

Pernille Dignes

# Chinese FDI

A source of power?

Master's thesis in European Studies

Supervisor: Dr Tobias Etzold

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Faculty of Humanities  
Department of Historical Studies





# Abstract

The aim for this thesis was to explore the topic of Chinese FDI. Chinese FDI has become a topic in the EU, and there have been some concern raised by the EU and its member states. The thesis explores if it's possible for the Chinese government to gain power through using FDI in European member states to yield power. It will further focus on the transport sector.

The analytical framework the thesis will base itself on are the theory of the international system by Kenneth Waltz. Also, the to explore channels that FDI can gain power in, the thesis will use Joseph Nye's theory about soft power.

Using Waltz and Nye's theories about power the thesis will conduct an analysis upon the topic of Chinese FDI in Europe. The analysis will explore the possible security threats for the EU and also analyze how the new trade agreement will affect the distribution of power in the system.

To answer the research question, the thesis uses two case studies. The case study states are Finland and Greece. Both nations have projects regarding expansion of their transport sector and want to attract FDI.

With concluding the analysis, the thesis found that the Chinese government was using FDI as a tool in member state to yield power. The analysis found that on a EU level, the distribution of power was the most important factor. While on the member state level, soft power and public diplomacy in regarding the use of FDI was the most important factor, for the Chinese government to yield power.



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This thesis is dedicated to my parents, Petri Dignes and Marianne Dignes, for always supporting me. I am proud to be the first in my family to complete a master's degree, but I could not have done it without the support and unconditional love from my parents.





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## List of Abbreviations (or Symbols)

EU	The European Union
FDI	Foreign Direct Investment
NGO's	Non-governmental organization
The US	The United States of America
EIB	The European Investment Bank
TEN-T	Trans-European Transportation and Energy Networks
EC	European Council
MNC	Multinational corporations
ILO	International Labour Organization
USSR	Union of Soviet Socialist Republics
BRI	Belt and Road Initiative
AIIB	Asian Infrastructure Investment Bank
R&D	Research and Development
COSCO	China Ocean Shipping (Group) and China Shipping Company

# 1 Introduction

In the last couple of decades, especially since the 2008 financial crisis, then later the euro crisis, the European Union has seen a larger influx of Chinese Foreign direct investments (FDI) into the EU. With the new influx of Chinese FDI, questions and security concerns has begun to arise not only on the EU level, but in the member states as well (Bickenbach & Liu, 2018, p. 15).

The concerns regarding Chinese FDI are usually concerns deals with security. The security concern has many different aspects, it can be that a foreign power has control over the transportation sector in the area or that the foreign power can gain influence. Chinese FDI can also be an issue regarding one-sided technology transfer and unfair competition advantages. These concerns have been debated on the EU level and in the member states. The EU and the Chinese government have been working on a trade agreement between the two trade blocks but are yet to be ratified. Still, with the concerns, EU member states are eager to accept more FDI (Bickenbach & Liu, 2018, pp. 15-16).

Most of the Chinese FDI goes to transportation projects. This is in line with China's new belt and road initiative and the new silk road projects. The Chinese government wants to make more efficient and smarter travel corridors around the world. Finland and Greece have seen more and more projects regarding to transport, the largest projects are the Artic Railway and the Port of Piraeus (Koivurova, et al., 2019, p. 26).

The transport and infrastructure sector are an important area for the EU. Transport is not only important because of securities reasonings, but also for the Union's trade and growth opportunities. The EU are depending on the infrastructure to reach across the Union to achieve free movement of goods and services (The European Union, 2021).

To the receiver states of the investments are often in need of them and are welcoming the investments. In some instances, member states in the EU are making themselves more attracted for FDI. For the member states it's a complex case to get FDI from China. On the one hand, they are now the risks and concerns, but on the other hand they need FDI and its lucrative to accept it (The European Commission, 2021).

The aim of this thesis is to try to explore if the Chinese government are using FDI as a tool to yield power in EU member states. To conduct an analysis, the thesis will use two theories. Both of the theories stem from the political realism theory and are the theory about soft power and structural realism. The theories will be used to analyze the relationship between the EU and the Chinese government, but also try to give an explanation for why, and how, the Chinese government would want to yield power.

## 1.1 Research question, limitation and justification

The research question is formulated as:

*"To what extent is the Chinese government using Foreign Direct Investments (FDI) in member states of the European Union in order to gain power?"*

The thesis will look at Chinese FDI in infrastructure from 2018 until first of January 2021. The 2008 recession had a large impact on the EU and in the Eurozone, which both Finland and Greece are in. After the recession, member states were more accepting of external FDI from outside the EU. The thesis needs to look at how much FDI the Chinese government put into the EU, and, if, there were any points in time in which Chinese FDI were in larger amounts in the two case study member states. While it can be information about the subject earlier than 2008, it can be mentioned if it gives information historical context.

The thesis will not look at any new materials after 1st of January 2021. There are still proceedings in Finland and in Greece discussing the ports later than the 1<sup>st</sup> of January 2021, for the thesis time limitation it needs to be a cut-off date. If there have been any larger discussions about the topic at a later point, the end point can be flexible if there have been newer bilateral developments.

## 1.2 Method

The thesis research design will be a qualitative study, with a multiple case study design. The case studies, which are representing the EU, are Finland and Greece as mentioned earlier. The master thesis aim is not to compare the member states but can discuss the different finding in each case. Still, the member states will be the control variable in the thesis, whilst Chinese FDI will be the research unit.

Further, this thesis will not create a new theory or concept. This means that the thesis can qualify as a literature study, since the research for this thesis are basing itself on pre-existing work. The theories and concepts that the thesis will base itself on are from works from earlier authors.

The thesis will also base itself on previous literature for information gathering and sources. While the thesis could have done interviews as a form of

information gathering, due to COVID-19 restrictions in Europe, interviews will not be held. Instead, the thesis will use earlier interviews and literature. The interviews that will be used are earlier interviews with government officials and main stakeholders in the transport sector.

The research units are Chinese FDI in the EU. Since the 2008 there has been an increase of Chinese FDI in EU member states, which needs further analysis. Since Chinese FDI is the main research variable, it needs to be defined and be empirically tested. Important issues to define in the thesis is how much Chinese FDI has come to the EU since 2008 and how much of that has gone to infrastructure.

The causal variable is soft power. One of the aims of the thesis is to find out if soft power has had an effect in correlation with Chinese FDI. With using soft power as this thesis causal variable on the research unit it could analyze empirically if soft power had any correlation between the EU and Chinese FDI. It's important for the thesis to define what soft power is and what kind of international relations (IR) theory the concept of soft power sprung out of. Later it's also important to discuss the weaknesses of the theory and the concept.

For this thesis the control variable is the EU. This is because it's the EU member states, and the organization is target of Chinese FDI. The thesis operates with two cases, which are Finland and Greece. Finland and Greece will be representing the EU as member states. Discussions happening over state member level will be important. To use the EU as a control variable, the thesis needs to define what relationship the case studies have with Chinese FDI. This includes looking at the three main concerns mentioned in the introduction but also what discussions the member states are partaking in and the discussions in their respective countries.

### 1.3 Sources and literature review

The thesis will be based on empirical evidence gathered from primary sources and secondary sources. The primary sources that the thesis will be based on are public records from the EU in the form of policies regarding how the EU relate to FDI. Data collection from public records such as the World Bank is also a primary source.

The secondary sources the thesis will be based on are earlier academic works in the same field or sphere as the themes of the thesis. While covering FDI and soft

power, it has been researched and studied. I will base the concepts and how those concepts affect actors on other academic resources.

Further, to explain and visualize the concepts I will use examples gathered from either the secondary sources or news sources. In both of the countries there were articles written by organizations, government officials and so on, who can characterize how the conflict affects them.

To gather more sources, I have used the snowball method for gathering information regarding both topics. The snowball method is defined as reading articles and go and analyze their sources in order to find other views or more information on a certain subject. This will be complimented by searches online done through Oria and Google Scholar.

The topics that are most important to have academic resources on are Chinese foreign direct investment (FDI) in the European Union (the EU), investments made by China in Finland, investments made by China in Greece and sources about soft power.

Based on the studies and academic papers, Chinese enterprises are investing more and more in the EU. The EU has also been China's largest trading partner. In "Politics of hosting Chinese investment in Europe – an introduction" by Sophie Meunier, Brian Burgoon and Wade Jacoby, the article discusses the political consequences of hosting Chinese investments (Meunier, Burgoon, & Jacoby, 2014, p. 110).

The article goes over the patterns and trajectory of Chinese investments in the EU. The authors also discuss the historical precedents of FDI in the EU and compare it to Chinese investments today. Globalization is an important factor in the paper and the authors compare the different FDI, from different states, to the one of the Chinese investments (Meunier, Burgoon, & Jacoby, 2014, p. 110).

The academic paper concludes that with Chinese investments, there are more political issues. The authors cannot conclude or make a pattern of responses from the EU, nor its member states or institutions. The Chinese investments had just started to increase, when the article was written, and shows what the EU had to develop as an answer to, and policies to respond to the new influx of FDI from China (Meunier, Burgoon, & Jacoby, 2014, p. 124).

The authors rely on the academic text on secondary sources, using both academic journals as well as news from that period of time. The article cannot provide necessary empirical evidence but can show what the early academic take on Chinese investments were. It can also give the thesis some historical background for how the EU responded to Chinese FDI. In the master thesis, I will discuss how other academics have thought and what was discussed about the topic.

In "Chinese Direct Investment in Europe – challenges for EU FDI Policy" by Frank Bickenbach and Wan-Hsin Liu discusses the EU FDI policies are discussed. The authors first go over the development of Chinese FDI in the EU, then the main concerns and debates the EU had, then go over the EU's screening policy and negotiation between China and the EU (Bickenbach & Liu, 2018, p. 15).

There are three main concerns the EU has in regard to China. The first is the problem with one-sided technology transfer. This fear can be explained by China's emerging economy and its technology development lagging behind the EU. Further the Chinese government has invested largely in their own industry to catch up. The second concern is that Chinese companies may have an unfair advantage over the European companies. The Chinese companies can be subsidized heavily by the Chinese government, when European companies are not. This brings the unfair competition aspect of Chinese FDI into the debate. The third, and final concern of this article is the security aspect with Chinese FDI in the EU. With Chinese FDI, the Chinese government can also yield power. Could the Chinese government use this power to pressure other EU governments (Bickenbach & Liu, 2018, pp. 15-16)?

The authors rely on primary sources. For example, numbers for investments as well as analyze the different EU treaties. Further the authors use second-hand sources as academic titles. This academic paper gives an insight into the EU relationship with China, and their analysis can be helpful for the thesis in the way it confirms and explains the main concerns of the EU. The article is short, and needs a deeper analysis of the topic, which I hope to do with my master thesis.

To understand China's investments in the EU, different authors have tried to put the investments in a model. In "The emergence of Chinese investments in Europe" by Ruth Rios-Morales and Louis Brennan, the authors try to make a model of the FDI from China. The main purpose of the article is to analyze the investments made by China in the Eclectic Paradigm, which are their model (Rios-Morales & Brennan, 2010, p. 215).

The authors made a holistic model to analyze Chinese investments. The focus is China and giving an explanation for why Chinese investments goes where it goes but does not take into account the European perspective on the investments. This is what I believe my master thesis can answer. The authors are not calculating the political factors of hosting Chinese (Rios-Morales & Brennan, 2010, p. 215).

The last article that can be useful for the thesis is "Inside the China-EU FDI bond" by Jeremy Clegg and Hinrich Voss. The article tries to explain the development and changing relationship with the EU by how institutional changes within the EU changes the relationship between the EU and Chinese FDI (Clegg & Voss, 2011, p. 92).

While the authors are showing empirical evidence of how Chinese investments are perceived in the EU market, they do not take the political implications of hosting Chinese FDI into account. The articles conclude that policy changes are needed attract more Chinese investments, but also other investors. In the analysis of the EU and China relationship, the EU market isn't as attractive to the Chinese investors, because of its policies. This gives article gives insight on how the Chinese investors are hindered by EU policy (Clegg & Voss, 2011, p. 105).

The articles presented so far in this literature review about the relationship between the EU and China has shown that most of the academic articles focusing on politics are lacking on first-hand sources and rely too much on second-hand sources. The academic papers focusing on the economic aspect of the relationship between the EU and Chinese FDI do not weigh the political factors enough.

In this part of the literature review I am going to assess the literature on the two case study subjects. In Finland the debate over Chinese co-operation and investments are not vert researched but instead are discussed more in regard to the climate.

The research paper "China-Finland Co-operation, Trade, and Investment: in Search of a common ground" by Santa Stopniece are analyzes the difficulties with the relationship between Finland and China when it comes to investments. While the research is more about communication, it also gives an insight about how the Finnish and the Chinese cooperates with one another and it provides valuable information on how both parts perceive each other (Stopniece, 2015, p. 131).



The research articles methodologies for data collection are mainly through interviews. The interviews were conducted both in Finland and in China. The article does not have any insight of the politics and economic impacts on a state level but can show what the Finns expect from the Chinese, and vice versa (Stopniece, 2015, p. 135).

The next major research paper is published by the Finnish government. "China in the Arctic: and the Opportunities and Challenges for Chinese-Finnish Arctic Co-operation" by Timo Koivurova, Liisa Kauppila, Sanna Kopra, Marc Lanteigne, Mingming Shi, Malgorzata Smieszek and Adam Stepien, is a research paper about Chinese-Finnish co-operation (Koivurova, et al., 2019).

The research is mainly pertaining to co-operation in the Arctic, but also widely researches China, China's globalization, and how it can be challenging for Finland. The research paper is gives an insight to what the Finnish government needs to evaluate before committing to a co-operation with China.

The research paper is in three parts. The first part is about China has an emerging economy and the actorness of China outside its neighboring countries. The second part of the research paper is about how China has asserted itself in the Arctic. Since China does not have any Arctic land, China is determined to co-operate with the Arctic states. This part analyzes China's policy towards the arctic and their policy strategy. The third part is the co-operations and level of co-operations. This part analyzes the difficulties and the opportunities for a Finnish and Chinese co-operation. A big part of the analysis is also the evaluation of the value of Chinese investments and the investors (Koivurova, et al., 2019, p. 5).

The research paper bases itself on both first-hand sources and second-hand sources. Since it is an official government report, it give insight to what kind of information the Finnish government are working with. The master thesis could have great use of this research paper because it gives insight into how the Finnish government is assessing Chinese investment and co-operation.

In "Chinese Investments in Greece and the Big Picture of Sino-Greek Relations", by Planem Tonchev and Polyxeni Davarinou, the authors map the investments made by the Chinese in Greece. The main themes for the article are what the footprints of Chinese investments, an analysis on the investments, the strategy of Chinese FDI and if the Chinese presence is affecting Greece's relationship with Brussels. This article gives the thesis a good empirical base of the situation

in Greece and what the effects of Chinese investments are (Tonchey & Davarinou, 2017).

"A tale of Two Ports: The Epic Story of Chinese Investments in the Greek Port Piraeus" is an article written by Sophie Meunier detailing the investments of the Piraeus port. The article is a part of the article series "Re-imagining the Silk Road" by Council for European Studies. The article gives an empirical timeline for the investments in the port and also discusses the problems and the concerns for both the Greek government and the EU (Meuner, 2015).

The Clingendael Report by the Netherlands Institute for International Relation, written by Frans-Paul van der Putten is a report concerning the relevance the investments in port Piraeus have for the EU and the Netherlands. The report is about how Cosco and Piraeus have become new international emerging hubs, what this means for the rest of Europe and how the two ports are backed by state-owned enterprises. The report gives the thesis an insight on what the concerns of other member states are and how the two ports have become international hubs for trade. It is important for the thesis to build its empirical evidence on literature that recognizes the two ports as emerging international trading hubs (van der Putten, 2014).

To ensure the quality of the analytical framework that this thesis uses to analyze Chinese FDI, this thesis will use two sources to define the casual variable. First it needs to have an empirical background to why the concept of soft power is a concept that is needed in IR theory. Second, the thesis needs to give a historical backdrop for the realism as an IR theory.

To explain and give empirical background to realism as an IR theory, the thesis will be based on Kenneth Waltz's book "Theory of International Relations". Waltz is analyzing the IR theories in three parts; first Waltz examines the theory and the theories approach. The second part is what the strength and weaknesses the theory has and lastly. Third, is how the theory is applied on cases (Waltz, Theory of International Relations, 2010, p. 1).

Joseph Nye coined the term soft power in his book "Public Diplomacy and Soft Power". In this book Nye presents soft power as a concept and how soft power differentiates from other types of power. Nye's book and definition are the definition this thesis will use. While there has been other literature on soft power after Nye's book, discussing its definition and how one could apply the concept, it will still be used as a primary source for this thesis. Criticism of the concept

will not be discussed in this thesis, but realism as an IR theory will be contested (Nye J. , 2008).

## 1.4 Dispositon

The thesis will have 4 chapters. The 4 chapters will present the research question, presentation of the analytical framework that the thesis will work with, an empirical background for investments in the transport sector in the EU, an analysis and at the end it will have a conclusion and a summary.

Chapter one is to have the introduction, the main research question, methods and a literature review.

In chapter two of the thesis will present the analytical framework. The chapter will first start with defining what infrastructure is. Then it will discuss Kenneth Waltz theory of the international system and why states seek power. Further this part where the concept of soft power has come from and give a definition of the concept. It will also give a theoretical backdrop for the concept of soft power and discuss its weaknesses and strengths.

In chapter three the thesis will present the empirical backdrop for both the EU investing in the transport sector and the history of Chinese FDI in the EU transport sector. Lastly this chapter will present the history of Chinese FDI in the two case studies.

In chapter four the thesis will conduct an analysis on if the Chinese government uses FDI to yield soft power in EU member states. Further in chapter five the thesis will reach it conclusion and give a summary of the findings.

## 2 Analytical framework

To help analyze the case studies and answer the research question for the thesis, it needs to present its analytical tools and concepts. In this part of the thesis the main analytical framework is political realism as a worldview in international relations, the concept and tools of soft power and define important concepts of what infrastructure is.

The two theories that are this thesis analytical framework of this thesis will be used to analyze the ways in which the Chinese government is investing heavily in the EU, and its member state, and why it may be a concern for the EU. Kenneth Waltz' theory about the international system will help the thesis to analyze why states behave the way they do, and the possible security threat to the EU. Joseph Nye's theory about soft power could possibly help to analyze the intentions as to why the Chinese government has invested heavily in the EU.

### 2.1 Infrastructure

The Merriam-Webster dictionary defines infrastructure as:

**1:** *the system of public works of a country, state, or region also: the resources (such as personnel, buildings, or equipment) required for an activity*

**2:** *the underlying foundation or basic framework (as of a system or organization)*

**3:** *the permanent installations required for military purposes"*

- Source collected from: *Merriam-Webster.com Dictionary, s.v. "infrastructure,"* accessed May 10, 2021, <https://www.merriam-webster.com/dictionary/infrastructure>. (Merriam-Webster Dictionary, 2021)

Infrastructure is an important factor of a state-, region- or country's security and ability to trade. Infrastructure is regarded as a key factor to achieve a higher economic growth and can be many different projects including roads, tunnels and ports to further spur economic growth. The infrastructure dimension has two key actors, the government and the private sector. While infrastructure is usually looked at as a public good and something the government have offering their citizen, the last couple of decades has the private sector has become a larger actor in the infrastructure sphere (Stupak, 2017, p. 1).

The economic aspect of infrastructure is that the more seamless and better infrastructure in a region or state have, the more productive they are. Infrastructure can help a business lower their fixed costs, which can include transportation. This is important because not all businesses are located where the biggest market is and are dependent on transport (Stupak, 2017, p. 1).

The impact of infrastructure also affects the households and populations in the region. With better infrastructure, the living quality for the citizen can increase. Some examples of this are better water, an easier commute to work and new workplaces. Together with the economic dimension of the benefits of infrastructure, it can foster economic growth (Stupak, 2017, p. 1).

## 2.2 Realism as a political theory

Political realism is a political theory within international relations. Its main concept is that the international arena is an anarchy. With saying it is an anarchy, political realists mean that it has no higher regulatory body than states. This implies that if some other state needs punishment or regulations, it needs to be done by other states (Korab-Karpowicz & Zalta, 2017).

The state's only purpose is to obtain more power. Political realism means that if a state obtains more power, it also obtains security. Usually, power is associated with military capabilities in political realism. In the last 100 years we have seen this with the invention of the atom bomb and how the atom bomb is strictly regulated and how a handful of states are allowed to carry this power. Classical political realists contribute this search for more power to humans and how humans are inherently selfish (Korab-Karpowicz & Zalta, 2017).

If a state joins an alliance, it is not because the state wants to do good for the international community but to obtain power. If a state for example joins an alliance, it is maybe because the state is small and cannot defend itself alone, and in turn, the state decides to form an alliance with a bigger state with more military power and resources (Korab-Karpowicz & Zalta, 2017).

One of the biggest criticisms against states that behave in this way, is that the state will not be rational. The states have no moral compass since the only main concern of a state is to look out for itself. This also implies that when a state or an alliance intervenes through military action or with sanctions, for humanitarian

causes it does so because they can achieve more power (Korab-Karpowicz & Zalta, 2017)

### 2.3 Neo-realism and Kenneth Waltz

In "Theory of International Relations" by Kenneth Waltz, the author argues it is not because humans are selfish that states act the way they do, but because of the system that they are in. Waltz compares the international system and states to the capitalistic market, where the states are businesses trying to survive (Korab-Karpowicz & Zalta, 2017).

Waltz further argues that the states and businesses have the same goal which is to survive. The state's behavior is shaped by how the international system's structure is. This is what differentiates neorealism and classical political realism. Classic political realism believes that power is a be all and end all, but neorealists argue that security is what the state's main goal is (Korab-Karpowicz & Zalta, 2017).

Waltz's theory argues that you can analyze a state's behavior by looking at three main components. The first is what kind of system the states are put in, the second is how many states are in the system, and finally, how the power is distributed across the states (Korab-Karpowicz & Zalta, 2017).

Since the distribution of power is one of the most important factors for states, they become more hostile to each other. This is because the states are all constantly in a competition with each other to secure the most power capabilities. This can also affect the cooperation between the states (Korab-Karpowicz & Zalta, 2017).

Cooperation in this system is difficult and the states are not trusting one another. A cooperation will always mean inequality and unfair gain for the states involved. No matter the cooperation, a state will always gain more than another, that makes the states in the cooperation more anxious and less trusting of each other. (Korab-Karpowicz & Zalta, 2017)

Further this can be explained that the states are in a system where there is anarchy and do not want to be dependent. The international system is a self-help system of being dependent on another state (Korab-Karpowicz & Zalta, 2017).

A state natural state is war. The state is in a constant war and must choose which side it will be on. This is not meant in the literal sense of war as an armed conflict, but in a constant contention. A war can break out anytime, if it is between two states in a state's community which forces the state decide what side it wants to be on in the conflict (Waltz, Theory of International Politics, 2010, p. 103).

Waltz argues that there are three main reasons for why a state wants to achieve more power. The first is that if a state has more power, it can more easily defend itself against other nations. The second reasoning is that power will widen a state's room for action in the international arena, but also on an intergovernmental level (Waltz, Theory of International Politics, 2010, p. 194).

The third reason for why states try to achieve more power is that it gives them more safety and they can choose the co-operation and how the interaction can end. Further, a state can also choose the game rules and how they are going to play. Waltz uses an example of the American car companies General Motors (GM) and Chrysler to explain how with more power, the safer you are. GM could easily make some mistakes and selling poorly, and not go under as a company. On the other hand, Chrysler, which is a smaller company, does not have room to fail without the risk of going bankrupt. Another example of this, using states as examples, are if two states are in a trade war with one another. The most powerful, in terms of economic capabilities, are the ones that can survive the biggest losses. Less powerful states, with much less economic capabilities, will not last a long time (Waltz, Theory of International Politics, 2010, p. 194).

The fourth reason why states try to achieve power is because the most powerful states become the biggest stakeholders in the system that they are in. If a state becomes the most powerful state in their system, the state can act on behalf of the system. This can give the particular state more power, in terms of their ability to be the agenda setters in the system. While you cannot achieve full control in any system, since the world is not hegemonic, it will be the closest position to have control (Waltz, Theory of International Politics, 2010, p. 195).

Waltz's theory does not describe what kind of power is the most important for a state, just how the power capabilities are distributed across the system. The theory about the international system will be used as a tool to help analyze not only why the Chinese government invests heavily in the EU, but the theory can help analyze why the EU and its member states react the way they do.

## 2.4 Joseph Nye and soft power

In political realism power usually means military capabilities. Joseph Nye theory argues that its multiple categories of power and one needs to differentiate between them. This thesis will use the Nye's definition on what the concept of power is, and further use the Nye's theory on soft power to explain what kind of effect FDI can have.

Nye defines power as:

*"Power is the ability to affect others to obtain the outcomes you want"*

- Source collected from Nye, Joseph S. "Public Diplomacy and Soft Power." *The ANNALS of the American Academy of Political and Social Science* 616, no. 1 (March 2008): 94–109. Page 94 (Nye J. S., 2008, p. 94)

Nye's theory argues that there are different kinds of power and one can use the different power to achieve the same kind of influence. Nye recognizes that its three different kinds of power to get the outcomes it wants (Nye J. S., 2008, p. 94).

The first power is the classical hard power which are military capabilities and the second is incentives and payments. The second type of power can be a threat of economic sanctions upon a country. These two means to achieve power are what Nye characterizes as the "sticks and carrot" approach, which are classical forms of means to power in the international arena (Nye J. S., 2008, p. 94).

The third type of power is attraction. This means that other states want to follow your states because you are attractive to them or maybe they are admiring certain aspects of your state. This can be economic prosperity in your state and other states might follow your policy because they think, or hope, that if they follow the policies, they can achieve the same level of economic prosperity (Nye J. S., 2008, p. 94).

While one state could force or influence another state into doing what it wants, it is not the same as soft power. Soft power is to shape the preferences of other



states, without using the sticks or carrots. Typical soft power channels are the state's culture, foreign policies and political values (Nye J. S., 2008, p. 95).

Nye argues further how public diplomacy is one of the greatest tools for soft power. With an active public diplomacy, using channels like culture exchange, foreign policies and political values, it allows the state can achieve soft power. The Soft power can reach beyond other states as well as foreign publics and other types of non-governmental states (NGO's) (Nye J. S., 2008, p. 107).

The concept of soft power is not as foreign or new as one might believe. Using culture, foreign policy and political values has been used throughout the last decade. The clearest example of using soft power was during the cold war. There was an ideological war between the two hegemonic powers, Russia and the United States of America (the US), but also a cultural one. Both Russia and the US fought to win over allies by promoting their culture, political values and their foreign diplomacy (Nye J. S., 2008, p. 98).

This thesis will use Nye's theory of soft power to analyze if the Chinese government uses FDI to achieve soft power. The concept of soft power can explain why the Chinese government is investing so heavily in the EU and in the two case study countries, Finland and Greece. Furthermore, the theory can possibly give a reasoning for why the EU, and its member states, are allowing Chinese FDI.

## 3 Investments in the EU 's infrastructure

In this chapter the thesis will present information about investments in the EU. The four main topics this chapter will introduce are the EU 's own investment in infrastructure, China 's history with FDI in investments inside the EU, Finland 's history of being the receiver of Chinese FDI and Greece 's history of being the receiver of Chinese FDI.

It 's important to establish a pattern of FDI into the EU from China. This will help the analysis determine if the Chinese government is using FDI to yield more power. Equally as important is what the EU has invested in the infrastructure sector and why transportation is important for the region. This is important because we can measure how the two stakeholders, the EU and China, are valuing infrastructure in terms of power.

### 3.1 The EU 's investments in infrastructure

Transport is important for the EU 's three main values: free movement of individuals, services and goods. Transportation is key to be able to move the workers, services and European goods throughout the internal market and are important for economic growth in the region. These values are also important for further integration into the EU for the member states, but also with states that are trading heavily with the EU (The European Union, 2021).

The European Investment Bank (the EIB) invested 14.99 billions Euros toward infrastructure in 2020. One large area for investments from the EIB is the Trans-European Transportation and Energy Networks (the TEN-T). The TEN-T are the EU 's goals to interconnect the union through roads and for the European transport system to become more interconnected. The EIB are recognizing how important infrastructure is for the EU and the EU 's economy (The European Investment Bank, 2021).

The EIB states that an interconnected European network system is important for the EU and its member states. The EIB writes on their site that a well-connected system is important to the region because it could potentially generate more trade, competitions and new jobs (The European Investment Bank, 2021).

Energy and infrastructure were one of the European Commission's (The EC) 11 thematic objectives for their cohesive policy, which ran from 2014-2020. Two

different available funds were launched to help the EC to reach its four investment priorities. The four priorities were investing in TEN-T, strengthen regional mobility, increasing projects regarding sustainable transport systems and developing more railway systems. The scheme was ended in 2020, but it will continue, at the time of writing this thesis the new scheme from the EIB isn't yet ready (The European Commission, 2021).

The EIB also writes that it is important that funding for projects in the infrastructure sector should mostly come from the private sector. The public funding for infrastructure projects should be limited by only being complementary. This practice with funding is a part of the EU's state aid rules, which states that public funding should just fill in the gaps where the private funding lacks (The European Commission, 2021).

While public funding should stand for most of the funding for the projects, it is still an important sector in the EU and the region. In the "Draft Thematic Guidance Fiche for Desk Officers", which was published in 2014, the EC stresses the importance of the transport sector. The transport sector is vital for the EU and its region and employs 5.0% of the total employment in the EU. Further, the transport business stood for 4.9% of value added (The European Commission, 2014, p. 3).

Under the strategic framework in the document the EC writes that it is not only important for the EU region's economy, but there are also growth opportunities. The cohesion in transport is important for the EU because it supports the internal market. The places that do not have a cohesion in their transport have an area of investment possibilities. Investing in these regions will not only bring more cohesion to the EU as a region, but also spur economic growth in regions with poor infrastructure (The European Commission, 2014, p. 3).

In the 2014-2020 policy scheme from the EIB it identifies three goals with increase transport performance: improving quality, efficient use and attracting private investors. The improving quality and efficiency of the transport sector will help the EU gain private investors to cover the costs of an expansion in the region. The private investors can gain greater market access and more value added if the transport in the region is more cohesive (The European Commission, 2014, p. 3).

Under the EU's cohesion policy a great number of projects were launched with large investments. The projects launched during the policy duration had more than EUR 50 million in value. The data that is presented shows that most of the

investments and the projects were in member state countries that were on the poorer side. The top two receivers of money who also had the most projects were Poland and Romania (The European Commission, 2021).

The EU and the EC know the importance of the infrastructure sector and the transport sector. The sector can give more added value on European products, but also help economic growth in the regions that are struggling economically. The EC believes in funding infrastructure it will give their citizens better health and new job opportunities (The European Commission, 2021).

### 3.2 Chinese FDI in Europe

China has become a large stakeholder in the world, not just politically but also as an economic force. Since China has stepped into the market since the 1970s, when they became more open to the capitalistic market, they have invested heavily in other countries. The scope of how many multinational corporations (MNC's) that are Chinese is wide (Rios-Morales & Brennan, 2010, p. 215).

To further expand on the topic of China and the Chinese government as a large economic force, out of the top 100 MNC's in the world, 44% of them are Chinese owned. Out of the 44% Chinese owned MNC's, 2/3 of them are owned by the Chinese government (Rios-Morales & Brennan, 2010, p. 216).

Chinese investments have increased in the EU since 2008. In 2008 China's investments stood for only 1% of the investments made into the EU. From 2008 the FDI has only invested more and more, with a rapid speed. For example, the Chinese government tripled their investments into the EU from 2008-2010, and it has only increased since then (Meunier, Burgoon, & Jacoby, 2014, p. 110).

From being a small investor in the EU, China grew to become the largest investor into the EU. The EU is also the number one receiver of Chinese FDI. The Chinese government is investing all over the world and on every continent, but it's still the EU region which receives most of the investments. On the other hand, European FDI into China has dwindled in recent years (Meunier, Burgoon, & Jacoby, 2014, p. 110).

The year 2008 and the following years were extremely troublesome and ruinous for many European member states. The recession started that year and spread throughout the rest of the world and into the euro zone. Member states that didn't have economic stability and power had to search for new streams of capital. For many of member states FDI was helping them through a never-

ending economic crisis. The recession was an opening for China and Chinese investments, an opportunity which China took. Chinese companies and investors did not only make investments, and bought up, private European companies, but also invested in public goods projects. (Meunier, Burgoon, & Jacoby, 2014, p. 110).

While the Chinese government is investing heavily in the EU, the EU is also their biggest market. Chinese businesses are reliant on the European market to survive. Since the Lisbon Treaty, the EU is the main representative to a third-party country if a trade or investment shall happen. This made it easier for China to invest in the region, because it could only negotiate terms with one stakeholder, instead of each member state (Clegg & Voss, 2011, p. 104).

Since China's FDI has become so large in the EU, the two parties have been working on a trade agreement between them. The negotiations began in 2012, and in 2020 they reached an agreement on the principle of investments. The trade agreement deal is important for the Chinese government and businesses (The European Commission, 2021).

This trade agreement deal is important for this thesis because it shows what the EU and China want and what their relationship is. The trade agreement deal seeks a greater balance between trading and investing in both of the regions (The European Commission, 2020).

Further the trade agreement will make trade between the EU and China more lucrative for both parties. For the Chinese businesses it grants them a larger access to the internal market. The deal also wants to ensure that European businesses have the same level of playing field when selling their services and goods in China and are in a competition with government owned businesses (The European Commission, 2020).

As mentioned earlier in the thesis, many European member states are contesting a larger influx of Chinese FDI. Many of the member states concerns come from security risks, but also from a competition concern. The new trade agreement seeks to erase the boundaries set in place by the Chinese government and show goodwill to China (The European Commission, 2020).

The agreement also seeks to make European investors more competitive in China and balance out the two regions exchange of FDI. This can help the two

regions' be more secure in their trading cooperation with each other (The European Commission, 2020).

An example of this is that the Chinese government has made commitments to the EU to expand their investments in public goods projects. These public goods projects are private healthcare, environmental services and international maritime transport (The European Commission, 2020).

The trade agreement also gave the EU the opportunity to influence Chinese foreign policy making. With the trade agreement deal demanding that China sign the Paris Agreement on Climate Change, in regard to the EU's Green Deal initiative. Further in the trade agreement deal, China was made to implement the International Labour Organization Convention (the ILO) to make sure that there was no exploitation of its workers (The European Commission, 2020).

The Chinese "Belt and Road Initiative" (BRI) is a project to expand Chinese infrastructure and make it easier to transport goods and services. The project was launched by the China's president, President Xi, in 2013. China's goals with the project were to make new trading corridors with regions all over the world, not only Europe, but in for example Africa (Koivurova, et al., 2019, p. 26).

The trade corridors cannot only be literal roads to the country, but largely are ports and sea ways connecting the regions to China. The ports are strategically placed, and it ranges from ports in Africa, to Latin America and to Europe (Koivurova, et al., 2019, p. 29).

The Chinese government is strategically targeting the EU to fulfill their BRI project. The Chinese government is investing further into Europe to become a new economic pole in the world and to compete with the US. China is cooperating with the EU to gain more access into the market, so it will be easier for the member states to trade more heavily with China.

In the analysis the thesis will discuss if China's efforts to better the relationship with the EU and its member states has gained them power in the region. China has gone through systematic changes to be more attractive to the region.

### 3.3 Chinese FDI in Finland

Finland and China have a long-standing trade agreement and relationship. China and Finland's relationship started in 1951 with establishing the diplomatic

relationship between the two states. Later, in 1953, the two states came to an agreement and signed a trade agreement. The special dimension of the trade agreement of this time was that it was in the middle of the cold war. China was on the opposite side of the ideological war and had many economic sanctions against them as a consequence for being allied with the Union of Soviet Socialist Republics (the USSR) ( Paltemaa, 2018, p. 59).

In the beginning there was not a lot of trade between the states, but the trade began to increase in 2010. Finland exports around 5.5-7% of Finland´s total exports to China, which makes China the sixth largest export destination for Finnish goods. This makes Finland one of the largest trading partners with China, in the EU ( Paltemaa, 2018, p. 59).

Finland also imports a lot from China. As for most of the EU countries, Finland imports mostly consumer goods, clothing and electronics. Tourism from China has also become increasingly more important for the tourism sector in Finland and is increasing every year. In 2017 Chinese tourism grew to over 60%. This has also had a spill over on the airline sector and Finnish airlines has started to invest heavily in connecting flights to Asia. Further, the Finnish airline companies are relying on the Chinese government to have a greater access to Asian tourists ( Paltemaa, 2018, p. 59).

While the trade relationship between China and Finland is strong, China still has not invested greatly in Finland. As mentioned earlier in the thesis, China has ramped up their investments all over the EU and its member states. China amassed over 4250 subsidiaries in the EU in 2016, where only 16 of Chinese owned subsidiaries were in Finland ( Paltemaa, 2018, p. 59).

The investment relationship between Finland and China is unbalanced. While Chinese imports to Finland is 7% of all the imports in Finland, whilst Finnish imported goods to China is only 0.14%. Further, China is the third largest destination of Finnish investments ( Paltemaa, 2018, p. 59).

Finland is open to a closer relationship with China in regard to more investments and trade. In China´s effort to make an alternative economic pole, China has launched an international bank and a new project, which Finland is a part of. The Asian Infrastructure Investment Bank (the AIIB), which was established in 2017, and are invests in infrastructure in Chinese trading partners. Finland, and the rest of the artic nations, are a member of the AIIB (Koivurova, et al., 2019, p. 26).

Chinese FDI is not high in Finland, but in the later years it has picked up speed and China is looking to invest in more projects. The investments that come from China in Finland, have usually been in the technology sector and maritime sector. China's new project, "The New Silk Road", has sparked projects in Finland, so China can have access to the Arctic ( Paltemaa, 2018, p. 59).

In 2017 the Arctic was added into the BRI. The Chinese government identified that the Arctic were a great strategic place for expanding and building a trade corridor. The strategic placement of trade ports in the Arctic meant that the Chinese government could link northern China, with Siberia and then to Northern Europe (Koivurova, et al., 2019, pp. 21-22).

The response from Finland in regarding to the Chinese advances in the Arctic have been positive. China has worked with the Arctic Council for many years, but in the last decade that China has sent delegations to the meeting and received an observer status in the council (Koivurova, et al., 2019, p. 51).

In March 2021, the Chinese government published their five-year economic plan. This plan will guide what the Chinese government is supposed to invest in, until 2025. In the five-year plan, the Chinese government plans to further invest in the region, and in the Arctic states (Lanteige, 2021).

One of the main reasons to build and expand the BRI in the Arctic is shipping, having ports and railroads in the area will make Chinese efficiency much more effective. The Arctic sea has two routes of travel. The first one is the Northwest passage and the other one is the Northeast passage, which both passages lead to a faster route to North America and Europe. Further, expanding the railway system and ports in northern Finland will help Chinese businesses to export more into Europe (Nakano, 2018).

The Chinese government has two big projects to facilitate a larger amount of export through the Arctic. The first one is the Arctic Railroad, which was mentioned earlier. The Chinese government is planning to invest 2-3 billion Euro on the Arctic Railroad, which means a great opportunity for Finland. With investing so heavily into one area, its opportunity for employment and growth in the northern region ( Paltemaa, 2018, p. 59).



The second project to attract Chinese investors is the Helsinki-Tallinn railway tunnel. The project will connect Helsinki and Tallinn with one another. If the project goes through and is finished, it will make the movement of goods and services across and into the heart of the EU much easier. Today you have to export the goods through either Sweden, Russia, or by boat over. The project aims to update the efficiency of transport in the region and to the rest of the EU ( Paltemaa, 2018, p. 59).

Finland's trade and investment relationship with the Chinese government is unbalanced. Finland is much more dependent on Chinese FDI than China is dependent on Finland. This means that Finland has no economic leverage against China when coming into trade and investments agreements, when the EU and China still have not reached a formal investment agreement ( Paltemaa, 2018, p. 59).

There have been some concerns about how this can affect Finland's foreign policy with China. As mentioned earlier, Finland has no economic leverage against China, and is dependent on China for goods. Both states have a long-standing relationship with each other and that can also affect Finland's foreign policy ( Paltemaa, 2018, p. 59).

In the analysis part the thesis will explore how the Chinese government can attain power through the investments in Finland. Further, the analysis will discuss the reasonings why China wanted to invest in Finland and what the China's goals are.

### 3.4 Chinese FDI in Greece

The Chinese government has invested heavily in Greece. Specifically, Chinese FDI has gone to the infrastructure sector in Greece. In fall 2018, the Greek government and the Chinese government announced that they were formally joining the BRI. The signing of the agreement was an event, and the two foreign ministers signed it for their respective state (Tzogopoulos, 2018).

The biggest project that stems from Chinese FDI is the Port of Piraeus. Since Greece was hit hard during the recession of 2008, the country has struggled economically. A way of coping with their financial losses after the recession was to go from privatization to public. The Port of Piraeus was put on the public market after the recession (OBOReuropa, 2018).

To stimulate the Greek economy, the Greek government let private investors, in this case the company China COSCO SHIPPING Corporation and China Shipping Company (COSCO), invest in their ports. The Greek government's goal with going from privatization to let foreign investors invest in the port, was to stimulate the economy through being the main hub of trade (OBOReuropa, 2018).

The Greek government let the Chinese company COSCO buy majority stock of the Port of Piraeus. In an interview, in connection with the signing of the agreement, the Greek foreign minister said that they wanted the port to become the main hub of shipping from Asia (OBOReuropa, 2018).

COSCO is owned by the Chinese government. Whilst the company is on the Hong Kong stock exchange, it is controlled by the Chinese government. This implies that when the Greek government is working with COSCO as a company, it's also working with the Chinese government indirectly (van der Putten, 2014, p. 5).

The Chinese government's goal was to make the Port of Piraeus to be the main hub of transport into the centralized EU. The Port of Piraeus is not a small port. The port is the fifth largest container port in the world. Which makes the port one of the most strategic ports in the EU to invest in (van der Putten, 2014, p. 9).

The location of the port is strategically placed with access to main cities like Skopje, Belgrade and Budapest. This is in line with the Chinese government is attempting to do in the rest of Europe, by making new trade corridors (OBOReuropa, 2018).

The Chinese FDI goals also reflect what President XI said during a visit to Greece in 2019. The goal for the Chinese government in investing heavily into the port is to become the main transportation hub to the EU, through southern Europe (Amaro, 2019).

COSCO's investments have made the Port of Piraeus the fastest growing port in Europe. With investing so heavily in the port, COSCO can manage to get large companies like Samsung and Huawei to use their docks to be the main distribution centre for Europe (van der Putten, 2014, p. 5).

Further, the port is an opportunity to sell more for the COSCO. While the company, as mentioned earlier, is on the Hong Kong stock exchange, COSCO Container Line owns 47% of the stock. COSCO Container line is the world's fifth largest container manufacturer. COSCO Container Line is also owned by the Chinese government (van der Putten, 2014, p. 9).

The large investments in the Port have contributed to growth in the region. With the amount of Chinese FDI that has been invested in the Port of Piraeus it has positive ripple effects on the surrounding area. Further the investments in the port can attract other foreign investments (OBOReuropa, 2018).

While the big winner of the investment in Port of Piraeus is the Chinese government, Greece can further gain more. With China investing heavily in the infrastructure, it can create new projects for Greece and its infrastructure. Not only can China use a new trade corridor into central Europe, but Greece can use the same corridor and trade more efficiently with member states in their region (OBOReuropa, 2018).

The Chinese FDI has become more contested in Greece in the later years. Most of the critiques of the heavy Chinese investment are regarding labor rights. At this point there are no trade agreements between the EU and China, which establish what kind of labor rights the Chinese companies should follow. Further workers at the port are concerned that the Greek government will turn a blind eye on enforcing these laws to protect the inflow of Chinese FDI (Meunier, Burgoon, & Jacoby, 2014, p. 4).

The COVID-19 pandemic has tightened the bilateral relationship between Greece and China. During the summer of 2020 the Greek government was still headed in full force with the port expansion and their agreement with the BRI. The Greek Development and Investment minister stressed the importance of a bilateral relationship. He further commented that it was important for the Greek society and economy that the expansion of the port continued (Glass, 2020).

The relationship with Greece and China is unbalanced in terms of their economic relationship. Greece doesn't have an FDI flow into China, as China has into Greece. This means that Greece has no economic leverage over China, and this is a risk for Greece.

China is not the biggest investor in Greece. Other member states in the EU, such as France and Germany are the biggest investors in Greece. Still, the expansion of the port can give Greece more opportunity than France and Germany can offer (Meunier, Burgoon, & Jacoby, 2014, p. 8).

Chinese FDI has brought Greece more economic growth. More people are gaining employment and the opportunity to use the port trade corridor themselves can help further their economic growth. In the analysis part of the thesis, it will be discussed if China uses FDI in Greece to gain more power through investing in Greek infrastructure. The analysis will use the Port of Piraeus as a study to see if the investments in the infrastructure sector will help China gain power and influence.

## 4 Analysis

In this part of the thesis the thesis will analyze if China uses FDI to yield power in European member states. As mentioned earlier, the analysis will use the analytical framework and tools, Waltz' theory about the international system and Nye's soft power theory, to analyze the two case study countries and Chinese FDI.

The analysis will have three parts. The first part is the analysis of Chinese FDI into Europe, and why this could be a source of power. The analysis will further explore if and how China can gain influence in the EU using FDI.

The second part of the analysis will be applying the analytical tools on the case study of Finland and the Arctic Railroad project. The main goal of the analysis in this part is to discuss and analyze if the Chinese government has been able gain influence in Finland using FDI.

The third part of the analysis is the analysis regarding Greece. The analysis of Greece will undergo the same tools and analysis as Finland. With Greece the main example of Chinese FDI projects is the Port of Piraeus, which the analysis

### 4.1 Analysis of Chinese FDI in the EU

The analysis will start off with applying the analytical tools of Kenneth Waltz' theory about the international system. According to Waltz, China uses FDI to gather more power. Using Waltz' theory about the international system and the three different analysis components: what kind of system states are put in, then how many actors there are in the system and lastly how the power capabilities are distributed (Korab-Karpowicz & Zalta, 2017)

The system that China operates in with their FDI is an anarchic system, the world arena has no one that is policing them or helping them if something happens against China. This renders the system China operates in as a self-help system, which means that it is China need to survive on its own (Korab-Karpowicz & Zalta, 2017)

The amount of stakeholders China must interact with are consist of the whole international community. This point also contributes to how the power

capabilities in the system are distributed across the stakeholders. The distribution of power in the international community is not evenly distributed. There are many regions, or states that have amassed more power than others. For example, China has more power capabilities than the state of Indonesia, and the US has more economic power capabilities than China (Korab-Karpowicz & Zalta, 2017).

China has tried to change the distribution of power capabilities. China's economic force has increased, but it is not on the same level as the US, hence why the US has more economic capabilities. Further, this makes the US more powerful than China, and makes the US an economic pole for the rest of the states in the system.

To change the economic dynamic, and garner more power capabilities, China has made systematic changes to make them an alternative economic pole. There are two clear examples of the systematic changes China has done, the first one is to establish its own investment bank, the AIIB and then the use of FDI ( Paltemaa, 2018, p. 59).

By setting up alternative financial institutions and investments, China can reach states in a way they haven't been able to before. These institutions and investments can attract states that want to have a trade or investment agreement with China and then become dependent on Chinese FDI for economic growth.

To further give an example of how China can gather more power capabilities in the system via using their FDI is the BRI project. The BRI gives China an opportunity to make the EU more dependent on them and for the EU to lose some of its power capabilities. The EIB structure for funding projects in the EU, is to have private investors be the main source of funding, where the EIB, and other funding schemes, stands for filling the gaps of the funding. (The European Commission, 2014, p. 3)

With China being the largest source of FDI in Europe, the relationship between the EU and China can be unbalanced. The EU are needs FDI to launch their ambitious infrastructure projects to be more competitive, but also reach its goals to become more efficient and coherent. This is a source of gaining more power because of dependency of the EU and their willingness to let another state invest in their economy. (The European Commission, 2014, p. 3).

According to the theory of Waltz, a cooperation will always mean inequality and unfair gain. In a system where states need to be competitive with each other to garner the most power capabilities, there will be a winner and a loser. With Chinese FDI, the Chinese government can gain so many power capabilities, depending on how dependent the EU is (Korab-Karpowic & Zalta, 2017).

With Chinese FDI the Chinese government can gain powerful positions in the EU. With being a large stake holder in the EU, which the EU are dependent on, it can determine what the terms of the cooperation with the EU should be. This means that if the EU becomes so dependent on Chinese FDI, the Chinese government can become an agenda setter in the cooperation between the two regions (Waltz, Theory of International Politics, 2010, p. 194).

The main way the Chinese government uses their FDI to garner more power is through their BRI project. As mentioned earlier the EU is the number one receiver of Chinese FDI, and a lot of the investments go to infrastructure projects in the region. Transportation is a huge percentage of the EU's economy and is vital for the region to achieve economic growth and a deeper integration for their member states (The European Commission, 2014, p. 3).

The Chinese government are uses Chinese FDI to yield more power in the EU according to Waltz. To further explain why this is the case it's important to analyze why, according to Waltz theory, the Chinese government wants to attain power in the EU (Waltz, Theory of International Politics, 2010, p. 194).

The first reasoning as to why the Chinese government wants to use its FDI to garner more power. If the Chinese collect more power, it will take power capabilities from their counterpart and make them weaker. With more power capabilities China can more easily defend itself against other states that they recognize as a threat. (Waltz, Theory of International Politics, 2010, p. 194).

The natural state of a state is conflict according to Waltz. This will affect the Chinese foreign policy and how the Chinese government and how they act towards other nations. A strategic move from the Chinese government is to use Chinese FDI to yield power, so the state can protect itself better (Waltz, Theory of International Politics, 2010, p. 194).

An example of a situation where this reasoning can be applied is how other states act towards the Chinese government. With having leverage against the EU and its member states, it can affect how the EU and their member states vote on issues regarding China. This can manifest itself in lesser stricter economic sanctions against China or not to be held accountable.

The second reason the Chinese government wants to use FDI as a source for gaining power is that it could make room for action. If China is recognized as a big stakeholder in the EU and among the member states their input can take more weight during agreements and multinational meetings (Waltz, Theory of International Politics, 2010, p. 194).

Waltz' third reason for why states try to achieve more power is because it provides more safety. Amassing more power than the other state you cooperate with gain you more leverage to dictate the terms of the cooperation in both a multilateral or bilateral way. In the case of Chinese FDI, the Chinese government can use this power to either get what they want, holding their economic capabilities over the other states, as a leverage method to achieve the outcome it wants (Waltz, Theory of International Politics, 2010, p. 194).

The Chinese government is also spreading its economic capabilities all around the world and inside the EU. If there were to be a new recession, or that the market will change for the worse for China, either through economic sanction or other policies, China can survive as a state, since it used its FDI all over the world (Waltz, Theory of International Politics, 2010, p. 194).

Chinese FDI into Europe can also be a strategic investment to further attain more safety in their position in the system. The US is the largest economic pole in the system today and is a serious threat against to China. Under the US President Trump's presidency the two states started a trading war with one another, where both the US and China imposed large amounts of tariffs on each other's goods (The BBC, 2020).

By investing heavily with FDI in the EU, the Chinese government has spread its economic risks. The EU is dependent to a certain extent on Chinese FDI, and defiantly dependent on private investors. By China investing in its largest trading partner, it will be a cause of economic growth for China, that can be able to stand in a trading war against another economic pole. Further, if the Chinese government gains influence over the EU with their FDI, the EU and its member



states can be influenced to take China's side in the conflict (Waltz, Theory of International Politics, 2010, p. 194).

The fourth and last point of why China is trying to gather more power through FDI is that, as mentioned earlier, China can become a larger stakeholder. The Chinese government can act on behalf of the international system, both in the bilateral relationship with the EU and the multilateral relationship the Chinese government has with its trading partners. This implies that in the bilateral cooperation with the EU, China will become the agenda setter and control more of what the playing field rules are for trading between them (Waltz, Theory of International Politics, 2010, p. 195).

Further, if China becomes one of the largest stakeholders, when it comes to economic capabilities, it can act for the international system as well. This will benefit China, because it becomes more secure in its position in the system and the other states can't challenge China because they are dependent on them (Waltz, Theory of International Politics, 2010, p. 194).

The theory of the international system and the analysis so far using Waltz's theories conclude that the Chinese government is using FDI in the EU to yield more power. The theory argues everything China does is to yield more power and gain more power capabilities than the rest of the system, both the EU system and the international system. This is because the system is promoting a self-help system, where the only way to survive is self-help.

To survive the international system, the Chinese government needs to use FDI to become more secure in their position. With FDI and dependency from the EU, and its member states, the Chinese government are becoming a larger stakeholder in the region, but also internationally.

Through their efforts with expanding the infrastructure, it can control the EU's trade corridors and still garner economic growth from the FDI. The analysis has given possible explanations to why the Chinese government uses FDI in the EU, and to what extent the Chinese government can gain from doing so.

It could be counter argued that China does not need to use FDI to gain power in the EU. China already has a great trading relationship with the EU, why does the Chinese government seek more power? It could be as simple as that is the natural state of the world and the system they are placed in, or it could be more

reasonings to why states act the way they do (Waltz, Theory of International Politics, 2010, p. 194).

The downfall with using Waltz' theory is that it does not take into account other forms of influence. According to Waltz, as mentioned earlier, the only aspect of why China acts is in response to the system. It can be argued that China's behavior and why they invest FDI in the EU can come from ideological beliefs and China's identity (Korab-Karpowic & Zalta, 2017).

China's use of FDI could just be to further economic growth for themselves and their people and could have no more meaning behind the investments. In the last 50-year China has seen its economy blossom and is still increasing in rapid speed. China has also been more involved in not only economic cooperations, but humanitarian and scientific multilateral projects (Koivurova, et al., 2019, p. 51).

With the critic of the theory of Waltz's the analysis needs to find evidence of Chinese FDI being a tool to yield more power. The analysis in this part will focus on Chinese FDI as a source of soft power to China and if the EU, and its member states, have responded to China's influence.

Nye would have called economic capabilities a form of hard power. The analysis will discuss if Chinese FDI is not a "stick and carrot" approach, but rather an approach of soft power and influence. To analyze if FDI can be a source of soft power, the analysis will need to discuss how attractive Chinese FDI are and if the EU responds to soft power (Nye J. S., 2008, p. 94).

Soft power as a concept way of attaining power is more complex than threats about hard military power or economic sanctions. The goal for the Chinese government is to attain soft power through FDI should come from influence. The Chinese government has to be so attractive for the EU and its member states, so they will shape their preferences so it will attract Chinese investments (Nye J. S., 2008, p. 94).

The greatest tool to yield soft power is through public diplomacy. Using public diplomacy, the Chinese government can yield soft power through three different channels: cultural exchange, foreign policies and political values (Nye J. S., 2008, p. 95).

The Chinese government has become more focused on their public diplomacy outwards to the rest of the world. In early 2004 the Chinese government set two goals for its public diplomacy, the first one is the security dimension of public diplomacy, and the second one is to gain China more soft power (Wang, 2008, p. 263).

This establishes the Chinese government goal with their public diplomacy. Still, how, using the channels mentioned earlier, can the Chinese government use FDI as a way to attain more soft power? It's important to start with analyzing the channels FDI can affect.

The first channel China can gain soft power in their public diplomacy is through cultural exchange. With using FDI and trading heavily with the EU, Chinese goods and services are getting a broader market and the EU citizens become more familiar with China. With trying to sell in a market, the Chinese companies need to market themselves for the EU market. Through this exchange of culture and familiarization China can build trust with the citizens of the EU (Nye J. , 2008, p. 98).

Chinese FDI can also make the EU, and its citizens, more familiar with the China and their values. Since there has not only been an influx of Chinese goods into the EU market, but also Chinese companies that have established themselves in the region or have bought up Chinese companies. The citizens of the region could be employed by the Chinese companies or they have to interact with them. This also are an example of Chinese FDI being used for public diplomacy (Nye J. , 2008, p. 107).

Further on a state and EU level, the stakeholders need to cooperate, if it is multinational or bilateral. Working with the Chinese government can also build trust among the governments of their trading partners, and trust between the EU and Chinese companies. On a state level this can have a spillover effect into other policy areas, where the Chinese government gets more goodwill from the EU, because they have a higher trust in them (Nye J. , 2008, p. 107).

Foreign policies are the area the Chinese government can gather most of its soft power in. Foreign policies are the second dimension of public diplomacy. The Chinese foreign policies regarding FDI can make China more attractive to the EU (Nye J. , 2008, p. 95).

As mentioned earlier in the thesis, the EU funding institution should only be funding the gaps between private funding. With the New Green Deal EU project, which are the EU's new plan for going green with their industries. The project needs a lot of updating and renewing needs to be done in the transport sector. This manifests itself in the Coherent Policy. For the EU to reach its goals to have a sustainable economy, it needs to attract foreign investors (The European Commission, 2021).

China is attractive because they are willing to invest in the EU's new projects in the region. As a new economic pole, the EU can look towards China as a possible funding partner. China has also been positive to invest more into the EU and are in the process to sign a trade agreement, that solidifies the EU and China's trade and investment relationship (The European Commission, 2020).

China has also the power of attraction into their own market. While the EU is the largest destination for Chinese FDI, the EU does not have access to the same trade and investments opportunities in China. If China's market is attractive enough, the EU might change their preferences to access the Chinese market (The European Commission, 2020).

The last dimension, the political values dimension, is where China is the weakest. China has been critiqued by the EU in regarding human rights violations and other areas. This EU and the Chinese government do have different ideologies and political values (Barigazzi, 2021).

On the other hand, the Chinese economy policies can be a source of attracting soft power. China's economy has accelerated the last 50 years, through various domestic policies. The economic policies, such as the BRI, the Chinese government has put in place to facilitate this growth can be attractive to the EU and their member states (Nye J. , 2008, p. 94).

The outcome of attractiveness to the policy, can make the EU or their member states to change their preferences. The EU will undergo the changes in hope of to reach the same level as economic growth as China. If the Chinese government are able to do that, then it has reached the highest level of soft power, to have the ability to affect the EU's policy (Nye J. , 2008, p. 94).

Further the EU's system of being dependent on private investors to be able to fund their projects, while being in a new green shift where a lot of the industry

needs to be updated to be sustainable, give the Chinese government room for action (The European Commission, 2021).

The Chinese government has also invested in research and development projects (R&D) in the Arctic region. This is attractive to the EU because new R&D projects might lead to groundbreaking discoveries, but also market breaking discoveries. Usually the R&D projects are expensive and time consuming. It's also a higher risk to not get back on investments, when one invests in an R&D project (Koivurova, et al., 2019, p. 30).

Having the Chinese government investing FDI in R&D project in the EU, can make the EU cut back on some of the expenses and risk with investing in R&D project. At the same time the EU needs to promote R&D projects because of their goals with being sustainable and their New Green Deal.

It is not easy to measure soft power, and even harder, to measure attractiveness. Soft power isn't either easy to see. That is why the analysis focused more on opportunities to gain soft power and how the Chinese government are seeking the opportunities.

The Chinese government has opportunity to use Chinese FDI as a public diplomacy tool to achieve soft power in the EU. Based on the analysis, using Nye's theory about soft power, the Chinese government has been able to gain attraction for being one giver of FDI in Europe (Nye J. , 2008, p. 107).

The analysis finds that the Chinese government uses FDI to gain power in the EU. Using Waltz's theory about the international system, the analysis concluded with that the Chinese government was using FDI to yield power in the EU. Further, using Nye's theory about soft power, the analysis concluded with that the Chinese government has used public diplomacy to achieve more soft power in the EU.

With the two conclusions, it should be empirical evidence that supports both of the theories used to analyze the Chinese FDI. Since its hard to measure soft power, and generally influence and power, the thesis will try to analyze the EU's answer to a more present China in their region. This is why the next part will use

the Chinese and the EU's trade agreement to analyze if the EU are concerned about the amount of Chinese FDI and the Chinese government.

#### 4.1.1 Trade agreement as an example

The trade agreement between China and the EU will set a precedent on how the bilateral relationship between the two will be. Through the trade agreement the thesis will conduct an analysis of if this agreement can be taken as empirical evidence for the Chinese government trying to use FDI as tool to achieve power (The European Commission, 2020).

The trade agreement's goal is to make the economic bilateral cooperation between the EU and China more balanced. As written earlier, the EU is China's largest market. At the same time, the EU does not have the same access to the Chinese market (The European Commission, 2020).

To ensure that European businesses are competitive in China, the EU demands a fair playing field for both businesses in each of their respective market. Further the agreement binds the Chinese government to further its FDI in more projects that will benefit the EU region, and its member states (The European Commission, 2020).

The trade agreement is evidence for the EU reacting to China's growing presence in the region. The trade agreement further confirms that the EU is the weaker out of the two states and aren't as comfortable with the power the Chinese government has amassed in the EU.

The EU recognize that they are dependent on Chinese FDI into the region. Working with the Chinese government can have security implications. Still the EU are heading forward with the agreement and expanding the FDI in the EU. The EU may accept it losing some of its power, because trading with China will have a positive impact on the region.

The positive impact is the BRI project in this case. As established earlier, transport is one of the cornerstones in the EU economy. The BRI project are expanding on EU's transport and makes it more sustainable. Further, an efficiency and expansion will bring more growth to the region. Growth is important for the whole of EU, but most important for the regions that doesn't experience a lot of economic growth (The European Commission, 2020).

For the EU trade, the maritime industry is important. The expansion of international maritime transport in the EU was one of the investments sectors that is in the trade agreement. The trade corridors that the trade agreement and the BRI project can open for EU is exponential. With the Chinese government invest a lot of FDI in the maritime transport, can bring new companies and FDI the region. An expansion of the international maritime transport will also benefit EU companies, since they can export their goods to new markets that they wouldn't have been able to do without an expansion of the sector (The European Commission, 2020).

Based on how important the BRI project and maritime transport is for the EU, and how they included it in the trade agreement, it shows that China has economic leverage over the EU. Which again mean that the Chinese government has power and influence in the EU.

China and the EU differs in their political values. In the trade agreement it was important for the EU to that the Chinese government agreed to implement the Paris Agreement on Climate Change and implement the ILO convention. With the Chinese government accepting and implement the two deals it could level out the playing field between EU and Chinese businesses (The European Commission, 2020).

It also serves as a purpose for the Chinese government to raise their attractiveness through public policy. As discussed, and analyzed earlier, one of the main dimensions of Chinese public diplomacy China struggled with was their political values. Their political values didn't match the ones that the EU had (Barigazzi, 2021).

With signing the trade agreement, the Chinese and EU political values are more aligned. While it could slow down some areas of China's economy, it will gain more soft power overall. With signing the agreement and the convention, China only becomes more attractive to the EU and its member states. The EU and the member states are much more inclined to trust China and accept Chinese FDI (The European Commission, 2020).

The analysis so far has concluded that the trade agreement will make China lose some of its power capabilities but gain other power in other areas. Still, according to Waltz', the state will always try to achieve more power. Waltz'

theory does not explain why the Chinese government would sign the trade agreement.

Following Waltz's theory about the international system, the Chinese government is trying to survive, and that's the most important factor. The EU is an important market for China and to a certain degree China is dependent on the EU market. It could also be that the Chinese government doesn't believe that they will lose power capabilities in the EU with signing the deal (Korab-Karpowicz & Zalta, 2017).

Some of the goals the EU wished to achieve through the trade agreement was to eliminate the risk of technology transfer, unfair competition advantages and possible threats to national security. The Chinese government will still be able to do all three factors through FDI, which makes the Chinese government not lose power (Bickenbach & Liu, 2018, pp. 15-16).

The spillover effect of technology transfer will always happen. With Chinese FDI buying up EU businesses, it's their property. The Chinese companies, that now owns the EU companies, can move production or the technology. If the Chinese company owns another company, based in China, it's in their right to share it with the Chinese based company. FDI will always look for strategic assets, it's a part of what one accept with accepting FDI from another state.

It will still be unfair competition because the Chinese government are still backing their businesses. The EU does have state backed businesses. Still, it's not in the scale of how many Chinese companies that are backed by the Chinese state. This will probably not change in the future. This means that Chinese companies has a bigger economic power than EU businesses, because they are backed by the Chinese state and their economic powers (Bickenbach & Liu, 2018, p. 16).

National security will be an issue either way. As analyzed and concluded earlier, the EU are dependent on private investors for their project. With being dependent on FDI to fulfil their goals and project, they are giving the investment country power capabilities in their region. With being dependent on another state, according to Waltz, is a security threat in the international system (Korab-Karpowicz & Zalta, 2017).



If the Chinese government doesn't follow the agreement, what can the EU do? While the EU have some economic leverage against the EU with the EU market being China's biggest one. As concluded earlier, the EU is still dependent on FDI, and China being their biggest investors, the EU could give China lesser strict sanctions if they broke the agreement, or in any other conflicts.

Based on the analysis so far with the trade agreement, the Chinese government does lose some power capabilities, but will still have an economic leverage against the EU. The trade agreement gave the Chinese government a chance to better their public diplomacy through cultural exchange, foreign policy and political values.

The analysis concludes so far that the Chinese government uses FDI to yield power. To further answer the main research question, the analysis has to conduct the theories used on member states.

## 4.2 Analysis of Chinese FDI in Finland

Finland isn't dependent on Chinese FDI, and Finland doesn't receive as much either. In this part of the analysis, the thesis wants to use Waltz's and Nye's theories about power. Further it will analyze if the Chinese government are using FDI to yield power in Finland (Paltemaa, 2018, p. 59).

To use Waltz's theory, the thesis will continue to use the four main reasonings a state wants power. The first one is that by achieving power, it can defend itself against other nations. In China's case, Finland is no threat. Finland is not the biggest economy and neither does have a large military capability. China does not invest in Finland because they see them as a security threat (Waltz, Theory of International Politics, 2010, p. 194)

The second reasoning of Waltz theory is that power will expand their room for action. Which could be the reasoning for the Chinese government investing FDI in Finland. If the Chinese government could expand their room for negotiating trade agreements using FDI as a tool, the Chinese government could gain economic leverage over Finland. (Waltz, Theory of International Politics, 2010, p. 194).

States try to achieve more power because it gives them more power capabilities and the option of which kind of cooperation they want to achieve. Waltz argue to be the third reason. As established earlier, Finland is no threat to China, there is not much safety China can gain with using FDI. What China might use FDI for, in

this case, is to make the power capabilities more unbalanced between them, for their own favor. There is no use for China using FDI as a tool to safety (Waltz, Theory of International Politics, 2010, p. 194).

The last reason why China uses FDI in Finland is to become the largest stake holder in the system. China's FDI aren't the largest investors in Finland. Waltz argues that if China do become the largest source of FDI they can be agenda setters in Finland (Waltz, Theory of International Politics, 2010, p. 195).

China could be using FDI to do exactly achieve this scenario. In the last couple of years, the artic has become more important for the Chinese government. In 2017 the artic were officially a part of the BRI program. The importance of the Artic were also a part of the Chinese government's five-year economic plan. FDI can be used as a tool to gain more access in the artic (Lanteige, 2021).

China is still just an observer state in the artic region and have no real power within the Artic Council. The region is important for China, because it could be used as a new travel corridor to both Northern Europe and to Northern America. Gaining power in Finland, through FDI, the Chinese government can become agenda setters in the artic region (Waltz, Theory of International Politics, 2010, p. 195).

Using Waltz's theory about the international system seems not to exactly describe if the Chinese government is using FDI in Finland to gain power. The distribution of power capabilities between Finland and China is unbalanced. China has a lot more power capabilities than Finland. This can be reflected in how many Chinese subsidiaries there are in Finland. According to Waltz's theory the Chinese government should has seen more influence in the Arctic region (Waltz, Theory of International Relations, 2010, p. 195).

Waltz still argues that the Chinese government are using FDI in Finland to gain power, according to his theory. States will always be looking for ways to gain more power capabilities in the system. This means that China will use FDI to gain more power either way. An example of this was the case with the Artic (Korab-Karpowicz & Zalta, 2017).

Through gaining more control over the Artic, the Chinese government can gain more power capabilities in the international system. With using FDI to fund Artic transport projects, the Chinese can gain control in the area. This implies that the

Chinese government are having control over the two trade corridors to both Northern Europe and North America (Nakano, 2018).

To further analyze if China uses FDI as a tool to yield power in Finland, the thesis will conduct an analysis using Nye's theory about soft power. To analyze if China tries gain soft power through FDI, the thesis needs to analyze China's public diplomacy towards Finland. Nye's theory uses three channels for public diplomacy: cultural exchange, foreign policy and political values (Nye J. , 2008, p. 107).

Cultural exchange can better the bilateral relationship with between Finland and China. China and Finland do not have the largest amount of trade with each other. Through FDI this can become more. Chinese FDI can lead to Finnish companies working with more Chinese companies. With the Finnish companies, and the state, becoming more familiar with China, the Chinese government can be able to achieve soft power (Nye J. , 2008, p. 107)

Through Chinese FDI a cultural exchange can happen on the intergovernmental level. With trading and investing in each other's respective markets, the governments have to cooperate at some level. This is also a channel for the two governments to be more familiar to each other. (Nye J. , 2008, p. 107).

Another channel to achieve cultural exchange are through tourism. Through tourism the Finnish people can more easily become more familiar not only China as a country, but the Chinese people. Chinese tourism has become a larger part of Finland's tourism industry the last decade. Finnish airlines have responded to this development by offer more connecting flights to Finland and even be the fastest travel way to Europe ( Paltemaa, 2018, p. 59).

FDI is a part of the Chinese foreign policy in Finland. This channel of public diplomacy is also where China is the strongest and have the ability to gain soft power than through any other channel. As Finland is a part of the EU, and follow the same framework, Finland is dependent on public funding for their projects (The European Commission, 2021).

In the infrastructure sector, Finland is a part of two projects that needs private investors. The first project is the Artic Railroad that will connect the Artic states with each other and be able to transport goods and services in larger quantities and more efficiently than before ( Paltemaa, 2018, p. 59).

It will be a market expansion for the Finnish economy. With better access to the other Arctic states trading can be an opportunity to growth. If Chinese FDI could access and make the trade corridor in the Arctic more efficient, the Finnish economy could use the trade corridor for more efficient trading to Asia and North America (Nakano, 2018).

The project is attractive to Finland because it is an opportunity for growth in the region. With new transport hubs, it can mean new employment for the Finnish citizens and can attract other businesses to establish themselves in the region. The project is already being funded by Chinese FDI ( Paltemaa, 2018, p. 59).

The second project that has got funding from Chinese FDI are the Helsinki-Tallin railway tunnel. The tunnel will connect the Helsinki more efficiently with Central Europe. Today, transportation alternatives are with both, through Sweden and then Denmark, or through Russia ( Paltemaa, 2018, p. 59).

The project will also mean growth in the region. The same as the growth opportunities in the Arctic, the same opportunities can happen in this region. More efficiently trading, more employment and other positive societal consequences. Through Chinese FDI, Finland can have the opportunity to be the main transport hub for goods transported through the Arctic sea (Stupak, 2017, p. 1).

The third channel for public diplomacy for China is political values. As the same as most of the EU, China and Finland are different in their political values. Finland have signed the Paris Agreement on Climate Change, are a member of the ILO convention and have signed the Universal Declaration on Human Rights.

There can be a change in how Finland perceives China's political values. With the trade agreement between the EU and China, the Chinese government had to sign the Paris Agreement on Climate Change and the ILO convention. The analysis cannot conclude yet if this has had any empirical consequences for Finland and China's relationship. Based on Nye's theory, it will be source of soft power (The European Commission, 2020).

Through FDI in Finland, have the Chinese government achieved soft power. Nye's theory argues that soft power can be achieved through attractiveness. Chinese FDI are attractive to Finland. Chinese FDI mean growth for Finland and its economy.

There has been criticism against the Chinese FDI in Finland. The concerns have been that Chinese FDI are a source of power and can be used as a leverage against Finland. There has also been evidence of Finland being soft on EU sanctions against China. The sanctions that China was opposed were an arm ban and human right violations ( Paltemaa, 2018, p. 59).

The softness of Finnish foreign policy is due to the power China has with its FDI. Finland wants to attract Chinese investors and might not want to weakened the bilateral relationship between them. The Finnish government chooses to be criticized by the EU than having a conflict with the Chinese government. The willingness to overgo the EU to keep the bilateral relationship with China, and access to Chinese FDI, do mean that China has achieved power through its FDI ( Paltemaa, 2018, p. 59).

### 4.3 Analysis on Chinese FDI in Greece

The analysis on Chinese FDI in Greece will conduct itself the same as the analysis on Chinese FDI in Finland. Which it will use the theory of Waltz and analyze the four reasons of why states want to achieve more power, and then use Nye ´s theory after.

The distribution of power capabilities between China and Greece is unbalanced. China has more economic and military capabilities that Greece. Greece has only during the last decade Greece has begun to stabilize itself after the 2008 recession and the euro crisis (Council on Foreign Relations, 2021).

The rippled effects the crisis had to on Greece was almost devastating and went under strict economic restrictions from the EU. China can ´t gain any form of security from investing FDI in Greece. The state is dependent on EU bailouts and are in need for safety themselves (Council on Foreign Relations, 2021).

The Chinese government could use FDI as a political tool to achieve more room for action. To the Chinese Government the Greek power capabilities in comparison to them are extremely small. It would be a strategic move to invest heavily in Greece, so Greece becomes dependent on Chinese FDI. The Chinese government could use this dependency as leverage when discussing further trade and investments agreements with Greece (Waltz, Theory of International Politics, 2010, p. 194).

The only power capability and leverage Greece has is that they are strategically placed and are a part of the EU. With Greece being a part of a larger economically powerful entity as the EU, would make going against Greece a security threat for China.

In terms of the fourth and last reason why, China is already one of the most powerful stakeholders. China does not gain enough power through FDI in Greece to become the largest stake holder in the EU or in the international system. Even with controlling the Port of Piraeus, China wouldn't get power capabilities enough to go against the EU or the US (Waltz, Theory of International Politics, 2010, p. 195).

While FDI can't give China the major position as stakeholder, it can get China more power capabilities. Through investment in the transport sector and making the Port of Piraeus the main port in Southern Europe to transport goods, but also being the number one transport hub to bring goods and services into Central Europe. China will have leverage against Greece (Waltz, Theory of International Politics, 2010, p. 195).

Greece is in need and dependent on FDI, as the rest of EU, but even more because of the economic situation in the country. The Chinese FDI in the transport sector gives Greece an opportunity of growth, which it needs. This makes Greece more dependent on Chinese FDI, which then again means that the FDI are a source of power for the Chinese government (Korab-Karpowicz & Zalta, 2017).

The Greek economic situation is making Greece an easy target for Chinese influence. According to Waltz, the states only goal is to survive. Because of the recession and euro crisis, Greece cannot survive on its own. Greece is dependent on economic relief packets and FDI. Which further implies that Greece is more willing to sacrifice power than going bankrupt and not survive (Korab-Karpowicz & Zalta, 2017).

Greece is the only European state that has joined the BRI project. The BRI project are a source for Greece to collect more FDI from China. With Greece joining the BRI project, even though they are the only EU member state, are willing to appeal to the Chinese government to get funding (Tzogopoulos, 2018).

To analyze further if the Chinese government is using FDI in Greece to gain power the thesis will use Nye's theory about soft power. China could possibly gain soft power using their public diplomacy in Greece. For Greece to attain this soft power, Chinese FDI must be attractive to Greece (Nye J. , 2008, p. 94).

Cultural exchange is the first channel the Chinese can use its FDI as a political tool. To sway the public opinion about the Chinese government and using Chinese FDI, the public needs to be familiarized with China. Through FDI, other Greek businesses are in contact with Chinese companies and an exchange of culture will happen automatically (Nye J. , 2008, p. 107).

Foreign policy is also the most attractive aspect about the Chinese Government for Greece. Through foreign policy, Greece can gain access to Chinese FDI. As concluded in the analysis using Waltz's theory, Greece is dependent on FDI and support from the EU to survive.

Evidence for this is Greece joining the BRI project. Greece joined as the only member state in the EU. The membership and participation could be evidence to the Greek government wanted a closer bilateral cooperation with the Chinese government. Through the project opportunities Greece can have opportunities for growth (Tzogopoulos, 2018).

Greece can have a problem attracting FDI elsewhere. Since Greece are so dependent on other sources of economic capabilities than their own economy, it can potentially scare other investors away. After the recession and euro crisis, Greece was scrutinized for their national fiscal economy. The Greek government had fixed the books and amounted a massive public debt (Council on Foreign Relations, 2021).

Chinese FDI could help with attracting more private investors to the state. The Chinese government has to have transparency to use FDI in Europe. Other private investors could take the Chinese governments transparency as factor that investments in Greece aren't as risky anymore (The European Commission, 2020, p. 4).

Greek and Chinese political values differ from each other. There have concerns about labor rights in Greece and how Chinese FDI will affect it negatively. The biggest concern is that Chinese FDI will influence the Greek government to

ignore if labor rights are being broken, in fear of losing Chinese FDI (Meuner, 2015, p. 4).

The trade agreement between the EU and China should take away the concerns about the topic. Still there are a risk that the Greek government won't sanction China as hard because of the investments. The risk is still present because the system that Greece are in and as a state their number one priority are to achieve the most amount of security. Chinese FDI provides security through funding opportunities for economic growth in Greece (Korab-Karpowicz & Zalta, 2017).

Another aspect of the political values is that Greek might admire the Chinese government. Nye's theory argues that the Chinese government has components that the Greek government is admirable, and thus makes the Greek government more inclined to form a bilateral cooperation. China has a strong and growing economy, with policies that are promoting and facilitating growth. The Greek government might admire the Chinese policy so much that they want to adopt it themselves. This can be the reason why Greece formally joined the BRI project and are facilitating a closer bilateral relationship with the Chinese government. Through Chinese FDI can show the Greek government what the best practice are for promoting and facilitating growth (Nye J. , 2008, p. 94).

Investing in Greece is a strategic and the Port of Piraeus are a strategic asset for China. With the Chinese government owning the Port of Piraeus it yields them more power capabilities in the system. The Chinese government has the opportunity to own the trade corridor from trade in the Mediterranean or in Africa (Korab-Karpowicz & Zalta, 2017).

Owning one of the main trade corridors will also gain them more power capabilities and leverage against the EU. As discussed earlier in the analysis, Greece is a huge economic burden for the EU and the Euro zone. By taking on a part of the burden to the EU and the Euro zone it could raise soft power in the EU (Council on Foreign Relations, 2021).

Acquiring the Port of Piraeus and investing in Greece was a strategically move from the Chinese government. Not only can the Chinese government achieve power through economic leverage, but it can also help themselves grow more. The company that took ownership over the Port of Piraeus is COSCO, and COSCO's owner is one of the largest shipping container manufacturers in the world. The company that owns COSCO is again owned by the Chinese government (van der Putten, 2014, p. 9).



With having control over the travel corridor to Greece, the Chinese government can further expand its transport sector in the EU. From the Port of Piraeus, the Chinese government can use FDI to invest in more transport projects, so Chinese companies can transport its goods and services more efficiently to Central Europe (OBOR Europe, 2018).

The analysis concludes with the Chinese government are using FDI in Greece to yield power. Through their various public diplomacy channels and strategic positioning, the Chinese government has been able to yield power in Greece. The most convincing argument for that the Chinese government has been able to sway Greece's preferences are Greece formally joining BRI project.

#### 4.4 Main Findings

In this last part of the analysis the thesis will summarize its main findings. In the EU level of the analysis, it concluded with the Chinese government was yielding power through FDI, according to Kenneth Waltz's theory. Using Waltz's four reasonings as an analytical tool, the Chinese government are using FDI to yield power. The usage of FDI were in line with the reasonings the theory provided (Waltz, Theory of International Politics, 2010, p. 194).

Using Nye's theory about soft power, the Chinese government used public diplomacy to yield soft power in the EU and through the trade agreement. Using the trade agreement as empirical evidence and the three main channels for public diplomacy, the analysis concluded with FDI being a main factor to why the EU perceives China as attractive (Nye J. S., 2008, p. 95)

Further the analysis confirmed that the trade agreement was just another area for the Chinese government to yield power. In terms of getting most power capabilities in the system between two actors and in terms of soft power. The analysis found that the trade agreement rather helped the public diplomacy of the Chinese government (Nye J. S., 2008, p. 107).

In the case study about Finland Waltz's theory wasn't easily concluded. While it proved FDI being used as a tool with some analytical tools, it could not prove or disapprove on some areas of the analysis. The analysis found that using Waltz theory the Chinese government were trying to get more power capabilities using FDI (Korab-Karpowicz & Zalta, 2017).

Soft power was a proven goal of Chinese FDI in the analysis. The Chinese government yielded soft power in Finland with using FDI as opportunities for the Finnish economy to grow. The analysis concluded with that the Chinese government have reached a certain influence where the Chinese government could influence policy in Finland (Waltz, *Theory of International Politics*, 2010, p. 107).

For the case of Greece, Waltz's theory had more trouble to conclude if the Chinese government was using FDI to yield power. The reasonings to why the Chinese government was investing in Greece were harder to conclude since the power capabilities between the two states were so unbalanced (Korab-Karpowicz & Zalta, 2017).

Nye's theory regarding soft power concluded with the Chinese government used Chinese FDI as a means to get attraction. The analysis proved that the Chinese government was using FDI as a public diplomacy tool to achieve more soft power in Greece (Nye J. S., 2008, p. 94).

## 5 Conclusion and summary

This part of the thesis would give an answer to the main research question of the thesis, if the thesis reached its main goal and a summary. The aim of this thesis was to analyze Chinese FDI in Europe and if it was a security concern for the EU and its member states. To help fulfill the aim, the research question has to be answered. To what extent does the Chinese government use FDI to yield power in EU member states?

The short answer is that the Chinese government are using FDI to gain a degree of power in the EU's member states. The analysis concluded with on both the EU level and in the case study states, Finland and Greece, the Chinese government were trying to yield power. The extent that the analysis concluded with was that to a large extent the Chinese government was using FDI to yield power.

Using Waltz's theory about the international system and using the analytical tools both on the EU level, and the case study states, the Chinese government is trying to attain more power capabilities. The theory argues that it's the natural state of a state to seek more power capabilities. Seeking more power capabilities means will ensure the state's security, which further means its survival in the international system. The international system is systematically imposing a self-help system to its actors (Korab-Karpowicz & Zalta, 2017).

The EU system encourages FDI. Based on its own laws the EU are dependent on private investments to launch projects. The dependency on private investments, opens the door for foreign influence. This dependency will not be favorable in Waltz's international system, because every dependency means less security (The European Commission, 2021).

Between the EU and the Chinese government there is a struggle to get the most power capabilities. This manifests in the trade agreements that have been in development since 2012. The conclusion of the analysis was that the Chinese government was yielding power true the trade agreement rather than losing power capabilities.

The trade agreement also made the EU recognize the Chinese government for safe and legitimate. This implies that Chinese investments are safe, and their

member states should approve of Chinese funding in their other state (The European Commission, 2020).

The trade agreement also showed that the EU were reacting to the Chinese government growing presence in the region. The EU also identifies the Chinese government as a threat if Chinese FDI were to be unregulated. This is telling of how great of a stake holder the Chinese government has become over the last couple of decades (The European Commission, 2020).

The Chinese government has been using public diplomacy for well over a decade at this point in time. During the analysis if the Chinese government was using FDI to gain soft power it was clear that FDI was one of the greatest political tools that China had (Wang, 2008, p. 263).

Instead of using the "sticks and carrots" approach to cooperation between the EU, and its member states, attraction. It's the attraction of the Chinese that are the security risk for the EU. The scope of the Chinese governments soft power is growing in the EU. With more trade the EU, and its member states, are becoming more familiar to working with Chinese companies (Nye J. S., 2008, p. 94).

The case studies told two different stories on how the Chinese government could gain power. Both of the case study states were quite similar in many ways. The Chinese government had the opportunity influence both of the same in different ways but had the same growth opportunities for both of them.

What the analysis found out was different between them and could get the different outcome was the two case studies state's economy. The dependence on FDI was a factor of how the receiver state reacted to the FDI and how much China had the power to influence them. In both of the case study states cases, the Chinese FDI wasn't the biggest investor in both of their respective economies.

In the case with Finland, the Chinese government did achieve to influence Finland to a certain degree. The growth opportunities in the Arctic and between Helsinki and Tallinn was very attractive to the Finnish government. Which are normal in regarding to how growth is important to a state's survival. The more financially secure your state is, the more you can defend yourself against others ( Paltemaa, 2018, p. 59).

While there was found evidence of the Finnish government to be softer towards the Chinese government and identified possible channels the Chinese government could influence. Finland's economy is more stabilize than the Greek economy. Dependency is a defining factor over how much the Chinese government can influence through FDI ( Paltemaa, 2018, p. 59).

The bilateral trading relationship between Finland and China is unbalanced. The power capabilities were not distributed evenly between them. This is due to the part that the EU makes the Finnish economy be dependent on private investors and China hasn't allowed Finland the same market access to its own market. Generally, the Chinese economic force is larger than Finnish economic force (The European Commission, 2021).

The case of Greece can be summed up to dependence and self-help. The Greek power capabilities were next to nothing in comparison to the Chinese power capabilities. The Chinese FDI was only a win for the Greek economy. The growth opportunities that came with Chinese investment had an influence over the Greek government (Korab-Karpowicz & Zalta, 2017).

The Greek government would rather accept giving up a part of their sovereignty to survive. This is again a natural thing for a state to do, according to Waltz. The economy is the lifeline to a state. The Greek economy needed first a bailout and then a lifeline so it could stabilize itself (Korab-Karpowicz & Zalta, 2017).

Greece formally joining the BRI project are an empirical evidence for this argument. There is a security reasoning to why no other EU member state has joined the BRI project. For the Greek government it was more important to secure funding for growth, than maximize their own power capabilities.

Further, this is what difference both Finland and Greece. The Chinese government has still not joined the Arctic Council, which are something that the Chinese government really wants. The only thing that limits the Chinese influence in the case countries are the dependency on FDI (Koivurova, et al., 2019, p. 51).

The Chinese FDI tries to assert the Chinese government as a new economic pole. With establishing economic growth funds, it can challenge the classic economic

institutions in the EU and in the US. Chinese FDI are also targeting the transport sector, especially international maritime seaways and railroads. Transport is crucial to a region or state's growth, which makes the Chinese governments intentions much clearer (Koivurova, et al., 2019, p. 59).

The Chinese government has acquired a lot of strategic assets through FDI. The Arctic Silk Road will give the Chinese government to control the trade in the Northern, both European and American, to a certain extent. If the Chinese government are able to build out the trade corridor, it will have more economic leverage against the EU. Which then again means that the Chinese can be an agenda setter in cooperation with the EU (Nakano, 2018).

The case is the same for Port of Piraeus. While it is large growth opportunity for Greece, it is also an opportunity for the Chinese government. To access more of the EU's internal market, it needs a more coherent transport system. If Chinese companies can get itself deeper into the internal market and be a larger trading partner, the Chinese government will gain more power in terms of economic power capabilities (OBOREurope, 2018).

The downside with the thesis is that it is hard to measure soft power, attraction and influence. Since it's not the "sticks or carrot" approach, it's harder to find hard evidence of influence. While the influence can bleed out to public policy or foreign policy, its har to determine what is a result of influence or not. Most of the time the states that are being influenced are not aware of it or does not explicitly say they are.

Still there is some evidence of the Chinese government are using Chinese FDI to change the preferences to member state. To do an analysis of this topic, it was crucial to analyze and discuss what ways the Chinese FDI influence, and through what channels. It was also important for the analysis to establish why the Chinese government would use FDI to attain power. It is worth mentioning that the findings might vary or be different if one was to take two other member states or looking at every member state in the EU.

Still, the conclusion of the thesis, based on the analysis of the two case studies, is that the Chinese government are using FDI in European member state to yield power to some degree.

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