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From Market Liberalization to Strategic Geoeconomics

How Investment Screening Mechanisms Shape Foreign Direct Investment in Advanced and Emerging Economies

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Abstract

The rapid proliferation of legislative frameworks intended to safeguard strategic economic sectors has driven a parallel expansion in the scholarly literature; but liberal or protectionist economic theories are not accompanied by sufficient quantitative research capable of assessing the magnitude of certain measures. Under these regimes, designated authorities undertake formal reviews whenever foreign investments exceed statutory thresholds. As illustrated in this thesis, the ultimate decision to approve or reject such transactions frequently rests with the highest executive offices of the state, underscoring the centrality of the "national interest" in public-policy debates.

At the heart of the issue lies not the authorization of individual investments per se, but rather the potential deterrent effect on prospective investors. This study therefore poses the following key question: *To what extent do Investment Screening Mechanisms (ISMs) influence foreign direct investment in advanced and emerging economies?*

This thesis is structured in three main parts. Chapter 1 examines the theoretical foundations of these national-interest protection tools. Chapter 2 then investigates a panel of twelve high- and middle-income countries over the period 2000–2023, estimating two-way fixed-effects models that control for GDP, trade openness, inflation, and political stability, to assess the real economic effects of such measures. The results, which align with certain previous studies, reveal a slight reduction in FDI inflows following the introduction of screening mechanisms in specific years for each jurisdiction. However, this decrease is both statistically insignificant and modest in magnitude relative to overall investment volumes. Thus, although the trade-off between national security and investment attraction may hold in theory, in practice it appears feasible to implement ISM without incurring substantial adverse effects on FDI. A judiciously

calibrated screening regime can effectively reconcile economic objectives with national-security considerations.

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1. Geopolitical Landscape: From Free Market Liberalism to National Security

The introduction of Investment Screening Mechanisms (ISMs) in the major economies of the world has had significant impacts, influencing not only the overall functioning of economic systems but also the investment decisions of international operators. Several years have passed since their initial introduction, but it is only in the last decade that these mechanisms have undergone a significant strengthening.

This evolution immediately calls attention to the effects these mechanisms have on those most directly impacted–foreign investments–raising the central question: *To what extent do Investment Screening Mechanisms (ISM) influence foreign direct investment (FDI) in advanced and emerging economies?*

This research aims to answer this question by analysing how the global economy has transformed and how foreign direct investment (FDI) flows have been reoriented in response to these innovations.

Specifically, the research examines how these mechanisms, implemented to shield domestic markets from potentially disruptive foreign investments, affect economic performance with an emphasis on FDI as the primary variable targeted by screening policies. Drawing on variables long recognized for their influence on FDI flows, five key explanatory factors were selected: GDP (current US$), GDP growth (annual %), Trade (% of GDP), Inflation, consumer prices (annual %), Political Stability and Absence of Violence. Limiting the model to these five parameters helps to mitigate the multicollinearity that often plagues cross-country investment studies ensuring robust estimation of how screening policies influence FDI flows.

Building on this framework, this study aims to address the paucity of systematic, comparative evaluations of these regulatory tools' overall impact, which remain underexplored in an integrated manner.

This thesis unfolds in three interconnected chapters.

The first chapter will critically map the contemporary geopolitical environment and the rise of geoeconomic strategy, develop a concise taxonomy of FDI modalities, and survey the principal global models of ISMs alongside the key theoretical perspectives on capital liberalization and protection. In the second chapter, the study will contextualize global and country-specific FDI trends before applying a rigorously specified econometric model to estimate the impact of screening implementation on FDI inflows. The final chapter will juxtapose quantitative findings with detailed case studies of recent ISM reforms, addressing counterarguments about economic dynamism and investment displacement to assess whether stronger screening can safeguard security without undermining capital market openness.

1.1 The Geopolitical Context and the Trend of Foreign Investments

The necessity for this research arises from recent geopolitical developments and escalating international tensions that are reconfiguring the global economic landscape. This evolving environment is the result of economic, political, and social shifts, ranging from evolving geopolitical power, the rise of emerging economies and digital technologies, and intensifying conflicts, which collectively alter the stability and sustainability of the global structures (Budanov et al., 2025).

For these reasons, the emerging geopolitical structure has become widely contested. Critics contend that globalization's long-standing tenets, such as the necessity for relatively unfettered

capital flows, exemplified by foreign investment across borders, are increasingly undermined by surging protectionism and more stringent screening measures, mirroring a broader trend of challenging economic globalization. This shift reflects a broader challenge to economic globalization. Dimitropoulos (2020) comprehensively documents this trend, highlighting the growing primacy of national-security considerations across multiple policy domains.

Despite these protectionist trends, the global FDI market has exhibited resilience. In 2023, the 27 European Union countries experienced an increase in net FDI inflows, reversing a previous decline, although the overall net inflow remained negative at EUR -50 billion. This development occurred despite global net FDI flows falling for the second consecutive year, totalling just over EUR 1 trillion, a 15% decline from 2022 (European Commission, 2024b).

Historically, Western economies have operated under market-oriented regimes characterized by relatively liberal capital flows. However, the increasing prevalence of state-supported models, such as that of China, has challenged this paradigm. In these models, the state underwrites massive infrastructure investments, provides subsidized credit and tax incentives, and deliberately cultivates “national champion” firms. These kinds of interventions together can distort free initiative and undermine genuine competition.

For many years, strategic assets and critical infrastructure were transferred to foreign investors without prior regulatory scrutiny, raising concerns about national autonomy and the potential for external entities to influence domestic economic trajectories. In response to the growing clout of state-backed actors, an increasing number of advanced economies have established or strengthened foreign investment screening mechanisms to guard against strategic acquisitions by state-linked entities (Dimitropoulos, 2020; Xi, et al. 2015).

Europe's investment landscape is notably diverse, attracting significant inflows from traditional partners such as the United States (30% of all acquisitions, and 36% of greenfield

investments) and the United Kingdom (25% of all acquisitions in 2023, and 21% of greenfield projects), as well as from emerging economies like Saudi Arabia and China (FDIs from China (including Hong Kong) ranked 4th in 2023 in terms of total number of transactions with a share of 6%, a 5.4% increase compared to 2022). This confluence of varied investment sources underscores Europe's appeal as a destination for FDI but also presents complex challenges concerning strategic autonomy and economic security (Eurostat, 2024). This is the kind of economic environment that leads to the development of ISM.

The United States has implemented a robust regulatory framework to scrutinize foreign investments, particularly in sectors deemed critical to national security. The Committee on Foreign Investment in the United States (CFIUS) plays a pivotal role in this process. The enactment of the Foreign Investment Risk Review Modernization Act (FIRRMA) in 2018 expanded CFIUS's jurisdiction, enabling it to address growing national security concerns over foreign exploitation of certain investment structures. This heightened vigilance reflects the U.S. government's commitment to safeguarding its economic interests while navigating the complexities of global investment flows (U.S. Department of the Treasury, 2018).

Given these multifaceted dynamics, it is imperative to develop a rigorous analysis of the effects of ISMs, as understanding their economic impact is crucial for informing future policy decisions and ensuring a balanced approach to fostering growth while safeguarding national interests.

This research aims to rigorously assess the economic consequences of these regulatory shifts, trying to fill a gap in the academic literature and thereby contributing to a more nuanced understanding of the balance between free-market integration and national security imperatives.

1.2 The New Globalization: Between State-Led Economies and Geoeconomic Tools

1.2.1 Reconsidering Globalization: New Dynamics & Critical Perspectives

Through the increased flow of cash, information, goods, and services, globalization has changed the global economy and promoted greater integration between countries. Although it fosters innovation and economic growth, this interconnection also presents serious difficulties.

Globalization has undergone a profound transformation from its early phase, initially distinguished by free market liberalization and minimal state intervention[1], now, the contemporary framework is characterized by the control over the domestic economic security and the protection of strategic national interests. In the immediate post–World War II period, the prevailing international economic system was anchored in the principles of free trade and open markets (M. Lang, 2006), where theoretical frameworks such as Dunning's OLI paradigm highlighted that firms pursued FDI to exploit three core advantages: ownership, location, and internalization[2] (Dunning & Rugman, 1985; Paul & Feliciano-Cestero, 2021).

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[1] The process of market *liberalization* was driven by free market *liberalism*, a political and moral philosophy that advocates free markets and minimal to no state intervention. Rooted in the principles of individual rights, liberty, and property, it emphasizes political equality and the protection of private property as essential to economic freedom.

[2] *Ownership* refers to unique assets or capabilities that confer a competitive edge; *Location* denotes benefits offered by host countries such as lower costs or market access; *Internalization* describes the cost savings and risk reduction from managing overseas operations internally rather than through external contracts.

Fundamentally FDI, which constitutes a key force behind economic growth that crosses national boundaries to contribute capital, technology, and knowledge, has been boosted by globalization (Lizondo, 1990).[3] In the 1980s and 1990s, the advent of neoliberal policies further catalysed this process by promoting deregulation, privatization, and the dismantling of trade barriers, which together spurred a dramatic increase in FDI flows and deepened global economic integration. The neoliberalism paradigm was epitomized by the economic policies implemented under the leadership of U.S. President Ronald Reagan and U.K. Prime Minister Margaret Thatcher (Centeno & Cohen, 2012; Helleiner, 2011).

The global financial crisis of 2007–2008, coupled with escalating geopolitical tensions, marked a pivotal shift in the perception of FDI. Historically viewed as a catalyst for economic growth and development, FDI began to be scrutinized for its potential to introduce economic vulnerabilities (Helleiner, 2011).

Modern FDI policies aim to attract sustainable investments that enhance productivity, innovation, and job quality, while implementing screening mechanisms to safeguard national security and strategic interests. This dual approach addresses concerns over protecting critical technologies and ensuring the sustainable advancement of the economy (OECD, 2022a).

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[3] Yet, the very economies that once championed and benefited from the outward promotion of FDI are now adopting countermeasures to safeguard national security, maintain control over strategic industries, and preserve overall economic stability in the face of its rapid expansion (Dimitropoulos, 2020). For instance, the United States has enhanced the Committee on Foreign Investment in the United States (CFIUS) through the enactment of the Foreign Investment Risk Review Modernization Act (FIRRMA). Similarly, the European Union has established a comprehensive framework for screening foreign direct investments (FDI) to safeguard its strategic interests (Hindelang & Moberg, 2020); (U.S. Department of the Treasury, 2018).

As a result of these hazards, a growing number of countries are using ISMs as a mechanism to balance protecting national interests with luring in foreign investment. ISMs give governments the ability to carefully consider foreign investments before they are made, preventing them from jeopardizing technical leadership, vital infrastructure, or national security (OECD, 2022b). This development represents a shift from an unrestrained free market worldview to a more sophisticated strategy that combines strategic imperatives with economic liberalism. Through the implementation of ISM, governments want to maintain their capacity to steer economic policies in accordance with national interests while simultaneously reducing the risks associated with FDI. The screening mechanisms are a proactive approach to balancing the advantages of globalization with the demands of economic independence and national security in this situation; they are not just defensive measures (Dimitropoulos, 2020).

1.2.2 State-Led Economies

The article of Babic et al. (2020) develops a systematic framework to analyse transnational state capital by viewing state-led foreign investments as weighted ownership ties. This approach quantifies investments by combining the percentage of ownership with the economic value of the target firms, thereby revealing not only how frequently states invest abroad but also the depth of their involvement. The authors identify a continuum of investment strategies: on one hand, some states pursue a primarily financial approach by engaging in smaller, portfolio-type investments aimed at generating returns, while on the other, other states adopt a control-oriented strategy by acquiring majority stakes to secure direct influence over foreign companies. Additionally, the study classifies states based on their roles in the global network of transnational state capital, as senders (those actively investing abroad), targets (those

receiving foreign state investments), or sender-targets (those that both invest and attract investments). These classifications offer a comprehensive view of how state power is being reconfigured in the global economy through state-led investments.

The world economy has been progressively reshaped by state-led investment models in tandem with the development of globalization, with China emerging as a prime example of this strategy. The state-led paradigm, in contrast to the traditional market-driven FDI model, entails significant government participation and strategic planning, carried out through instruments including sovereign funds, policy banks, and state-owned enterprises (SOEs). China's "Go Out" program[4] and the Belt and Road Initiative (BRI)[5] serve as examples of how state-directed investments are employed to accomplish long-term strategic goals that include infrastructure development, technical advancement, and geopolitical influence in addition to economic gains (Lan & Zhang, 2021).

Recent research on transnational state capital reveals that state-led foreign investments are far more than conventional FDI flows. By analysing weighted ownership ties, scholars have shown that states engage in cross-border investments using distinct strategies: some, like Norway, implement the first type of strategy mentioned, namely pursuing minority, portfolio investments aimed at financial returns, while others, notably China, focus on acquiring controlling stakes to secure strategic assets and technological know-how. This shift not only

[4] China's "Go Out" program, launched by the State Council in 1999, encourages domestic firms to invest overseas to secure resources, acquire technology, and expand markets under coordinated government support.

[5] The Belt and Road Initiative (BRI), announced in 2013 by President Xi Jinping, is a global infrastructure and investment strategy designed to enhance regional connectivity and strengthen China's geopolitical influence through large-scale projects in transportation, energy, and telecommunications.

redefines the global channels of capital but also challenges the neoliberal premise that market forces alone drive international investment. Moreover, state-led investment raises complex issues related to geopolitical risk, the politicization of economic transactions, and the transformation of state sovereignty and economic security. China's approach prioritizes national strategic objectives and economic resilience over purely market-driven imperatives, compelling policymakers and scholars to rethink the balance between market autonomy and state intervention in today's interconnected global economy (Babic et al., 2020).

1.2.3 Geoeconomic Tools

This thesis examines the primary economic impacts following the introduction of foreign investment screening mechanisms. To achieve this, it is imperative to systematically delineate the geoeconomic instruments employed by the world's leading powers –those that have explicitly embraced a geoeconomic strategy– and subsequently assess the role and integration of the ISM subgroup within this rapidly evolving sector.

Since the early 2020s, there has been a discernible shift away from a rules-based multilateral order toward a paradigm dominated by power politics. This transition, marked by an increased propensity for interventionism and unilateralism, has introduced unprecedented geopolitical risks and challenges (Yakymenko, 2024).

Sholars such as Meunier and Nicolaidis employ the term "geopoliticization" to denote a rhetorical and ideational shift away from principles of liberal institutionalism. Specifically, this shift moves away from the paradigm of dismantling 'at the border' and 'behind the border' barriers to the flow of goods, services and finance through legally binding international instruments – towards a paradigm that places greater importance on identifying and mitigating

the security vulnerabilities that accrue from open, globally integrated markets (Meunier & Nicolaidis, 2019). But this term, as Bauerle Danzman argues, needs to be compatible with generally open markets and is not synonymous with protectionism or economic nationalism (Bauerle Danzman & Meunier, 2024).

The differences between geopolitical attitudes and liberal institutionalism depend on where the focus lies. Policy guided by liberal institutionalism views economic interdependence as generating economic welfare and positive security externalities through the pacifying effects of commerce. In contrast, policy guided by a geopolitical lens sees interdependence primarily as a source of power to exploit or a vulnerability that can be weaponized by strategic competitors (Herranz-Surrallés et al., 2024).

The geopoliticization of markets is driven by the implementation of geoeconomic mechanisms, which are regarded as the primary levers through which states advance this process. These instruments are inherently discriminatory and challenge the previously dominant liberal order, even if they were not originally developed with coercive intent (Bauerle Danzman & Meunier, 2024). Haroche (2024) defines geoeconomics as "the use of economic instruments to preserve or improve one's relative power vis-à-vis an external actor".

Some of these are "defensive", and others are "offensive". The first category is designed to prevent others from leveraging economic dependencies against them, such as investment screening, supply chain diversification policies and trade remedies (Haroche, 2024). The use of these tools may signal a 'reluctant geopoliticization' strategy as countries aim to safeguard their economies from external instruments that exploit economic openness to secure non-economic advantages. These non-economic advantages are the primary focus behind the implementation of screening mechanisms, as they not only yield financial gains but also confer significant benefits – such as enhanced political leverage, strategic security, national autonomy,

and cultural influence – that collectively bolster a nation's overall geopolitical strength. This approach is consistent with the notion of "weaponized inter-dependence" (Farrell & Newman, 2019), where economic vulnerabilities are actively leveraged for broader strategic gains.

The necessity of defensive instruments arises in recent years after an intense geopolitical competition and an increase of concerns about the impact of foreign investment in strategic sectors (Doppen et al., 2024). Furthermore, the scope of national security has expanded well beyond traditional defence concerns to encompass critical infrastructure, personal data, and an ever-growing array of dual-use technologies. In addition, considerations of energy, health, and social security have become integral components, with each nation identifying its own set of critical sectors (Dimitropoulos, 2020).

The second category of geoeconomic instruments are called “offensive”. They are designed to develop and maintain key chokepoints in trade, finance, information, technology and infrastructure – such as supporting national champions to build infrastructure abroad, controlling critical technology through export controls and using industrial policy to undercut competitors and dominate key global markets. These tools may reflect ‘deep geopoliticization’ because their use reflects a willingness to reject norms and ideas central to liberal economic thought and to instead embrace more mercantilist views of how national economies should be organized (Herranz-Surrallés et al., 2024).

For instance, industrial policy is an inducement instrument because it operates through rewarding desired behaviour. However, industrial policy could be used defensively to prevent a country from becoming too reliant on one other actor or offensively to establish a dominant position in a critical supply chain, thereby creating economic leverage for it to exploit (Bauerle Danzman & Meunier, 2024).

Table 1: Typology of geoeconomic instruments

	Offensive	**Defensive**
Inducement	- Industrial policy to achieve global market dominance in chokepoints. - Subsidized infrastructure projects abroad to control chokepoints like ports, electricity and IT networks.	- Industrial policy for supply chain diversification.
Sanction	- Export controls to maintain global market dominance in chokepoint technology. - Outbound investment screening. - Extraterritorial application of otherwise defensive tools.	- Inward investment screening - Trade remedies against foreign subsidized items. - Anti-coercion instruments. - Narrow export controls to prevent critical technology leakage

The research will focus specifically on ISMs that serve as geoeconomic defence tools and allow nations to protect their economies from external threats and to maintain national security. While inbound screenings focus on regulating foreign investments entering the state, outbound screenings are about monitoring and potentially limiting domestic investments to foreign states. However, this research primarily concentrates on inward screening, examining how countries assess and manage ISMs to safeguard critical industries and infrastructure.

These instruments seek to delineate small areas of the domestic economy that have substantial security implications and then prevent foreign actors from gaining access to these areas. Officials often characterize these tools as ‘small yard, high wall’ approaches. Inward investment screening and traditional export controls focused on non-proliferation of military technologies are best characterized as defensive sanctions because their purpose is to protect the home country from foreign interference in a narrow range of activities and the method by

which they do so is by denying ownership or export of sensitive assets. Additionally, mechanisms designed to thwart others' more aggressive use of economic leverage, such as anti-coercion instruments (ACIs) and trade remedies against foreign subsidized critical items to maintain indigenous capacity, are also inwardly focused and defensive in nature (Bauerle Danzman & Meunier, 2024).

In recent years, all the countries covered by this analysis have strengthened their investment screening mechanisms, increasingly integrating them into their economic security frameworks.

Chapter 2 will provide a comparative analysis of ISM among developed and emerging economies, elucidating how these broadened security imperatives shape national policy frameworks.

1.2.4 Literature Review on FDI Screening Measures: Theoretical and Empirical Perspectives

A critical review of the theoretical and empirical literature on FDI screening is presented below, as it is deemed essential to frame and advance the research undertaken here. The existing body of work can be classified into distinct interpretative strands: a liberal perspective, which regards FDI as a driver of growth and cooperation and interprets any form of intervention as an anomaly in an otherwise open global market order; protectionist positions, which view screening measures as tools to exclude investments deemed undesirable for economic or political reasons; and, between these poles, moderate geoeconomic approaches aimed at balancing openness with the safeguarding of national interests, alongside critical viewpoints that, while operating within a broadly liberal framework, highlight the potential risks and limitations of screening instruments.

A geoeconomic framework is adopted as the principal perspective in this thesis, as it permits the reconciliation of the benefits arising from international integration with the need to maintain an adequate degree of strategic autonomy. Accordingly, Section 1.5 will explore the theoretical underpinnings of this approach in depth; in the present section, attention is also focused on the empirical findings of prior studies to establish a solid foundation for the subsequent analysis.

I. Theoretical Approaches

The most recent scholarship in international political economy places FDI screening at the crossroads of three main theoretical strands–liberalism, institutionalism, and geoeconomics, often underpinned by securitization[6] arguments. The liberal paradigm, which has dominated since the post-war era, held that market openness would not only spur economic development but also secure global peace, leading to an unprecedented expansion of transnational activities and complex global value chains. Yet, recent geopolitical upheavals have progressively called this once "naïve" optimism into question.

Alami (2024) frames the proliferation of FDI screening as a response to three overarching trends: the restructuring of industry around intellectual property monopolies; the concentration of capital through strategic mergers; and the rise of competitive state capitalism. From this vantage point, screening measures cease to be mere defensive instruments and instead become legal levers through which states assert their authority to "(re)negotiate globalization," preserving control over strategic resources. In a similar vein, Bencivelli et al. (2023) observe that many advanced economies–once staunch advocates of unfettered investment–have in

[6] See section 3.3.1 about Barry Buzan securitization concept.

recent years tightened their screening regimes in response to mounting geopolitical pressures. Together, these contributions illustrate an ideological shift: even traditionally open economies are reevaluating the trade-offs between economic integration and national security, gravitating toward a geoeconomic approach governed by collective strategic interests rather than personal gain.

II. Empirical Literature

Empirical research on FDI screening measures remains in its infancy, yet several pivotal studies have emerged in recent years, each guided by the theoretical lens it adopts and by corresponding methodological choices.

Eichenauer & Wang (2024) , whose work will be examined in detail in Section 3.2.1, employ a cross-country panel design covering 2007 to 2022 to assess the economic impact of screening on international mergers and acquisitions. Utilizing a triple-difference framework, they demonstrate that the introduction of a screening mechanism in a given industry leads to a 12–16 percent decline in M&A activity within that sector. Their findings imply that screening exerts a deterrent effect on foreign capital, particularly when targets are deemed "strategic" or investors are perceived as high-risk.

In a closely related vein, Eichenauer et al. (2025) investigate cross-border venture capital flows in Europe over the same period and document similarly adverse "spillover" effects. They attribute a significant reduction in the number of cross-border deals to the heightened uncertainty and transaction costs engendered by screening procedures, notwithstanding the fact that few proposals are formally blocked, as noted in the latest European Commission report on screening effectiveness (European Commission, 2024b).

Other empirical contributions focus on the determinants of screening policies and the responses of key actors. Chan & Meunier (2022) through elite interviews and stakeholder surveys, explore Member States' support for the EU's 2019/452 screening framework. They find that high-tech economies were more inclined to endorse stricter controls out of concern for intellectual-property theft. Crucially, it is not the aggregate volume of Chinese FDI that shapes attitudes, but its concentration in "sensitive" sectors: states hosting significant Chinese investment in advanced-technology industries favour rigorous screening, whereas those with predominantly low-tech Chinese inflows oppose it. This evidence underscores the role of technology-transfer anxieties in national screening decisions.

Finally, several macro-level analyses document the global expansion of screening regimes. OECD researchers (Mildner & Schmucker, 2021) observe that over 50 percent of global FDI flows are now potentially subject to screening–a stark rise from just 5 percent in the 1990s. UNCTAD's 2023 review reports that, between 2020 and 2022, at least twelve jurisdictions enacted twenty-five new screening measures, many in response to pandemic-related vulnerabilities or the war in Ukraine. Notably, countries such as Australia, Canada, France, and Italy have expanded their mandatory review lists to encompass critical technologies, including biotechnology, medical equipment, and digital infrastructure (UNCTAD, 2023).

III. Consolidated Findings: Convergences and Debates

A broad consensus emerges from the literature that FDI screening regimes have proliferated globally–particularly among advanced economies–in response to shared concerns over economic security. Empirical and policy-oriented studies document a marked expansion of screening measures since 2017 across the United States, the European Union, Japan, and other

allied states, reflecting an official emphasis on national and public security that now encompasses critical infrastructure, data networks, advanced technologies (AI, semiconductors, biotechnology), and even resilience to health crises (Bencivelli et al., 2023).

Scholars further agree that these regimes are not designed to shelter traditional domestic industries in the manner of old-style protectionism: in Europe, for example, screening logic has shifted from economic to security rationale, with the explicit intent of safeguarding public order rather than shielding incumbents (Bauerle Danzman & Meunier, 2023; (Mildner & Schmucker, 2021).

On the economic side, quantitative work by Eichenauer & Wang (2024) finds an 11.7 percent reduction in M&A deals following the introduction of screening, and analogous "spillover" effects for cross-border venture capital in Europe are reported by Eichenauer et al. (2025).

Although formal blocks remain rare, the mere presence of screening adds uncertainty and transaction costs, prompting foreign investors to shift toward partners deemed lower-risk or to favour domestic transactions. Observers also note China's outsized role as a political catalyst, with many new measures aimed specifically at high-tech Chinese investment (Savic, 2024). Nonetheless, the net security benefits versus the long-run costs in growth and innovation remain contested.

Significant points of disagreement persist. Some commentators warn that broad security criteria risk morphing into neomercantilist barriers, blurring the line between public security and industrial policy (Mildner & Schmucker, 2021).

Empirically, existing studies focus almost exclusively on Europe and North America, leaving gaps in our understanding of emerging economies and "greenfield" FDI flows. Moreover, while the EU's 2019 framework represents a common approach, its member states

do not uniformly impose stricter measures than the United States or Japan (Bencivelli et al., 2023). This thesis seeks to address these lacunae by conducting both theoretical and quantitative analyses–including emerging markets–to evaluate the comprehensive economic repercussions of FDI screening regimes.

IV. Research Gaps in the FDI Screening Literature

Despite notable advances, the study of FDI screening measures remains marked by significant theoretical and empirical lacunae. Theoretically, existing models are predominantly monocausal–pitting security concerns against economic opportunity–and fail to capture how international dynamics, domestic politics, and strategic considerations interrelate.

As Danzman & Meunier (2022), observe, "we know little about the design features of screening regimes and the costs they impose on stakeholders," reflecting the absence of formal theories to assess their overall efficacy and net effects. In particular, the interplay between technological transformations (for example, the data economy) and screening policies is substantially under-theorized. Although Alami (2024) offers a geo-political analysis, there is a pressing need for economic models capable of quantifying trade-offs and spillovers. Likewise, while securitization theory demands a multidisciplinary approach integrating International Relations and economics, few efforts have sought to unify security discourse with economic analysis under a single interpretative framework.

Empirically, the shortcomings are even more pronounced. The bulk of existing studies relies on isolated case studies or narrowly scoped datasets. Only recently have more sophisticated panels become available: Eichenauer & Wang (2024) focus on sector-level effects, and Eichenauer et al. (2025) apply the PRISM dataset to European venture capital flows. Yet global,

longitudinal panel data on screened FDI remain scarce. Comprehensive information on projects merely deterred–rather than formally blocked–by screening is lacking, as noted by Danzman & Meunier (2022). who call for PRISM's integration with detailed case-level outcomes. As a result, many analyses stay at a descriptive or anecdotal level: we know, for instance, that the EU and the United States register few formal rejections, but we possess no robust measures of the medium-term impacts on firms or innovation trajectories. Comparative studies outside the Western context are similarly deficient; countries such as India, Brazil, and Russia have introduced screening or special licensing schemes, yet academic scrutiny of these regimes is almost non-existent.

In sum, post-2017 research on FDI screening has yielded high-quality analytical work and novel datasets, but remains fragmented. A concerted effort is required to bridge disciplinary divides, expand geographical coverage beyond the United States, EU, and China, and develop methodologies that fully assess both the economic and strategic outcomes of these mechanisms.

In the next paragraph, an overview of foreign direct investment will be provided, accompanied by a clear taxonomy grounded in the economic theories that underpin its expansion. This will be followed by a historical survey of screening regimes, detailing their typologies and the FDI thresholds they enforce. Finally, the chapter will examine the principal countries and institutional frameworks that administer these measures–highlighting their convergences and divergences–before presenting the major schools of thought on FDI screening in a balanced discussion that includes critical perspectives.

1.3 Foreign Direct Investment (FDI)

The analysis of the effects of the implementation of ISMs requires an introduction to the type of foreign investment that these mechanisms aim to regulate. This paragraph will deal with the theoretical foundations and methodologies underlying investments across national borders. First, the nature and implications of FDIs will be analysed, then the underlying economic theory. It is followed by a general classification and later an overview of the role of FDIs in the contemporary global economy.

1.3.1 What are Foreign Direct Investments?

Foreign direct investment (FDI) represents a mode of cross-border investment in which an investor from one country acquires a lasting interest–and typically, effective managerial control–in an enterprise located in another country. FDI can occur either inorganically or organically. In the inorganic mode, an investor acquires an existing company in the target country, whereas in the organic mode, the investor expands the operations of an already established business in that country[7].

In addition to equity capital (the foreign investor's share of ownership in the local company) FDI comprises long-term capital, such as reinvested earnings, intra-company loans, and bond

[7] While organic FDI is often associated with Greenfield investments (building new facilities from scratch), and inorganic FDI with Brownfield investments (acquiring or repurposing existing assets), the two classifications are not always synonymous. An inorganic investment may still involve new construction, and an organic expansion can sometimes leverage existing infrastructure.

issuances, as well as short-term capital, including trade credits and temporary financing between affiliated firms. All these components are recorded in the balance of payments.

Importantly, FDI typically goes beyond mere financial transfers, it involves active participation in management, the establishment of joint ventures, and the transfer of technology and expertise, which can generate positive spillover effects in the host economy. The cumulative stock of FDI is defined as the net value of direct investments made over a specific period (outward FDI minus inward FDI), reflecting its enduring nature.

A key characteristic that distinguishes FDI from other forms of international capital flows, such as portfolio investments, is the element of control. FDI is distinguished from portfolio investment by a threshold of ownership (commonly 10% or more of the voting shares), which ensures that the investor can exercise significant influence over the decision-making processes of the investee (OECD, 1996).

Direct control is the defining feature that distinguishes FDI from *foreign portfolio* or *indirect investments*. Specifically Foreign Indirect Investment (FII), also known as portfolio investment, refers to investments made through intermediaries–such as mutual funds, pension funds, or other institutional vehicles–instead of through direct equity ownership. In these cases, the investor does not acquire managerial control or exert direct influence over the operations of the investee company. Consequently, FII is generally considered a more passive and often more volatile form of investment compared to FDI (Lizondo, 1990).

1.3.2 The Theoretical Framework Behind Foreign Direct Investment

The conceptualization of FDI as a distinct economic phenomenon emerged in the 1960s with Stephen Hymer's seminal work. Prior to Hymer, early models–most notably those by Eli

Heckscher (1919) and Bertil Ohlin (1933), which were grounded in Ricardo's theory of comparative advantage (Ricardo, 1817)–sought to explain international capital flows. However, these models rested on restrictive assumptions, including perfect competition, labour immobility across borders, and risk-neutral behaviour among firms. Empirical evidence soon revealed that such assumptions were overly simplistic and unable to account for the complexities of international investment.

Hymer revolutionized the field by shifting the focus from macroeconomic determinants to firm-specific advantages. He demonstrated that FDI is fundamentally distinct from portfolio investment by emphasizing the element of control: whereas portfolio investments are characterized by passive capital allocation, FDI involves acquiring a substantial, often defined as 10 percent or more of the voting shares, stake in a foreign enterprise. This degree of control enables investors to directly influence management decisions, thereby internalizing technology, expertise, and strategic capabilities that generate sustainable competitive advantages.

Hymer's insights laid the groundwork for a theoretical framework that highlights market imperfections and strategic motivations as central to the decision to invest abroad (Hymer, 1960). This framework not only explains why firms pursue FDI to overcome local market constraints but also paved the way for subsequent theories, including internalization theory and John Dunning's eclectic paradigm (OLI model). Dunning's framework further refines this approach by integrating ownership-specific advantages, locational factors, and internalization benefits, thus offering a comprehensive explanation for multinational expansion in imperfect markets (Dunning, 1977).

Collectively, these theoretical developments have been instrumental in shaping contemporary international business scholarship. They underscore that FDI is not merely a

financial transaction but a strategic instrument for achieving long-term competitive advantage and promoting economic integration in an increasingly globalized economy (Lizondo, 1990).

1.3.3 Types of Foreign direct investment

FDI can be classified in different ways depending on the perspective of analysis. From the investor's or source country's viewpoint, FDI is commonly divided into horizontal, vertical, and conglomerate types.

Table 2: FDI from investor's viewpoint

Horizontal FDI	Occurs when a multinational corporation replicates its home-country operations in a foreign market to produce similar goods or services locally
Vertical FDI	On the other hand, involves the extension of the production process across borders. This may be backward vertical FDI, where a company secures its supply chain by acquiring resources or suppliers in the host country, or forward vertical FDI, where the investment is made in distribution or marketing channels to facilitate local sales.
Conglomerate FDI	A less common form, it represents investments that combine features of both horizontal and vertical FDI by engaging in diversified operations across unrelated industries

From the host country's perspective, FDI is often analysed according to its economic impact:

Table 3: FDI from host country's viewpoint

Import-substituting	Is directed toward reducing the dependence on imported goods by establishing local production.
Export-increasing	Focuses on enhancing exports by leveraging local production advantages.

Government-initiated	Occurs when policymakers actively encourage foreign investment in strategic sectors through various incentives or partnerships.

A further distinct category is Platform FDI, wherein an investor establishes operations in a host country primarily as a base for exporting goods or services to third markets–a model frequently adopted in regions with favourable trade agreements (Lizondo, 1990).

1.3.4 The implementation of Foreign Direct Investment

The primary objective of an investor engaging in FDI is to obtain a lasting voting power and effective control over a foreign enterprise. This control enables the investor to influence strategic and managerial decisions, which distinguish FDI from mere portfolio investment. There are several methods through which an investor can achieve this:

Table 4: Types of IDF implementation

Wholly Owned Subsidiary	Establishing a new company in the host country, where the foreign investor maintains 100% ownership. This approach, known as a greenfield investment, involves building operations from the ground up, including constructing facilities, hiring staff, and setting up distribution channels.
Acquisition of Shares	Purchasing a significant portion of shares in an existing local enterprise to secure control. This method allows the investor to gain immediate access to established operations, market presence, and local expertise.
Mergers and Acquisitions (M&A)	Expanding operations by merging with or acquiring an existing company in the host country. This strategy can provide rapid market entry and access to established assets but may involve complexities related to integration and cultural differences.
Equity Joint Ventures	Forming a strategic alliance with a local partner, wherein both parties share equity, risks, and management responsibilities. This approach leverages the local partner's market

	knowledge and networks, facilitating smoother navigation of the host country's business environment.

Additionally, host governments often offer various incentives to attract foreign capital, such as reduced corporate tax rates, financial subsidies, preferential tariffs, and other forms of state support. These incentives are designed to lower the cost of investment and enhance the attractiveness of FDI as a vehicle for economic development (Raff et al., 2009).

1.3.5 Foreign Direct Investment in the Global Economy

Foreign Direct Investment (FDI) plays a critical role in the global economy and is highly sensitive to prevailing market conditions. Its inflows are typically influenced by macroeconomic and political factors, which include:

Table 5: Main factors that influence FDI

Economic Cycles	FDI inflows tend to contract during economic downturns and expand during periods of prosperity, reflecting the cyclical nature of global markets
Political Stability and Government Policies	Indicators such as the Democracy Index are significant predictors of FDI flows. In nations where democratic institutions are robust and governance is transparent, FDI often shows growth trends. Conversely, in economies that are heavily dependent on natural resource exports, higher levels of democracy may be correlated with lower FDI inflows due to different risk profiles and investment priorities.
Macroeconomic Conditions	Stable inflation, favourable exchange rates, and robust GDP growth further enhance the attractiveness of a host country for foreign investors.

At the local level, FDI is known to boost productivity and stimulate economic growth, particularly in developing and transition economies. Empirical studies (UNCTAD, 1999) have consistently shown that FDI not only expands local business activities but also facilitates

technology transfer and productivity spillovers, which are vital for long-term development and competitiveness.

1.4 Investment Screening Mechanism (ISM)

The previous paragraphs have tried to outline an analytical framework starting from the introduction to the contemporary context and the tools that can be implemented by the governments of the world, up to specific foreign investments that the ISM seeks to regulate. The section 1.2.3 on geoeconomics tools identified the ISM as the principal tool in geoeconomic sanction strategies. To deepen the description of this tool, this section analyses the origins and classifications of the main features of investment screening, focusing on aspects such as scope, level of restrictions and investor protection.

1.4.1 Historical evolution and future perspectives of Investment Screening Mechanism

States use FDI screening (investment screening for short) to prevent foreign investors from buying national assets at bargain prices or reducing competition, and to protect national security and critical infrastructure. FDI screening methods include procedures to assess, investigate, authorise, condition, prohibit or unwind FDIs.

As of 2023, FDI screening mechanisms based on national security considerations were employed by around 37 countries. This figure includes most of the advanced economies in

Europe (23)(European Commission, 2024b), as well as numerous countries in Asia (9), North America (2), Oceania (2), Latin America (1) and Africa (1) (UNCTAD, 2023).

ISMs have evolved over the past several decades as governments have sought to balance the benefits of FDI with the need to protect national security, strategic industries, and critical infrastructure. Their development reflects shifts in global economic integration, technological advancements, and geopolitical concerns.

The origins of investment screening trace back to the 1970s, when concerns over foreign takeovers of sensitive sectors prompted regulatory action. A pivotal moment occurred in 1975 when the U.S. government established the Committee on Foreign Investment in the United States (CFIUS) via an Executive Order issued by President Ford (Dimitropoulos, 2020). This initiative was primarily a reaction to concerns over foreign takeovers in sensitive sectors, which were viewed as potential threats to national security (C.S. Eliot Kang, 1997).

The 1980s marked the institutionalization of ISM. In this decade, the U.S. experience continued to evolve with the passage of the Exon-Florio Amendment in 1988, providing a formal legislative framework for CFIUS and enabling it to review transactions that might result in foreign control of U.S. businesses engaged in interstate commerce. This period embedded the screening process within the broader context of national security (Dimitropoulos, 2020).

As globalization accelerated in the 1990s, other major economies began to recognize similar vulnerabilities. Countries such as Canada, Australia, and Japan started developing their own screening mechanisms, tailoring their approaches to local concerns while focusing on strategic sectors. In the early 2000s, growing geopolitical tensions and the rapid pace of globalization prompted further reforms. In 2007, the U.S. enacted the Foreign Investment and National Security Act (FINSA), refining the review process under CFIUS (Dimitropoulos, 2020).

This period also saw a broader international discussion on the role of FDI in national security. The expansion of screening mechanisms was driven not only by concerns over takeovers but also by issues related to critical infrastructure, technological leadership, and the increasing prominence of state-owned enterprises (SOEs) and sovereign wealth funds (SWFs) in global markets (Xi, et al. 2015).

Reflecting the evolving nature of global investment flows, the U.S. further expanded its review capabilities with the Foreign Investment Risk Review Modernization Act (FIRRMA) in 2018. FIRRMA broadened the scope of CFIUS to include non-controlling investments in companies involved in critical technologies, infrastructure, and sensitive personal data. This update highlights a significant shift toward pre-emptively managing risks in an increasingly complex investment landscape (Dimitropoulos, 2020).

Other countries have followed suit; in recent years, many advanced economies have either introduced new screening mechanisms or updated existing ones. For instance, the European Union has moved toward a more harmonized approach, coordinating national systems to address shared concerns over foreign investments in strategic sectors (Hindelang & Moberg, 2020).

On a parallel track, China has transitioned its regulatory approach over the years, from a positive list system to a more liberal negative list regime (see paragraph 1.4.2, I), so as to balance attracting FDI with the need of protecting national interests. This evolution reflects China's broader economic strategy and the "Beijing Consensus" of controlled openness, an economic model that is based on exports and the development of infrastructure abroad (Philip Hsu et al., 2014).

Today, ISMs are viewed as a crucial instrument for ensuring that foreign investments do not compromise national security. This trend is fuelled by increasing global competition,

particularly with concerns over technological transfers and strategic acquisitions by foreign state-affiliated entities.

The historical trajectory of ISMs underscores their continuous adaptation to economic and geopolitical shifts. Originally devised in the 1970s to counter potential threats from foreign takeovers in sensitive industries, ISMs have expanded in both scope and complexity. They now encompass a wide array of legislative and administrative tools designed to balance the influx of foreign capital with the protection of national security, critical infrastructure, and technological sovereignty. As global economic dynamics continue to evolve, ISMs remain a key instrument for states seeking to navigate the challenges of globalization while safeguarding their strategic interests (Dimitropoulos, 2020).

1.4.2 Classification of Investment Screening Mechanisms

The emergence of ISM coincides with a growing opposition to globalization, which leads to changes in international investment legislation intended to restore national sovereignty. The need to strike a balance between luring in foreign investment and safeguarding domestic interests is the main force behind these measures.

In his report, Dimitropoulos has identified three primary frameworks through which states pursue sovereignty-oriented reforms in international investment law. Firstly, the *isolationist reassertion* entails an explicit withdrawal from multilateral commitments: states either denounce existing treaties or suspend negotiations on new agreements, thereby reclaiming autonomous control over their regulatory frameworks. Secondly, the *international reassertion* preserves engagement with the global legal order while reinforcing state authority, most notably through the incorporation of “right to regulate” clauses and expanded carve-outs in

treaties that insulate domestic policymaking from external constraints. Thirdly, the *domesticating reassertion* seeks to internalize the dynamics of globalization via targeted national measures, such as the establishment of special economic zones and bespoke legislative regimes that channel FDI into designated sectors or territories (Dimitropoulos, 2020).

I. Systems of Foreign Investment Admission

The initial step in classifying these systems involves determining whether a country permits the entry of foreign capital, with each government establishing its own default rules for investment admission. Foreign investors decide whether to invest in a country based on several factors, including both international law and the host state's domestic legal framework.

In domestic economies, three primary systems for admitting foreign investment can be identified:

Table 6: Systems of FDI admission

National Treatment (Free Admission)	A system of national treatment of international investors is applied by the domestic legislative framework of many domestic jurisdictions worldwide, without any distinction between domestic and foreign investors or between domestic and foreign investments. For instance, Hong Kong lacks a broad screening process for foreign investment entrance as well as general foreign investment legislation that would regulate its admittance (Terry Miller et al., 2018). The same regulations apply to domestic and foreign investors.
Positive List	Certain countries only grant market access and accept foreign investment in accordance with a positive set of conditions that foreign investors and foreign investments must meet to be accepted in the applicable jurisdiction. Only in the economic sectors designated by domestic legislation are foreign investors permitted to conduct business. The remaining industries are off-limits to international investors.
Negative List	Unlike the positive list system, the negative list system establishes the reverse default rule, making automatic investment acceptance the default in the applicable jurisdiction unless the investment is listed under one of the negative list-identified sectors or circumstances. As a

	result, the negative list system is more lenient than the positive list one (Dimitropoulos, 2020).

II. Types of Foreign Investment Control Laws

Independent of whether a positive or negative list system is used in a jurisdiction, there are two main types of foreign investment control laws. The first one, is the *general foreign investment control laws* consolidates all rules affecting inbound capital – from corporate and nationality requirements to immigration and property restrictions–into a single statute. Historically, such omnibus frameworks have served to centralize the disparate legislative provisions that bear on foreign investors.

The second, *sector-specific laws*, embeds targeted investment rules within domains, most prominently competition and merger control regimes, to address the distinct policy concerns of individual industries. China is another excellent example, as under the old legal system foreign investors had to comply with specific sectoral standards and rely on specialized laws and regulations to be allowed to operate in the relevant industries (MOFCOM, 2005).

The new investment law progressively abolishes the old regulatory framework in favour of a general investment law for all sectors of the economy (Dimitropoulos, 2020).

III. Restrictions to Foreign Direct Investments According to the OECD Framework

The measurement of the restrictiveness of the legislative and regulatory frameworks implemented by countries to filter FDI is done by the Organization for Economic Cooperation

and Development (OECD). Strictness can therefore be divided into four types depending on the strength of limitation and the objective to be limited (OECD, 2023):

Table 7: Restrictiveness of ISM

Foreign equity limitations	Restrictions on the percentage of foreign ownership allowed in certain sectors, often encouraging joint ventures between domestic and foreign investors.
Screening or approval mechanisms	Procedures that require foreign investments to undergo a review process, particularly in strategic or sensitive sectors.
Restrictions on the employment of foreigners as key personnel	Limitations on the involvement of foreign nationals in critical positions within companies.
Operational restrictions	Rules governing the operation of foreign investments, such as restrictions on branching, capital repatriation, or land ownership.

The most common type of restrictions are limitations or other restrictions on foreign equity participation that can occur through joint ventures between foreign and domestic investors, either in a particular industry or more broadly. Media, transportation, agriculture, forestry, fisheries, natural resources, real estate, and–above all–the mining, oil, and gas sectors are the sectors that have historically had the best protection (OECD, 2024).

One could distinguish between the two primary categories of foreign investment control methods found in FDI control laws, *outright prohibition* and *screening*, by using the OECD typology. Some nations may, with or without a formal review procedure, forbid foreign investment in specific industries, limit market access to specific industries, or limit the amount of ownership in specific businesses, as is frequently the case in the real estate and natural resource sectors. The “Procedures for Foreign Investments in the Business Entities of Strategic

Importance for Russian National Defence and State Security" of 2008, for instance, prohibits foreign investors and foreign state-owned enterprises (SOEs) from acquiring majority stakes in "business entities of strategic importance for national defence and state security" in sectors like aviation, oil and gas, and defence (Russian Federation, 2008). Likewise, France employs the Banque publique d'investissement (Bpifrance) to prevent takeovers of "strategic companies," in which the government controls share through the "golden share" method, as well as further actions such as sanctions imposed by the Minister for the Economy and Finance (Hughes Hubbard & Reed LLP, 2019).

IV. Three types of Investment Screening Mechanisms

According to UNCTAD there are three major types of Investment Screening Mechanisms:

Table 8: Types of ISM

Sector-specific	The first category of mechanisms concentrates on businesses that are thought to be crucial for national security, including utilities, energy, telecommunication, transportation, media, and finance. For instance, foreign investors are not permitted to participate in banks or insurance firms unless the Council of Ministers permits it, according to Qatar's recently enacted Investment Law No. 1 of 2019, which only applies to foreign investors (Bin Hamad Al-Thani, 2016).
Cross-sectoral	All sectors are eligible for screening under the second category of cross-sectoral legislation. The best illustration of such a legislative framework is the CFIUS procedure in the United States.
Entity-specific	Unlike the screening processes of the first two categories, the third category's legislation concentrates on the investment's destination rather than the investor. These legal frameworks enable for the evaluation of foreign acquisitions for domestic enterprises, which are typically state-owned and operate in sectors deemed sensitive from a national security perspective (Dimitropoulos, 2020).

V. Timing of Screening: Ex Ante vs. Ex Post

Another differentiation that may be made, which is useful to understand how ISMs act, is between systems that provide for screening ex ante or ex post.

The *ex-ante screening* involves the screening of a potential investment before the investment takes place.

Ex-post screening, in the context of bilateral or multilateral investment treaties, may result in investor claims because the investment will have already taken place at the time of the assessment. This might be quite problematic from the standpoint of international investment law. According to international investment law, the relevant question is whether the investment may be considered to have been admitted "in accordance with the legislation" of the screening jurisdiction, as stated in Article 2(1) of the Model BIT of Germany (2008). It is possible that foreign investors can make claims over this (Dimitropoulos, 2020).

VI. Inward versus Outward Investment Screening Mechanism

Another differentiation that deserves mention is that between mechanisms for the screening of outward investments or inward investments.

Inward investment screening entails evaluating foreign investments coming into a nation to preserve economic sovereignty, safeguard vital infrastructure, and avert possible hazards to national security.

Instead, the *outward investment screening* entails keeping an eye on and controlling local investments going overseas, especially when those investments have the potential to transfer vital technologies or present threats to national security. Preventing the outflow of investments that could improve the military or technological capabilities of hostile nations is the aim of this

mechanism. For instance, the Chinese government has developed an intriguing internal screening mechanism for state-owned enterprises (SOEs) before allowing them to invest in overseas projects. For instance, the Chinese government has created an internal public procurement procedure to choose state-owned construction firms for infrastructure projects in Botswana (Anna Ying Chen, 2009).

VII. Reasons behind the proliferation of Investment Screening Mechanism

Over the past decade, ISMs have proliferated across both developed and emerging economies, driven by a potent mix of national-interest and economic imperatives. Two factors help to explain this trend:

The first, unlike in international trade, is that there is no structure for multilateral investment treaties. As a result, domestic screening systems have been able to evolve in accordance with each nation's unique characteristics.

The second, the balance of power in today's international relations is now different in comparison to what it used to be in the past. Emerging economies, like the BRICS[8], have developed differently from typical underdeveloped countries, and their economic policies occasionally even resemble those of capital-exporting nations (Sauvant, 2005). In addition, several competitive economies in the East and South are increasingly investing overseas,

[8] BRICS stands for the group of countries consisting of Brazil, Russia, India, China, and South Africa. In 2024, Egypt, Ethiopia, Iran and the United Arab Emirates also joined the group. Indonesia will be added in 2025 (Setiawan, 2025).

mostly in Northern nations, using the money they earn from financial services and natural resources. Due to this tendency, many developing countries are positioned to compete directly with Western economies for international investment possibilities.

Despite the variety of motivations behind the adoption of screening regimes, ranging from safeguarding strategic industries to preserving domestic employment, one rationale consistently emerges as paramount: *national security protection.* In his report Dimitropoulos (2020) demonstrates that the definition of "national security" has been deliberately broadened to encompass considerations well beyond its traditional confines. This expansion is unfolding along two parallel tracks: first, through the enlargement of legislative frameworks–by adding new sectors or activities subject to review, lowering the thresholds that trigger the screening process, and extending disclosure obligations for foreign investors; and second, through an increasingly expansive interpretation of national security itself, as the authority to define its scope shifts from the realm of international investment law into domestic legal orders within the emerging "New Geoeconomic Order"[9]. Together, these dual developments transform national security into an umbrella concept that now covers not only defence and foreign affairs

[9] The New Geoeconomic Order refers to a global paradigm in which sovereign states increasingly wield economic policy (investment screening, sanctions, export controls, subsidies, trade agreements) as instruments of geopolitical strategy. Unlike the post–Cold War era–when economic interdependence was largely viewed as a positive-sum game and was institutionally insulated from security policy–today's great-power rivalries (notably between the U.S. and China) have fused economic and security considerations into a single geostrategic calculus. This has led to the restructuring of international institutions and domestic laws (e.g. investment-screening regimes) to reflect a security-first approach to cross-border economic flows (Dimitropoulos, 2020).

concerns but also critical infrastructure, strategic industries and high-tech sectors such as telecommunications.

1.5 Comparative Analysis of the Main Theoretical Perspectives on Investment Screening Mechanisms

Previous sections have described the geopolitical and geoeconomic framework that supports the current global investment scenario. Following that, the topic of FDI was discussed, with a focus on the pressing need for regulatory supervision due to its explosive growth[10]. To manage these flows, ISMs were introduced as a crucial instrument. To shed further clarity on their function in contemporary economic governance, a thorough classification was presented, showing how different ISM models complement and harmonize with the current regulatory environment.

However, a theoretical framework underpinning the implementation of these mechanisms remains underdeveloped. This paragraph is therefore dedicated to a theoretical analysis of the major schools of thought regarding the liberalization versus the restriction of foreign investment, setting the stage for a deeper understanding of the regulatory approaches at play.

The following theoretical analysis will provide the essential groundwork for Chapter 2, which opens with a detailed examination of the historical evolution and statutory features of the screening mechanisms implemented by the countries selected for this study.

[10] Figure 3, which illustrates the growing trend of FDI in the world in the period 1960-2023, is in section 2.3.2.

1.5.1 Neoliberal / Free-market Approach

The first theoretical approach to mention in this research, which is useful for analysing the issue of ISM and providing an explanation of the economic fundamentals that could be influenced by the introduction of these regulatory mechanisms, is the neoliberal school of thought.

Proponents of the neoliberal perspective argue that the free movement of capital is fundamental for an efficient allocation of resources, for innovation and for general economic growth. From this point of view, ISMs are primarily seen as impediments that introduce uncertainty, add transaction costs, and can be improperly used as protectionist tools. These criticisms state that any interference with the market-driven investment flow can stifle the benefits that FDIs could provide, such as technology transfer and managerial know-how.

Scholars such as Dunning (2008) and Caves (1996) laid the foundation for understanding the role of multinational companies and FDIs in the globalized economy. Their work highlights the positive externalities generated by open of investment flows and warns against distortions that regulatory barriers could cause.

According to empirical research, nations with less stringent investment regulations typically draw larger amounts of FDI, which is correlated with higher levels of economic dynamism and productivity. According to this school of thought, therefore, ISMs can discourage investment and weaken the competitiveness of home sectors, if they are implemented carelessly.

In conclusion the neoliberal approach underscores the potential economic downsides of regulatory barriers, arguing that ISMs disrupt the positive spillovers and externalities associated with open investment flows (Marconi, 2024).

1.5.2 Nationalist / Security-centric Approach

The nationalist viewpoint, on the other hand, puts state security and sovereignty ahead of the purely economic advantages of free foreign direct investment. Proponents of this view argue that allowing foreign firms to control strategic sectors–such as energy, telecommunications and critical infrastructure–can pose significant risks, since these companies are driven primarily by commercial imperatives rather than the national interest.

The evolution of the U.S. Committee on Foreign Investment in the United States (CFIUS) and the increasing use of ISMs in Europe, illustrates that national security concerns have become a dominant driver in policy reforms (Rosén & Meunier, 2023). Cases such as the two high-profile attempts to acquire U.S.-based businesses abroad in the early 2000s prompted a critical revaluation of the government's role in overseeing foreign investments. When state-owned China National Offshore Oil Company (CNOOC) tried to buy Unocal in 2005, it caused a great deal of political and popular outrage and eventually withdrew its bid. Under increased scrutiny in the wake of 9/11, Dubai Ports World (DP World) sought to acquire a British-owned port operator that had contracts to run multiple U.S. ports a year later, in 2006. The media and public outcry over these events spurred political action, ultimately prompting a review and subsequent reform of the regulations governing the Committee on Foreign Investment in the United States (CFIUS) (Hunter & Schaus, 2016; U.S. Department of the Treasury, 2018).

Consequently, ISMs are defended to preserve sensitive industries, and guarantee that critical assets are still influenced domestically. The national perspective validates ISMs as essential tools for preserving national security and strategic autonomy, even at the potential cost of reduced economic efficiency.

1.5.3 Institutional / Comparative Politics Approach

The institutional perspective focuses on the "how" and "why" behind the adoption and implementation of ISMs in different national contexts. With a focus on the influence of interest groups, lobbying, and institutional legacies, this school examines the domestic political and legal contexts that influence screening practices. It is argued that disparities in institutional arrangements cause ISMs to differ in terms of their efficacy, transparency, and design among nations.

The intricate relationship between domestic politics and global economic integration is described by this analysis, which show that domestic discussions about national security, economic competitiveness, and regulatory coherence influence how screening policies change over time.

A helpful foundation for comprehending how various political and economic institutions affect policy decisions is offered by the groundbreaking work on variations of capitalism (Hall & Soskice, 2001). In their study, Hall and Soskice argue that in national institutional frameworks that are more "market-driven" (Liberal Market Economies or LMEs), minimal state intervention tends to prevail. In contrast, national institutional frameworks categorized as "coordinated market economies" (CMEs) encourage proactive regulation among various policy spheres–such as industrial policy, labour markets, corporate finance, and innovation policy–to protect critical sectors (Hall & Soskice, 2001). These frameworks explain that ISMs are not merely technical tools but are deeply embedded in each country's broader economic strategy and institutional structure.

While liberal market economies may experience more ad hoc or politically motivated interventions, comparative studies have demonstrated that nations with more coordinated

market economies typically implement ISMs in a more systematic and transparent manner. A reassessment of regulatory frameworks is being prompted by internal and systemic security pressures; this is what some scholars label as "shades of geopoliticization", according to recent research on the geoeconomic turn of the Single European Market. This repositions investment screening mechanisms as strategic tools that combine national security imperatives with economic goals (Herranz-Surrallés et al., 2024).

In conclusion this institutional perspective adopts a comparative approach, emphasizing how domestic political and legal configurations fundamentally determine how screening mechanisms are designed and implemented.

1.5.4 Critical / Post-Structuralist Approach

The dominant narrative around ISMs is that they serve as tools to protect critical infrastructure and the national interests of populations, companies, and governments. However, a critical perspective challenges this conventional view by questioning the simplistic formulation of ISM as instruments solely devoted to protection. Scholars from this school argue that investment screening is often employed as a veneer for broader political or ideological objectives, thereby contesting the narrow narrative of national security and economic protectionism.

ISMs are not only technical instruments, according to this perspective they are part of the power structures that legitimize specific governmental goals while suppressing opposing views. This method, which draws inspiration from post-structuralist theories (such as Foucault's work on governmentality), highlights the significance of language, narrative, and symbolism in the formulation of security policy. The rhetoric of "protecting national security,"

according to critical thinkers, can conceal more complex power dynamics and be used as a tool for political control. Henry Farrell and Abraham L. Newman's concept of "weaponized interdependence" further elucidates this perspective. They argue that states can leverage their positions within global economic networks to exert coercive power over others. This frame suggests that ISMs can function not only as defensive measures but also as strategic instruments that exploit global economic asymmetries, enabling states to gather critical intelligence and impose access chokepoints to advance broader geopolitical and ideological objectives (Farrell & Newman, 2019).

Moreover, critics with a neoliberal bent warn that ISMs can perpetuate global inequalities. By selectively targeting investments from developing or politically disfavoured nations, screening regimes risk functioning as modern instruments of economic exclusion–and even neo-colonial control (Tukumbi, 2011). Policymakers are encouraged by this body of literature to cautiously evaluate the stated and unstated goals of investment screening measures.

Ultimately, the critical paradigm urges a vigilant reassessment of the narratives underpinning ISM. It cautions against treating these mechanisms as apolitical technical fixes, highlighting instead their potential to entrench state power, reproduce hierarchies, and advance unstated strategic ends. Economic dynamics are frequently framed as existential threats to justify such extraordinary measures. To unpack the theoretical underpinnings of this securitization process, it is essential to engage with the Copenhagen School, particularly Barry Buzan, who extended security beyond its military boundaries to include economic, environmental, political, and social domains (Buzan et al., 1998). The Copenhagen School’s concept of “securitization” offers a robust analytical lens for understanding how routine economic issues are elevated into security imperatives (see also Section 3.3.1).

1.5.5 Geoeconomic / Foreign Policy Approach

The interpretation of ISM objectives reveals the emergence of different schools of thought, as discussed in the previous paragraphs. Some critics emphasize that these mechanisms restrict market freedoms, while others question their stated purposes, suggesting that hidden political influences may lie behind their implementation. The purely geoeconomic analytical framework, considered by many scholars to be the most objective, integrates elements from the other schools and acknowledges the necessity of ISMs: beyond serving as tools to control foreign investments, they also allow space for self-regulation and market growth. This broader view highlights that FDI, like any other economic instrument, requires control mechanisms to ensure national stability and security.

The geoeconomic approach combines principles of economic policy and geopolitical strategy into a unified analytical framework. ISMs are dynamic tools for geopolitical policy and economic management, not merely technological defences. Instead of serving only as defensive measures to protect critical infrastructure or national interests, screening mechanisms are seen as proactive tools that promote domestic stability and anticipate and resolve economic vulnerabilities during periods of intense international competition, such as the rivalry between the United States and China. As a result, ISMs become strategic tools that allow governments to control or prevent investments that could jeopardize important industries, serving larger foreign policy goals and changing the rules of the global economy.

Proponents of this strategy assert that ISMs are being repurposed as tools of statecraft. They are intended not just to protect national security but also to improve economic resilience, minimize strategic dependencies, and exercise influence in a world order that is becoming more and more contested. In this perspective, ISMs are essential components of a holistic

geoeconomic approach, especially as state-capitalist competitors like China put pressure on liberal economies.

As Meunier and Matthijs (2023) explain, the European Union's adoption of investment screening marks a "geoeconomic revolution," where economic tools are repurposed to advance foreign policy objectives and defend against coercive economic practices.

In a similar vein, Bauerle Danzman and Meunier (2024), the authors of the PRISM project[11], point out that the European Union has made a significant transition from market openness to strategic interventionism since 2017 by developing a variety of novel policy tools that combine basic security concerns with trade and investment. The EU was formerly a laggard in the field of geoeconomics, but it has quickly put together a new toolset that includes both offensive and defensive tools, such as prohibitions on foreign subsidies, anti-coercion measures, and screening for foreign investment. These changes are not just reactionary; rather, they reflect a fundamental shift in the EU's understanding of the relationship between geopolitical power and economic interaction. The authors claim that a confluence of external shocks, including the COVID-19 epidemic, China's ascent, and Russia's invasion of Ukraine, changed European policymakers' perspectives on global vulnerabilities and enabled this shift. This change was made internally possible by the EU's political unity and institutional flexibility, which allowed the Union to implement a more assertive and coherent geoeconomic strategy. These actions are no longer defensive; rather, they are being used offensively to project economic might, preserve

[11] Politics and Regulation of Investment Screening Mechanisms (PRISM) is a research project led by Sarah Bauerle Danzman and Sophie Meunier of Princeton University, on the evolution, features, and implications of investment screening measures in advanced industrialized democracies.

highly important technologies, and change the laws governing international investment and trade to better suit Europe's strategic objectives.

In sum, the EU's geoeconomic approach reconceives ISMs as indispensable pillars of a holistic strategy: far from being mere procedural tools, they serve as proactive instruments to safeguard national security, strengthen economic resilience, and shape the architecture of global governance.

While acknowledging the contributions of all five perspectives, this thesis primarily adopts the geoeconomic lens discussed in this section, as it allows for an integrated modelling of political and economic strategies. Moreover, it is particularly well suited to interpret recent phenomena of "weaponized interdependence" (Farrell & Newman, 2019) and enables the formulation of empirical hypotheses–such as those advanced in this study–focused on the impact of screening mechanisms in a context of great power rivalry. The other theoretical approaches (liberal, institutional, security-oriented, nationalist) will be employed as comparative and contextual frameworks, useful for triangulating the results and highlighting possible methodological or interpretative variations.

2. The Effects of Investment Screening Mechanisms: Analysis of the Largest Economies

This chapter intends to examine, in a comparative and in-depth manner the historical evolution of ISM in different economies and empirically assess their impact on the main macroeconomic indicators, with particular attention to FDI flows.

For this purpose, the chapter is divided into a descriptive part and a methodological and empirical part.

The following paragraph which constitutes the descriptive part, will illustrate the history and development of ISM country by country, explaining the context, the necessity and the future scenario that are going to be open.

Paragraph 2.2 collects the information from the previous section and will explore the main differences and similarities between the regulatory frameworks of these countries.

Section 2.3 is the focus of this research because it analyzes with data, obtained from the World Development Indicators database, of the World Bank Group, the possible effects that the ISM has had on major economies and emerging economies.

2.1 Historical and Regulatory Evolution of ISMs

A growing number of states have instituted ISM aimed at regulating FDI to safeguard national security and critical infrastructures, threatened by the incredible increasing in foreign investments that have grown in value in recent years and by market distortions introduced by the economic rise of China and other countries. Their domestic practices have drawn attention

to the need to weaponize international economic policy, as happened in Europe and the United States (Lang, 2019). This is the broad geoeconomic context within which the proliferation and strengthening of ISM needs to be analysed (Chan & Meunier, 2022).

Sovereign Wealth Funds (SWFs) and State-Owned Enterprises (SOEs) have become increasingly influential in the global economy, which has led to the recent introduction and reform of long-standing FDI regulatory systems. In addition to national defence considerations, modern investment screening laws also link national security to the following three factors: the protection of *critical infrastructure*, the protection of *critical technologies* to maintain a technological advantage in today's competitive economy, and the *involvement of SOEs* in general (Dimitropoulos, 2020).

Notably, some of the most advanced frameworks have been developed in the United States, Canada, Australia, the European Union and Japan. In fact, screening laws were first developed in the 1970s in the United States, Canada, and Australia, prompted by fears of takeovers of technology hardware companies, mostly in the semiconductor industry, by Japanese counterparts. Meanwhile, the European Union has undertaken initiatives to coordinate and harmonize existing screening practices among its member states to ensure consistency and efficiency across the region. This research will include France, Italy, Germany and the United Kingdom even though it is no longer part of the European Union[12], but because of its regulatory system and economic importance[13].

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[12] The United Kingdom left the EU at 23:00 GMT on January 31, 2020. With Brexit, the United Kingdom is now considered a "third country" by European members under Regulation (EU) 2019/452.

[13] United Kingdom is the sixth-largest national economy in the world measured by nominal gross domestic product (GDP) (International Monetary Fund, 2024).

In addition to these developed economies, several emerging markets, such as Russia, India, China (to be considered a special case in this group) and South Africa were included for their ISMs. These economies, grouped under the acronym BRICS, present a compelling case for analysis because they offer a stark contrast to mature, developed systems, highlighting how countries at different stages of economic development tailor their investment screening to protect critical domestic sectors.

This chapter will first review the key legislative frameworks that underpin the ISMs in these major economies, detailing the institutional structures and regulatory approaches employed. Following this, the discussion will compare the differences and similarities among these systems.

The analysis will commence with the United States, which was among the first to develop and implement a systematic investment screening mechanism; but first it is important to explain the reasons that led to the choice of these twelve countries.

2.1.1 The Choice of Countries

A stratified sample of economies was constructed to examine the operation of investment-screening mechanisms alongside FDI performance. RStudio (code in Appendix A) was employed to rank the top 50 economies by cumulative net FDI inflows (2000–2024, BoP basis, current U.S. dollars), using data from the World Bank's World Development Indicators. Aggregated regional categories (e.g., "Sub-Saharan Africa") were eliminated from the table,

while tax-haven jurisdictions–financial centres offering minimal or zero taxation[14], whose FDI inflows often reflect profit-shifting rather than genuine productive investment–were excluded. These tax havens include Netherlands, Hong Kong SAR, Singapore, Ireland, the British Virgin Islands, Malta, Cyprus, the Cayman Islands, and Liechtenstein.

Table 9: FDI net inflow summary for top 50 countries (2000–2025).

Country	Cumulative FDI (mld USD)	Country	Cumulative FDI (mld USD)
1. United States	6 838.87	26. Cayman Islands	395.76
2. China	4 115.25	27. Liechtenstein	368.41
3. Netherlands	2 947.98	28. Indonesia	332.79
4. United Kingdom	2 228.63	29. Chile	315.07
5. Hong Kong SAR, China	1 973.43	30. Korea, Rep.	273.45
6. Germany	1 848.80	31. Türkiye	267.96
7. Singapore	1 483.03	32. Israel	260.26
8. Brazil	1 351.16	33. United Arab Emirates	256.22
9. France	1 199.14	34. Colombia	240.38
10. Canada	1 072.36	35. Viet Nam	215.17
11. Ireland	1 006.42	36. Norway	207.53
12. Belgium	949.56	37. Portugal	200.18
13. Spain	947.35	38. Argentina	199.42
14. Australia	882.52	39. Malaysia	197.73
15. British Virgin Islands	877.49	40. Czechia	197.21
16. India	713.44	41. Finland	188.61
17. Mexico	703.99	42. Thailand	184.08
18. Russian Federation	601.55	43. Kazakhstan	175.21

[14] Financial centres that offer little or no taxation, and in general countries known internationally as tax havens, have been excluded.

19. Italy	573.11	44. Austria	173.81
20. Cyprus	522.21	45. Saudi Arabia	160.21
21. Malta	449.54	**46. South Africa**	141.90
22. Sweden	442.17	47. Romania	140.68
23. Japan	438.99	48. Denmark	139.99
24. Hungary	429.03	49. Egypt, Arab Rep.	136.40
25. Poland	411.09	50. Peru	131.22

Source: World Bank Indicators

From the resulting list, twelve countries with active regulatory screening regimes were selected to balance economic significance and geographic diversity. They were grouped as follows:

1. Developed economies: United States, Canada, Australia, Japan
2. Continental Europe (EU + non-EU): Germany, United Kingdom, France, Italy
3. Emerging economies: China, Russia, India, South Africa

Table 10: Groups of countries selected

Groups	Countries
1. Developed economies	United States, Canada, Australia, Japan
2. Continental European countries:	Germany, United Kingdom, France, Italy
3. Emerging economies	China, Russian Federation, India, South Africa

Figure 1 presents a dual-panel analysis of these economies' FDI performance over 2000–2025, with the left panel depicting cumulative net inflows[15] (highlighting the United States at approximately USD 6 800 billion and China at USD 4 100 billion) and the right panel reporting the median annual net inflow[16], which tempers the effect of extraordinary peaks and reveals that Germany and the United Kingdom sustain typical annual inflows of around USD 30–40 billion despite lower cumulative totals. Emerging markets such as South Africa and Russia exhibit more modest cumulative and median values, reflecting both their smaller FDI stocks and the distinct stringency of their screening mechanisms. The discrepancy between cumulative and median values suggests divergent investment dynamics, some economies rely on stable, year-on-year inflows (high median), whereas others depend on episodic large-scale transactions (high cumulative, lower median).

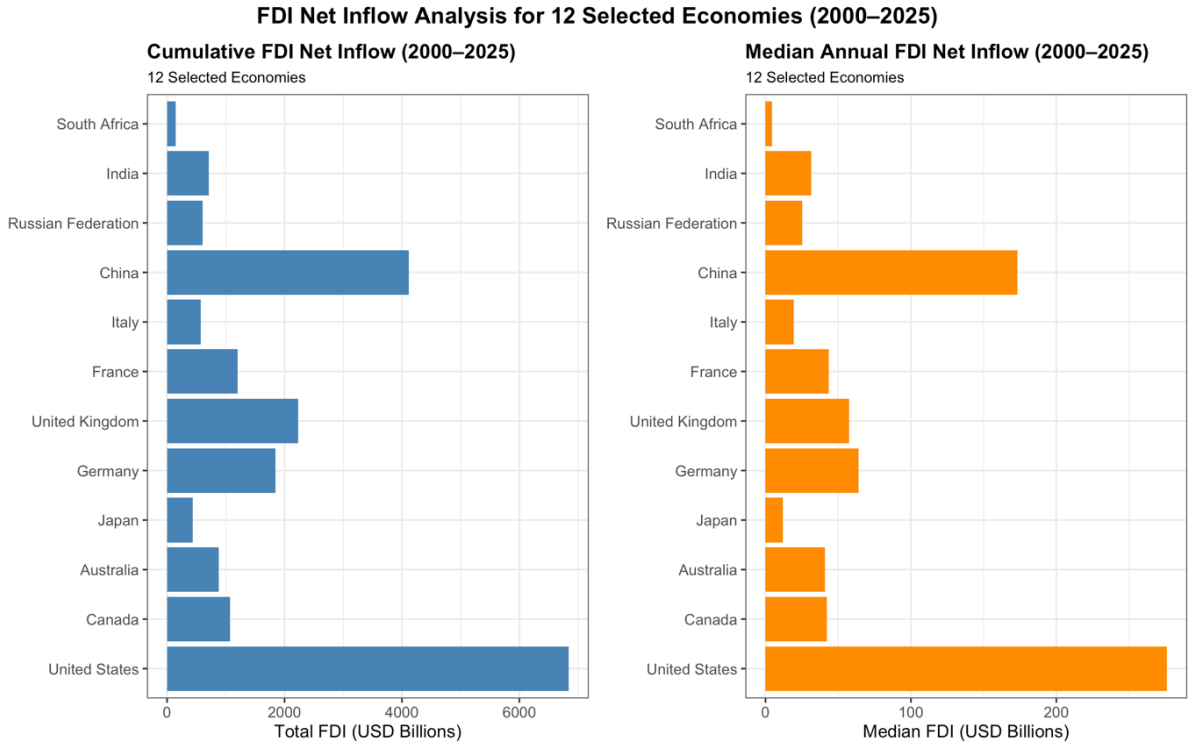
This theoretical distinction carries important policy implications: countries with stringent screening regimes, such as Italy and Germany, maintain median inflows comparable to larger markets, indicating that robust regulatory frameworks can coexist with a consistent FDI pipeline and thus balance national-interest protection with stable investment attraction; by

[15] Cumulative FDI net inflow: the arithmetic sum of year-by-year net FDI inflows from 2000 through 2025, reflecting the total volume of foreign investment committed over the entire period. This metric is chosen because it captures the overall scale and long-run intensity of cross-border capital movements, allowing for direct comparison of absolute investment stocks across economies.

[16] Median annual FDI net inflow: the median (50th percentile) of the annual net inflow series, which indicates the "typical" year's investment and dampens the influence of extreme one-off transactions. This statistic highlight the underlying stability and consistency of FDI flows, traits that cumulative sums alone can obscure, thus providing a balanced view of both aggregate magnitude and year-to-year normalcy.

contrast, economies like Canada and France, characterised by relatively high median yet modest cumulative inflows, appear to prioritise the quality and predictability of investments, a strategic emphasis that may prove critical when evaluating the efficacy of pre-investment review mechanisms.

Figure 1: FDI Net Inflow Analysis for 12 Selected Economies (2000-2025).



Source: World Bank Indicators

2.1.2 Developed Economies

I. United States: The Committee on Foreign Investment (CFIUS)

In the United States, the control of foreign investment has assumed a strategic role since 1975, when President Ford issued Executive Order No. 11858 establishing the Committee on Foreign Investment in the United States (CFIUS) . The main objective was to examine the

acquisitions of American companies by foreign investors to prevent such operations from compromising national security, analyse trends in foreign investment coming into the country, negotiate advance consultations with foreign governments desiring to acquire assets in the United States, and study new legislation or regulations targeting such investment. The regulatory framework was further consolidated in 1988, when the CFIUS obtained legislative foundations through Section 721 of the Defence Production Act, following the approval of the Exon-Florio Amendment (C.S. Eliot Kang, 1997). Through the Exon-Florio amendment to the Omnibus Trade and Competitiveness Act of 1988, the policy activists in Congress, with executive branch complicity, made it possible for the federal government to intervene in virtually any foreign acquisition in the domestic economy for reasons of ‘‘national security’’, a nebulous term that policy- makers intentionally did not define in the amendment.[17]

Recent history has witnessed significant changes in the United States' legislative framework, aimed at enhancing its responsiveness to global economic shocks. A notable example is the enactment of the Foreign Investment and National Security Act (FINSA) in 2007, in response to disputes such as those raised by the Dubai Ports World operation in 2006 to acquire Peninsular and Oriental Steam Navigation Company's (P&O) management contracts of six major ports in the USA and the possible attempt to acquire 3Com by Huawei and Bain Capital (Dimitropoulos, 2020). Legislative innovation has further intensified with the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018, which has substantially expanded the scope of intervention of the CFIUS. With FIRRMA, the covered transactions are

[17] In many other countries, the term "National Security" is intentionally left undefined. While this imprecision can lead to challenges, it is often employed as a strategic tool to grant policymakers greater flexibility in decision-making (Dimitropoulos, 2020).

no longer limited to traditional mergers and acquisitions but also include the leasing or purchase of real estate in the vicinity of sensitive government structures and non-control acquisitions in companies that handle critical technologies or sensitive data related to US citizens (House of Representatives, 2018).

The standard of review, according to Section 721 of the Defence Production Act[18], requires that there be "credible evidence" that can lead the President to conclude that the foreign interest, if he acquires control, could compromise the national security of the United States (C.S. Eliot Kang, 1997). The list of factors that the CFIUS can consider – without being bound by a rigid definition of "national security" – is deliberately open, allowing a flexible and adaptable approach to changes in the global context. This dynamic approach has led some scholars, such as Jose Alvarez, to define the CFIUS as a "Church without a Bible ", as cited in Dimitropoulos (2020), highlighting the body's ability to interpret and apply the concept of national security according to contingent needs.

The screening process in the United States is characterized by the absence of a fixed threshold: any "covered" transaction - defined as any merger, acquisition or transaction concluded after August 23, 1988, which could involve the control of a U.S. company by a foreign investor - can be subject to an audit. The organizational structure of CFIUS is particularly articulate and involves nine voting agencies and executive figures such as the Director of National Intelligence and the Secretary of Labor in an advisory role[19]. However, the final decision is not the responsibility of the CFIUS, but of the President of the United

[18] See Subsection 721(d)(1) and (4)(A) of Defence Production Act of 1950.

[19] Their advisory role requires them to act as non-voting, ex-officio members.

States, who, based on the recommendations provided, may suspend, block or impose conditions on transactions considered to be a risk to national security.

The discretionary power of the President, reinforced by the fact that CFIUS decisions are not subject to judicial review – as confirmed in legal cases such as Ralls[20] – guarantees speed and effectiveness in taking measures to protect national interests. This system allows the institution to negotiate, impose or enforce risk mitigation conditions, to balance the benefits of foreign investment with the need to protect critical infrastructure and sensitive technologies.

The U.S. model, thanks to its long regulatory evolution and ability to adapt to changes in the global context, represents one of the most complete and sophisticated systems for safeguarding national security. The risk-based approach, together with the broad discretion granted to the executive branch, allows rapid action on potentially harmful operations, while maintaining an environment conducive to foreign investment. This balance between economic openness and the protection of strategic interests is a key reference point for the comparative analysis of ISMs at global level (Dimitropoulos, 2020).

II. Canada: The Investment Canada Act (ICA)

The Investment Canada Act (ICA), enacted in 1985 to replace the Foreign Investment Review Act of 1973, regulates foreign investments in Canada. Initially, the ICA did not include provisions for national security reviews; however, amendments in 2009 introduced such measures, allowing the government to scrutinize foreign investments that might pose national

[20] This was the first lawsuit in the history of CFIUS. The Court of Appeals also held that Ralls, a Chinese- owned company, was subject to due process rights (Li, 2017).

security concerns, ensuring they provide a "net benefit" to the country. The Act establishes two different types of review, the first one is the “Net Benefit Reviews”. Under the ICA, certain foreign investments are subject to "net benefit" reviews, where investors must demonstrate that their investments are likely to result in a net benefit to Canada The review thresholds are determined by factors such as the investment’s sector, the investor’s country of origin, and the investor’s trade relationship with Canada–whether the country is a member of the World Trade Organization (WTO) or is party to a relevant trade agreement. Traditionally, Canada has employed broad criteria for screening foreign investments, encompassing not only the economic net benefit but also the protection of cultural heritage, although the net benefit is predominantly viewed in economic terms. Notably, in 2017, regulatory changes increased the financial thresholds for net benefit reviews for investors from some countries, aiming to facilitate foreign investment.

The second type of review is the “National Security Reviews” with which, the Canadian government can review any foreign investment that could be injurious to national security, regardless of the investment's value. The Act does not explicitly define "national security," but in 2016, the Minister of Innovation, Science and Economic Development issued guidelines outlining factors considered in such assessments. These factors include the potential effects of the investment on Canada's defence capabilities, the transfer of sensitive technology or knowledge abroad, the security of critical infrastructure, and the potential for foreign surveillance or espionage. Additionally, the guidelines assess whether the investment could hinder intelligence or law enforcement operations, affect Canada’s international interests, or facilitate activities tied to illicit actors like terrorists or organized crime.

The Minister of Innovation, Science and Economic Development administers the ICA, with assistance from a Director of Investments. For matters related to cultural heritage or national

identity, the Minister of Canadian Heritage is responsible. In cases involving national security reviews, the Minister consults with the Minister of Public Safety and Emergency Preparedness. The Governor in Council (the Cabinet) has the authority to take measures to protect national security, including prohibiting investments, authorizing them with conditions, or requiring divestment.

In summary, the Investment Canada Act establishes a framework for reviewing foreign investments to ensure they provide net benefits and do not pose risks to Canada's national security (Dimitropoulos, 2020).

III. Australia: The Foreign Acquisitions and Takeovers Act (FATA)

Australia's framework for screening foreign investments is primarily governed by the Foreign Acquisitions and Takeovers Act of 1975 (FATA). This legislation has undergone several amendments with a view to tightening the review process and to address evolving economic and security concerns, particularly in sectors like mining and natural resources.

Under FATA, foreign investments are evaluated based on whether they are "contrary to the national interest". The Act establishes a negative test, unlike Canada's approach, where investors must demonstrate a net benefit, Australia's system places the onus on the government to identify reasons for rejecting an investment proposal. The term "national interest" is not explicitly defined in the legislation, allowing for a broad interpretation that encompasses various factors, including national security, competition, economic impact, and investor character.

The Foreign Acquisitions and Takeovers Act of 1975 distinguishes between "significant actions" and "notifiable actions." Significant actions pertain to acquisitions of interests in

securities, assets, or Australian land that meet certain monetary thresholds and may result in a change of control involving a foreign person. Notifiable actions are a subset of significant actions that must be reported to the Treasurer before proceeding. Additionally, the Act includes provisions for "notifiable national security actions" and "reviewable national security actions," allowing the Treasurer to review investments that may pose national security concerns, regardless of monetary value.

The Foreign Investment Review Board (FIRB), established in 1976, plays an advisory role, examining proposed investments and making recommendations to the Treasurer. The Treasurer holds the authority to approve, impose conditions on, or prohibit foreign investments based on assessments of national interest.

Recent developments have seen the Australian government implement reforms to expedite foreign investment approvals while enhancing scrutiny on potential risks. For instance, in April 2024, Treasurer Jim Chalmers announced initiatives to streamline the approval process for foreign investments in key economic areas, aiming to process half of the cases within 30 days starting January 2025. These reforms also focus on attracting investments in sectors like build-to-rent housing and energy transitions, while ensuring that national security considerations are adequately addressed (Hogan, 2024).

In summary, Australia's foreign investment screening mechanism under FATA is designed to balance the facilitation of foreign capital inflow with the protection of national interests, including security and economic prosperity (Dimitropoulos, 2020).

IV. Japan: Foreign Exchange and Foreign Trade Act (FEFTA)

Japan has a long-standing tradition in screening FDI, a practice that dates to the establishment of the Foreign Exchange and Foreign Trade Act (FEFTA) in 1949. This framework serves as the cornerstone of Japan's FDI regulatory regime and reflects a policy of minimal intervention balanced with rigorous security oversight. Under FEFTA, foreign investors are required to notify and submit detailed reports to designated government authorities–initially the Bank of Japan, whose notification must be made at least six months before the planned transaction. This notification is then circulated among key ministries, including the Ministry of Finance (MOF), and notably the Ministry of Economy, Trade and Industry (METI), which oversees the subsequent screening process.

The process entails a mandatory waiting period of 30 days, extendable up to five months if national security concerns arise, during which authorities evaluate the potential risks related to national security, public order, public health, safety, and market integrity. In this review phase, factors such as the foreign investor’s strategic objectives, management intentions, access to critical technology, and overall attributes are scrutinized. Should any investment pose a threat to national security or other fundamental interests, regulatory bodies possess the authority to recommend modifications to the proposal or even to cancel the transaction outright.

Recent years have witnessed a significant broadening of FEFTA’s scope in response to evolving global economic dynamics. For instance, in October 2021, critical minerals were added to the list of industries subject to FDI screening, addressing supply chain vulnerabilities and underscoring the strategic importance of these resources. Furthermore, in March 2023, draft amendments advanced the proposal to classify businesses associated with "Specifically Designated Critical Commodities" as core sectors, thus subjecting them to even more stringent

scrutiny. Additional changes have expanded regulatory oversight to include sectors such as semiconductors, information processing software, and certain IT support services–steps taken considering growing concerns over cybersecurity and technology leakage. Complementing these sectoral expansions, recent proposals (January 2025) have tightened reporting requirements by mandating prior notifications for foreign acquisitions of 1% or more in firms deemed essential to national security.

Collectively, these measures highlight Japan's continued commitment to balancing the promotion of foreign investment with the imperative of protecting its technological edge and national security interests in a rapidly changing global landscape. The integration of long-established screening practices with recent regulatory enhancements reflects a dynamic approach that is both reactive to emerging threats and proactive in maintaining Japan’s economic and strategic autonomy (Teran, 2024).

2.1.3 Continental European countries

Since 2017, the European Union has progressively developed a coordinated framework to screen FDI from non-EU countries. This initiative culminated in the adoption of Regulation (EU) 2019/452, lays down a common set of criteria designed to safeguard security and public order across Member States. The process originated from the recognition that uneven national approaches to FDI could undermine both individual state security and the integrity of the internal market. In February 2017, the initiative was notably advanced by France, Germany, and Italy when their respective Ministers of Economy jointly communicated to the EU Commissioner for Trade Cecilia Malmström, signalling the need for an EU-wide legislative mechanism. This impetus was further supported by the European Commission’s Reflection

Paper on “Harnessing Globalisation” (2017), which critically assessed the implications of global investment flows for the EU’s economic and security landscape.

The EU Regulation on the Screening of Foreign Direct Investments was adopted in March and entered into force in April 2019. The Regulation is based on Article 207 (2) TFEU on the common commercial policy, which is an area of exclusive EU competence as defined in Article 3(1)(e) TFEU. Under this regulation, Member States retain the authority to maintain, amend, or adopt their own national screening mechanisms. However, these mechanisms must adhere to certain EU-wide standards, including transparency, non-discrimination among third countries, and the protection of confidential information. Additionally, they must allow foreign investors the right to appeal screening decisions. To enhance cooperation and information sharing, the regulation introduces a mechanism that enables Member States and the European Commission to exchange information and raise concerns about specific investments. The Commission can issue opinions if an investment poses a threat to the security or public order of more than one Member State or could undermine projects or programs of interest to the entire EU, such as Horizon 2020[21] or Galileo[22].

[21] Horizon 2020 was the European Union’s eighth Framework Programme for Research and Innovation, running from 2014 to 2020 with an overall budget of nearly €80 billion. It funded collaborative research and innovation projects across all Member States (and associated countries) via open, competitive calls, with the aim of boosting Europe’s global competitiveness and tackling societal challenges).

[22] Galileo is Europe’s own Global Navigation Satellite System (GNSS), developed by the European Union in cooperation with the European Space Agency and operated by the European Union Agency for the Space Programme (EUSPA).

By the end of 2023, 23 EU Member States have adopted an FDI screening legislation compared to 14 Member States in 2021 at the time of the entry into force of the EU cooperation mechanism (European Commission, 2024b). Notably, Ireland introduced its Screening of Third Country Transactions Act in 2023, which became effective in late 2024. Croatia, Cyprus, and Greece are in various stages of adopting similar mechanisms.

The regulation outlines the factors that Member States and the Commission may consider when assessing the potential impact of an FDI on security or public order. These factors include effects on critical infrastructure (such as energy, transport, and communications), critical technologies (like artificial intelligence and robotics), supply of critical inputs (including energy and raw materials), access to sensitive information, and the freedom and pluralism of the media.

Despite the establishment of this EU-wide framework, there remains a degree of heterogeneity among Member States regarding the implementation and scope of their screening mechanisms. While the regulation sets minimum requirements, it allows flexibility for national specifics, leading to variations in how FDI screenings are conducted across the EU (Dimitropoulos, 2020).

The EU's approach to FDI screening seeks to balance the openness to foreign investments with the necessity of protecting security and public order, fostering cooperation among Member States while respecting their individual competencies.

I. France

France has long led in economic intelligence and FDI screening, with its regulatory framework rooted in Law n. 66-1008 of 1966 on foreign financial relations. The system gained

further structure with the 2005 Decree (Décret n°2005-1739), which introduced controls over foreign investments in sensitive sectors. These measures were progressively strengthened after 2008 and notably in 2014–a period marked by the controversial Alstom merger–that underscored the need for robust investment oversight[23].

In line with the EU FDI Screening Regulation (2019/452), France introduced the "PACTE Law" in 2019, confirmed by a ministerial order on December 31, 2019. This modernized framework widened the scope to include emerging strategic sectors such as cybersecurity, artificial intelligence, semiconductors, and critical infrastructure. The system now differentiates among non-sensitive, sensitive, and extra-sensitive sectors, imposing distinct thresholds for EU investors, non-EU investors, and foreign-controlled French entities (FCFIs).

Procedurally, a standstill obligation prevents transaction closures for 30 to 45 days during the review process, while judicial oversight is available but rarely leads to prohibitions–reflecting the Ministry of Economy and Finance's tendency to negotiate conditions with investors. The COVID-19 crisis prompted further reforms: a ministerial order on April 27, 2020, expanded the sensitive sectors to include biotechnology R&D, and another order on July 22, 2020 lowered the review threshold for the activation of the screening process for non-EU investments in listed companies from 25% to 10%, with the measure extended until December

[23] In 2014, two landmark foreign-investment cases triggered France's tightened screening rules: the sale of Alstom's energy division to General Electric, which led to the enactment of Decree n° 2014-479 ("décret Alstom") extending the government's veto powers over strategic sectors, and the simultaneous €1.6 billion capital injections by China's Dongfeng Motor and the French State into PSA Group–each taking a 14 % stake–to rescue the carmaker

31, 2021. These adaptations highlight France's strategic response to evolving geopolitical and economic challenges (Hindelang & Moberg, 2020).

II. Italy

Italy's FDI screening framework, colloquially known as the "Golden Power", was established with Law Decree No. 21/2012 after the European Court of Justice ruled that the previous "Golden Share" arrangement violated EU law. This mechanism empowers the government to veto or impose conditions on foreign takeovers in sectors considered strategic, such as defence, energy, and telecommunications. The scope of the Golden Power was further broadened over time, notably during the COVID-19 pandemic through the 2020 Liquidity Decree, which extended its reach to include sectors like food, finance, and artificial intelligence. Reflecting Italy's strategic evolution amid intensifying global economic competition and geopolitical risks, the Golden Power has become a critical tool in safeguarding national interests. Intelligence agencies contribute significantly to the risk assessment process, while the administrative aspects are managed by the Presidency of the Council of Ministers (Hindelang & Moberg, 2020).

III. Germany

Germany's FDI screening framework is grounded in the Foreign Trade and Payments Act (Außenwirtschaftsgesetz – AWG) and its implementing ordinance (AWV), with origins tracing back to the Cold War. While significant reform began in 2004, the system underwent more robust updates after 2017 in response to high-profile Chinese acquisitions. Sector-specific scrutiny was introduced for critical infrastructure, and in 2020, the threshold for mandatory

review was lowered to 10% equity in sensitive sectors–such as healthcare, particularly during the COVID-19 pandemic. The Federal Ministry for Economic Affairs and Climate Action (BMWK) leads the process, supported by intelligence and sectoral agencies. Germany maintains a generally open stance toward investment but applies firm controls to mitigate national security risks and undue foreign state influence (Hindelang & Moberg, 2020).

IV. United Kingdom

Historically, the UK maintained a relatively liberal approach to foreign direct investment, with general competition laws and provisions under the Enterprise Act 2002 allowing for intervention on national security grounds. However, in the 2020s the government shifted toward a more interventionist stance. This change culminated in the enactment of the National Security and Investment Act (NSIA), which came into force in January 2022, establishing a robust, standalone FDI screening regime. Covering 17 sensitive sectors–including critical infrastructure, emerging technologies, and defence-related industries–the NSIA mandates pre-approval for certain transactions, thereby granting the UK government significant authority to block or impose conditions on deals that might compromise national security. The policy shift reflects growing global concerns over tech sovereignty, state-backed acquisitions, and the safeguarding of strategic assets. The Department for Business and Trade manages the regime, working in close coordination with national intelligence agencies to assess the security implications of foreign investments (Hindelang & Moberg, 2020).

2.1.4 Emerging Economies

I. China: Foreign Investment Law (FIL)

The history of China's foreign investment screening mechanisms dates to the era of economic reform initiated by Deng Xiaoping in the late 1970s, when the country gradually began to attract FDI. As the scope and significance of these investments expanded, it became necessary to reconcile the goal of economic openness with the protection of national strategic interests. During the 1990s and early 2000s, as China increasingly focused on safeguarding fundamental sectors and assets, the first tools and regulations emerged to scrutinize–and in some cases restrict–investments deemed risky.

A decisive turning point occurred with the adoption of the Foreign Investment Law (FIL) in 2019, which came into effect on January 1, 2020. The FIL unified and simplified the regulatory framework by replacing the old regimes governing joint ventures and wholly foreign-owned enterprises, and by introducing the principle of "pre-establishment national treatment" coupled with the use of negative lists[24] for sensitive sectors. At the same time, China strengthened its foreign investment review mechanism based on national security criteria, implementing specific screening measures aimed at preventing investments that could harm the country's strategic interests.

China's overall investment screening strategy thus reflects a nuanced balance between opening its economy to global capital and protecting national interests. Central to this approach is the "Negative List" that clearly delineates sectors where foreign investment is restricted or prohibited–a measure designed to attract advanced technologies and promote industrial

[24] See section 1.4.2 (I).

upgrading. The main authorities responsible for this framework include the Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC). At the same time, China continues to maintain rigorous controls over critical industries, ensuring that sensitive areas remain under domestic oversight. State-owned enterprises (SOEs) play a pivotal role in this context, receiving substantial government support to dominate strategic sectors (Xi et al., 2015), while sovereign wealth funds such as the China Investment Corporation (CIC), which manages assets totalling approximately US$1.33 trillion as of March 2025, pursue global investments aligned with China's economic objectives.

Recent policy shifts, including directives urging SOEs to suspend new deals with certain foreign entities, underscore China's intent to protect critical infrastructure and mitigate external influences. This multifaceted strategy highlights China's efforts to balance global economic integration with the imperative of safeguarding its national interests (Dimitropoulos, 2020).

II. South Africa: Competition Act

South Africa welcomes foreign investment and actively promotes a business environment that encourages capital inflows while safeguarding national interests. The government, through the Department of Trade, Industry and Competition (DTIC), offers various incentive schemes and policy programmes designed to support competitive new enterprises and the creation of sustainable industries. In parallel, the National Treasury continuously seeks ways to streamline processes and remove past barriers that may have delayed or hindered foreign investment.

A significant development occurred on 14 February 2019 with the publication of the Competition Amendment Act (Act No. 18 of 2018), which amended the Competition Act 89 of 1998 (the "Competition Act"), introducing national security provisions. These amendments

will require that notifiable mergers involving a foreign acquiring firm–which is defined as any firm incorporated or effectively managed outside South Africa–and affecting designated national security interests obtain prior authorization. Although this screening provision is expected to be implemented soon, its detailed scope, requirements, processes, and the constitution of the executive committee (which will be chaired by the President and include cabinet members and other appointed officials) have not yet been finalized (Competition Amendment Act No. 18 of 2018, 2019).

In addition to these screening rules, South Africa's foreign investment regime is shaped by broader exchange control measures set out in the Currency and Exchanges Act of 1933 and the Exchange Control Regulations of 1961. Under these regulations, the South African Reserve Bank (SARB) approves most capital movements, ensuring that funds cross borders only on fair value and on arm's-length terms. Recent policy reforms aim to shift from a general regime that requires permission for all capital flows toward an exceptions-based approach that allows investment flows by default–except for a limited list of risk-based measures.

Sector-specific restrictions also remain in force in sensitive industries such as energy, mining, banking, insurance, and defence. In these sectors, specific regulations may impose additional approval conditions or foreign ownership limits, reinforcing the overall strategy of balancing economic openness with the protection of strategic interests.

Overall, South Africa's foreign investment regime is characterized by a dual approach: it welcomes foreign investment by providing multiple legal protections through instruments like the Protection of Investment Act (2015) and participation in treaties (for instance, the African Continental Free Trade Area), while it also employs targeted screening measures–both through exchange controls and the forthcoming Competition Act provisions–to ensure that investments do not adversely affect national security or undermine domestic stakeholders (Davids, 2022).

III. India

India's investment screening mechanisms are emblematic of the nation's strategic balance between liberalizing foreign direct investment and ensuring national security and regulatory compliance. Under the current framework, investments are channelled through two principal routes: the Automatic Route, which facilitates streamlined approval for sectors such as hospitality, mining, and healthcare, and the Government Approval Route, which mandates rigorous scrutiny for sensitive sectors–including defence and telecommunications–and for proposals originating from neighbouring countries. The Consolidated FDI Policy Circular, last updated on October 15, 2020, underpins these processes by outlining detailed procedural guidelines and timelines, such as the 10–12 weeks stipulated for proposals requiring security clearances. Notable reforms have been enacted in recent years; for instance, in February 2021, the FDI cap in the insurance sector was increased from 49% to 74% – with allowances up to 100% for insurance intermediaries – and in October 2021, the telecommunications sector saw its FDI limit raised from 49% to 100%, albeit with additional approval requirements for investments exceeding 49%. Furthermore, proposals exceeding an investment threshold of INR 5,000 crore are escalated to the Cabinet Committee on Economic Affairs for final approval, reflecting a layered governance structure intended to safeguard strategic interests while fostering an open investment climate. This multi-tiered approach not only enhances procedural predictability but also ensures that critical sectors remain under stringent regulatory oversight, thereby aligning investment inflows with India's broader economic and security objectives (World Bank Group, 2022).

IV. Russian Federation

In Russia, formal screening of foreign direct investment (FDI) emerged in 2008, when the Duma enacted the Federal Law on Strategic Sectors to require government approval for any non-Russian participation in defence-related activities, natural monopolies and other "strategic" industries (Hindelang & Moberg, 2020). That law–administered by the Federal Antimonopoly Service (FAS) with final decisions by a prime-minister-led Government Commission–capped foreign ownership (generally at 50 percent, or 25 percent for state-owned investors) and established a "negative list" of dozens of activities triggering mandatory notification and review. By replacing ad hoc approvals with clear timelines (90 days, extendable) and penalties for non-filing, it sought both to safeguard national security and to provide greater legal certainty than Russia's earlier, informal practices.

Over the following decade, successive amendments broadened the review regime. A notable expansion came in July 2017 (Law 165-FZ), which clarified the list of strategic sectors, (extending it to telecommunications, media and critical technologies) and empowered the prime minister to designate additional transactions subject to pre-approval, raising penalties for unauthorized deals (UNCTAD, 2023). Early 2022 reforms added infrastructure categories such as sea and inland freight transport and air-traffic control, reflecting Moscow's view that control over transportation and communications networks is inseparable from state security.

Geopolitical shocks have been a key driver of this tightening. After the 2014 annexation of Crimea and subsequent Western sanctions, Russian authorities intensified scrutiny of investors from perceived adversaries, lengthening approval processes and applying the framework more rigorously, though without major legislative changes. The full-scale invasion of Ukraine in February 2022, and the accompanying wave of sanctions, prompted fresh expansions of the

strategic-sectors list in April and June 2022, covering energy-security services and other fields deemed vital to national defence. In 2023, Russia further widened its definition of "foreign investor" to include dual nationals and "foreign agents," and introduced a "cumulative control" concept aggregating indirect interests of unaffiliated parties (UNCTAD, 2023).

Today, FAS coordinates interagency assessments–drawing on the Ministry of Defence, the Federal Security Service and other bodies–before forwarding cases to the Commission, whose decisions are binding: any transaction undertaken without approval is automatically void, and illegally acquired shares may be seized. The dual ex ante/ex post regime (requiring retroactive reporting of share transfers that trigger control thresholds) and the threat of criminal penalties underscore Russia's determination to treat FDI screening as a matter of "economic defence."

These evolved screening mechanisms have profound geopolitical and economic consequences. By insulating strategic assets from potentially hostile takeovers, Russia can maintain state control over critical industries amid sustained external pressure. However, the pervasive and discretionary nature of the regime has deterred many Western investors, contributing to a sharp decline in their FDI and shifting capital flows toward non-Western partners willing to accept higher risk premiums. While these measures enhance Moscow's short-term grip on key sectors, analysts warn they undermine long-term technology transfer, complicate access to international financing and fragment Russia's integration into the global economy (UNCTAD, 2023).

In sum, Russia's FDI-screening framework has evolved from a narrowly focused, security-driven law into an expansive, geopolitically responsive regime. It reflects a broader shift toward economic sovereignty, prioritizing state interests over openness, even as its growing complexity and discretion may themselves become barriers to the strategic investments the country seeks to attract.

2.2 Similarities and Divergencies

Across jurisdictions, investment screening regimes share several core characteristics while preserving the distinctive national features that reflect each country's strategic priorities, legal traditions, and developmental challenges. Despite significant divergence in implementation, most systems uniformly focus on screening FDI over portfolio investments, as the latter typically do not confer control over domestic entities. Scholarly such as Dimitropoulos (2020) have noted that this focus on company control is a pragmatic response to the challenges imposed by national security risks inherent in direct acquisitions.

2.2.1 Direct Versus Portfolio Investments

A common element across investment screening mechanisms is the preferential scrutiny applied to FDI, which is regarded as more likely to alter control structures within strategic sectors. For example, the European Union Regulation on FDI screening explicitly excludes portfolio investments by concentrating on transactions that could lead to a change in control in sensitive sectors. Similarly, the Investment Canada Act differe ntiates between notifiable and reviewable transactions based on investment scale and investor origin, thereby prioritizing assessments where control issues are more pronounced. In the United States, legislative reforms such as FIRRMA have broadened the mandate of CFIUS to encompass investments in real estate and other assets that, although indirect, may affect national security. In contrast, China's approach centres on a "Negative List" that explicitly delineates restricted sectors, thereby excluding many portfolio investments unless they indicate a potential transfer of

control or critical technology. Japan's regulatory model under the Foreign Exchange and Foreign Trade Act (FEFTA) introduces mandatory notifications and detailed reviews for transactions that could impact sectors crucial to national security, employing a dual review system that assesses both direct and indirect control implications (Teran, 2024).

2.2.2 Concentration of Final Decision-Making Authority

A notable similarity across jurisdictions is the centralization of final decision-making in the hands of senior executive authorities. In Canada, the Council of Ministers, drawing on diverse departmental input, balances economic advantages with security risks, while in the United States the President exercises final authority based on CFIUS recommendations to protect national interests. In Australia and within the EU framework, ministerial-level executives such as the Treasurer or designated national ministers hold decisive power, supported by advisory agencies. China channels screening decisions through high-level executive committees led by the State Council, underscoring a centralized, politically driven process. Japan, though operating within a stricter legal framework, also reserves final decision power for its ministerial authorities to ensure that national economic and security imperatives are duly integrated. This widespread centralization underscores the consensus that safeguarding national sovereignty and strategic interests necessitates agile, top-level decision-making.

2.2.3 Reviewability and Justiciability Oversight

The extent to which screening decisions are amenable to judicial review varies widely, reflecting divergent legal cultures and governance philosophies. Within the EU, national

screening decisions are subject to judicial oversight to ensure transparency and accountability. In contrast, the United States generally shields CFIUS determinations from judicial scrutiny, a deliberate policy choice aimed at ensuring rapid executive action. China's mechanisms are largely embedded within ministerial discretion, with minimal recourse for judicial intervention, while Japan offers similarly limited judicial oversight, emphasizing pre-emptive administrative control. Emerging systems in South Africa and India are actively debating the optimal balance between accountability and the need for swift executive response in the face of global economic shifts.

2.2.4 Triggering Events for Review

Defining and calibrating triggering events is central to all investment screening regimes. Jurisdictions such as the EU and Australia articulate explicit quantitative and sector-specific criteria (such as the acquisition of a controlling stake, significant financial thresholds, or investments in sensitive sectors like real estate, technology, or critical infrastructure), that automatically initiate a review. Recent U.S. reforms have expanded these triggering conditions to incorporate nuanced cases, including indirect investments that might affect national security. In China, deviations from the approved "Negative List" automatically trigger a stringent review process, while Japan's FEFTA mandates prior notification when investments are likely to impact control over key technological or industrial sectors. Moreover, many jurisdictions, responding to the increasing role of state-owned enterprises and cross-border investments, continually recalibrate these criteria to address emerging risks while remaining competitive on the global stage.

2.2.5 Idiosyncrasies Amid Global Convergence

Despite the varied institutional designs and national idiosyncrasies, global trends in investment screening point toward a convergence on frameworks that balance economic liberalization with proactive measures to secure national interests. Core similarities, such as the focus on FDI, centralized decision-making, and clearly defined triggering events, coexist with divergences in reviewability and procedural transparency. While China and Japan follow distinct regulatory logics, both are gradually aligning with international best practices. Likewise, emerging systems in South Africa, India, and Russia are evolving to meet new global economic challenges, highlighting that the evolution of investment screening mechanisms is driven as much by international pressures as by the imperative to preserve sovereignty and security.

2.2.6 Investment Screening Mechanisms Timeline

The following table serves as a foundational reference for analysing the economic impacts of ISM within the selected countries in the next paragraph. By cataloguing the chronological implementation of ISMs, the table facilitates a close examination of how these regulatory frameworks may have influenced key economic variables under study. The inclusion of specific enactment dates enables to identify temporal correlations between the introduction or significant modifications of ISM and observable shifts in economic indicators. This temporal alignment is instrumental in discerning potential causal relationships and understanding the broader implications of ISMs on national economic performance.

These years were selected to reflect pivotal moments in each country's regulatory evolution– either when screening mechanisms were first introduced, when they were significantly

expanded, or when new review bodies were established–thereby marking the points at which investment screening became most stringent or structurally distinct.

Table 11: Timeline of years of ISM introduction

COUNTRY	YEAR OF IMPLEMENTATION OF THE ISM
U.S.A.	2018: Foreign Investment Risk Review Modernization Act (FIRRMA) Expands the powers of the CFIUS, including investments in sensitive technologies and extending the definition of transactions subject to audit, effective August 13, 2018.
Canada	2009: Introduction of the National Security Review Mechanism with the National Security Review of Investments Regulations (SOR/2009-271), which makes the notification of "injurious to national security" investments mandatory starting from September 17, 2009.
Australia	2020: Foreign Investment Reform (Protecting Australia's National Security) Bill introduces a national security test and mandatory notification for investments in sensitive sectors, with prohibition and divestment power, in response to the pandemic (March 29, 2020).
Japan	2020: The amendments to the Foreign Exchange and Foreign Trade Act (FEFTA) and its subordinate Cabinet Orders were promulgated on April 30, 2020, introduced mandatory prior-notification requirements for share acquisitions, and extended the Act's coverage to strategic sectors (e.g. advanced technologies).
United Kingdom	2021: National Security and Investment Act 2021 (NSIA), approved on April 29, 2021, creates a mandatory notification regime for 17 sensitive sectors.
France	2014: Decree of May 14, 2014, extends preventive control to foreign investments in the energy, water, transport, telecommunications and public health sectors
Italy	2012: Decree-Law n. 21/2012 (conv. in L. 56/2012) establishes the "Golden Power" on defence, national security, energy, transport and TLC.
Germany	2020: 12th Amendment (December 19, 2018, eff. December 29, 2018) and following amendments lower the notification threshold to 10% for critical infrastructure and high-tech.

China	2020: Foreign Investment Law unifies and promotes the "pre-establishment national treatment plus negative list" system, in force since January 1, 2020 .
India	2020 (April 17): Press Note 3 (2020 Series) Requires prior government approval for all FDI proposals from entities in countries sharing a land border with India (notably targeting China), effectively creating a de facto security-screening filter.
South Africa	2019 (February, 14): Competition Amendment Act 18 of 2018 Introduces provisions allowing the National Executive to intervene in mergers that may affect national security and mandates a President-appointed foreign-investment committee to assess foreign acquisitions on security grounds.
Russian Federation	2017: The 2017 Law 165-FZ expanded Russia's strategic sectors list (including telecommunications, media, and critical technologies), empowered the Prime Minister to designate additional transactions for review, and imposed harsher penalties–such as asset confiscation–for unauthorized foreign investments.

2.3 The Effects on the Economy due to Investment Screening Mechanisms

This section delves into the core analysis of how investment screening mechanisms (ISMs) impact the economy. The development of this section follows a systematic approach by examining specific data for each country, categorized according to the variable under scrutiny. This structured methodology allows to precisely define the variable being examined and to group the countries of interest on unified graphs, which facilitates an immediate and clear visual comparison of trends.

The proposed methodology for this research consists of a quantitative comparison across major economies, utilizing data sourced from the World Bank official website, specifically the World Bank Indicators database (World Bank, 2023). Graphs will be employed to compare trends in Foreign Direct Investment (FDI). This variable will be grouped by regions or

economic blocs–such as the European Union, developed countries, and emerging economies–providing a comparative framework that highlights how ISMs influence economic trajectories across different contexts.

The analysis aims to provide a comprehensive picture of how investment screening mechanisms influence national and regional economies, thereby offering valuable insights into their effectiveness as policy tools for ensuring economic security and promoting sustainable growth.

2.3.1 Methodology Adopted in this Paragraph

The methodology applied in this section is initially based on a country classification: countries were classified based on their net inflows of Foreign Direct Investment (FDI). For each country, the average FDI inflow over the period 2015–2024 was calculated. These averages formed the basis for grouping countries into different categories according to their FDI performance.

Later it was carried out a global analysis of FDI trends. Figure 3 illustrates the evolution of global net FDI inflows (current US dollars, Balance of Payments) for all countries between 1960 and 2024. Data used for the development of the graph, were sourced from the World Bank's "Foreign direct investment, net inflows (BoP, current US$)" series, downloaded in CSV format, imported into RStudio and subsequently subjected to data-cleaning and adjustment procedures prior to visualization. The result provides the contextual foundation for the subsequent analysis of investment screening. Aggregate global FDI inflows over the selected period were examined to identify overarching trends and to correlate fluctuations in investment flows with major geopolitical and economic events.

The country-level analysis of FDI trends will be conducted observing specific data and the resulting graphs, shown in Figures 4, 5 and 6, which replicate the above methodology (for global trends) for each of the twelve selected countries. For each economy, net FDI inflows (current US dollars, Balance of Payments) were retrieved from the World Bank's CSV files, imported into RStudio and subjected to identical data-cleaning and adjustment steps before plotting. FDI inflow trends were then examined individually for each of the twelve selected countries. Particular attention was paid to the periods immediately preceding and following the introduction of ISM, with the objective of detecting significant changes potentially attributable to these measures.

The codes used to develop these charts are shown in Appendix A.

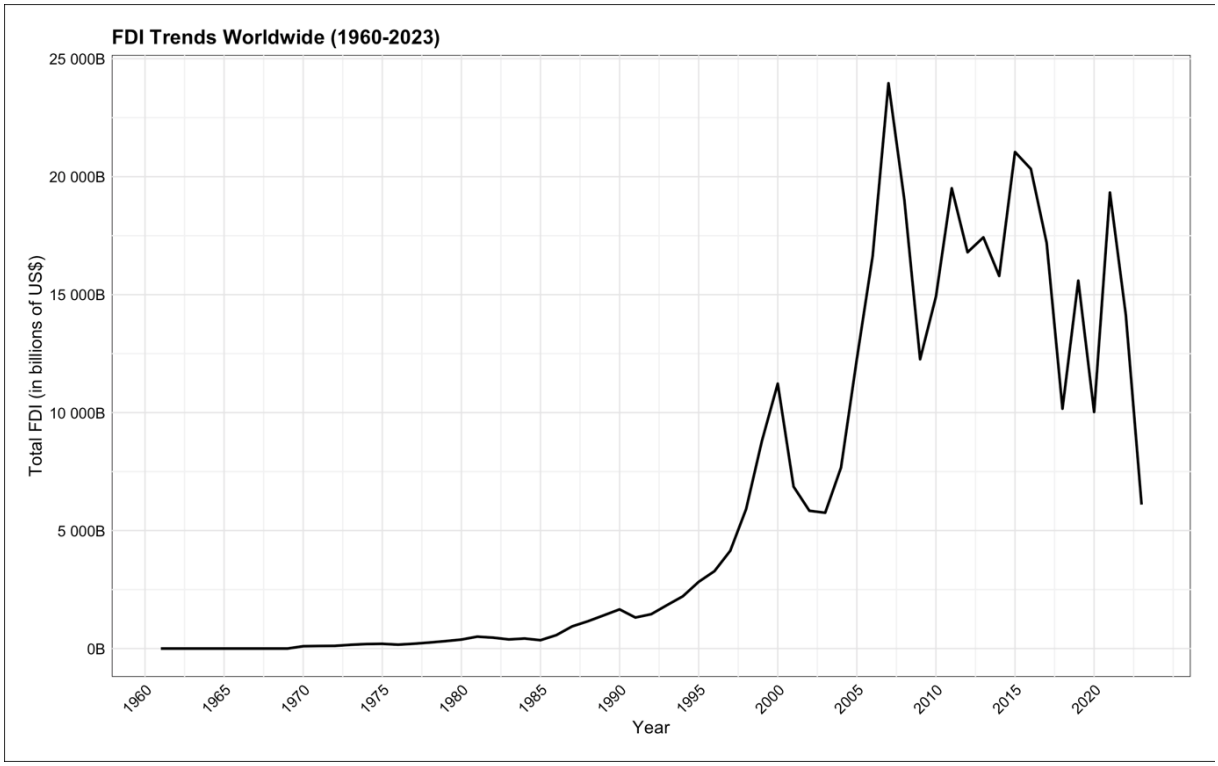
2.3.2 How FDIs are Changed After the Implementation of ISMs

As outlined in section 1.3.1, FDI refers to the acquisition of tangible or intangible assets in a country other than the investor's home country through a long-term commitment. This process typically confers significant influence over the management and operational decisions of the acquired entity. FDIs are particularly valuable in this analysis because they serve as a critical indicator of how investment screening mechanisms can affect capital allocation decisions. By examining shifts in the volume and composition of FDI after the introduction of ISMs, we can assess their broader impact on economic growth and stability.

Foreign direct investment can be assessed in two main ways: firstly, by its gross inflows– namely, the total dollar value of capital entering a country, expressed in current U.S. dollars– and secondly, by its share of Gross Domestic Product, which gauges investment relative to the size of the economy. While gross inflows provide a raw measure of foreign-investment volume,

this thesis adopts the net FDI inflow metric–calculated by subtracting outward investment outflows from inward inflows–to capture the true balance of cross-border capital movements. By focusing on net inflows, we obtain a clearer indicator of each country's ability not only to attract foreign investment but also to retain it over time.

Figure 2: Foreign Direct Investments Trends (1960-2023)



Source: World Development Indicators

This graph illustrates the global trend in gross FDI inflows from 1960-2023. The trend of FDI globally from 1960 to 2023 shows a general upward trajectory, with notable fluctuations due to economic, political, and social events. In the 1960s and 1970s, FDI flows were modest, mainly concentrated in sectors like manufacturing, energy, and natural resources. However, from the 1980s onward, with the rise of globalization, market liberalization, and the privatization of state-owned industries, FDI flows surged, especially towards emerging economies in Asia, Latin America, and Africa. This trend accelerated in the 2000s, with FDI

expanding into new markets, driven by multinational corporations seeking lower production costs and access to growing consumer bases. The global financial crisis in 2008 led to a contraction in FDI, but the recovery in the following years, although slower, was marked by continued growth, despite ongoing uncertainties.

The COVID-19 pandemic in 2020, marked by extensive lockdowns and supply chain disruptions, significantly slowed FDI inflows. Additionally, recent armed conflicts, notably the war in Ukraine that began in February 2022 and the ongoing conflict in the Middle East involving Israel, have further contributed to this downturn. These developments have created an environment characterized by uncertainty and reduced market dynamism, ultimately hindering positive market outcomes.

The distribution of FDI across regions has varied, with Asia, particularly China, attracting the largest share due to rapid industrialization and economic liberalization. Meanwhile, Africa experienced fluctuating FDI levels, affected by political instability and natural resource dependencies, though policy improvements have attracted more investment in recent years. Latin America saw periods of robust FDI inflows, especially in Brazil, Mexico, and Argentina, although it also faced setbacks due to economic crises and political volatility.

In recent years, there has been increasing attention to investment screening mechanisms. These mechanisms, aimed at safeguarding national security and protecting strategic industries, have been particularly pronounced in developed countries. Governments in regions like the United States and the European Union have implemented stricter regulations to prevent foreign takeovers in sectors deemed critical such as telecommunications, artificial intelligence, and renewable energy. The growing concern over economic security has led to more protective measures that aim to balance the need for FDI with the protection of domestic interests.

Looking ahead, the future of FDI will likely be shaped by factors like geopolitical shifts, protectionist policies, technological advancements, and the growing emphasis on sustainability. Investment screening will likely become more sophisticated, and the focus will shift toward green technologies, digitalization, and advanced industries. Therefore, while FDI remains a key driver of global economic growth, its regulatory landscape will continue to evolve as governments work to protect their strategic assets and technological capabilities.

The primary focus of this research is to analyse whether ISMs have played a specific role in reducing the volume of investments–perhaps by curbing an uncontrolled surge and unregulated flow of capital–or if this regulatory framework, rather than being culpable for the decline, serves as a necessary measure in response to emerging geoeconomic tensions.

2.3.3 ISM Effects on FDI Net Inflows Countries' Trends

This paragraph will analyse the effects of ISMs on FDI net inflows BoP current dollar. Changes in FDI over time will be analysed, over the last 25 years (2000-2025) using charts to allow a clear and rapid view of the overall trend of direct investment in individual countries.

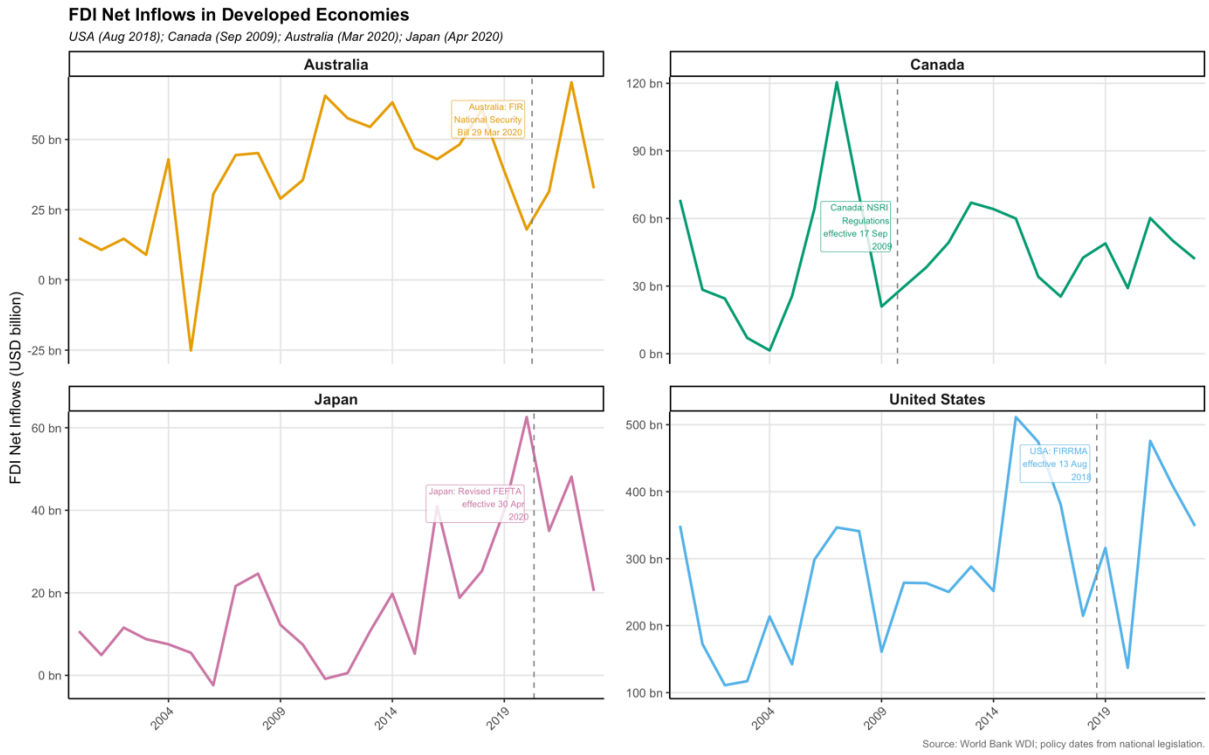
This study allows us to have a useful and necessary reference framework for the section 2.4, that will analyse the effect of ISM on FDI excluding other variables that may have had a direct effect on the trend of investments from abroad. In addition, the main events that have had macroeconomic effects at a transversal level and have affected all the economies of the world will also be considered, as well as the fixed effects of each country. These fixed effects will be implemented in the regression formula to explain concretely and without further doubts the trend of FDI in recent years in the light of the new regulatory mechanisms that have limited its

scope without limits, being necessary for the defence of the infrastructures and strategic sectors of each country.

I. Developed countries

Figure 3 illustrates the trends in FDI net inflows for four developed non-European countries–Australia, Canada, Japan, and the United States–between 2000 and 2023. These countries are characterized by some of the most advanced regulatory frameworks in the field of ISM. However, broader macroeconomic factors–particularly the COVID-19 pandemic and sectoral shifts (notably in tech, energy, and critical minerals)–appear to explain much of the initial contractions in FDI, often more so than the regulatory changes themselves.

Figure 3: FDI Net Inflows (BoP, Current USD)



Source: World Development Indicators

Starting in the upper-left, Australia's FDI trend reflects a marked contraction in 2020. The country adopted the National Security Test, a key enhancement to its ISM, which expanded its scope that same year. FDI inflows dropped by nearly 70% from 2019 to 2020. However, the subsequent rebound appears to be more strongly linked to the post-COVID economic recovery than to the implementation of the screening mechanism itself. A further dip in 2022 underscores the sensitivity of FDI to global market dynamics, even in the presence of a stable regulatory framework.

Canada's trend is notably volatile. The country introduced a Critical Minerals Policy in 2022, which particularly targeted investments by state-owned enterprises (SOEs) in sensitive sectors. Between 2022 and 2023, FDI dropped by approximately 30%. However, the downward trend had already begun in early 2021. Historically, FDI inflows in Canada were significantly higher surpassing $60 billion before 2015. The Canadian case exemplifies a "selective screening" approach: while certain strategic sectors have become more restricted, overall market openness for private investors remains largely intact.

In the lower-left panel, Japan exhibits a generally upward trajectory in FDI from 2015 to 2020, with a slight dip in 2017. The growth was interrupted in 2020, when the pandemic hit alongside a revision of the Foreign Exchange and Foreign Trade Act (FEFTA). Between 2020 and 2021, FDI inflows decreased by about 40%, aligning with global declines due to pandemic-related uncertainty rather than solely regulatory reform.

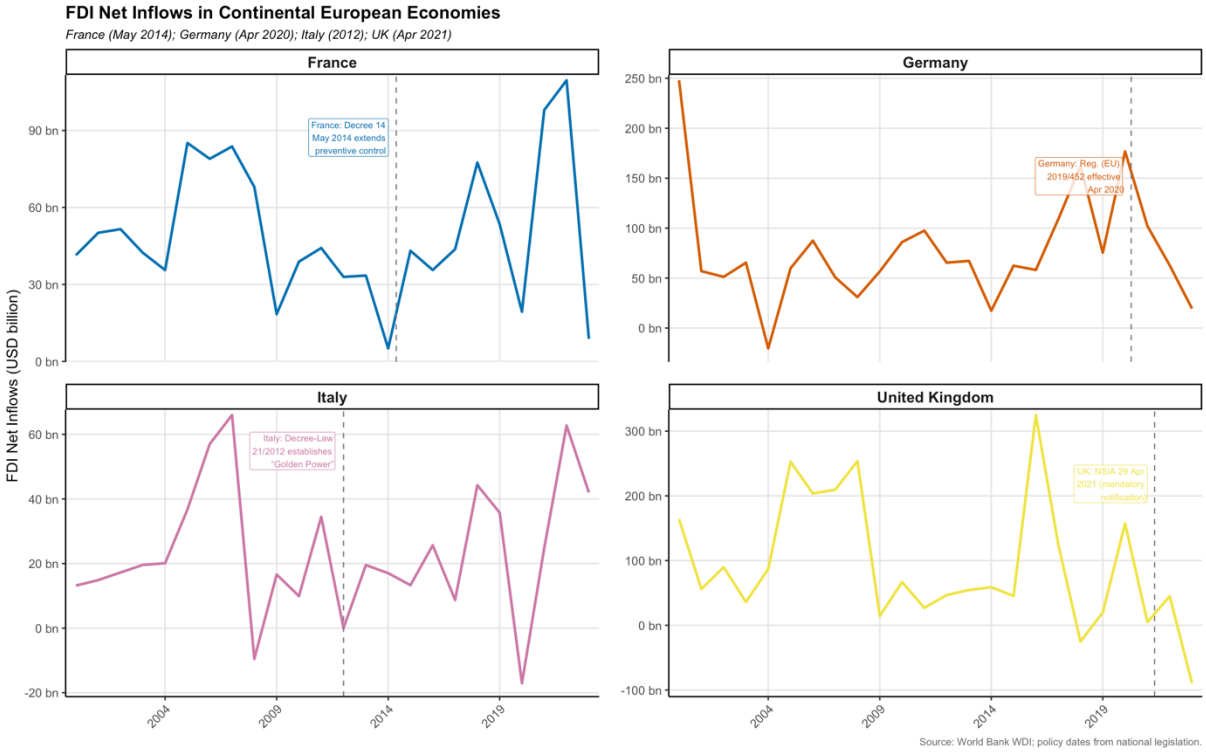
Lastly, the United States presents a more complex picture. The Foreign Investment Risk Review Modernization Act (FIRRMA) became effective in 2018, but the FDI slowdown had already begun prior to 2015. Despite a notable 37% decline in FDI between 2018 and 2019, inflows showed a modest recovery in 2020. This rebound may reflect investors' attempts to capitalize on market turbulence and distressed assets rather than any direct consequence of

FIRRMA. Overall, the U.S. data suggests that while regulatory tightening may have influenced perceptions, macroeconomic forces were the primary drivers of FDI movement during this period.

II. Continental European countries

Figure 4 compares FDI net inflows (BoP, current USD) for three Continental European Member States–France, Germany and Italy–and, for additional context, the United Kingdom, which remained in the EU until 2020. Although EU Regulation 2019/452 was explicitly designed to harmonize investment screening across the Union, it did not precipitate a structural downturn in inflows; rather, all three Member States experienced their most pronounced contractions in 2020 amid the global COVID-19 shock, only to rebound strongly under the stimulus of EU Recovery Fund disbursements.

Figure 4: FDI Net Inflows (BoP, Current USD)



Source: World bank Indicators

In France, screening enhancements under the 2019 Regulation left the pre-pandemic upward trend intact, with FDI collapsing in 2020 but then surging by approximately 280 percent between 2021 and 2022.

Germany's earlier amendment to its Foreign Trade and Payments Act (AWG) in 2018 coincided with a near-50 percent decline into 2019, yet by 2021 inflows had recovered by some 90 percent, driven by broad post-pandemic demand and EU support measures rather than further regulatory tightening.

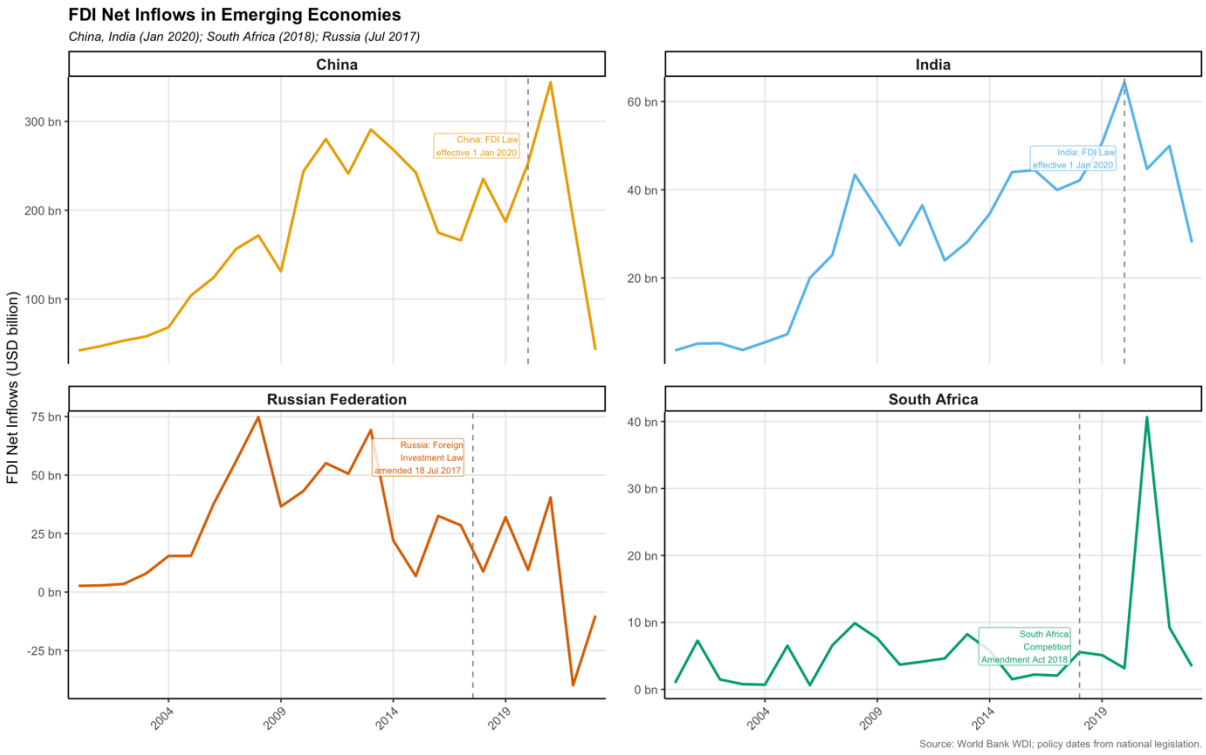
Italy's 2019 expansion of its Golden Power regime overlapped with the new EU framework, but the country's extraordinary 140 percent FDI collapse in 2020 reflected mainly the pandemic-induced global investment freeze, with investment flows resuming a positive trajectory thereafter.

The United Kingdom, finally, saw its National Security and Investment Act approved in 2021 and fully effective in 2022 against a backdrop of post-Brexit uncertainty; although FDI registered a modest 50 percent uptick in 2022, levels remain well below the pre-referendum peak, indicating that political and economic upheaval, rather than the new screening mechanism per se, has been the dominant influence on Britain's FDI performance.

III. Emerging countries

Figure 5 presents FDI net inflows for four emerging economies–Russian Federation, China, India and South Africa–chosen both for their differing stages of development and for the range of screening approaches they have adopted.

Figure 5: FDI Net Inflows (BoP, Current USD)



Source: World Bank Indicators

Russia's net FDI has passed through three phases: rapid growth from the early 2000s to a 75 bn USD peak in 2008, followed by a crash and recovery to about 70 bn USD in 2012; a gradual decline thereafter; post-2017 Foreign Investment Law amendments net inflows stabilized at 20–30 bn USD; but 2022's geopolitical crisis plunged flows into negative territory, with only a modest rebound in 2023, highlighting persistent investor caution.

By contrast, China's FDI trajectory continued strongly upward through 2020, reflecting the combined effects of industrial policy cycles, generous state support for high-tech sectors and the expansion of free-trade zones rather than any dampening influence from screening alone; only in 2021 did inflows pause as new foreign-investment restrictions were formalized.

India, which introduced tighter screening under Press Note 3 in mid-2020, saw FDI fall by roughly 30 percent in 2021 relative to 2019, but disentangling the regulatory impact from the pandemic's economic shock remains difficult.

Lastly, South Africa's experience underscores how screening need not suppress growth: after a modest slump in 2019–when its Competition Amendment Act broadened review powers–FDI surged to an unprecedented US$40 billion in 2021, driven largely by mega-projects in mining and technology, even as further screening provisions were only just being activated. In all four cases, while national-security and sector-specific filters can influence foreign capital flows, broader cyclical and policy factors have often been the dominant forces shaping investment outcomes.

2.4 Empirical Assessment of the Impact of ISMs on FDI

With the initial charts, we observed shifts in FDI trends around the time each country introduced or expanded its ISM. However, attributing those directional changes solely to

screening policies risks misleading conclusions. The purpose of the previous section was simply to provide a visual overview of each country's FDI trajectory–and to highlight how recent global upheavals may have influenced investor behaviour.

FDI inflows depend on a multitude of economic parameters and political decisions, so it is crucial to account for these interrelationships to rule out confounding effects from macroeconomic fluctuations or policy shifts.

From this need emerges the motivation to deepen the analysis to isolate the development of FDI from other economic parameters and focus only on the possible repercussions of ISM. This section presents three tables of regression results, each contextualized by major world-economic crises, to clarify how, and whether, ISM adoption has altered FDI patterns.

2.4.1 Methodology Followed in This Section

To do that, has been constructed a balanced panel[25] of the selected 12 countries, with observation of years ranging from 2000 and 2023. In this dataset, downloaded from World Bank Development Indicators, there were several economic factors, chosen because they were all responsible for the performance of FDI. This sub-section 2.4.1 will illustrate the hypothesis of research, and the methodology used to conduct the analysis about the effects of ISMs. The results and their interpretation then follow.

[25] A panel is defined as balanced if each of the entities (in this case the countries) is present in each time T, with N × T observations in total. The balanced panel allows you to take full advantage of fixed effects and random effects estimation techniques without having to impute missing values or reduce the sample

I. Research Hypothesis

The academic literature on ISMs predominantly focuses on the motivations behind their implementation, or on the factors driving foreign investors to target specific sectors or economies and consequently interest is directed towards the systems applied to filter targeted investments.

This research, however, aims to add a new perspective that addresses a different issue: *To what extent do ISMs influence FDI in advanced and emerging economies?*

Focusing on FDI is appropriate because it is the principal economic variable that screening mechanisms aim to regulate, and thus there is strong interest in the economic repercussions of any potential reduction in foreign investment.

This research question brings together both regulatory intent and economic impact, leading to the formulation of specific research hypotheses. These hypotheses serve as the foundation for the empirical analysis and the subsequent interpretation of the results.

Table 12: Research hypothesis

H_0 (null hypothesis):	Investment screening mechanisms have no significant impact on foreign direct investment (FDI) flows. Mathematically: $H_0 : \beta_{ISM} = 0$
H_1 (alternative hypothesis):	Stricter investment screening mechanisms lead to a reduction in FDI flows. Mathematically (directional hypothesis): $H_1 : \beta_{ISM} < 0$

II. Choice of variables

The economic and empirical literature identifies absolute GDP (gross domestic product), economic growth, advanced human capital, urbanization, trade openness, price stability, and

institutional quality as the key factors influencing a country's attractiveness to foreign direct investment (FDI).

GDP measures the size of the host market, while the GDP growth rate reflects its prospects for economic expansion. The tertiary education enrolment rate represents human capital and technological absorption capacity, the share of urban population summarises agglomeration effects, trade openness signals integration into global markets, inflation describes macroeconomic stability, and finally political stability attests to institutional quality and country risk.

From this broader set, were retained five covariates that (i) exhibit the strongest empirical link to FDI inflows, and (ii) minimize multicollinearity[26], thereby ensuring model parsimony and interpretability

The parameters chosen are:

Table 13: Variables chosen

Variables	Description
1. GDP (current US$):	The absolute size of GDP is recognized as the most robust determinant in econometric studies of the horizontal location of FDI, as it reflects the spending power of firms and consumers in the host country. Numerous studies confirm that higher GDP attracts foreign capital flows, as it guarantees economies of scale and greater profit opportunities for multinationals.

[26] Given evidence that highly correlated regressors can inflate standard errors and obscure individual coefficient estimates, were conducted variance-inflation-factor (VIF) diagnostics. Only variables with VIF < 5 were retained, yielding a balanced model that captures key dimensions of attractiveness without redundant information.

2. GDP growth (annual %):	A high GDP growth rate signals future return opportunities and reduces investment risk, thus representing a powerful signal of attractiveness. Panel studies in developing countries demonstrate the existence of a lag effect between economic growth and FDI, with significantly positive correlations for time batches of up to three years[27].
3. Trade (% of GDP):	The ratio between exports + imports and GDP measures the degree of integration in international markets: more open economies offer global production networks and greater opportunities for geographical arbitrage. Models based on "new economic geography" show that trade openness reduces transport costs and fosters the transfer of technologies and skills between regions, strengthening the attractiveness of FDIs
4. Inflation, consumer prices (annual %):	High inflation rates introduce uncertainty about real yields and profit margins, discouraging long-term investments. Cross-country analyses document a negative and significant relationship between inflation and FDI flows, reaffirming the importance of a credible monetary policy and a low rate of price growth
5. Political Stability and Absence of Violence	Political stability reduces the risk of regime change, expropriations and operational disruptions, providing a predictable context for strategic decisions by multinationals. Systematic reviews confirm that countries with high indicators of political stability attract significantly higher FDI flows, thanks to guarantees of legal and business security.

[27] Several analyses show that the correlation between GDP growth rates and FDI inflows is not immediate but fully manifests itself with a lag of up to three years. This is particularly relevant for this analysis, as in some countries only one or two years have passed since the implementation of ISMs, potentially limiting the observable effects on FDI inflows. This temporal lag underscores the importance of considering delayed responses when evaluating the impact of ISMs on FDI.

All variables were selected based on the analysis of FDI determinants by Agiomirgianakis et al. (2023). These same factors guide the assessment of each indicator's measurement biases, endogeneity concerns and compositional distortions.

III. Limitations of Chosen Indicators

Before moving to the estimation strategy, it is important to acknowledge some inherent limitations and potential biases of the five key indicators:

Table 14: Limitations of chosen indicators

Variables	Limitations
1. GDP (current US$):	• Exchange-rate distortions: Nominal GDP in U.S. dollars can rise or fall purely due to currency fluctuations rather than real output changes, making a host economy look larger (or smaller) to investors without any actual market expansion. • Aggregate vs. per-capita effects: Total GDP does not control for population size or income distribution. Two countries with identical GDP may differ drastically in market purchasing power and labour costs, potentially overstating attractiveness in populous, low-income settings.
2. GDP growth (annual %):	• Lag structure and mis-timing: The impact of economic growth on FDI inflows often materializes with variable lags, sometimes up to three years, so omitting appropriate lagged terms can capture cyclical co-movement rather than true causal effects. • Volatility and sustainability: Emerging-market growth rates can be driven by one-off shocks (e.g., commodity booms) that are not sustainable. This volatility may induce spurious correlations if temporary spikes are treated as persistent signals of opportunity.
3. Trade (% of GDP):	• Commodity vs. high-value composition: The ratio of exports + imports to GDP treats a country exporting raw materials and one exporting high-tech goods as equally "open," yet their draws on FDI differ substantially. • Policy–reality gap: Official tariff schedules may show low rates, but non-tariff barriers (licensing hurdles, poor logistics, quotas) often persist, so measured openness can overstate real market access.

4. Inflation, consumer prices (annual %):	• Omission of producer-price dynamics: The Consumer Price Index (CPI) tracks consumer-basket price changes but omits energy and intermediate-goods costs crucial for manufacturing investors; relying solely on CPI can understate macro-cost risk. • Substitution and quality biases: Fixed CPI weights ignore consumer substitutions toward cheaper alternatives and quality improvements, typically overstating inflation by 0.5–1.5 pp per year unless hedonic or chained measures are used.
5. Political Stability and Absence of Violence	• Composite-index heterogeneity: This World Bank indicator aggregates corruption, violence, government effectiveness, and more into a single score, masking which dimension drives FDI decisions and introducing "noise" into regression estimates. • Temporal granularity: Annual WGI updates cannot capture sudden political shocks (coups, protests, policy reversals) that may deter investors in real time; reliance on yearly data delays reflection of heightened risk.

IV. Model Specification

The analysis relies on panel data (repeated observations of the same countries over time) allowing us to exploit both "within-unit" variation and shocks common to all countries each year. To isolate the effect of the ISM (added a column, dummy[28] ISM), we estimate a two-way

[28] In econometrics, a dummy variable is a binary variable used in regression models to represent the presence or absence of a categorical effect. It takes the value 1 if a specific condition is met and 0 otherwise. This allows the inclusion of qualitative factors in quantitative analyses.

"within" [29] (fixed-effects) [30] regression, incorporating country-specific fixed effects (α_i) and year-specific fixed effects (γ_t) in the specification. This controls for unobserved, time-invariant country characteristics (e.g., institutional culture, structural endowments) and for global shocks affecting all countries in year t (e.g., financial crises, regulatory changes, pandemics).

$$\mathrm{FDI}_{it} = \beta_1 \mathrm{GDP}_{it} + \beta_2 \Delta\mathrm{GDP}_{it} + \beta_3 \mathrm{TradeOp}_{it} + \beta_4 \mathrm{Infl}_{it} + \beta_5 \mathrm{PolStab}_{it} + \beta_6 \mathrm{ISM}_{it} + \alpha_i + \gamma_t + \varepsilon_{it}$$

In the formula:

- FDI_{it} : net foreign direct investment inflows (in billions of USD) for country (i) in year (t).
- β_k: coefficient on the k^{th} explanatory variable, measuring the average within-country change in FDI (in billion USD) associated with a one-unit increase in that variable, holding all other covariates and fixed effects constant. For example, if GDP (in billions USD) increases by 1, β_1 indicates the average change in FDI for the same country after "detrending" country and year fixed effects.
- $\alpha_{i:}$ country-specific fixed effect.
- $\gamma_{t:}$ year-specific fixed effect.

[29] The "within" estimator refers to the fixed-effects transformation that removes each unit's time-average from its observations–i.e., subtracting the average of each variable over time for a given unit from its observed values. This process eliminates all time-invariant, unit-specific effects, allowing coefficients to be identified solely from variation within each unit over time.

[30] The two-way "within" (fixed-effects) estimator is a linear panel-data regression that includes both country-specific and year-specific intercepts, thereby absorbing all unobserved, time-invariant country characteristics and any shocks common to all countries each year, and identifying coefficients from within-country, over-time variation (Imai & Kim, 2021).

- $\varepsilon_{it:}$ idiosyncratic error term.

Identification of β_6 (the ISM effect) assumes that, conditional on covariates and time fixed effects, there are no unobserved differential trends between early and late adopters of the ISM, akin to staggered-timing difference-in-differences[31].

To address heteroskedasticity and serial correlation, we use country-clustered robust standard errors via the `lmtest` and `sandwich` packages, ensuring valid inference under intra-panel dependence.

V. RStudio Implementation

The entire analysis pipeline was executed within the RStudio environment, leveraging its integrated script editor, console, and data-viewer to ensure full reproducibility. Please refer to Appendix B for the source code used.

The procedure entailed the following steps:

Table 15: RStudio Workflow

Step	Description
1	Package installation and loading: Checks for and installs required packages (`WDI`, `plm`, `car`, `lmtest`, `sandwich`), then loads all relevant libraries including `dplyr`, `tidyr`, and `zoo`.

[31] Staggered difference-in-differences with varying treatment timing: the ISM is introduced in different years across countries; the identification of β_6 relies on the assumption of conditional common trends (given covariates), analogous to staggered-timing DiD.

2	Definition of countries and time period: Specifies a vector of 12 countries (ISO codes), sets the study period (`start_year = 2000`, `end_year = 2023`), and defines three country groups: Emerging Economies, Developed Economies, and Continental EU.
3	Specification of WDI indicators: Defines a set of World Bank indicators including GDP, GDP growth, trade openness, inflation, political stability, and foreign direct investment (FDI) inflows**.** Variables abbreviations: Gross Domestic Product (GDP); GDP Growth (GDP_Growth) ; Trade Openness (Trade); Inflation (Inflation); Political Stability Index (PolStab) ; Foreign Direct Investment, net inflows (FDI).
4	Data download and initial cleaning: Uses `WDI()` to download the dataset, selects key variables using `select()`, and sorts the data by country and year using `arrange()`.
5.1	Imputation of missing Political Stability values: Applies linear interpolation via `na.approx()` within each country to fill in missing values for the Political Stability index.
5.2	Manual correction of Russian inflation data: Replaces missing inflation values for Russia in 2022 and 2023 with externally validated figures (13.7% and 5.9%, respectively)(IMF, 2025).
6	Creation of ISM dummy variable: Defines a binary `ISM` variable equal to 1 if the observation year is greater than or equal to the implementation year of the Investment Screening Mechanism (ISM), 0 otherwise. The implementation years by country are as follows: United States (2018); Canada (2009); Australia (2020); Japan (2020); France (2014); Germany (2020); Italy (2012); United Kingdom (2021); China (2020); India (2020); South Africa (2018); Russian Federation (2017).
7	Rescaling of monetary values: Converts GDP and FDI inflows into billions (USD) by dividing by 1e9, creating `GDP_bil` and `FDI_bil`.
8	Creation of year fixed effects: Transforms the year variable into a factor (`year_factor`) to control for time-specific effects in the panel model.
9	Panel data structure: Converts the cleaned dataset into a `pdata.frame` using `plm:pdata.frame()` using `country` and `year` as panel indices.
10	Estimates the panel model with two-way fixed effects (within transformation on both country and time) by regressing `FDI_bil` on the covariates (`GDP_bil, GDP_grow, TradeOp, Inflation, PolStab`) and the `ISM` dummy.

11 Subgroup analysis: Separately estimates the two-way fixed effects model for each predefined country group (Emerging, Developed, Continental EU).

12 Country-level OLS analysis: For each individual country, estimates an ordinary least squares (OLS) model regressing `FDI_bil` on covariates, `ISM`, and a linear time trend.

2.4.2 Results: Tables and Analysis

This section reports the empirical examination of how ISMs influence net FDI inflows across a panel of twelve major economies from 2000 to 2023. The investigation is organized into three complementary estimation frameworks: a general two-way fixed-effects (FE) panel model; a subgroup analyses for emerging economies, developed economies, and four continental EU countries, and country-level OLS regressions with a linear time trend.

The most noteworthy finding from the two-way fixed-effects panel model is that the introduction of Investment Screening Mechanisms (ISMs) corresponds to an estimated reduction of US $19.8 billion in net FDI inflows. Although this effect does not reach statistical significance ($p = 0.125$), its magnitude concurs with prior empirical research. Aligns with UNCTAD's observation that FDI screening regimes can minimally discourage capital movements by raising procedural costs and uncertainty (UNCTAD, 2023).

When the analysis is disaggregated, emerging and developed markets exhibit broadly similar point estimates for the ISM effect, but only the developed-economy subgroup yields a statistically significant policy dummy alongside political-stability controls. Finally, single-country estimations–replacing year dummies with a continuous time trend–reveal nuanced heterogeneity: the scale of GDP emerges as a key determinant in Canada and Australia; GDP growth drives FDI inflows in India and the United States; political-stability gains significance

in Canada, Russia, and the United States; and the ISM dummy retains a robust negative association with FDI in Canada and the United States (with marginal evidence for Russia).

Taken together, the pooled results indicate that ISMs do not significantly impede FDI inflows, and the apparent negative effects in individual-country regressions likely reflect unobserved external factors not captured in the dataset.

I. Pooled Two-Way Fixed-Effects Analysis

Across the full panel of twelve economies over 2000–2023, the introduction of an Investment Screening Mechanism (ISM) is associated with a negative coefficient of –19.80, implying that, on average, net FDI inflows decline by approximately USD 19.8 billion in the post-implementation period. However, this effect does not achieve conventional statistical significance ($p = 0.125$), indicating limited evidence of a systematic shift in FDI at the aggregated level once country and year heterogeneity are accounted for.

Consequently, consistent with the null hypothesis H_0, which states that the introduction of screening mechanisms has no significant effect on FDI flows ($\beta_{ISM}=0$), we fail to reject H_0 at the 5 % significance level.

Among the control variables, only the level of GDP exerts a robust and highly significant influence on FDI ($\beta = 0.01066$, $p < 0.001$). In economic terms, every additional USD 1 billion in GDP corresponds to an estimated USD 0.0107 billion rise in annual FDI inflows. By contrast, GDP growth, trade openness, inflation, and political stability each exhibit positive point estimates but fail to reach statistical significance, underscoring that, within this specification, the sheer size of the economy dominates as the primary driver of cross-border investment.

Overall, the model's within R^2 of 0.166 indicates that roughly 16.6 percent of the year-to-year, within-country variation in FDI is explained by the included regressors. The remaining 83.4 percent is absorbed by unobserved factors–captured by the country and year fixed effects–or potentially omitted variables not featured in the dataset.

Table 16: Overall Two-Way Fixed Effects Model (2000–2023, 12 Countries)

Variable	Estimate (β)	p-value	Significance	Direction
GDP (billion USD)	0.01066	<0.001	**	Positive
GDP growth (%)	1.553	0.430		Positive
Trade openness (%)	0.00188	0.998		Positive
Inflation (%)	1.154	0.553		Positive
Political stability	21.792	0.225		Positive
ISM dummy	–19.804	0.125		Negative

Notes: "Significance" marks $p < 0.01$, $p < 0.05$, $\cdot p < 0.10$. The ISM dummy's negative estimate suggests a reduction in FDI inflows following implementation, though it does not reach conventional significance in the pooled sample.

II. Subgroup Analyses (Emerging, Developed, Continental EU)

Estimating the two-way fixed-effects specification separately for each country grouping reveals marked heterogeneity in the ISM effect and the roles of macroeconomic controls. In emerging economies (China, India, Russian Federation, South Africa), the ISM dummy is

positive (β = 6.67) but far from statistical significance (p = 0.786), and GDP size remains the only robust predictor of net FDI inflows. This pattern suggests that, once country- and year-specific factors are accounted for, screening regimes in these markets neither systematically deter nor attract investment.

By contrast, in the developed-economy subgroup (United States, Canada, Australia, Japan), the ISM implementation dummy assumes a significantly negative coefficient (β = –46.13, p = 0.047), indicating an average annual reduction in FDI of approximately USD 46 billion following the introduction of screening mechanisms. In this same sample, political stability emerges as a powerful positive determinant (β ≈ 142.82, p < 0.001), underscoring that governance quality–alongside market size–plays a pivotal role in shaping cross-border capital flows.

Turning to the continental EU group (Germany, Italy, France, United Kingdom), neither the ISM dummy (β = –15.25, p = 0.589) nor any macro control achieves statistical significance. The low within-R^2 (≈ 0.045) implies that, for this relatively homogeneous bloc, year-to-year variations in FDI are driven by influences beyond GDP, trade openness, inflation, political stability, or the adoption of screening policies–perhaps EU-level regulatory harmonization, sectoral integration effects, or global cyclical shocks.

Table 17: Group-Level Fixed Effects Results

Group	ISM Estimate (β)	p-value	Significance	Direction
Developed economies	– 46.126	0.047	* Negative and significant at 5%	Negative
Continental EU	– 15.245	0.589	Negative but non-significant	Negative

Emerging economies	6.666	0.786	Positive but non-significant	Positive

Notes: "Significance" marks p < 0.01, p < 0.05, ·p < 0.10

III. Country-Level OLS with Linear Time Trend

The table below reports the estimates of the ISM dummy from separate OLS regressions for each country, in which a continuous linear trend replaces year fixed effects. The point estimates vary widely in both magnitude and sign, reflecting idiosyncratic dynamics and the influence of unobserved factors. Canada (β = –54.81, p = 0.013) and the United States (β = –203.60, p = 0.023) are the only cases in which the ISM coefficient attains conventional significance, suggesting average reductions in annual FDI inflows of roughly USD 54.8 billion and USD 203.6 billion, respectively. China (β = –99.20, p = 0.112), India (β = –11.89, p = 0.094), and the Russian Federation (β = –37.19, p = 0.056) register negative effects at marginal significance levels, while Germany, Japan, France, South Africa, Italy, and Australia all exhibit non-significant estimates of mixed sign.

Table 18: Country-Level OLS with Linear Trend

Country	ISM Estimate (β)	p-value	Significance	Direction
Australia	–23.28	0.166	Not sig.	Negative
Canada	–54.81	0.013	* Sig.	Negative
China	–99.20	0.112	Marginal	Negative
France	–12.94	0.725	Not sig.	Negative

Germany	52.13	0.426	Not sig.	Positive
India	–11.89	0.094	Marginal	Negative
Italy	–22.51	0.228	Not sig.	Negative
Japan	10.43	0.288	Not sig.	Positive
Russian Federation	–37.19	0.056	Marginal	Negative
South Africa	5.50	0.382	Not sig.	Positive
United Kingdom	–391.70	0.146	Not sig.	Negative
United States	–203.60	0.023	* Sig.	Negative

Notes: "Significance" marks $p < 0.01$, $p < 0.05$, $\cdot p < 0.10$. Negative estimates indicate that, on average, the introduction of an ISM is associated with a reduction in annual FDI inflows (in billions USD). Positive estimates indicate a (non-significant) increase.

Replacing year dummies with a linear trend allows each country's unique trajectory to absorb broad time-varying influences. In Canada and Australia, GDP size remains a highly significant positive predictor of FDI, underscoring the dominant role of market scale. India's FDI responses are driven jointly by GDP growth and the underlying time trend, reflecting its rapid expansion phase. Political-stability measures achieve significance in Canada, the Russian Federation, and the United States, suggesting that governance shifts can materially affect investor confidence in these markets.

The exceptionally large negative coefficient for the United States (approximately –USD 204 billion) is implausible as a pure screening effect, given that even stringent policy regimes rarely produce such magnitudes. Instead, this outlier likely captures omitted macroeconomic shocks–

such as global financial cycle swings, concurrent regulatory reforms, or large geopolitical events–that coincide with ISM adoption but are not accounted for in the regression. A similar argument applies to the United Kingdom's estimate ($\beta \approx -391.7$), which far exceeds typical procedural-cost effects and points to the need for richer modelling of country-specific events. Overall, these country-level results caution against attributing large FDI shifts solely to ISM implementation without controlling for external and unobserved factors.

The empirical analyses presented in this thesis demonstrate that ISMs, when considered across a broad panel of economies and controlling for country- and year-specific effects, do not exert a statistically significant deterrent on aggregate FDI inflows. This finding aligns with prior empirical studies and institutional reports (Albori et al., 2021; UNCTAD, 2023), reinforcing the view that well-designed screening and notification procedures–characterized by transparent rules and defined intervention deadlines–mitigate investor uncertainty without erecting prohibitive barriers to capital entry.

3. Discussion of Results and Policy Implications of ISM on FDI

As shown in the previous chapter, a growing number of advanced economies have established or reinforced FDI screening mechanisms to vet incoming transactions for national security and public-order concerns. Some of them initiated this process in the past century, like the United States in the 1975 endowed the Committee on Foreign Investment in the United

States (CFIUS), while others implemented these mechanisms just recently particularly EU Member States, have aligned with the supranational framework created by Regulation (EU) 2019/452, fully in force since October 2020.

By 2023, seventy-three countries worldwide had introduced a total of 137 new policy measures affecting FDI inflows, underscoring the rapid global proliferation of screening regimes[32] (UNCTAD, 2024).

The increasing in the number of countries that adopt these mechanisms and encourage this trend is driven by technological change and geopolitical rivalry and is unlikely to reverse.

Investment screening laws typically oblige foreign acquirers to notify or obtain government approval before taking significant stakes in designated "sensitive" sectors – defence, energy, advanced manufacturing, telecommunications, and the like – as illustrated by the Investment Canada Act.

The goal of governments is generally to protect national security and shield critical assets without deterring overall FDI, thereby avoiding a slide into protectionism or politicization of screening mechanisms – which, under strategic or lobby pressure, might otherwise be exploited to promote or block specific foreign investments (Danzman & Meunier, 2022).

Yet the real-world impact of these regimes remains contested: some econometric analyses find that screening policies deter inward FDI, while others report negligible aggregate effects, suggesting that properly calibrated rules can coexist with open investment climates.

[32] In the first months of 2024, Bulgaria and Singapore were added, whose screening mechanisms came into force in March 2024 (UNCTAD, 2024). Finally, with the entry into force of the Screening of Third Country Transactions Act on January 6, 2025, Ireland has also started its first foreign investment screening mechanism (Screening of Third Country Transactions Act 2023, 2025).

Accordingly, this chapter will complement the empirical results presented in Section 2.4 with a systematic review of the recent literature, covering econometric studies, policy reports, and case analyses, to include also other studies relatives to the ISM effects and at the end assess whether ISM adoption deters FDI inflows or has only modest effects, and how screening balances national security goals with openness.

3.1 The Transformation of the Geoeconomics

The growth of ISMs is often linked to the COVID-19 crisis and rising tensions of western economies, in particular United States, and for influence effect also some European countries, with China, but analysts emphasize also that enduring factors (digitization and great-power rivalry) underlie this "permanent shift" in the treatment of foreign investment.

FDI screening regimes vary widely in scope and stringency. Some countries maintain sectoral reviews (e.g. Germany and France focus on defence, tech, energy), while others (like Canada, Australia and the United Kingdom) have general "national interest" tests that can apply to any sector. Rich-country examples illustrate that strict screening can coexist with robust investment inflows: Australia, Japan and Canada all have long-standing stringent review regimes, yet they remain among the world's top FDI recipients (see Table 9). This suggests that in principle screening need not cripple an open investment environment. Indeed, under well-designed rules governments claim they can "increase security and public order without deterring foreign investment" (European Commission, 2024, sec. 1.4.3). However, whether theory matches reality depends on how screening is implemented and perceived by foreign investors.

3.2 Empirical effects on FDI Flows

At the heart of this investigation lies the question of whether formal ISMs significantly reduce or reroute FDI flows in both advanced and emerging economies. The evidence presented here suggests that, far from undermining aggregate FDI inflows, the introduction of ISMs can effectively safeguard designated strategic sectors or deter specific categories of investors without broadly damaging a country's overall investment attractiveness. Although existing empirical studies and academic debates remain somewhat mixed, there is growing consensus that ISMs exert at most a modest dampening effect on cross-border transactions in sensitive industries.

A notable constraint on this and other related research is the relatively short post-adoption observation window – spanning only three to five years – yet, given the rapid and decisive enforcement of screening rules, one would anticipate that any material impact on investment patterns should manifest immediately. Consequently, while the findings of this research offer valuable insights into the limited macroeconomic costs of screening mechanisms, a truly comprehensive evaluation will depend on integrating further empirical studies and longer-term data to enrich and contextualize these results.

In the following section (3.2.1), additional empirical and theoretical studies on ISM will be examined to deepen the understanding of their effects and to introduce precise counterarguments. By synthesizing diverse methodologies and findings of other scholars, the objective will be to contextualize the results of this study within the broader literature and highlight any remaining uncertainties or divergent perspectives. This comparative approach not only reinforces the robustness of the conclusions drawn at the end of the chapter but also identifies key areas where further research is needed.

3.2.1 Counterpoint Analysis

I. Short-Term M&A Disruption

A recent cross-country panel study by Eichenauer & Wang (2024), the first of its kind, finds that introducing an ISM in each sector reduces the annual number of foreign M&A transactions in that sector by roughly 12–16%. In practical terms, they estimate that a newly screened industry loses on the order of 20–27 deals per year on average. The effect is statistically significant and economically meaningful. Importantly, Eichenauer & Wang show this impact is concentrated in the first two years after adoption (presumably the period of greatest uncertainty) and then largely dissipates.

They also find the deterrent effect is stronger for minority acquisitions (small equity stakes) and for deals involving foreign governments, state-owned firms or U.S. investors, whereas transactions involving majority takeovers or intra-European (EU/EFTA[33]) buyers (which often fall outside review) are unaffected. This suggests that screening primarily chokes off smaller or politically sensitive deals that authorities view as risky, rather than all foreign investment equally.

However, two principal limitations call this interpretation into question. First, the study's use of four-digit NACE codes[34] to demarcate "screened" sectors overlooks the fact that actual

[33] European Free Trade Association (EFTA).

[34] NACE (Nomenclature statistique des activités économiques dans la Communauté européenne): the EU's standard statistical classification of economic activities, where four-digit codes denote specific industry sub-sectors.

review decisions hinge on transaction-specific factors – investor nationality, geographic proximity to military installations, data security concerns – that do not align cleanly with industry classifications. By assuming homogeneous exposure to screening across entire sectors, the authors risk conflating routine procedural checks with substantive prohibitions and thus overstating the true chilling effect on transactions genuinely at risk of review. Second, by focusing exclusively on M&A activity, the analysis neglects alternative FDI modes – greenfield investments, joint ventures, minority equity stakes – that often escape formal review. If firms simply reallocate capital toward these channels when faced with stricter M&A scrutiny, aggregate FDI may remain stable despite a drop in deal counts, calling into question whether ISMs interfere with overall cross-border capital flows.

II. Regulatory Restrictiveness and FDI Stocks

The findings of Eichenauer & Wang (2024) are broadly consistent with those of Mistura & Roulet (2019) who investigate whether statutory barriers to FDI influence the volume of cross-border investment across 60 advanced and emerging economies during 1997–2016. Drawing on the OECD's uniquely detailed FDI Regulatory Restrictiveness Index, which scores sectoral limits on foreign equity, discriminatory screening procedures, and other operational restrictions, the authors merge these annual index values with bilateral FDI-stock data (from OECD and UNCTAD) and cumulative cross-border M&A transaction values (from

Dealogic[35]). They then estimate an augmented gravity model by Poisson pseudo-maximum likelihood[36], controlling for country-pair, origin, destination and year fixed effects, as well as market-size and cultural-distance variables.

Their core finding is that a 10 percent reduction in the restrictiveness index is associated with a roughly 2.1 percent average increase in bilateral FDI stocks. The effect is even stronger in services sectors–where restrictions are most pervasive – and remains negative, though smaller, for manufacturing. Disaggregating the index shows that loosening foreign-equity limitations has the largest impact, while easing screening requirements also boosts investment, albeit to a lesser degree. Parallel estimates using sector-specific M&A stocks confirm that a similar 10 percent liberalization raises services-sector acquisitions by about 3.9 percent and economy-wide acquisitions by 3 percent, whereas M&A in manufacturing and primary industries is less sensitive to these statutory barriers.

Yet this cross-country study also faces two key challenges. First, equating de jure restrictiveness with actual enforcement overlooks the frequent use of exemptions, conditional approvals, and informal waivers, which often mitigate the legal severity of screening measures. As a result, the model likely overstates the real-world deterrent effect of formal rules.

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[35] Dealogic is a proprietary financial-markets database that aggregates detailed, transaction-level information on global mergers & acquisitions, equity and debt issuances, and IPOs, covering both public and private deals, and is widely used in academia and industry for the construction of historical series on deal values and volumes.

[36] Poisson pseudo-maximum likelihood (PPML), as formulated by Santos Silva & Tenreyro (2006), is an estimation technique for gravity and other flow models that (i) handles zero-valued observations without dropping or transforming them, (ii) remains consistent under heteroskedasticity, and (iii) does not require the dependent variable to follow an actual Poisson distribution.

Moreover, the index's exclusion of key sectors–such as mining and other primary industries–may distort the overall assessment of a country's FDI restrictiveness, particularly in economies where these sectors play a major role.

Second, aggregating equity caps, sectoral carve-outs, and notification requirements into a single composite score assumes uniform investor responses across these distinct instruments and transaction types. This homogenization obscures how specific modalities–outright prohibitions versus notification-only regimes–differentially influence greenfield projects versus M&A, potentially biasing the estimated economic effect of screening measures.

III. Evidence of No Net Effect on Aggregate FDI Flows

In contrast to the previous studies, Albori et al. (2021) found no net effect of screening laws on aggregate FDI equity flows across 17 OECD countries and 23 sectors over 2012-2018 (Eichenauer & Wang, 2024). This discrepancy may reflect differences in methodology or sample: Albori et al. (2021) focused on broad equity flows, whereas Eichenauer and Mistura & Roulet captured effects specifically on cross-border M&A deals.

Nonetheless, it is important to emphasize the limited absolute magnitude of deal-blocking. Screening laws typically subject a large pool of transactions to review, but only a few deals are ultimately prohibited. Bauerle Danzman & Meunier (2023) document that in the United States and in European Union about 20% of FDI deals (by count) fell under screening in 2022, yet only a vanishingly small share was formally blocked. The small number of rejections suggests two interpretations: one is that authorities have calibrated screening to catch only genuine threats (hence few blocks), and another is that the threat of review itself deters some investors from pursuing deals in the first place. A policy analysis from Liechtenstein notes that the

relatively low rate of blocked transactions could reflect such a "deterrent effect" (Savic, 2024). In other words, some would-be foreign acquirers may self-select out or withdraw rather than undergo a potentially lengthy approval process.

In practice, multiple factors confound the relationship between screening mechanisms and flows of foreign investments. Global FDI has trended up and down due to macro conditions – exchange rates, growth prospects, trade policies, and global shocks – that often swamp the screening effect. For example, European authorities have observed that the recent decline in Chinese FDI into Europe owes at least as much to China's economic challenges[37] and industrial policy agenda, including initiatives such as "Made in China 2025" which seeks to attract more domestic investments into the Chinese economy to promote Beijing's internal development, as to Europe's new FDI rules[38]. Indeed, Chinese outbound investment fell globally in 2018–2022, even in countries without major screening laws. Thus, as Bauerle Danzman and Meunier caution, "FDI screening is only one of many factors" affecting flows (Bauerle Danzman & Meunier, 2023). The key determinants of FDI included in the analysis carried out in Chapter 2 include market size, GDP growth, access to technology, and institutional stability. If a country with screening remains an attractive market, it may still receive substantial investment (albeit more cautiously). Notably, the emerging evidence suggests that if screening rules are transparent and consistent, they may even improve perceived predictability. Bauerle Danzman and Meunier observe that a clear legal framework can reduce investors' uncertainty about government policy, potentially mitigating negative effects on investment sentiment.

[37] A real estate bubble and excessive local government debt threaten growth.

[38] Regulation (EU) 2019/452.

In summary, recent quantitative studies generally find a modest negative impact of ISMs on FDI deals in targeted sectors. Eichenauer & Wang (2024) estimate a 12–16% drop in new M&A activity after screening is introduced, consistent with screening acting more as a hurdle than a total ban. Others report either similar deterrence Mistura & Roulet (2019) or no effect (Albori et al., 2021), depending on scope and the data used. Importantly, any decline tends to be concentrated in sensitive industries and lingers mainly in the short run. Deals among friendly or intra-bloc partners appear largely undisturbed, especially where exemptions apply (e.g. most EU member transactions are exempt from each other's reviews).

3.2.2 Empirical Results of This Research

In view of the results of the analyses conducted in this research, especially described in the paragraph 2.4, the introduction of ISM does not consistently and robustly explain the dynamics of FDI flows in the twelve countries considered from 2000 to 2023. In the two-ways panel model, the ISM effect is negative but not statistically significant (estimate –19.8 billion USD; p=0.12), while the aggregate GDP of the source country remains the only stable and significant predictor of FDI revenues.

The fixed effects model on country and year shows that, while controlling for GDP, growth, trade opening, inflation and political stability, the ISM dummy does not assume a significant coefficient ($t = –1.54$; $p > 0.10$). On the contrary, the relationship between GDP in billions and FDI flows appears consistently positive and very significant ($t = 5.71$; $p < 0.001$). This indicates that, at a macroscopic level and regardless of the implementation of screening, it is the size of the economy of origin that predominantly drives foreign capital revenues.

By dividing the sample into "developed economies", "continental European countries" and "emerging economies", it turns out that only in the group of developed countries ISM has a marginally significant negative effect (estimate – 46.1; p = 0.047), while in emerging countries (+ 6,7; p = 0.79) and in those of continental European countries (–15.2; p = 0.59) the impact is zero. This suggests that, even where the screening effect can emerge, it is not homogeneous and focusses only on advanced economies with deep financial markets.

In the OLS models at the national level, the ISM dummy reaches significance only in Canada (– 54.8 billion USD; p = 0.013) and in the United States (– 203.6; p = 0.023), while in all other ten countries the effect is statistically indistinguishable from zero or even opposite sign. Even in cases where the coefficient is borderline (India, Russia), the signal is weak and not accompanied by a satisfactory R^2 or consistency in macro predictors.

Overall, data shows that screening mechanisms, as they are implemented and time lined, do not constitute a barrier or obstacle capable of slowing down or interrupting FDI flows. The heterogeneity of the effects, the non-significance in most cases and the persistence of GDP as a driving factor call into question the actual causal relevance of those measures in previous analyses. It therefore appears more credible that it is structural variables (market size, level of financial development, economic cycle) and context conditions (political risk, ex post regulatory uncertainty) to modulate a country's attractiveness to foreign investment, rather than the mere fulfilment of a formal screening procedure.

3.3 National Security Protection versus Economic Integration

Proponents of ISMs argue that these laws protect sovereign national security and public order by preventing foreign takeovers of critical infrastructure, defence strategic firms, or

cutting-edge technology. For example, regulators may block or condition investment in a semiconductor plant, a military contractor, or a power-grid operator if the acquirer is judged hostile or the deal too opaque. In theory, this helps a country avoid espionage risks, preserve strategic industries, and safeguard sensitive data (Bencivelli et al., 2023). By design, screening is meant to be narrowly targeted, with provisions requiring that authorities issue specific findings when intervening. If applied judiciously, ISMs should filter out only the "genuinely threatening" transactions, as one analyst notes, rather than being overtly protectionist (Savic, 2024).

On the other hand, critics warn that heightened screening can fragment the global investment regime and discourage the open flow of capital. If foreign investors fear arbitrary denial or lengthy reviews, they may shy away from projects that would otherwise benefit the host economy. This is particularly concerning for capital-intensive sectors like energy and high-tech, where foreign know-how and funds are valuable. Indeed, the OECD and academic literature on FDI emphasize that liberal investment rules generally correlate with larger inflows. One must thus weigh security gains against the possible costs of efficiency loss. Bencivelli et al. (2023) explicitly note that while ISMs are necessary to protect key assets, they "may also reduce the efficiency of capital allocation".

Some evidence indicates that well-designed ISMs can indeed coexist with economic openness. For instance, the aforementioned finding that Canada and Australia have both strict screening rules and high FDI (see Table 9) suggests that large capital inflows can continue under vigilant regimes. Moreover, Bauerle Danzman & Meunier (2023) point out that increasing the transparency of the screening process – clear criteria, timely decisions, predictable procedures – can mitigate uncertainty for investors. In other words, countries might preserve much of the benefit of FDI (jobs, technology transfer, growth) while still using review

mechanisms as a last line of defence. The challenge is to calibrate ISMs, so they address specific security concerns without unduly raising "policy uncertainty" for all foreign investors.

In sum, the literature suggests a trade-off: ISMs can strengthen national security at the cost of some reduction in cross-border deals, but the loss to global integration can be contained if the rules are transparent and narrowly focused. The overall impact on the host economy depends on how many critical transactions are blocked or deterred and, by extension, the volume of otherwise beneficial investment that is foregone. However, the results of this analysis show that this aggregate deterrent effect is not statistically significant.

3.3.1 Economic Security

The concept of economic security that has been introduced in section 1.5.4 deserves to be explored in more detail in this paragraph regarding the discussion of the two main theoretical approaches relating to economic protection or interconnectedness.

The author who cautions against the potentially mistaken application of geoeconomic tools – though he does not address ISMs systems directly – is Barry Buzan, a leading figure of the Copenhagen School. In *Security: A New Framework for Analysis*, Buzan reconceptualizes security in a globalized context and argues that ordinary economic competition, characterized by risk, uncertainty, and market aggressiveness, is inherently insecure but does not in itself constitute a national security threat, since "a wide range of economic threats falls within the rules of the market game and cannot, logically, be deemed exceptional enough to invoke national security".

Buzan further contends in *Securitization* that justifying specific economic measures – such as investment screening or export controls – on political grounds transforms routine policy into

“highly political operations,” in which governments invoke national security to satisfy interest groups or legitimize extraordinary powers . He identifies three distinct pathways through which genuine economic security threats emerge. First, the linkage between the economy and military capability: military strength depends on a robust industrial base capable of designing and producing successive generations of advanced weaponry, as well as stable supply chains, so any disruption or systemic shock in these areas directly undermines a state’s defensive readiness . Second, the connection between economic performance and a state’s overall power in the international system: if a rival’s economic expansion outpaces one’s own, this may be construed as a systemic threat to one’s great-power status. Third, the relationship between the economy and domestic stability: states that are heavily dependent on external trade or financial flows risk severe economic and social crises in the event of external shocks, and when “a country’s economy becomes too fragile, disturbances in the system can undermine social cohesion and require national security interventions” (Buzan et al., 1998).

To operationalize these categories, Buzan distinguishes referent objects at multiple levels. At the individual level, economic security requires access to fundamental resources – food, water, energy, education – beyond which debates about welfare and income redistribution arise, reflecting tensions between market efficiency and employment protection. At the level of firms, shielding strategic sectors must be approached with caution, since “the higher costs and often inferior quality resulting from protected oligopolies can outweigh the benefits of enterprise survival” (Buzan et al., 1998). Applying security to social classes proves problematic because classes are amorphous, lack organizational coherence, and are often internally divided. Finally, at the state or system level, economic security encompasses aggregates such as supply chains, financial flows, and technological capabilities, where only exceptional disruptions – those that transcend normal market dynamics and impact military capacity, geopolitical position, or

internal cohesion–warrant being elevated to national security concerns and thus justify the introduction or reinforcement of ISM measures (Buzan et al., 1998).

On this theoretical foundation, section 3.3.2 will examine how China and Russia apply these same categories in their investment screening frameworks.

3.3.2 The Dark Side of the Moon

Often overlooked in Western-centred analyses, the "dark side of the moon" of economic security in China and Russia reveals how both regimes have transformed the economy itself into a strategic instrument of national survival and geopolitical influence. Drawing on Buzan's sectoral approach to security (which extends the concept beyond the military to include economic, environmental, societal and political dimensions), we see that what might once have been treated as "economic policy" has become a core element of national security doctrine (Buzan et al., 1998)

In China, the Comprehensive National Security (CNS) concept formally adopted in April 2014 by the Central National Security Commission under Xi Jinping redefines security to encompass twenty interlinked domains, from finance and technology to overseas interests and cultural security (Corff, 2018).

Zingoni (2020) shows that outward FDI is embedded with what Walker & Ludwig (2017) term "sharp power": covert funding of foreign media, think-tanks and academic institutions; opaque acquisitions of critical infrastructure; selective technology transfers designed not for commercial gain but to reinforce CCP (Chinese Communist Party) legitimacy and reshape host-country policy environments in China's favour.

By securitizing global supply chains and regulatory regimes, Beijing treats each investment decision as a pre-emptive shield against dissent and to project influence – a clear departure from classical notions of market-driven FDI (Ferchen, 2016).

Similarly, in Russia the discourse on economic security has evolved into a holistic "fortress" paradigm. Metelev (2014) catalogues no fewer than twenty-one definitions offered by Russian scholars, all emphasizing sovereignty, self-sufficiency and resilience against external coercion. The 2015 Russian National Security Strategy codifies this vision: economic security is defined as the "protection of society and the state against internal and external threats by ensuring sustainable socio-economic development". Under this framework, the state wields sweeping authority to screen and restrict foreign investment, regulate energy and financial sectors, and impose import-substitution policies–measures that are routinely justified as necessary to counter Western sanctions and "economic pressure" (Connolly, 2015).

Together, these "dark side" perspectives demonstrate how China's "sharp power" via strategic FDI and Russia's comprehensive securitization of its domestic economy have recast economic security into a multidimensional tool of regime preservation and power projection. What was once the purview of technocrats safeguarding balance of payments stability has become, in both Beijing and Moscow, an intrinsic element of national defence doctrine.

3.4 Case Studies

3.4.1 European Union

The EU provides a useful example of ISMs in action. Until recently most member states had their own screening rules (with widely varying strictness), and the 2019 EU regulation created

a coordination mechanism among them. By early 2024, 24 out of 27 EU countries had some screening in place. Analysts note that much of this push was motivated by concern over Chinese and Russian investments in strategic sectors. Empirical observations from Europe illustrate both sides of the debate. On one hand, thousands of transactions are now reviewed annually (especially in ICT[39], telecoms and energy), yet very few have been formally blocked. Reports find that Member States handled a total of 1808 requests for authorisation. 56% of these were formally screened while about 44% were did not require formal screening (European Commission, 2024b). This suggests the screening system is operationally focused on guiding investments rather than slamming the gate shut. On the other hand, investors (particularly from China) say the new rules have made them more cautious. For example, one consultancy notes that Chinese firms "know they are in for enhanced scrutiny" when targeting sensitive EU sectors, so some projects have been delayed or scaled back. Quantitatively, Chinese M&A investment in Europe plunged 58% in 2023, to only €1.5 billion (Kratz et al., 2024). Analysts attribute this partly to stronger European screening (and a complicated political climate), though they also point to China's own capital controls and strategic pivot set on the domestic economy as important causes.

In short, the EU case shows that a coordinated ISM can deter and reshape foreign investment: deals move away from sensitive targets or are structured differently. Greenfield investment (new projects) has become a larger share of Chinese FDI in Europe, since greenfield typically lies outside many review regimes (Kratz et al., 2024). Meanwhile, intra-EU investments continue unhindered, due to exemptions. EU policymakers view the result as a

[39] Information and Communication Technologies (ICT).

tailored restriction – keeping strategic assets protected while preserving the single market's openness overall. A recent industry report concludes that the EU's framework "sculpts" foreign capital flows to protect key sectors but does not constitute broad protectionism (Savic, 2024). The EU's experience thus underlines that while ISMs can cool off certain deals, they need not break the system of integrated markets if implemented judiciously.

3.4.2 China

China presents a dual aspect. Domestically, China has long maintained its own review of foreign investment, especially in state-sensitive sectors like media, finance and telecoms. Its current Foreign Investment Security Review (FISR) law, introduced in 2020, mirrors Western ISMs by allowing authorities to halt acquisitions that threaten national security (Kauppila & Cappelin, 2023).

China's system has blocked few high-profile cases (usually involving foreign takeover of Chinese tech firms) but serves as a signal to foreign investors.

Over the past decade China's outbound FDI boomed, especially into technology and infrastructure in Europe and elsewhere. According to MOFCOM China's outbound non-financial direct investment[40] reached USD 83.55 billion from January to July 2024, up 16.2 percent year-on-year, underscoring sustained overseas expansion even amid tighter screening

[40] In Chinese official statistics, "non-financial direct investment" encompasses capital flowing into manufacturing, real estate, leasing and business services, trade, technology and infrastructure projects, among others, but does not count projects in banking or non-bank financial intermediaries (Ministry of Commerce People's Republic of China, 2024).

at home (Ministry of Commerce People's Republic of China, 2024). In contrast inbound FDI into China fell by 13.7 percent year-on-year to USD 163 billion in 2023–a multi-decadal low–reflecting both post-COVID economic headwinds and heightened geopolitical tensions (U.S. Department of State, 2024). Correspondingly, Chinese investors have increasingly favoured greenfield projects, particularly in electric vehicles and battery manufacturing[41], because most existing screening regimes concentrate on mergers and acquisitions and minority-stake deals, while new greenfield investments generally fall outside the review scope

Meanwhile, other regions (North America, East Asia) have also tightened rules affecting Chinese money, though to varying degrees. For example, the United States permanently blocked several major Chinese acquisitions in semiconductors and telecom in the late 2010s. In response, Chinese firms have reoriented to friendlier markets (e.g. Southeast Asia, Africa) where screening is milder. The net effect is that Chinese capital flows have partly "de-globalized" under screening pressure, focusing on countries and projects deemed less sensitive. Still, China remains the world's largest capital exporter, and Chinese investors are not uniformly deterred. The evidence from case studies is that ISMs have reduced Chinese FDI into the most sensitive sectors and countries, but they have not entirely choked off China's global investment push. A broad China-specific study concluded that screening simply pushes Chinese investment toward regions and industries that pose lower security concerns.

[41] With an expenditure of 8.3 billion euros, the two biggest Chinese greenfield projects in Europe in 2022 were both in the production of electric vehicle (EV) batteries. Three more significant investments totalling 3.1 billion euros in capital expenditures also concerned EVs and batteries (Savic, 2024).

3.4.3 Russian Federation

Russia's situation is very different. As of 2018 Russia had its own screening law (dating to 2014) covering "strategic" industries, and it expanded this list in mid-2022 (UNCTAD, 2022). In other words, inbound screening in Russia has become stricter (especially after the Ukraine invasion, to protect remaining foreign technology and resources). However, most literature on FDI flows in Russia revolves around sanctions and geopolitical risk, rather than pure screening. Western investors have virtually withdrawn from Russia since 2022, and most capital flows have collapsed under sanctions. Thus, it is hard to isolate the incremental effect of Russia's screening laws on FDI (which is tiny already). The one clear case is that Russia has explicitly added more sectors (cyber, military tech, etc.) to its national security screening list in 2022, indicating Moscow's intent to bar sensitive foreign investment. For example, the expansion covers infrastructure analysis, digital services, and news outlets (UNCTAD, 2022). Whether this deters investment is moot; with the general exit of Western firms, Russia's real risk is lack of inward capital altogether, not a minor deterrent effect.

That said, we should note that Russian entities themselves have been subject to foreign screening abroad. Prior to 2022, several major deals involving Russian acquirers were blocked or abandoned in Europe (e.g. concerns over pipeline and telecom projects). Today, any Russian attempts to invest abroad face near-certain rejection or sanction. In a sense, the effect of screening on "Russian FDI flows" in 2025 is overshadowed by outright political embargoes. Still, the broader lesson from Russia's experience is that screening regimes can be weaponized by states: Russia expanded its own controls for domestic security, and other countries have reciprocally blocked Russian investments on political grounds.

3.4.4 Other Economies

Other jurisdictions illustrate the breadth of screening's impact. In North America, the U.S. has long used CFIUS to reject or unwind foreign takeovers (notably of telecoms and chip companies by Chinese firms). Recent U.S. data show CFIUS referred over 100 cases in 2022 but blocked only a few. Australia's Foreign Investment Review Board (FIRB) similarly approved most projects but increasingly scrutinizes Chinese bids in energy and real estate. Japan's reviews, while lengthy, have rarely shut deals, even as China's share of Japanese FDI inquiries has grown. Emerging markets have joined in: India's 2020 policy change now requires government approval for all FDI from neighbour nations, which did reduce some investment proposals from China and Pakistan. Africa and Latin America remain mostly open, but even they are under pressure: for example, Brazil recently debated a national-security screen for foreign tech investments. In short, almost no region is untouched by the trend. The most important pattern is that in advanced economies, increased screening has translated into at least a short-term moderation of certain FDI flows, especially those with high-tech or state-controlled investors. In developing countries, screening is still often coupled with broader investment liberalization efforts, aiming for "smart openness."

3.5 Contrasting Views and Drawbacks

The debate over investment screening includes several contrasting perspectives as illustrated in section 1.5, but some of them share different views. On one side, supporters emphasize that ISMs protect national interests without unduly harming investment levels. They point to the very low block rates as evidence that screening can be narrow and effective (Savic, 2024). Some argue that well-publicized screening frameworks provide predictability (an often-cited

benefit of the EU's regulation was to harmonize rules and reduce arbitrary divergences between member states, reducing the associated compliance costs that a potential investor might face (European Commission, 2024a)). In this view, clear screening rules can enhance the credibility of a country's commitment to open markets by showing that rules are stable and not ad hoc. One Supranational study even speculates that transparent screening regimes may improve investors' trust in the regulatory environment.

Detractors, however, raise several drawbacks and risks. First, there is the risk of overreach and protectionism: critics worry that without proper checks, ISMs could be used for economic favouritism rather than security. Loosely defined screening laws are a weapon for government because they can be applied to a hypothetical infinite number of situations and transactions. The improper application of these mechanisms leads to directing the economy solely toward promoting partisan interests and to its consequent politicization.

In theory, EU rules bar such abuse, and advocates note most rejected deals have clear security rationales (Savic, 2024). In practice, however, transparency is limited. Case details are often confidential, making it hard for outsiders to judge whether a blocked or withdrawn project was a real threat or a red herring. A report by MERICS finds that details of screening cases are "rarely released to the public" – only a dozen were reported in 2023 – because governments fear appearing hostile to investment (Kratz et al., 2024). This opacity can fuel suspicion that some countries are using ISMs as de facto industrial policy.

Second, there is the economic cost beyond the number of blocked deals. Screening introduces delays, administrative costs, and legal uncertainty. Eichenauer *et al.* note that smaller acquisition deals are most affected, presumably because firms weigh the compliance burden as a larger fraction of deal size (Eichenauer & Wang, 2024). Such friction can discourage routine joint ventures or minority partnerships that might have fostered technology

transfer. On a macro scale, if countries broadly tighten screening simultaneously, this could contribute to mild deglobalization of capital – flows might re-route along "trusted" lines instead of truly global markets (Eichenauer & Wang, 2024).

Finally, the interplay between screening and global integration raises geopolitical concerns. Widespread ISMs reflect deeper fragmentation in the world economy. An array of commentators (e.g. Evenett 2021, Felbermayr 2023) warn that capital controls, export controls, and FDI screenings collectively erode the open investment regime built since the 1990s. The literature highlights a risk of tit-for-tat escalation: if Country A screens B's investments, B may respond in kind or worse. Already, some analysts argue that the EU's screening of Chinese bids and the U.S.'s scrutiny of Chinese investments have become entangled with broader trade tensions (Savic, 2024). There is no clear evidence yet of a spiral, but the potential for investment blocs or "spheres of influence" in strategic industries is a nagging concern.

In sum, the critique of ISMs centres on uncertainty, administrative burdens, and the danger of creeping protectionism. The key counterargument is that these can be managed: by limiting reviews to a well-defined list of sectors, requiring clear national-security justifications, and streamlining procedures. Many experts suggest that with such safeguards, the screening process can largely avoid "deterring" benign investment – an outcome partly borne out by the fact that most countries with ISMs still rank highly in FDI attractiveness (see section 2.1) Nonetheless, the current consensus is that ISMs do impose some cost on cross-border flows. Policymakers must therefore balance security gains against economic costs case by case.

To conclude, critics' concerns about protectionism and the extensive research on screening mechanisms rightly highlight the risks of reducing investment in certain sectors. However, such declines are often accompanied by a redirection of capital–for example, Chinese investors may shift toward greenfield projects that face lighter screening. Notably, the modest reduction in

FDI inflows observed in this analysis was fully anticipated by policymakers and can be viewed positively: investments once subject to scrutiny now avoid the screening process for several reasons, including the prospect of increased oversight, higher compliance costs, and fears of being presumed to have ulterior motives.

3.6 Proposals and Future Developments

In the concluding section of this study, it must be acknowledged that, despite the adoption of the *geoeconomic* framework–now widely recognized as the most robust in the literature– and a suite of well-established quantitative indicators, several critical limitations merit emphasis. The mixed methods approach, which combines quantitative analysis with a series of case studies examining the history of Investment Screening Mechanisms (ISM) and the underlying political rationales, has provided a solid methodological triangulation. However, the decision to present a general overview precluded a detailed sectoral analysis: while this allows for a cross-country comparison between advanced economies (both European and non-European) and emerging markets, it prevents identification of potentially divergent effects on high-tech industries, traditional sectors, or services.

The recent introduction and further strengthening of ISM also constrain the temporal scope of the investigation, making it impossible to observe medium to long term effects on FDI flows or post-implementation variations at sufficiently frequent intervals. Nevertheless, it remains valuable to assess the immediate “short-term” market reactions following enactment to capture “real-time” responses.

Another potential source of distortion concerns the coding of the "restrictiveness" variable. Although the literature now offers a continuous *Restrictiveness Index* (RRI)[42], this thesis employs a binary dummy (0 = absence of ISM; 1 = presence of ISM). This simplification enhances interpretability in the exploratory phase, but it sacrifices the granularity afforded by a graduated measure that accounts for differing participation thresholds, review procedures, and sectoral or territorial coverage within each jurisdiction.

To overcome these limitations, future research should first adopt a continuous restrictiveness index, periodically updating the RRI to reflect the evolving nature of screening regulations. It would also be advisable to extend the temporal window of analysis to include additional post-implementation years, thereby enabling evaluation of medium- and long-term effects net of initial adjustments. Finally, integrating a sectoral analysis at the firm level, using databases such as ORBIS[43] or fDi Markets[44], would allow precise identification of whether and in which sectors the imposition of ISM is genuinely constraining or, conversely, functions as a safeguard against foreign interference. Only through these methodological and temporal advancements will it be possible to provide an even more precise and nuanced assessment of foreign investment screening policies within the global geoeconomic context.

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[42] The RRI is a continuous composite indicator developed by the OECD to measure the regulatory barriers that countries impose on foreign direct investment.

[43] ORBIS is a global database of private and public company information maintained by Bureau van Dijk. It contains firm-level data on balance sheets, ownership structures, M&A activity, and financial performance of companies worldwide.

[44] fDi Markets is an online service from the Financial Times that tracks cross border greenfield investments in real time.

3.7 Conclusion

Recent research paints a nuanced picture of investment screening's impact on FDI. Quantitative studies using deal-level data tend to find that implementing a screening mechanism reduces foreign M&A deals by about 10–15% in affected sectors (Eichenauer & Wang, 2024), largely by deterring smaller and potentially sensitive investments. Yet the overall effect on total FDI inflows appears smaller, because large deals often go through, and many sectors remain open. Crucially, countries can design ISMs to focus on genuine security concerns, mitigating harm to global integration. Case evidence , for example, EU member states or liberal economies like Australia, shows that screening and openness need not be incompatible (Savic, 2024). At the same time, the literature warns that poorly calibrated or opaque screening could unnecessarily spook investors or invite retaliation.

In practice, the emerging consensus is that while ISMs do deter certain inflows, they do so mostly in narrowly defined contexts. Policymakers can uphold national security without dramatically eroding the overall investment regime, especially if they maintain clear rules and reasoned decisions. But a vigilant eye must be kept on the downside: any screening framework carries the risk of slowdowns, costs, and political misuse. As one study concludes, the benefits of preventing hostile takeovers should be carefully weighed against the economic costs of erecting new barriers (Eichenauer & Wang, 2024). In the end, ensuring that ISMs protect security without stifling prosperity will remain a key challenge for international economic policy in the years ahead.

4. Appendix

4.1 Appendix A: Table (9) and Charts (1-2-3-4-5)

```
library(WDI)
library(dplyr)
library(ggplot2)
library(patchwork)

years_start       <- 2000
years_end         <- 2025
indicator         <- c(FDI_net_inflow = "BX.KLT.DINV.CD.WD")
target_countries  <- c(
  "United States","Canada","Australia","Japan",
  "Germany","United Kingdom","France","Italy",
  "China","Russian Federation","India","South Africa"
)

raw_data <- WDI(country = "all", indicator = indicator,
                start = years_start, end = years_end, extra = TRUE)

fdi_data <- raw_data %>%
  filter(country %in% target_countries, !is.na(FDI_net_inflow))

metrics <- fdi_data %>%
  group_by(country) %>%
  summarize(
    Total_FDI  = sum(FDI_net_inflow, na.rm = TRUE),
    Median_FDI = median(FDI_net_inflow, na.rm = TRUE),
    .groups    = "drop"
  ) %>%
  mutate(Country = factor(country, levels = target_countries))

metrics_total  <- arrange(metrics, Total_FDI)
metrics_median <- arrange(metrics, Median_FDI)

plot_total <- ggplot(metrics_total, aes(Country, Total_FDI / 1e9)) +
  geom_col() +
  coord_flip() +
  labs(
    title    = "Cumulative FDI Net Inflow (2000-2025)",
    subtitle = "12 Selected Economies",
    y        = "Total FDI (USD Billions)"
  ) +
  theme_bw(base_size = 14) +
  theme(plot.title = element_text(face = "bold", size = 16))

plot_median <- ggplot(metrics_median, aes(Country, Median_FDI / 1e9)) +
  geom_col() +
  coord_flip() +
  labs(
    title    = "Median Annual FDI Net Inflow (2000-2025)",
    subtitle = "12 Selected Economies",
```

```
    y        = "Median FDI (USD Billions)"
  ) +
  theme_bw(base_size = 14) +
  theme(plot.title = element_text(face = "bold", size = 16))

combined_plot <- plot_total + plot_median +
  plot_layout(ncol = 2) +
  plot_annotation(
    title = "FDI Net Inflow Analysis for 12 Selected Economies (2000-
2025)",
    theme = theme(plot.title = element_text(face = "bold", size = 18, hjust
= 0.5))
  )

print(combined_plot)

all_data <- WDI(country = "all", indicator = indicator,
                start = years_start, end = years_end, extra = TRUE)

top50_FDI_total <- all_data %>%
  filter(!is.na(FDI_net_inflow), !is.na(region), region != "Aggregates")
%>%
  group_by(country) %>%
  summarize(Total_FDI = sum(FDI_net_inflow, na.rm = TRUE), .groups =
"drop") %>%
  arrange(desc(Total_FDI)) %>%
  slice_head(n = 50)

print(top50_FDI_total)
```

4.2 Appendix B – Code R for panel analysis

```
library(WDI)
library(dplyr)
library(tidyr)
library(zoo)
library(plm)
library(car)
library(lmtest)
library(sandwich)

countries                                                                <-
c("US","CA","AU","JP","DE","GB","FR","IT","CN","RU","IN","ZA")
start_year   <- 2000
end_year     <- 2023

groups <- list(
  emerging       = c("China","South Africa","Russian Federation","India"),
  developed      = c("United States","Canada","Australia","Japan"),
  continental_EU = c("Germany","Italy","France","United Kingdom")
)

indicators <- c(
```

```
  GDP        = "NY.GDP.MKTP.CD",
  GDP_grow   = "NY.GDP.MKTP.KD.ZG",
  TradeOp    = "NE.TRD.GNFS.ZS",
  Inflation  = "FP.CPI.TOTL.ZG",
  PolStab    = "PV.EST",
  FDI_inflow = "BX.KLT.DINV.CD.WD"
)

df_wb <- WDI(country = countries, indicator = indicators,
             start = start_year, end = end_year, extra = FALSE) %>%
  select(country,  year,  GDP,  GDP_grow,  TradeOp,  Inflation,  PolStab,
FDI_inflow) %>%
  arrange(country, year)

df_wb <- df_wb %>%
  group_by(country) %>%
  mutate(PolStab = na.approx(PolStab, x = year, na.rm = FALSE)) %>%
  ungroup() %>%
  mutate(
    Inflation = case_when(
      country == "Russian Federation" & year == 2022 ~ 13.7,
      country == "Russian Federation" & year == 2023 ~ 5.9,
      TRUE ~ Inflation
    )
  )

iSM_years <- c(
  "France"             = 2014, "Germany"            = 2020,
  "Italy"              = 2012, "United Kingdom"     = 2021,
  "United States"      = 2018, "Canada"             = 2009,
  "Australia"          = 2020, "Japan"              = 2020,
  "China"              = 2020, "India"              = 2020,
  "South Africa"       = 2018, "Russian Federation" = 2017
)

df_wb <- df_wb %>%
  mutate(
    ISM       = if_else(year >= iSM_years[country], 1L, 0L),
    GDP_bil   = GDP        / 1e9,
    FDI_bil   = FDI_inflow / 1e9,
    year_factor = factor(year)
  )

panel_wb <- pdata.frame(
  df_wb %>% select(country, year, year_factor,
                   GDP_bil, GDP_grow, TradeOp,
                   Inflation, PolStab, FDI_bil, ISM),
  index = c("country","year")
)

fe_model_time <- plm(
  FDI_bil ~ GDP_bil + GDP_grow + TradeOp + Inflation + PolStab + ISM,
  data   = panel_wb,
  model  = "within",
  effect = "twoways"
)
summary(fe_model_time)
```

```
results_groups <- lapply(names(groups), function(gr) {
  df_grp   <- filter(df_wb, country %in% groups[[gr]])
  panel_grp <- pdata.frame(
    df_grp %>% select(country, year, year_factor,
                      GDP_bil, GDP_grow, TradeOp,
                      Inflation, PolStab, FDI_bil, ISM),
    index = c("country","year")
  )
  plm(
    FDI_bil ~ GDP_bil + GDP_grow + TradeOp + Inflation + PolStab + ISM +
year_factor,
    data   = panel_grp,
    model  = "within",
    effect = "twoways"
  )
})

country_names      <- unique(df_wb$country)
results_countries <- lapply(country_names, function(ct) {
  df_ct   <- filter(df_wb, country == ct)
  lm(
    FDI_bil ~ GDP_bil + GDP_grow + TradeOp + Inflation + PolStab + ISM +
year,
    data = df_ct
  )

})
```

Standard errors and clustering

```
library(lmtest); library(sandwich)
coeftest(
  fe_model_time,
  vcov = function(x) vcovHC(x, type = "HC1", cluster = "group")
)
```

Variable	Estimate	Std. Error	t-value	p-value	Significance
GDP_bil	0.0106562	0.0020107	5.2997	2.571×10^{-7}	***
GDP_grow	1.5529795	1.8139350	0.8561	0.39275	
TradeOp	0.0018765	0.5943644	0.0032	0.99748	
Inflation	1.1540153	2.0153604	0.5726	0.56743	
PolStab	21.7924331	24.0906788	0.9046	0.36656	
ISM	–19.8043	6.9289790	–2.8582	0.004624	** ** **

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