental degradation in China is now so severe, with such stark domestic and international repercussions, that pollution poses not only a major long-term burden on the Chinese public but also an acute political challenge to the ruling Communist Party.

The Chinese economy relies on coal for two-thirds of its energy needs (U.S. Energy Information Administration, 2013). It has abundant supplies of coal and already burns more of it than the United States, Europe and Japan combined. But even many of its newest coal-fired power plants and industrial furnaces operate inefficiently and use pollution controls that would be considered inadequate in the West (Kahnk & Yardley, 2007). This heavy reliance on coal, coupled with a boom in private car ownership, has led to high rates of air pollution in China´s largest cities and major industrial areas. Official readings of PM2.5 - tiny particulate matter that can penetrate deep into the lungs – in cities such as Beijing, Tianjin and Shenyang have in recent years frequently reached levels of more than 20 times higher than the World Health Organization´s safety levels (Watt, 2013).

A 2009 study furthermore revealed high contamination levels of heavy metals in urban and agricultural soils across the Chinese mainland, stemming from traffic and industrial sources as well as mining activities, fertilization, pesticide etc. (Wei & Yang, 2009). The Chinese Ministry for Environmental Protection has refused to release data from a national soil contamination investigation launched in 2006, saying it involved national secrets, but many believe the real reason behind its secrecy to be results pointing towards severe pollution in China´s soil (CHINADAILY.com.cn, 2013).

Water pollution is also a major problem with all of China´s water bodies polluted to various degrees of severity. Serious pollution has been documented in the country´s seven major watersheds with both municipal and industrial wastewater inadequately treated. Only five per cent of household waste and seventeen per cent of industrial waste receive any treatment at all (World Resource Institute, e.d.).

The rampant pollution in China poses a major health risk to the Chinese population. Respiratory disease is the number one cause of death in China with rates of chronic lung disease in some severely polluted regions at least five times higher than in the rest of the country. In 2007, the World Bank estimated that diseases triggered by air pollution killed at least 656.000 Chinese citizens each year, with polluted drinking water being responsible for a further 95.600 deaths (Platt, 2007; The World Bank; State Environmental Protection Administration, P.R.China, 2007).

The government has set numerical targets for reducing emissions and conserving energy. Export subsidies for polluting industries have been phased out and different campaigns have been started to close illegal coal mines and shut down some heavily polluting factories. Major initiatives are under way to develop clean energy sources like solar and wind power, and China became the world´s biggest investor in renewable energy in 2013 (Clark, 2013).

But most of the government’s targets for energy efficiency, as well as for improving air and water quality, have had poor results as the leadership are either unwilling or unable to make fundamental changes. Land, water, electricity, oil and bank loans remain relatively inexpensive, even for heavy polluters. Beijing has declined to use the kind of tax policies and market-oriented incentives for conservation that have worked well in Japan and many European countries (Kahnk & Yardley, 2007).

Provincial officials, who enjoy substantial autonomy, often ignore environmental edicts, helping to reopen mines or factories closed by central authorities. Overall, enforcement is often tinged with corruption and a social system that favours economic growth over everything else.

The problem that arises here for Western nations receiving Chinese investments is similar to that discussed in the previous section on societal security: many are concerned that China will end up exporting its poor domestic environmental track record to other parts of the world through its foreign investment strategy. The difference in corporate cultures between China and the West regarding environmental protection and social responsibility of businesses, reflecting in turn the two regions´ difference in economic development, does pose a threat to the environmental security of Western countries hosting (large) Chinese investment projects.

As with the threats to societal security posed by Chinese businesses investing in the West, legislation in the host country as well as the power of enforcement lies solely in the hands of the host country´s government. Even though it can be tempting for economically sluggish Western states to cater to the demands of potential investors from China and other countries, insistence on compliance with the state´s legal environmental framework should be beyond question as it is actually vital for the future economic growth of Western countries.

China has taken some steps in recent years to limit the environmental damage caused by its companies operating abroad. In October 2006 the State Council, China’s highest government body, issued nine principles regulating foreign investments by Chinese companies. Among other things, the Council called on Chinese investors to pay attention to environmental resource protection and to preserve China´s good image and a good corporate reputation. In 2013, The Chinese Ministry of Commerce and Chinese Ministry of Environmental Protection followed suit by issuing environmental guidelines for Chinese companies to follow when investing abroad, calling on them to pay more attention to pollution and its impact on local communities (Bloomberg, 2013).

China Exim Bank, the largest state-owned lender to Chinese business entities investing abroad, is also an example of China's effort to adopt environmental guidelines regarding outbound investment. The bank adopted an environmental policy in November 2004. According to the policy, projects that are harmful to the environment or do not gain endorsement or approval from environmental administrations will not be funded. It furthermore stipulates that if any unacceptable negative environmental impacts result during the implementation of a project, China Exim Bank will require the implementing agent to take immediate remedial or preventive measures, or to risk losing financial support (China Export and Import Bank (China EXIM Bank), 2007).

Despite those efforts made by Chinese authorities to build a positive image of China´s overseas business activities, the negative environmental footprint of Chinese companies investing abroad has still been felt by some, mainly developing, host countries (Bosshard, 2008).

Most Western nations have already learned the hard lesson that economic growth should not come at the cost of environmental destruction. Sound environmental regulations are in place within the majority of Western states where environmental awareness among both the public and businesses is among the highest in the world. Even though some differences do exist between the more affluent parts of Europe and North America on the one hand and the eastern parts of Europe on the other, Western nations on the whole are very well equipped to cope with environmental security threats posed by investments originating within China. But given the past environmental track record of Chinese industry at home and abroad, governments and civil society in Western countries hosting Chinese investment must be ready and willing –without fear or favour - to enforce their own environmental legal frameworks, and those of any regional organizations (like the EU) they belong to.

VII. Conclusions

China´s economic growth for the past 35 years is unparalleled in modern economic history and has reinstated the Middle Kingdom as a major player in the world economy. China as of today is the second largest economy in the world and the number one exporter. But even though China´s total outward foreign direct investment stock and yearly outward investment flow has been increasing rapidly since the turn of the century, it is still relatively low in relation to the country's economic size. This is also true for the region defined as ´the West´ in this thesis, which is the recipient of approximately 12% of total Chinese outward investment flows in 2011.

Economic factors such as the need for resources to fuel continuing economic growth, China´s huge foreign reserves holdings, the lack of technical as well as managerial know-how within Chinese companies, and the lack of investment opportunities for private investors in China have led to the government's adjusting its outward foreign direct investment policies in order to encourage Chinese business entities to invest abroad.

China´s overall economic policy regarding international economic relations can best be described as mercantilist, where the world economy is perceived in zero-sum terms with the objective of the Chinese state being to cut as large a slice as possible of the global economic cake for itself. This has in turn led to the accumulation of the greatest amount of foreign reserves in modern economic history by the People´s Bank of China. Experiences since the 2008 economic crash have underlined that objectively, Chinese economic interests are becoming more co-dependent with others – Chinese growth has for instance been hit by the downturn in its Western export markets – but it is far from clear how far the lessons have been digested, and with what consequences, in Beijing.

Understanding China´s mercantilist approach to the global economy is also extremely helpful when analysing the key economic drivers behind China´s overall outward foreign direct investment policies. Economic policies are dictated by the state, which steers finance in the form of subsidies towards business entities – both state-controlled and private – operating within certain core sectors of the Chinese economy, aiming to make them more globally competitive and to secure raw materials and technical know-how that is in short supply within the borders of China proper.

At the same time, the trend of increased outward foreign direct investments by Chinese companies tends to be understood by a large portion of Western policy-makers - as well as the public at large - in terms of strategic realism. The increased business activity of Chinese companies in western states and societies is seen as boosting the material capabilities of the

Chinese state vis-a-vis the West, thus unsettling the balance of power within the international system that has traditionally worked in the West´s favour for past centuries.

Surveys conducted in recent years have also demonstrated a hostile attitude among a large part of the Western public toward the economic rise of the Chinese state. The rise of China tends to be associated with the larger trend of globalization and is thus seen as the main reason behind the West's decreasing economic dominance, as well as the main driver for large-scale transfers of mainly un-skilled manufacturing jobs away from the more developed parts of the world.

This appears to have led to a kind of bottom-up securitization of the concept of Chinese foreign direct investments in the public discourse of many Western nations, which in turn seems to have spilled over into the official political domain. Political actions to block Chinese investment proposals by authorities in many Western countries such as Iceland, the U.K. and during presidential campaigns in the U.S. – sometimes on the grounds of national security – can be seen as a part of this securitization process.

This thesis has systematically examined the possible threats to the security of Western nations posed by the trend of increased foreign direct investments by Chinese business entities in the relevant regions. Its findings support the hypothesis that such investments are made with mercantilist economic interests in mind, but not the view that they form part of a bigger plan by China to gain a strategic foothold in the West. In particular, the phenomenon does not appear to pose an imminent threat to the military security of the host countries nor their allies.

On the contrary, it seems that the strategic threat posed by increased Chinese investments in the West is overstated by the Western public as well as some Western governments. Chinese foreign direct investments certainly pose challenges to some aspects of the security of Western states but these do not include hard national security threats.

A continuing increase in the business activities of Chinese companies operating in the West will put increased pressure on the host country authorities to ensure compliance by Chinese companies with local legislation in such fields as labour rights, environmental protection and financial regulations. Success in this would ease at least one part of the problem by 'training' Chinese business to accept the need for higher standards, just as they have begun to learn the disadvantages of overly unprincipled and reckless deals in weaker states. More generally, however, the sheer size of the Chinese state coupled with its economic power will continue to place the smaller Western states in an unequal position in the relationship, which might prompt them to seek counter-balancing measures elsewhere.

Finding shelter for this purpose among the larger Western states might be hard, since the relationship with China is fast becoming one of the most important and delicate foreign policy issues for most Western nations. Further research is therefore needed in order to identify the range of possible counter-balancing measures – with their benefits and costs - for small Western states intending to expand their dealings with China.

One option for the small states in the West, as with their strategic and economic shelter in general, would be through participation within multilateral organizations that handle international trade and cross-border financial interactions. China has long preferred and instrumentalized direct bilateral relationships with the countries of the world, emphasising 'mutual friendship', while paying only lip-service to regional organizations such as ASEAN, EFTA and the EU. At the same time, Western states´ approach to China in the wake of the Euro-crisis has been characterized by mutual competition for Chinese business and investment projects, to a degree that may at times have caused the countries of the region to work against their collective interests and reduced their chances of striking a better deal.

NATO membership is absolutely vital to the military security of many Western nations but is of little help when dealing with global economic issues that cannot be directly associated with hard security matters. Small states within Europe should rather increase their coordination within the EU and EEA (and in trans-Atlantic dialogue) by unifying around their collective interests, and working to create a rules-based and level playing-field for handling foreign direct investment from a 'rising' third country such as China. Such a move might even increase access by Western corporations to investment opportunities within the more closed Chinese economy by emphasising reciprocity regarding the matter of foreign direct investment.

The idea of a more collective, institutionalized approach to the Western economic relationship with China also raises the question whether drawing China more deeply into the international institutional framework governing the global economy could in itself constrain and modify Chinese behaviour in a way that would dampen friction. Any progress made in leading Chinese decision-makers to recognize, and draw the consequences from, inter-dependence with in the global economic system ought also to minimize the political pressure that has tended to follow the increased economic activities of Chinese business entities operating within the West.

Such an approach could only succeed if it also empowered China through giving it more say in the running of the relevant institutions. It might even work in China´s self-interest by reducing the suspicion prevalent among the Western public towards China´s economic rise, as well as further increasing its access to Western markets and know-how.

Even though future developments within the Chinese political system are hard to guess, it seems that China´s economic power within the global economy is here to stay for some time to come. With the Chinese economy growing at above 7% in 2012 and the West in relative economic decline, we can only anticipate that Chinese foreign investments in developed as well as developing regions will continue growing. Therefore, a common policy among the nations of the West regarding the different implications of Chinese foreign direct investment is needed for the mutual benefit of all parties.

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