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Same Rules, Different Outcomes: Member-State Politics and EU Regulation of Chinese Investment

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Abstract

Since the late 2010s the European Union has assembled an expanding toolkit for regulating foreign investment, including the FDI Screening Regulation, the Foreign Subsidies Regulation and countervailing duties on battery electric vehicles from China. This article examines how that toolkit affects Chinese enterprises, whose investment in Europe rose by 67 per cent in 2025 and whose profile—pervasive state links, concentration in strategic manufacturing sectors and complex holding structures—places them at the centre of EU scrutiny. Drawing on investment data, EU legal instruments and case evidence, the article advances three arguments. First, European protectionism differs from its American counterpart in relying on regulation rather than tariffs, a choice rooted in Europe's economic malaise and in the shift from complementarity to homogeneous competition with China. Second, because implementation rests largely with member states, domestic politics—including populist mobilisation and changes of government—shape how stringently common rules are applied; Hungary's 2026 change of government shows how quickly a perceived gateway for Chinese capital can tighten. Third, the effects on Chinese firms operate through four mechanisms: higher entry thresholds, rising compliance costs, a shift from acquisitions towards greenfield and joint-venture investment, and relocation across member states. Chinese investment is increasingly concentrated in precisely the sectors where scrutiny is strongest. The article concludes with implications for firms, Chinese policymakers and China–EU economic dialogue, including the case for reviving the Comprehensive Agreement on Investment.

Keywords

EU investment screening, Foreign Subsidies Regulation, economic security, populism, Chinese outward FDI, electric vehicles, area studies

1. Introduction

Chinese investment in Europe has rebounded strongly. After several years of decline, Chinese FDI in the EU and the United Kingdom rose by 67 per cent to €16.8 billion in 2025, its highest level since 2018 (Kratz et al., 2026). The composition of this investment has changed as much as its volume. Where the previous decade was dominated by acquisitions of European brands, infrastructure and financial assets, the current wave is led by electric-vehicle and battery manufacturers building factories, such as BYD in Hungary and Envision in France and Spain. Large state-owned groups remain active alongside these predominantly private firms.

This expansion has coincided with a decisive change in the European regulatory environment. The EU's framework for screening foreign direct investment, Regulation (EU) 2019/452, has applied since October 2020, and a revised screening regulation adopted in 2026, Regulation (EU) 2026/1386, will apply in full from 2028. The Foreign Subsidies Regulation (FSR), Regulation (EU) 2022/2560, has applied since 2023 and gives the European Commission power to examine acquisitions and public tenders involving companies that receive financial contributions from non-EU states. Its first in-depth investigation of a public procurement procedure led a Chinese state-owned rolling-stock manufacturer to withdraw from a Bulgarian train tender in March 2024. In October 2024 the Commission imposed definitive countervailing duties on battery electric vehicles from China at firm-specific rates of up to 35.3 per cent (European Commission, 2024).

These developments raise a puzzle that existing scholarship does not fully answer. The EU's instruments are formally common to all member states, yet their effects on Chinese investors vary considerably across countries, sectors and firms. A Chinese battery plant may be courted in one member state and stalled in another; an acquisition that would have passed unnoticed a decade ago may now trigger multiple notifications. Explaining this variation requires attention not only to legal rules but also to the political processes that produce and implement them, and to the characteristics of the investors that encounter them.

This article addresses three questions. Which EU regulatory instruments matter most for Chinese enterprises, and through what mechanisms do they operate? In which European sectors and countries are Chinese firms most affected, and why do the same rules have different effects in different member states? And how should firms and public authorities respond? It argues that European protectionism is distinctive in relying on regulation rather than tariffs; that member-state politics, including populist mobilisation and government turnover, condition how stringently these regulations are implemented; and that the ownership, sectoral and structural profile of Chinese investment places it close to the centre of EU scrutiny.

The article makes three contributions. Analytically, it links the literature on EU economic security with research on populism and member-state variation, tracing a chain from political drivers through regulatory implementation to firm-level effects. Empirically, it disaggregates Chinese investment by ownership, sector and entry mode, showing that exposure differs markedly between, for example, a

state-owned acquirer in a sensitive technology and a private battery maker building a greenfield plant. Practically, it identifies points at which firms and public authorities can reduce exposure.

The analysis is exploratory and qualitative. It draws on the Rhodium Group and MERICS dataset on Chinese FDI in Europe, EU legal texts, Eurostat trade data and public case evidence. Two limitations should be noted at the outset: available datasets do not provide a consistent breakdown of Chinese investment in Europe by ownership type, and the case evidence relies on public sources. The conclusions are therefore offered as structured propositions to be tested in subsequent firm-level research.

The remainder of the article proceeds as follows. Section 2 reviews the relevant literature and sets out the analytical framework. Section 3 explains why Europe turned to regulatory protection. Section 4 maps the regulatory toolkit and identifies the instruments most relevant to Chinese investors. Section 5 analyses the structure of Chinese firms' exposure. Section 6 explains member-state variation, with attention to populist politics. Section 7 sets out four mechanisms of impact, Section 8 discusses policy implications and Section 9 concludes.

2. Literature Review and Analytical Framework

2.1 Economic Security and EU Investment Regulation

A substantial body of work has traced the EU's turn towards economic security. Chinese scholars have examined the strategic logic of the EU's Economic Security Strategy and its "de-risking" agenda towards China (Ding, 2024; Sun, 2024; Xie & Wu, 2025), showing how the language of "open strategic autonomy" gradually gave way to a broader securitisation of trade and investment. Legal scholarship has analysed the design of the FDI Screening Regulation and the FSR in detail. This literature has clarified what the instruments are and why they were adopted, but it has paid less attention to how they affect particular investors and localities once implemented.

2.2 Member-state Variation and Populist Politics

A second strand emphasises divergence among member states. Meunier (2014) showed how differences in national rules allowed Chinese investors to navigate a "cacophony" of European regimes. More recently, Qiu and Zhao (2025) explained variation in the stringency of member-state screening through the lens of securitisation. Research on populism offers additional resources for explaining this variation. The ideational definition advanced by Mudde (2004), which treats populism as a thin-centred ideology opposing a "pure people" to a "corrupt elite", has become the dominant reference point. Lin (2017) examined how the rise of populist parties has structurally altered party competition in Europe and the United States, and Rodrik (2018) linked populist backlash to the distributive consequences of globalisation.

Recent work has begun to connect populism with China policy. Jakimow, Boni and Turcsányi (2025), comparing Italy and Czechia, and Wu (2025), comparing European populist radical-right governments, both find that populist parties do not adopt a uniform stance on China: some instrumentalise Chinese

economic ties to signal independence from Brussels, while others mobilise against Chinese investment as a threat to jobs and sovereignty. This finding is important for the present study because it implies that populism does not simply increase hostility to Chinese capital; it increases the politicisation, and hence the volatility, of investment conditions.

2.3 Political Risk and Chinese Outward Investment

A third strand concerns political risk. Kobrin (1979) laid the conceptual foundations, and Henisz (2000) showed how institutional constraints on policy change shape multinational investment. In China, the Institute of World Economics and Politics at the Chinese Academy of Social Sciences publishes annual country-risk ratings for Chinese overseas investment, and Huang et al. (2019) offer a systematic study of the risks facing Chinese enterprises abroad. Tracking studies by Rhodium Group and MERICS document the changing volume and composition of Chinese FDI in Europe (Kratz et al., 2026). Two limitations recur. Conventional country-risk ratings tend to treat advanced democracies as low-risk environments and are poorly equipped to capture policy shifts generated by electoral politics. And most studies treat Chinese investment as a single aggregate, overlooking differences in exposure across ownership types, sectors and entry modes. Sector-specific applied studies, such as a 2026 report on the EU battery industry (Fudan Institute of Belt and Road & Global Governance, 2026), are a welcome step but do not offer a cross-sectoral view of how the regulatory toolkit as a whole affects Chinese investors.

2.4 Analytical Framework

Building on these literatures, this article adopts a four-step framework. Political drivers—economic pressure from Chinese competition, the securitisation of economic relations, populist mobilisation and changes of government—shape the adoption of regulatory instruments at EU level. Because enforcement of key instruments rests with member states, the same drivers also filter implementation, producing variation across countries and localities. Implementation affects firms through four mechanisms: entry thresholds, compliance and operating costs, investment mode and location. Finally, firm characteristics—ownership, sector and corporate structure—moderate exposure. The framework is deliberately multi-level, combining the EU, member-state and local tiers that area studies is well placed to integrate.

Three propositions follow from this framework. First, the more an investor's ownership, financing or sector touches the EU's economic-security priorities, the higher its regulatory exposure, irrespective of destination. Second, for a given investor, exposure varies across member states with the salience of China in domestic politics, the governing coalition's stance on Chinese investment and the strength of local stakeholders. Third, as exposure rises, investors shift from acquisitions towards greenfield and joint-venture modes and from high-scrutiny towards lower-scrutiny locations, but these adjustments are themselves vulnerable to political change. The sections that follow assess the plausibility of these propositions for Chinese investors.

2.5 Research Design and Data

The study follows an exploratory, multi-level case design. At the macro level, it uses the Rhodium Group and MERICS dataset to describe the scale, geography, sectoral composition and entry mode of Chinese investment in Europe. At the institutional level, it analyses the legal texts of the principal EU instruments and identifies the points in the investment cycle at which each applies. At the political level, it compares five member states selected for variation in regulatory stringency and in their stance towards Chinese investment, drawing on party-political research and recent events. At the firm level, it uses public evidence on Chinese investors, naming private firms such as BYD, Geely, Envision, Midea and Fosun and referring to state-owned investors in general terms. Because available data do not consistently distinguish ownership types, the analysis of ownership relies on the identity of leading investors; this limitation is discussed in the conclusion.

3. From Complementarity to Competition: Why Europe Turned to Regulatory Protection

Europe's recent economic difficulties form the background to its regulatory turn. After Russia's full-scale invasion of Ukraine, energy costs rose sharply across the continent. Germany, Europe's manufacturing centre, saw real GDP fall by 0.3 per cent in 2023 and 0.2 per cent in 2024, its first two consecutive years of contraction since 2003, with manufacturing output declining by around 3 per cent in 2024 and the machinery and automotive industries particularly affected (Che, 2025). High energy costs, elevated interest rates and intensified international competition were all cited as causes.

During the same period, Chinese manufacturing continued its move up the value chain. In 2025 EU imports from China reached €559.4 billion, up 6.4 per cent on the previous year, while EU exports to China fell 6.5 per cent to €199.6 billion, leaving a deficit of €359.8 billion (Eurostat data, as reported in Cyprus Mail, 2026). The relationship between the two economies shifted from one of broad complementarity, in which Europe supplied capital goods and premium consumer products and China supplied lower-cost manufactures, towards homogeneous competition in sectors such as electric vehicles, batteries and machinery. Because these are precisely the sectors on which Germany's industrial model depends, Chinese competition was experienced not merely as a commercial challenge but as a threat to Europe's industrial base.

Chinese investment in Europe has followed the same sectoral logic. Chinese FDI in the EU and the United Kingdom rose by 67 per cent to €16.8 billion in 2025, its highest level since 2018. The automotive sector accounted for 45 per cent of the total, and 93 per cent of automotive investment went into the electric-vehicle supply chain; greenfield projects reached a record €8.9 billion, overtaking acquisitions (Kratz et al., 2026). In other words, Chinese capital is increasingly entering exactly those industries in which European producers feel most threatened, and doing so by building factories rather than buying firms. This combination—rising imports and rising investment in contested sectors—explains why trade and investment policy have become intertwined in European debates.

Europe's response has differed from that of the United States. Washington has relied primarily on tariffs. The EU has instead relied mainly on regulatory instruments: investment screening, subsidy control, trade-remedy investigations and product regulation. Several factors explain this choice. Trade policy is an exclusive EU competence exercised through legal procedures; the EU places high value on consistency with World Trade Organization rules; and regulation allows protection to be framed in terms of fair competition, security or sustainability rather than economic nationalism. The result is a form of protection that is less visible than tariffs but often more intrusive for investors, because it reaches into ownership, financing and corporate governance.

Geopolitics has reinforced this trend. Russia's war against Ukraine and US–China strategic rivalry encouraged the EU to view economic interdependence through the lens of security, and "de-risking" became the organising concept of its China policy. Germany adopted its first comprehensive China Strategy in 2023, and as the EU's largest economy and most exposed manufacturer its position has been central to the Union's debate, though not always in a uniform direction. The political climate had already hardened earlier: the Comprehensive Agreement on Investment (CAI), concluded in principle in December 2020, stalled when the European Parliament voted on 20 May 2021, by 599 votes to 30 with 58 abstentions, to freeze its ratification (European Parliament, 2021; Cai, 2021). Without a bilateral investment framework, Chinese investors have faced Europe's expanding unilateral toolkit without a negotiated counterweight.

Germany's position illustrates how domestic interests condition policy. Berlin tightened its investment-screening regime and embraced the language of de-risking, yet in the October 2024 vote among member states on the electric-vehicle duties Germany was one of five member states that voted against, while twelve abstained and ten voted in favour (Linsenbold & Wientzek, 2024). German carmakers, heavily dependent on the Chinese market and wary of retaliation, opposed the duties. The outcome—duties adopted over the objection of the EU's largest economy—demonstrates both the Commission's capacity to use trade remedies and the fragmentation of member-state preferences that the rest of this article seeks to explain.

4. The EU Regulatory Toolkit and the Instruments That Matter Most for Chinese Investors

Table 1 summarises the principal instruments. Taken together, they cover the entire investment cycle: entry through acquisition or tender, the financing of operations, the sale of products and the conduct of production.

Table 1. Principal EU Instruments Affecting Chinese Investment

Instrument	Legal basis and timing	Core mechanism	Point of impact for Chinese firms
FDI screening	Regulation (EU) 2019/452, applied from October 2020; revised by Regulation (EU) 2026/1386, applying in full from January 2028	National screening of investments in sensitive sectors, coordinated through an EU cooperation mechanism	Acquisitions and equity stakes
Foreign Subsidies Regulation	Regulation (EU) 2022/2560, applied from 2023	Notification and review of acquisitions and public tenders involving foreign financial contributions	Acquisitions; participation in public procurement
Countervailing duties on BEVs	Implementing Regulation (EU) 2024/2754, applied from 30 October 2024 for five years	Firm-specific duties of 17.0–35.3 per cent on battery electric vehicles from China	Export costs; incentives to localise production
Batteries Regulation	Regulation (EU) 2023/1542; due-diligence obligations postponed to August 2027	Carbon-footprint declarations, battery passport and supply-chain due diligence	Battery production and supply chains
Anti-Coercion Instrument	Regulation (EU) 2023/2675	Countermeasures against third-country economic coercion	Potential retaliation in geopolitical disputes
Carbon Border Adjustment Mechanism	Regulation (EU) 2023/956	Carbon cost on imports of carbon-intensive goods	Supply chains and production location

Sources: EU legal texts; European Commission (2024); Fudan Institute of Belt and Road & Global Governance (2026).

Four instruments stand out for Chinese enterprises. The first is the FSR, whose concept of "foreign financial contributions" is broad enough to capture state equity, state-bank lending and tax advantages. It is especially consequential for state-owned investors. The Bulgarian tender case showed that the Commission is willing to use the instrument against Chinese state-owned firms and that an in-depth investigation can be enough to end a bid before any formal decision is taken.

The FSR's notification thresholds illustrate its reach. Acquisitions must be notified where the target, one of the merging parties or the joint venture generates EU turnover of at least €500 million and the parties received foreign financial contributions of more than €50 million over the preceding three years.

Bids in public tenders must be notified where the contract is worth at least €250 million and the bidder received foreign financial contributions of at least €4 million per third country over three years (European Commission, n.d.). Because financial contributions include capital injections, loans, tax advantages and goods or services supplied by public bodies, large state-owned groups can cross these thresholds easily, and the Commission may also examine smaller cases on its own initiative.

The second is investment screening. Although screening decisions remain national, the cooperation mechanism exposes each case to scrutiny by other member states and the Commission, and the 2026 revision will further harmonise the regime. Acquisitions of the kind that defined the previous wave of Chinese investment—Midea's takeover of the German robot-maker KUKA in 2016 and Fosun's purchase of the Portuguese insurer Fidelidade in 2014—would today face considerably more procedural scrutiny, particularly where they touch on advanced manufacturing, finance, infrastructure or data. The KUKA takeover was itself one of the episodes that prompted Germany to tighten its screening rules.

The 2026 revision of the screening regime will deepen this trend. It requires every member state to maintain a screening mechanism and to pre-authorise foreign investments in a minimum set of sensitive sectors, including semiconductors and artificial-intelligence technologies, critical raw materials, critical infrastructure and financial services. It also brings within scope investments made through EU-based entities that are ultimately owned or controlled by non-EU investors. Greenfield investments fall outside the mandatory minimum scope, although member states may still screen them (Jones Day, 2026). Two implications follow for Chinese firms. Holding structures routed through EU subsidiaries will no longer insulate investments from screening, while the greenfield route will remain comparatively less constrained at EU level—reinforcing the shift in investment mode discussed in Section 7.

The third is the countervailing duty on electric vehicles. The rates are firm-specific—17.0 per cent for BYD, 18.8 per cent for Geely and 35.3 per cent for the most heavily affected sampled producer, a state-owned group—so the measure falls unevenly across Chinese producers. The duty is added to the standard EU tariff and alters the economics of exporting from China relative to producing in Europe.

The fourth is the Batteries Regulation. Its carbon-footprint, battery-passport and due-diligence requirements apply to all batteries placed on the EU market, but they bear particularly on producers with Chinese supply chains, including the Chinese firms that now account for a large share of new European battery capacity.

5. Chinese Enterprises' Exposure: A Structural Analysis

5.1 Geography

Chinese investment in Europe is geographically concentrated. In 2025 Hungary was the largest destination, attracting €3.9 billion, or 23 per cent of the total, although its share had fallen from 32 per cent in 2024. Germany (€2.5 billion) and France (€1.9 billion) followed, with Spain, Sweden and

Cyprus each attracting between €1.1 billion and €1.5 billion (Figure 1; Kratz et al., 2026). The pattern reflects two distinct logics. Central European locations, led by Hungary, have attracted large greenfield manufacturing projects in the electric-vehicle supply chain, encouraged by government incentives and proximity to European car plants. Western European locations continue to attract both manufacturing and acquisitions, but under stricter regulatory conditions.

Country statistics should be read with caution. A significant share of Chinese investment is routed through holding companies in jurisdictions such as Luxembourg, the Netherlands and Cyprus, so the recorded destination may differ from the location of operations. This matters for the analysis of regulatory exposure, because the regimes that ultimately apply are those of the member states in which firms produce and sell.

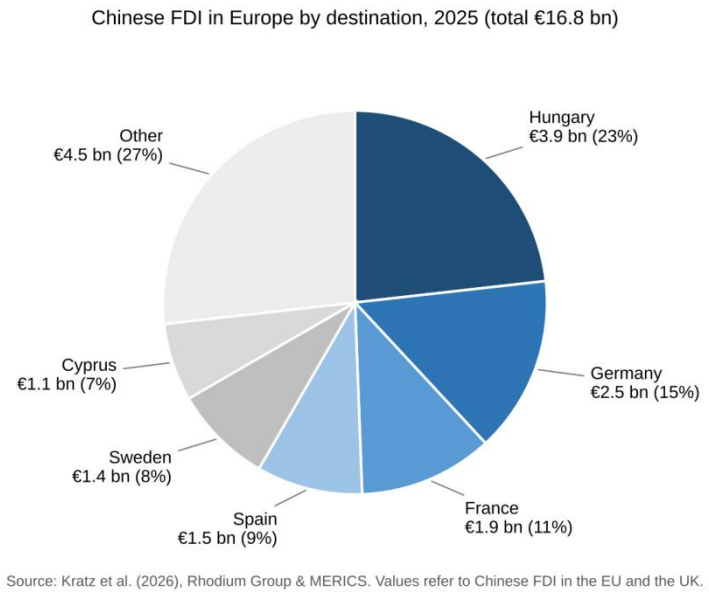
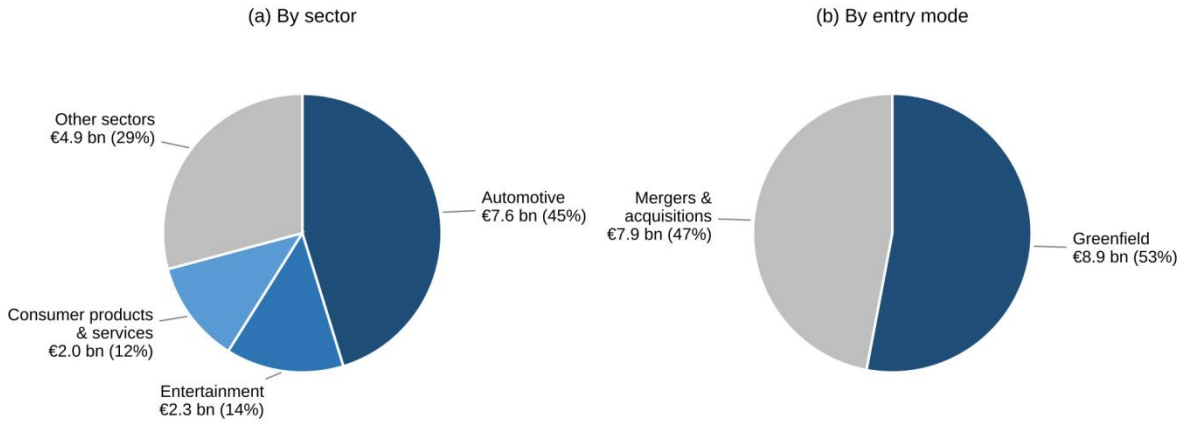


Figure 1. Chinese FDI in Europe by Destination, 2025

5.2 Sector and Entry Mode

The sectoral concentration is even more striking. The automotive sector accounted for €7.6 billion, or 45 per cent, of Chinese FDI in Europe in 2025, and 93 per cent of automotive investment went into the electric-vehicle supply chain, with battery investment exceeding investment in vehicle assembly. Entertainment and consumer products and services followed at a considerable distance (Figure 2a). Greenfield projects reached a record €8.9 billion, exceeding mergers and acquisitions at €7.9 billion (Figure 2b; Kratz et al., 2026). Chinese investment is thus increasingly entering Europe's most contested industries, and increasingly doing so by building rather than buying.



Source: Kratz et al. (2026), Rhodium Group & MERICS. Values refer to Chinese FDI in the EU and the UK. 93% of automotive FDI went into the EV supply chain.

Figure 2. Chinese FDI in Europe by Sector and Entry Mode, 2025

5.3 Alignment with EU Protective Priorities

Table 2 compares the structure of Chinese investment with the EU's protective priorities. The overlap is substantial in the sectors that dominate current investment flows—electric vehicles, batteries and, in the case of acquisitions, semiconductors and advanced manufacturing—and much weaker in consumer and services sectors. Geographically, the largest recipient of Chinese manufacturing investment, Hungary, has until recently been the member state most willing to accommodate it, while the countries with the strictest regimes have attracted a smaller share of new projects. This alignment between regulatory pressure and location choice is consistent with the third proposition set out in Section 2.

Table 2. Alignment between Chinese Investment in Europe and EU Protective Priorities

Dimension	EU protective and regulatory priority	Position of Chinese investment	Degree of overlap
Sector	Electric vehicles and batteries (countervailing duties, FSR, Batteries Regulation)	45 per cent of 2025 FDI in automotive, 93 per cent of which in the EV supply chain	High
Sector	Semiconductors and critical technologies (investment screening)	Smaller in value but politically salient	High
Sector	Consumer products, services and entertainment	Around a quarter of 2025 FDI	Low
Country	Germany, France, the	Germany and France together	High

Dimension	EU protective and regulatory priority	Position of Chinese investment	Degree of overlap
	Netherlands (strict screening, strong protective demands)	received about a quarter of 2025 FDI	
Country	Hungary, Spain (active promotion of Chinese manufacturing)	Hungary was the largest destination in 2025; Spain received €1.5 billion	Medium, rising in Hungary

5.4 Ownership and other Investor Characteristics

Three investor characteristics shape exposure. The first is ownership. Chinese investors in Europe include large state-owned groups as well as private firms such as BYD, Geely and Envision. State ownership and state-linked financing are central to the assessment of foreign subsidies and attract closer attention in screening procedures. Yet the FSR's concept of financial contributions also covers subsidies, tax advantages and loans received by private firms, so the distinction between state-owned and private investors is less protective than it once was. The second is sector: China's industrial policy has prioritised precisely the technologies that the EU now regards as strategically sensitive. The third is corporate structure: holding arrangements through offshore and EU-based vehicles are increasingly subject to look-through scrutiny of ultimate ownership and financing.

These vulnerabilities coexist with real strengths. Chinese firms lead global battery production and have scale and cost advantages in electric vehicles that European producers and governments need for the green transition. Many have accumulated more than a decade of experience operating in Europe, and some have built partnerships with European carmakers that give them local allies. The net effect is that Chinese investors are highly exposed to EU regulation but also possess bargaining assets that can be mobilised in negotiations with national and local governments.

6. Why the Same Rules Bite Differently: Member-State Politics

6.1 Populism and the Politicisation of Chinese Investment

Because key instruments are implemented nationally, the political environment in each member state shapes how they bite. Populist parties have played an important role in politicising Chinese investment, framing it within narratives of economic nationalism, job protection and sovereignty. Yet, consistent with Wu (2025) and Jakimow et al. (2025), their positions diverge. For much of the past decade Hungary's Fidesz government, itself a leading example of right-wing populism in power, presented Chinese investment as evidence of its independence from Brussels. Elsewhere, populist parties have mobilised against Chinese acquisitions and against what they portray as unfair competition. The

common denominator is not a consistent policy direction but heightened politicisation, which makes investment conditions more sensitive to electoral cycles and changes of government.

6.2 Five Member States Compared

Table 3 compares five member states selected to capture this variation: three with strict regimes and strong protective demands (Germany, France and the Netherlands) and two that have actively promoted Chinese manufacturing (Hungary and Spain).

Table 3. Regulatory Environment and Expected Impact on Chinese Firms in Five Member States

Country	Chinese investment presence	Regulatory and political environment	Expected impact
Germany	Second-largest destination in 2025 (€2.5 billion); direct competition in automotive and machinery	Strict screening; automotive sector under pressure from Chinese EVs; first China Strategy adopted in 2023; voted against the EV duties	High for acquisitions; politically sensitive for manufacturing
Netherlands	Semiconductors; logistics and holding hub	Close scrutiny of semiconductor investment; 2025 government intervention in a Chinese-owned chipmaker, later suspended	High
France	€1.9 billion in 2025; battery investment in northern France, e.g. Envision	Supported the EV countervailing investigation but welcomes battery manufacturing	Sector-dependent: high for vehicles, lower for batteries
Hungary	Largest destination in 2025 (€3.9 billion): battery plant in Debrecen, BYD in Szeged	Orbán government courted Chinese EV and battery investment; the Tisza government elected in April 2026 remains open but is re-examining agreements and tightening compliance	Rising
Spain	€1.5 billion in 2025; battery and automotive projects, e.g. Envision and a Stellantis joint	Government has publicly welcomed Chinese manufacturing investment	Relatively low

Country	Chinese investment presence	Regulatory and political environment	Expected impact
	venture with a Chinese battery maker		

Note: The United Kingdom lies outside the EU regime and applies its own National Security and Investment Act 2021.

Germany combines the strongest economic motive for protection with the most complex set of interests. Its automotive and machinery industries face direct competition from Chinese producers, and its screening regime has been progressively tightened; yet German firms depend heavily on the Chinese market, which explains Berlin's opposition to the electric-vehicle duties. For Chinese firms, Germany therefore combines high regulatory exposure for acquisitions in technology and infrastructure with political sensitivity around any investment that might be seen as displacing German industrial capacity.

The Netherlands has become a front line in the governance of technology investment. In 2025 the Dutch government used emergency powers under its goods-availability legislation to intervene in the governance of a Chinese-owned chipmaker, before suspending the order after the dispute disrupted European automotive supply chains. The episode shows that in technology-intensive sectors the boundary between regulatory and geopolitical risk has largely disappeared.

France has been among the strongest advocates of trade remedies against Chinese electric vehicles, yet it has also welcomed battery investment in its northern industrial regions, including Envision's plant in Douai. The French case suggests that exposure depends on whether an investment is perceived to substitute for, or to complement, national industrial ambitions. Spain, by contrast, has publicly welcomed Chinese manufacturing investment as a contribution to reindustrialisation, and has attracted battery and automotive projects, including Envision's plant and a joint venture between Stellantis and a Chinese battery maker. Spain therefore offers a comparatively receptive environment, though one that remains subject to EU-level instruments and to the evolution of domestic coalitions.

The Hungarian case is especially instructive. Under Viktor Orbán, Hungary became the largest European destination for Chinese electric-vehicle and battery investment, including a major battery plant in Debrecen and BYD's car plant in Szeged. After the Tisza party led by Péter Magyar won a two-thirds parliamentary majority in April 2026, the new prime minister stated that cooperation with China remained in both countries' interest but that foreign companies must comply with local rules (Lu, 2026). By September 2026 the government had announced a re-examination of investment agreements concluded under its predecessor, greater transparency in state-funding agreements and a new authority to inspect environmental compliance at battery plants, while environmental enforcement actions had been taken against battery plants near Debrecen (Elektroauto-News, 2026). Hungary has not withdrawn

from economic cooperation with China, but the conditions attached to Chinese investment have changed within months of a change of government.

Three lessons follow. First, political risk in Europe is dynamic rather than static: a member state's stance can shift rapidly with a change of government. Second, the relevant risk is not only at the national level; local permits, environmental inspections and labour enforcement can determine project outcomes. Third, a favourable relationship with a national government does not guarantee security at EU level or acceptance by local communities. Assessments that treat member states as fixed categories of "friendly" or "hostile" are therefore likely to mislead investors.

7. Mechanisms of Impact on Chinese Enterprises

EU regulation affects Chinese firms through four mechanisms.

Higher entry thresholds. Screening and FSR notification requirements lengthen transaction timetables and introduce outcome uncertainty. For state-owned investors in particular, the prospect of an in-depth review can deter bids altogether, as the Bulgarian tender case demonstrated. For Chinese state-owned groups, which typically receive state equity and policy-bank lending, the FSR thresholds for foreign financial contributions are readily met, so any sizeable European acquisition should be expected to require notification.

Rising compliance and operating costs. FSR filings require detailed disclosure of financial contributions from non-EU states. The Batteries Regulation imposes carbon-footprint, traceability and due-diligence obligations. Countervailing duties add directly to the cost of exports: for the most heavily affected producer, the 35.3 per cent duty is levied on top of the standard EU tariff on cars. These costs fall disproportionately on smaller firms, for which the fixed costs of legal advice and documentation are high relative to deal size.

A shift in investment mode. As acquisitions face more scrutiny and exports face higher duties, Chinese investors have turned towards greenfield projects and joint ventures. In 2025 greenfield investment by Chinese firms in Europe reached a record €8.9 billion, exceeding mergers and acquisitions at €7.9 billion (Kratz et al., 2026). For Chinese firms whose European presence was built largely through acquisitions, this implies a strategic adjustment towards building production locally and partnering with European companies. The shift has advantages: greenfield projects create visible local employment and fall outside the mandatory minimum scope of the revised screening regime. But it also exposes firms to local permitting, environmental and labour regimes, which, as the Hungarian case illustrates, can become the main arena of political risk.

Relocation across member states. Variation in national implementation encourages firms to seek more receptive locations. Yet the Hungarian case shows that such locations may themselves change. Location choices therefore need to account not only for current policy but also for the stability of the political coalition behind it, the strength of local stakeholders and the likely evolution of EU-level rules.

8. Policy Implications

For firms, the analysis points to four priorities. The first is compliance front-loading: mapping ownership structures, financing sources and any state-linked support before entering a transaction, so that screening and FSR filings can be prepared in advance. The second is local embedding through joint ventures, local hiring and local supply chains, which strengthens a project's political and social legitimacy. The third is diversification across member states to avoid excessive dependence on a single political relationship. The fourth is systematic engagement with stakeholders—regional governments, trade unions, communities and the media—supported by continuous monitoring of political developments, including elections and coalition changes.

For Chinese public authorities, the analysis suggests building monitoring and early-warning capacity organised by country and sector. At the national level, existing country guides for outward investment could be supplemented with regularly updated assessments of member-state political risk. At the local level, provincial and municipal governments—Shanghai's enterprise going-global service platform is one example—can provide shared compliance services for smaller firms, which lack in-house capacity and would benefit most from guidance. Industry bodies such as the China Chamber of Commerce to the EU could coordinate participation in EU public consultations, allowing Chinese firms to express concerns while rules are still being drafted.

Area studies has a distinctive contribution to make here. Legal advisers can explain the content of EU rules, and commercial consultants can assess markets, but neither is typically equipped to analyse party systems, coalition dynamics, local stakeholder networks or the domestic politics of trade policy in individual member states. Research centres with language expertise and country knowledge can supply precisely this kind of analysis. Regular exchanges between universities, think tanks and enterprises—through briefings, joint workshops and shared databases of cases—would help close the gap between academic knowledge and corporate decision-making.

At the level of China–EU relations, the evidence suggests that regulatory protection is unlikely to achieve Europe's underlying objectives. Despite the expanding toolkit, EU imports from China continued to rise in 2025 and Chinese investment in Europe rose by 67 per cent, increasingly in the form of greenfield projects that create European jobs. Measures that deter such investment risk raising costs for European consumers, slowing the green transition and depriving struggling regions of employment, while doing little to restore European competitiveness. There is therefore a case for reviving negotiations on the Comprehensive Agreement on Investment, for revising provisions of EU instruments that are disproportionate or insufficiently predictable, and for establishing structured dialogue on the implementation of the FSR and investment screening. A rules-based framework that offers European partners reciprocity and Chinese investors predictability would serve both sides better than an escalating sequence of unilateral measures.

Firm-level adaptation and policy advocacy are complements rather than substitutes. Compliance and local embedding can reduce exposure, but they cannot by themselves remove the uncertainty created by

politicised implementation. Conversely, intergovernmental agreements cannot protect firms that neglect local stakeholders or disclosure obligations. The most effective strategy combines rigorous compliance and genuine local contribution at the firm level with sustained efforts, at the national and local levels, to make EU rules more predictable and their application more consistent.

9. Conclusion

This article has argued that European protectionism takes the form of regulation, that its effects depend on member-state politics, and that Chinese investors are highly exposed because of their ownership, sectoral and structural profile. The EU's turn to regulatory protection is rooted in economic malaise and homogeneous competition with China, reinforced by geopolitics. Its implementation is filtered through national politics, in which populist mobilisation and government turnover can change investment conditions rapidly, as Hungary's experience in 2026 illustrates. Its effects on Chinese firms operate through entry thresholds, compliance costs, investment mode and location.

The findings have broader implications. For research on populism, they suggest that the external economic consequences of populist politics deserve more attention than they have received; populism matters for foreign investors less because it produces a consistent policy line than because it makes policy more volatile. For research on political risk, they show that advanced democracies are not low-risk environments by default, and that risk assessment must be dynamic, multi-level and attentive to electoral cycles. For research on Chinese outward investment, they indicate the value of disaggregating Chinese investors by ownership, sector and entry mode rather than treating "Chinese investment" as a single category.

The study has limitations. Available data do not consistently distinguish Chinese investment in Europe by ownership type, and the analysis relies on public case evidence. Future research should collect firm-level data through surveys and interviews with Chinese enterprises investing in Europe and develop a quantitative index of member-state regulatory risk that incorporates measures of populist strength and party positions on China. Such work would test the propositions advanced here and contribute to an applied area studies capable of serving both scholarship and policy.

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