"Are There Any Potential Security Challenges In Relation To Chinese Foreign Direct Investment In Malta?"

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Dedication-

To my Family and Friends for their unwavering support.

To all those talented people who remain undiscovered due to social, financial, or other limitations.

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Abstract:

Malta and China are characterized by significant differences, particularly in relation to their style of government, manpower, resources, their asymmetry in size and economic might, yet their bi-lateral and economic relations are often presented as mutually positive and beneficial. Whilst previous studies around foreign direct investment in Malta have been primarily carried out through a financial perspective, recent developments in the International political economy have raised the need to look at foreign direct investment from other points of view, which take into account security, within the broader International context, in which power, relations and interests are anarchically interwoven.

As a result, this research is primarily concerned with addressing the question whether "Are There Any Potential Security Challenges In Relation To Chinese Foreign Direct Investment In Malta? ". In this study, the author utilized a number of theories, frameworks, and the European Union's foreign direct investment screening mechanism as tools to analyse the gathered data on Chinese foreign direct investment in Malta, in order to find out whether there are the conditions in place for a potential security challenge to be identified; and if so, what would it look like ? The data gathered was systematically processed and presented; Firstly, the researcher explored EU – Malta – China relations, presenting a well rounded picture of the diplomatic and economic activity occurring within this dynamic. The researcher utilized regulation

2019/452's criteria, as a tool to identify which Chinese investments in Malta would be flagged by the EU's FDI screening mechanism. The qualified investments were thoroughly analysed; the infrastructure involved, the sector, ownership structure, as well as other relevant data, were all included in the analysis, on an ad hoc basis. Finally, the research reveals a number of noteworthy observations, both on Chinese FDI in Malta, as well as other less discussed security concerns.

Graphs & Tables-

List of Abbreviations-

AEI: American Enterprise Institute

AIIB: Asian Investment Infrastructure Bank

BRI: Belt and Road Initiative

CCP: Chinese Communist Party

EU: European Union

FDI: Foreign Direct Investment

IT: Information Technology

MERICS: Mercator Institute for China Studies

MIC 2025: Made In China 2025

MoU: Memorandum of Understanding

NSO: National Statistics Office

OECD: Organization for Economic Co-operation Development

PRC: People's Republic of China

UN: United Nations

US: United States

WTO: World Trade Organization

Chapter 1: Introduction

1.1) The motivation behind this dissertation

In the past decade Foreign Direct Investment (FDI) pouring into Europe has been an important contributor to European economic growth. European countries, in particular the "Big 3", France, the United Kingdom and Germany, witnessed an unprecedented surge in foreign direct investment from Chinese companies. Over the span of a few years, billions of Euros have been pouring from China into various European Union member states, in the form of FDI (Hanemann & Huotari, 2017). This phenomenon has become the subject of various research and debates from all European member states, with most of the research being focused on several "key" member states, like the "Big 3", and states which form part of the 17+1 initiative. Xi Jinping, the current Chinese president, presented this Chinese outbound FDI as part of China's foreign policy, the Belt and Road Initiative (BRI), which has been unveiled back in 2013 (Bougon, 2018).

Chinese Foreign Direct Investment has undoubtedly stimulated European economies, however, in the past few years concerns started being raised by security scholars, policy makers and think tanks. These concerned observers have highlighted how Chinese FDI has the tendency to bring out a strategic pattern, where investments are being allocated in 'critical and sensitive areas', like energy, ports, telecommunications, Hi-tech and transportation amongst others (Huotari et al., 2020; Pacheco Pardo, 2018; Ramsey, 2019a). These observations raised a few eyebrows in Brussels, especially since scholars suggested that Chinese FDI comes with long term Geo-Strategic implications, which could raise serious security challenges, both at an International, regional, as well as at a national level (Le Corre, 2016; Meunier, 2019). As a result, the EU introduced a broad strategy, a part of which, is a regulatory instrument that acts as a screening framework for inbound Foreign Direct Investment, coming from companies whose owner, titleholder or ultimate beneficiaries are originating from outside of the European Union (Regulation (EU) 2019/452, 2019; European Commission, 2019b). The European Union's approach towards China, took a serious turn with the establishment of the latest commission, which has presented itself as a "Geopolitical commission", signaling a new era in the EU's approach towards international relations (Rahman, 2020).

The student researcher in this study, who has been engaged in Chinese affairs for the past 8 years, contemplated the fact that while Malta has excellent relations with China (Jiang, 2017), Malta - China economic activity is quite often overlooked by security researchers, both locally and abroad.

A multifaceted research around the China – EU – Malta dynamic has seldom been explored in Maltese academic circles, maybe since there seems to be very limited publicly available data on their contemporary economic relationship. The little available data, like that found on the National Statistics Office's website, mostly presents generalized, accumulative monetary figures making it difficult to know specifically how much of this Foreign Direct Investment is originating from China, and which sectors are on the receiving end.

Previous studies carried out by MERICS, illustrated that Malta has received €800 Million in Chinese FDI since 2010. That was about as far as most research went when it came to Chinese FDI and Malta. While it is understandable that the billions poured into the "Big 3" European states eclipses the figures illustrated by this small island member state, Malta has still received a sizeable injection worth exploring, especially when one takes into account the injection of €800 Million in Malta's economy, which during that same period the state's GDP was only around €13.3 Billion (Ciurtin, 2019; Kratz et al., 2020; World Bank, 2018).

In light of the emerging security challenges in contemporary International relations (World Economic Forum, 2016), Chinese FDI in Malta is a phenomenon which requires further exploration. The researcher's motivations are grounded in this need for filling this hole on Chinese foreign direct investment in all of the European member states. This dissertation will attempt to fill this gap, however instead of narrowly focusing on exploring the short-term economic impact, this study will attempt to look at this phenomenon from a broader scope, which takes into account other domains, like the international political economy, political interests and security.

1.2) Research question and study perspective

This dissertation is aiming to answer the question whether *" Are There Any Potential Security Challenges In Relation To Chinese Foreign Direct Investment in Malta? "*, through the utilization of 3 analytical lenses:

- International Relations theory and its current context
- The Copenhagen school's Security framework
- Geo-Economic theory

This study will explore policies, agreements, diplomatic and economic relations between Malta – EU – China, in an attempt to have a comprehensive insight of this dynamic, in addition to making use of the European Union's Regulation 2019/452, a framework specifically designed at flagging foreign direct investment that has the ability to raise potential security concerns. This will provide the study with a well-rounded understanding of the context we are engaged in analyzing.

Based on various revelations, (see Literature Review), as well as the contemporary EU stance towards China (MERICS, 2020), the author assumes that some Chinese FDI has the ability to pose a potential security risk to the EU or its member-states' interests. Hence, the author will approach Chinese FDI from a critical perspective, utilizing the theories mentioned above, in an attempt to find out whether there is any Chinese FDI in Malta which can pose any potential security challenges, and if there is, what would a potential security challenge look like?.

The author understands that if one is to carry out research towards Chinese FDI in Malta, centring itself around economic interest, the study would require an entirely different research method and theoretical approach, which could possibly lead to different conclusions.

(For a full description of the approach, please check the Methodology section)

Chapter 2: Literature Review

In order to establish a solid ground on which an analysis could be constructed, the research draws insights from International Relations theories in relation to Security, the International Political Economy, recent developments between Malta, EU and China, as well as various observations on Chinese Foreign Direct Investment in the EU.

When it came to literature around defining security, the Copenhagen School provided the ideal tools needed in this study (Buzan, 1983, 1991; Hansen & Nissenbaum, 2009; Stone, 2009). Geo-Economics and Power Politics in the 21st Century, equip the reader with a comprehensive understanding of the forms, shapes and approaches geo-economic strategies could take (Blackwill & Harris, 2016; Wigell et al., 2018). Geo-economics, cannot be easily comprehended without an understanding of which tools it employs and the context it thrives in. Literature from authors like (Barbieri, 1996; Barbieri & Schneider, 1999; Mearsheimer, 2001; Morgenthau, 1948, 1961; Ruggie, 1982; Waltz, 1954, 2000) provided a well-rounded theoretical and practical context, as a basis leading to geo-economic theory.

Ramon Pacheco Pardo's research revealed how the global financial crisis pushed Europe's financial security into the hands of Chinese economic statecraft, through the BRI, and how this led to increasing divisions amongst EU member states (Pacheco Pardo, 2018). Wiebke & Olivia highlighted various motivations behind Chinese geo-economic activity, raising the various debates amongst different stakeholders, by presenting the reader with a variety of case studies from EU member states (Rabe &

Gippner, 2017). The research carried out by Rhodium Group, MERICS, and other Security or China related think thanks, are indispensable for any study being carried in relation to this phenomenon, providing the public with both quantitative and qualitative approaches to Chinese FDI in most European member states, revealing figures, key industries and the prospects for greater scrutiny with regards to Chinese commercial activities in the region (Bickenbach & Liu, 2018; Fiott & Parkes, 2019; Hanemann et al., 2019; Huotari & Kratz, 2019).

Various works were consulted when it came to looking into the security implications brought by Chinese FDI, both at an EU level, as well as at an individual member state. They've looked into China's security motivations and intersected them with security dynamics in other regions, bringing out both compatibility as well as concerns when it's dis-aligned with EU's interests (Corre, 2018; Ghiasy & Zhou, 2017; Ramsey, 2019b; Zhang et al., 2018). This has raised the need for me to look further into the relationship between the state and Chinese outbound foreign direct investment. The consulted research illustrates those threads extensively by giving us an insight into the framework of Chinese Multi-National Companies and how they have the capacity to be used in order to further the interests of the Chinese state (Hooijmaaijers, 2019; Song, 2017).

University of Malta has also provided me with a lot of relevant research in relation to Malta. Baldacchino's publication on Small Island States's economy has revealed a lot about Malta's economic model, potential vulnerabilities, as well as strengths. While other recent research explored China – Malta diplomatic relations, trade, as well as soft power (Baldacchino, 2015; N. Cilia, 2018; Farrugia, 2014; Gafa, 2018; Zammit, 2019; Zerafa, 2016).

Finally, I took into account the European Commission's latest insights with regards to their dynamic relationship with China. Most noticeably among these releases is the European Commission's joint communication report, titled 'EU-China: A strategic outlook', which clearly defines the strategy and tools that will be pursued, highlighting the reality that the EU is attempting to implement a long-term counter-strategy aimed at securing it's interests and long term stability (Regulation (EU) 2019/452, 2019; European Commission, 2019b; European Commission & European Political Strategy Centre, 2016).

The above-mentioned literature in addition to various press releases and news articles in relation to Chinese Foreign Direct Investment in Malta, have provided the researcher with a wide and comprehensive range of insights. This literature has enabled the researcher to understand better the multi-faceted realities interwoven in this phenomenon, in preparation for this research.

Chapter 3: Methodology

The main target of this study question is to identify if there are any potential security challenges in relation to Chinese Foreign Direct Investment (FDI) in Malta. This question led to the need to address two objectives:

- Finding whether there is any Chinese Foreign Direct Investment (FDI), which is already present in Malta, and would match the criteria set by the EU's FDI screening mechanism.
- If there is any, from a security perspective, what would a potential challenge look like?

This research will make use of the theories, frameworks and definitions introduced in Chapter 4, in attempt to answer the main question. However, the researcher will have to firstly establish a comprehensive understanding of Sino-Maltese & EU-China affairs in order to be able to understand how FDI fits within a bigger picture. For this reason the study will also briefly touch upon other relevant economic domains, like trade and "cash-for-residency" programs. This will provide the researcher with a well-rounded understanding of the political and economic context in which FDI activity is occurring in. The objectives mentioned above, will be approached in this manner:

- First the study will provide an overview of the relationship and dynamics between the EU – Malta – China.

- Highlight observations on EU – Malta – China affairs, which are deemed as relevant to the research (Ex. Investment policy, Foreign Policy Highlights, Economic Relations, Etc).

- Identify 'critical domains' in Malta which were subjected to Chinese FDI. This will be done by utilizing an approach based on the criteria proposed in Regulation 2019/452 and contrast it with present Chinese Investment on the Island. The Chinese FDI in Malta which will be considered in this study, is from 2004 onwards (Since Malta accession to the EU).
- Analyse the qualified investments, through the utilization of a geo-economic perspective, with the aim of identifying what a potential security challenge would look like.

In this study a mixed technique will be used, that is, the main will be qualitative technique and when possible supported by quantitative data, which are available in the public domain. Data obtained by means of the above-mentioned techniques will be analysed and an examined for potential security red flags. The sectors involved, the ownership, structure, in addition to the type of investment will be taken in consideration, during the research. An assessment of this will be made in the findings section.

Data will be collected via primary sources like the (Government press releases, National Statistics Office, Relevant Authorities, etc), as well as secondary sources (News articles, Journals, Dissertations and Think Tanks). This dissertation relies on the exceptional work being done by Security and China-engaged think tanks, who are actively seeking to make data and information with regards to this matter, increasingly transparent.

Expected Limitations:

Due to the nature and sensitivity surrounding the subject matter, there will be limitations as to the degree of access to data. Data collection on Chinese FDI in Malta, will be collected from various sources. This is due to the fact that there are no official data sets which clearly indicate which specific Maltese sectors are on the receiving end of Chinese FDI. For this reason, this study relies on a mixture of primary and secondary sources when it comes to identifying Chinese FDI in Malta, acknowledging that there are barriers, which will limit the researchers capacity to access other relevant data, which isn't available in the public domain. At the end of the study, an assessment of these limitations will be made.

Chapter 4: Theories, Frameworks & Key Concepts

In this chapter, one can find the definitions of theories, framings and key concepts which will be employed throughout this study. This study is primarily concerned with finding whether there are any potential security challenges in relation to Chinese Foreign Direct Investment (FDI) in Malta. This requires that we firstly define our understanding of security, and which tools we'll be employing. A description of the International Political economy will be illustrated, explaining how it is conceptualized in this study. The following sub-chapter will be an introduction to geo-economic theory, an important theoretical lens, if one intends to assess potential security challenges posed through an economic tool, like FDI and trade. Finally, this chapter will lay out an internationally recognized definition of FDI. A combination of these theories, framings and definitions will equip the researcher with a holistic customized lens, specifically tailored for this research.

4.1) Defining Security - As employed in this study

The concept of Security has always been contested, highly depended on political interpretations. From a historical perspective, the traditional approach to security has always been revolving around the strict survival of the state, heavily reliant on military might. This was the general perception till the decline of the Soviet Union. Amongst security scholars, the fall of the Soviet Union raised doubts about the traditional military approach to security, pushing scholars to re-think their militaristic stance when it came to re-conceptualizing security.

One early attempt was by Barry Buzan, who came with a distinction between the security of states and the security of societies, questioning the state as a referent object, emphasising the freedom from threat. Buzan argued that security is not only about state survival, but includes concerns around the conditions of one's existence, recognising the need for a more flexible, fluid approach to security (Buzan, 1983).

These concepts led to the rise of a new analytical framework, which is more feasible at addressing the contemporary multi-dimensional nature of security. The Copenhagen school provided us with a security toolbox focused on 5 domains, which according to Buzan are all woven together in a strong web of inter-linkages.

1) Political Security – Concerns itself with the system of governance and the state's political wellbeing. Such a threat could be more difficult to identify than a tangible military threat, however recognized forms of such a threat could be a competing ideology or a political subversion.

2) Military Security – Primarily concerns itself with the use of force as a threat to the state, and it's residents. Military security is a basic manifestation of state power, which may have an adverse effect on all layers of state and society.

3) Economic Security – The concern with economics can be various however primarily, economics are seen as a key indicator of the security of the state. It's been well documented that even military security is dependent on economic

security. In a nutshell, concerns surrounding market access, resources, welfare and state power are all part of Economic security. As acknowledged by Buzan himself, the difficulty of defining "economic security" arises due to the variety of forms that the nature of economics could employ.

4) Societal Security – Is about the threats and vulnerabilities that affects the societal reproduction of it's traditional patterns of culture, like language, religion and national identity.
5) Environmental Security – concerns itself with the upkeep of our natural biosphere. This is seen as an essential necessity, which human life depends on.

(Buzan, 1991)

This study will approach security, through utilizing the tools provided by the Copenhagen school, keeping in mind that the possibility of other emerging domains like that of Cyber/Digital security, could cut across all of these domains and is inter-disciplinary in nature (Hansen & Nissenbaum, 2009). Perceiving security as an interwoven, fluid concept, which concerns itself with threats of political, military, economic, societal and environmental nature.

4.2) A Realist perspective on the International Political Economy

In his articulative writings, Morgenthau explains how he sees nations as governed by relative laws, which have their roots in human nature. From Morgenthau's perspective, Human Nature is defined in Hobbesian terms, primarily driven by self-interest and power (Morgenthau, 1961).

States are governed by men, and like men, they are in a constant struggle for survival, however what differentiates them from men, is the lack of enforcement from a higher central authority. While international law does exist, no Internationally recognized authority has been appointed as the main securitizing actor. For Realists, this anarchy in the international system is perceived as inevitably leading to conflict amongst states (Waltz, 1954).

A Realist perception relies on a few basic rational assumptions, which distinguishes it from other schools of thought. Realists are very state centric, and tend to emphasise the importance of national interest, survival and power, grounding their argument in a Hobbesian approach to human nature. Despite of all the broad strains emerging out of realist circles, there is a common understanding that International Relations take place in an anarchical and competitive context. Realists argue that this anarchic system, dominated by sovereign states, has created an environment for competing interests, which while it encourages states to co-operate, they only do so on the basis of self-interest. For Realist, this anarchic system has enabled powerful sovereign actors to leverage the international system with the intent of extending their state's influence, potentially at the detriment of others. For this reason, Realists believe that a state's main interest is to maintain it's autonomy and seek it's own interests. As a result, state security is perceived as a 'public good', and since public security falls under the jurisdiction of the state, then the state shall be the Securitizing actor of it's own interests. Realists do not assume that conflict is always imminent, but rather that peace doesn't last forever, as a result the possibility for conflict is always there. (Dunne & Schmidt, 2014; Kirshner, 2009; Mearsheimer, 2001; World Economic Forum, 2016).

Traditional Realist like Morgenthau, recognized that power could be exerted through other means as well, like economics, however these were perceived as secondary in comparison to military might (Morgenthau, 1948). In a post-World War 2 context, military might was generally frowned upon, viewed as an exacerbator of conflict, most especially since the World War has just come to an end. This context led to the era of liberalism and the promotion of a multilateral world order to become the primary ideology in the West (Ruggie, 1982). A few decades after, the collapse of the Soviet Union facilitated further critique of Realist frameworks. By the late 20th century, the International political situation had changed in a manner, that the spread of democracy, globalization and free trade rendered Realist perceptions unfavourable, some went as far as claiming that Realism was dead.

During this era, the concept of Commercial Peace, which is firmly cemented in theories of economic interdependence, became widely endorsed. Idealists came to believe that such measures would reduce the possibility for conflict, based on the assumption that since states become independent on one another, their interests become tied, reducing the possibility for conflict (Stein, 2003).

However, Barbieri's research on economic interdependency, revealed little evidence suggesting that such a model leads to peace. The research investigated the dynamics of interdependence, revealing that asymmetrical relationships could lead to problems of dependency. Barbieri argues that the greatest hope for peace through economic ties, lies in symmetrical relationships, however such relationships, could easily be offset by other external interstate linkages (Barbieri, 1996).

As research illustrates, these very same factors caused by globalization led to the re-emergence of new realist framings, as these very same factors facilitated the rise for new concerns around security (Mearsheimer, 2001; Waltz, 2000). Research revealed that the explosion in foreign direct investments and capital markets, facilitated by globalization, has led to the monetization of international relations, leaving us unsure whether in the coming years these relations will lead to peace, or contribute to internal and external instability (Barbieri & Schneider, 1999; World Economic Forum, 2016). Framings, like that of Barbieri & Schneider, gave rise to the question 'whether the contemporary, extensive intra-state economic linkages, could act as a potential conflict exacerbator?'. Similar observations have laid the ground for the contemporary geo-economic perspective.

4.3) An introduction to Geo-Economics

Geo-economics can take various forms shapes, which make it a is a highly contested term. A generally accepted definition of this study would be *" The systematic use of economic instruments to accomplish geopolitical objectives"* (Blackwill & Harris, 2016).

Practitioners of the study and practice of Geo-economics like to point out that this is by no means a new phenomenon, however it has been well acknowledged by leading security organisations that the contemporary rise in geo-economics is incredibly complex, as we will find out.

Geo-economists like to point out two basic remarks. Firstly, that geo-politics and geo-economics are two distinct phenomena, yet they complement one another, like two sides on the same coin. What differentiates geo-economics from geo-politics, is the way a state exerts its power, through economic factors rather than strictly geographical ones. However, it's important to keep in mind that both geo-economics and geopolitics are tools, which are employed as a means to reach a grander strategic objective. Secondly, geo-economics have a historical tendency, to re-surface during power struggles within the international system (Blackwill & Harris, 2016; Scholvin & Wigell, 2018).

The " where, when & what ", were the first observations of Geo-economics, can be very much contested, however in the following paragraph I will briefly mention a few case studies to illustrate widely acknowledged manifestations of geo-economics in the recent past. Each case study comes with it's own context, and manifests itself in various forms and shapes, however in all cases one can notice an exertion of power by economic means, through which a state aims to reach their political ends, in an era of shifts in power.

A noticeable observation, of what is today is framed as Geo-economic activity, revolves around the strategic and coercive practices exerted by the Germans before World War 2. Albert Hirschman's *National Power and the Structure of Foreign Trade,* brings to light how Germany has turned it's trade relations into a tool of German power (Hirschman, 1980). Another wave of geo-economic activity was observed during the crisis of the Bretton Woods System, while at the same time major transformations in the global political economy where taking place, a period in which western powers were becoming integrated, leading to various shifts in power. Another notable appearance was during the 90's, at the end of the cold war. Research from this era was mostly carried out by American scholars in a context in which Japan rose to be the United States main economic rival, in an Internationally unipolar context, during which period, the United States was undergoing a process to globalise it's economy (Baracuhy, 2018). Such cases have brought to light the important role of economics in the rise and fall of great powers, and how throughout each context, economic might has the capacity to be instrumentalised in various forms. During this era, Luttwak argued that military power was being displaced by commercial power, in which market penetration substitutes garrisons and bases (Luttwak, 1990). Such a statement is in direct challenge towards the faith placed in Commercial peace.

In contemporary times, geo-economic strategies have been broadened, deepened and noticeably on the rise. At the present moment, we are in a period in which we can witness an international power struggle amongst powerful states, in a context of an unprecedented interdependent global economy. The international economy is made out of competing markets, each hosting a multitude of critical industries, that are considered crucial to the interests and long-term survival of the hosting state, or others who depend on them.

The most noticeable geo-economic players in contemporary times are China, Russia and the United States, however the list doesn't end there. Russia is renowned for it's ability to exert power over Europe, through it's dependency on it's natural resources. On the other hand, the United States trade war with China is a clear example of a "war by economic means". In contemporary times, the most noticeable actor in Europe is undoubtedly China. It's foreign policy, the "Belt and Road Initiative", as well as it's economic statecraft, morphed it's domestic policy, diplomacy and foreign direct investment into an unprecedented geo-economic juggernaut (Corre, 2018; Esteban & Otero-Inglesias, 2020; Pacheco Pardo, 2018; Ramsey, 2019b).

Numerous research around recent cases have demonstrated that the list of geo-economic objectives can be a non-exhaustive one, varying from supply chains, critical infrastructure, like energy or ports, to the acquisition of Hi-tech industries, access to new markets, research and data, and much more (Bickenbach & Liu, 2018; Fiott & Parkes, 2019; Ghiasy & Zhou, 2017). The lack of a one universal definition of what a geo-economic tool should look like, speaks to the diversity of forms and shapes this phenomenon could morph into. Amongst scholars, there is a common consensus that what differentiates a geo-economic tool from a normal economic activity are the motives and intents behind it. Broadly speaking, if a cross-border activity has been crafted/led by a state, facilitated by economic means, as a result gaining the capacity to leverage the acquired means and utilizing it as an instrument of geopolitical power, renders that activity a de facto geo-economic one (Baracuhy, 2018; Blackwill & Harris, 2016; Luttwak, 2012). Ultimately, Geo-economics are a part of a grander strategy, through which a state can tactfully exert it's power with the capacity to elevate it's status in the international hierarchy.

In this study we will be focusing on examining Chinese Foreign Direct Investment in a Malta, aiming to find out whether any of the identified investments has the capacity to be leveraged as a geo-economic tool, as a part of a bigger Chinese grand strategy. During this research, the criteria that defines geo-economic tools, will be in accord to the factors laid down by the EU's screening regulation, which could be interpreted as a reflection of European geo-economic concerns.

4.4) Defining Foreign Direct Investment

This study defines Foreign Direct investment (FDI) as framed by the Organisation for Economic Co-operation and Development (OECD). The OECD interprets FDI as:

" *Direct investment is a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.*

> *The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise. The "lasting interest" is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. Direct investment may also allow the direct investor to gain access to the economy of the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise. ''*

''OECD Benchmark Definition of Foreign Direct Investment'', (OECD, 2008)

The OECD's Benchmark has provided analysts with a criteria, which need to be fulfilled in order for an investment to be considered as FDI.

- Cross-border.
- By a resident of one economy, into an economy one is not a resident of.
- The ownership of at least 10% of the voting power.
- FDI, unlike to portfolio investment, enables the investor the capacity to exert influence on the enterprise.
- The motivations are strategic, fostering a long-term relationship either out of economic interests, like reaching into previously inaccessible markets, or as a means to ensure influence on the management of the direct investment enterprise.

The OECD also states that the purpose of the Investment determines the type of FDI. The OECD identifies mainly four types, which are:

- The purchase/sale of existing equity in the form of Mergers and Acquisitions (M&A).

- Greenfield Investment (When a parent company establishes a subsidiary in a different country).
- Extension of capital (Additional new investments as an expansion of the acquired enterprise).
- Financial restructuring (The investment is aimed at reducing losses or paying off debt).

(OECD, 2008)

Chapter 5: An insight in EU – China – Malta affairs

5.1) An introduction to China's Belt and Road Initiative

In late 2013, Xi Jinping made an important speech at Kazakhstan's top educational institution, Nazarbayev University. He expressed how during the Western Han Dynasty, imperial delegates were sent to foster relations and establish new trading corridors with their Central Asian neighbours. He went on to praise the importance of this historical step, presenting it as a major step in the foundation of the ancient silk road. He went on to announce that over the coming years, China has plans to re-invigorate the ancient Silkroad, aiming to encourage co-operation, innovation and deeper economic ties. (PRC Ministry of Foreign Affairs, 2013). The ancient Silkroad connected China with Europe, through a network of paths across the rough terrains of Central Asia. This speech, grounded in a Historical narrative, led to the foundation of the "New Silkroad", presented as a Chinese aspiration which aims to connect the Eurasian continent through an interconnected system of infrastructure, like energy & transport, establishing economic corridors and free trade zones along it route, with the final goal of facilitating trade and co-operation across all of Eurasia (Maçães, 2019).

In just a few years, the Chinese Belt and Road Initiative, grew to become the most ambitious infrastructural project worldwide, encapsulating over 60 countries. This ambitious plan carries an estimated price tag of more than a trillion dollars. Since Xi's speech in Kazakhstan, Chinese foreign policy has been continuously developing, for example apart from the land based Silkroad, a "maritime Silkroad" was introduced, (Chatzky & McBride, 2020). New tools which could facilitate this integration through investments have been introduced as well. One such tools is the Asian Infrastructure Investment Bank (AIIB), a financial tool which facilitates investment in Infrastructure and other productive sectors (*Introduction - Who We Are - About AIIB - AIIB*, n.d.). When approached solely from an economic standpoint, research revealed that this initiative has the potential to promote and sustain growth, by addressing a number of infrastructural needs throughout it's member states (OECD, 2018). From the Chinese perspective, this is a continuation of its consistent promotion for a more just international order, through a "win-win" strategy (Mitrovic, 2017). However, scholars from other fields, like Political science and Security, seemed to propose that one should not approach this solely from an economic perspective. Such scholars seem skeptic of this initiative, and tend to argue that through the BRI, China will become deeply integrated in the global economy, enabling it to strengthen it's political, cultural and security interests through leveraging it's economic power (Le Corre, 2016; Luttwak, 2012; Meunier, 2019; Mitrovic, 2017).

Criticism of the BRI:

Seven years after the launch of the project, this Chinese aspiration has become riddled with conspiracies, deficiencies, and skepticism. For example, the 99 year seizing of a 70% share in the Sri Lankan Hambantota deep sea port, was interpreted by many as Chinese debt trap diplomacy, a loan with a "debt-for equity" swap underpinning

(Shepard, 2020). Another frowned experience, was that illustrated by Bangladeshi officials, who claimed that China Harbor Engineering, a subsidiary of China Communications Construction Corporation (previously barred by the World Bank in 2009 on grounds of fraudulent bidding), has been accused of offering bribes to Bangladeshi officials (Hillman, 2019). Similar issues were raised in countries across Asian & African BRI members (Dezenski, 2020; Weinland, 2019).

In addition to the above observations, some Western European countries & the US seem to view China as a threat to a Western rules-based order, perceiving the BRI as an economic tool for China's hegemonic interests (Maçães, 2019). For example, in 2017 Greece blocked the EU from mentioning China in its Human Rights statement at the United Nations. Greece interpreted the EU Human Rights statement as unconstructive criticism, which doesn't lead to any positive outcomes. On other occasions, similar claims were made by other member states as well (Emmott & Koutantou, 2017). This sort of behavior is largely seen as the result of large Chinese capital and investments flowing in these countries (Ramsey, 2019b).

Made in China 2025 (MIC2025):

Launched in 2015, Made in China 2025 is a state-led initiative which aims to upgrade China's manufacturing base by developing 10 high tech domestic industries, amongst which are IT, Telecommunications, Aerospace equipment, Energy and Power equipment, etc. The plan is to substitute China's dependency on foreign imports, with its own tech, provided domestically by Chinese companies, who will gain the experience and ability to compete internationally. This initiative is perceived as a critical factor in China's long term growth and ability to compete in the coming decades, as it moves into a developed economy (ISDP, 2018). The Chinese government has a range of tools which they can make use of in order to achieve these aims. Some of the measures introduced are aimed at encouraging Chinese companies to invest and acquire foreign companies, in addition to providing direct subsidies, mobilizing its State Owned Enterprises, as well as facilitating intellectual property transfer, either through investment agreements or cyber-espionage (Barfield, 2018; Chatzky, 2019; Wubbeke et al., 2016). China observers perceive the Belt and Road Initiative as a foreign policy which simultaneously complements China's ambitions in its Made in China 2025 initiative.

5.2) Foreign Investment policy in the European Union

According to research carried out by the European Union, European member states are both top providers, as well as main destinations for foreign investments. From an economic perspective, foreign investment tends to be beneficial for the hosting country, contributing to the creation of new jobs, boosting economic growth, and further integrate the hosting state in global value chains. The EU mainly differentiates between two forms of foreign investment, Foreign Direct Investment and Portfolio Investment (the difference between these types of investment has already been discussed in the last chapter (European Commission, 2020b).

The EU's investment policy objectives are to:

- *Secure a level playing field so that EU investors abroad are not discriminated or mistreated;*
- *Make it easier to invest by creating a predictable and transparent business environment;*
- *Promote investment that supports sustainable development, respect for human rights and high labour and environmental standards. This includes encouraging corporate social responsibility and responsible business practices;*
- *Attract international investment into the EU, while protecting the EU's essential interests, and;*
- *Preserve the right of home and host countries to regulate their economies in the public interest.*

European Union Policy Objectives (European Commission, 2020b)

Since the Lisbon treaty in 2009, the European Commission took the responsibility to manage foreign direct investment policies on behalf of its member states. When it comes to the handling of Investments, the EU utilizes two main tools in order to ensure that its objectives are met, these are policies and International trade agreements. EU's International trade agreements are broadly divided in three types, 'Custom Union' agreements aim to completely abolish customs duties in bilateral trade and establish joint tariffs for foreign imports. The second type are referred to as 'Association' agreements or 'Economic partnership' agreements, which target the reduction of tariff in bilateral trade. The 3rd type is commonly referred to as 'Partnership and Cooperation Agreement', which establish a framework for bilateral economic relations, without much focus on customs tariffs (EU Parliament, 2010).

The EU is also strongly committed to the ‘facilitation of Investment’, currently pushing to render the global environment for foreign investment more transparent, efficient, and predictable. This aspiration by the EU has been well manifested in the EU’s proposal to the World Trade Organization (WTO) during their discussions on investment facilitation (European Union, 2020).

5.3) EU-China Economic Relations in the 21st Century

EU – China economic relations are best described as “one sided”. While both the EU and China consider each other as important trading partners, especially since both of them are amongst the biggest traders on the globe, their overall economic relationship seem to be quite a lopsided one.

Since China joined the World Trade Organization, back in 2001, it still didn’t proceed with the implementation of basic reforms which it had agreed to. For example, China’s economy is still very much state led, heavily influenced by government interventions, systematically subsidizing state-owned enterprises with industrial policies and tariffs which discriminate foreign companies, while simultaneously forcing the transfer of intellectual property from foreign companies, with little to no protection in return. Such behavior has been interpreted as contradictory to it’s basic commitments with the WTO (European Commission, 2016).

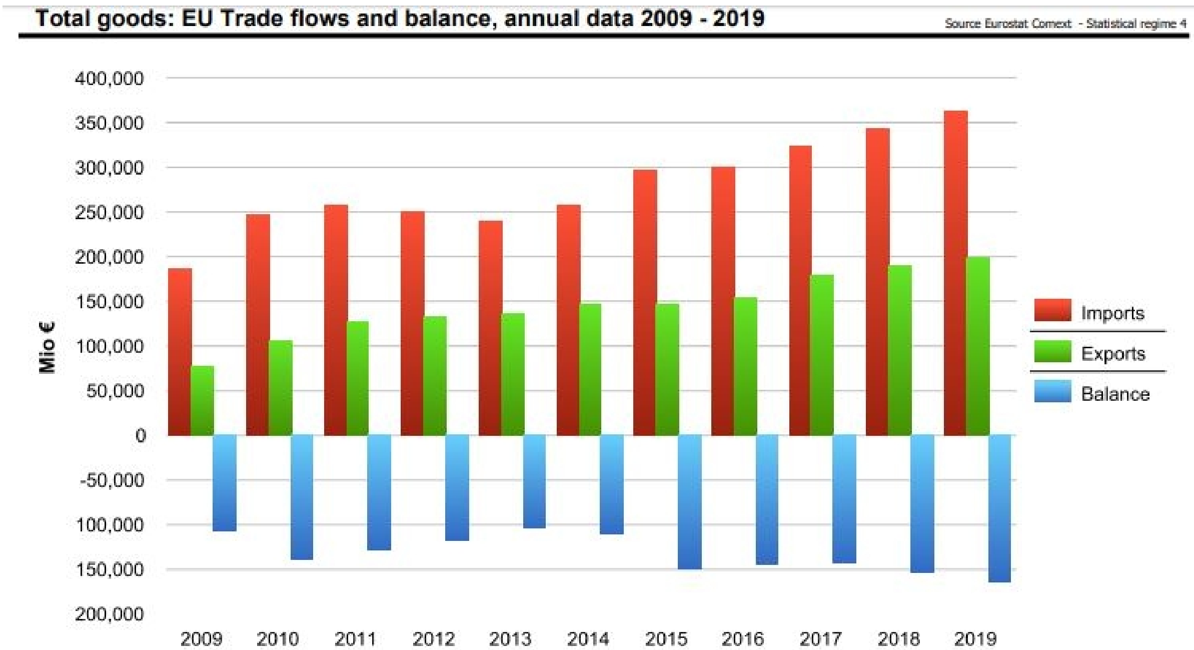


Table 1: EU Trade in goods with China (European Commission, 2020)

In the table above, one can notice that trade in goods is quite asymmetrical, every year growing further in favour of China. While this growing asymmetry in trade is worrying for the EU, in contemporary times this trade deficit seems to be of lesser significance in comparison to other European concerns.

When one looks at Foreign direct investment between EU member states and China, one can also come across some interesting disparities in their economic relationship.

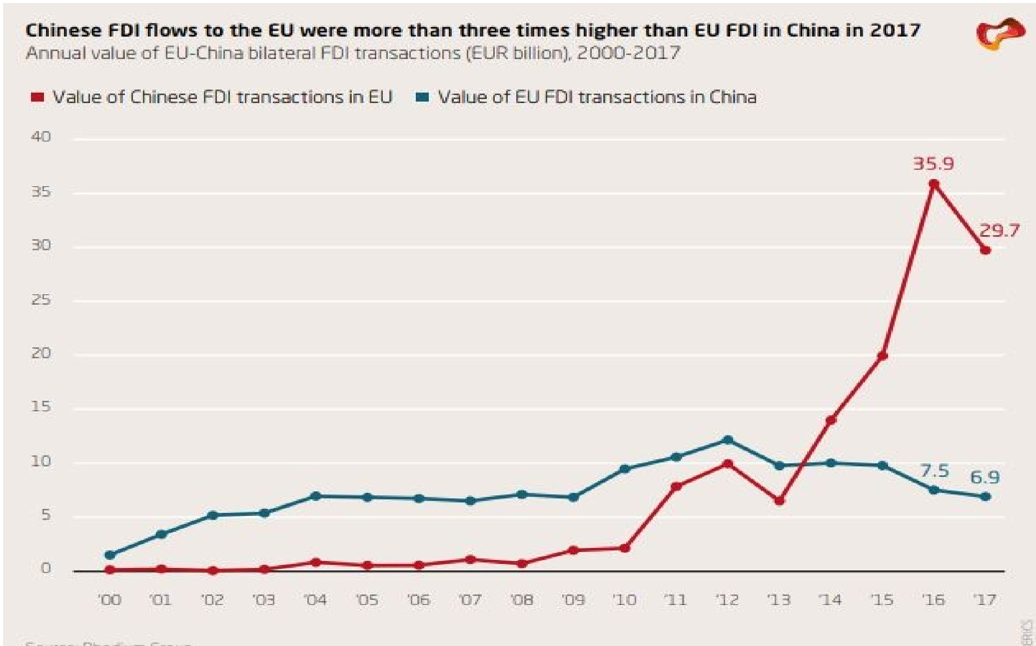


Table 2: FDI Value Comparison (Hanemann & Huotari, 2018)

Research reveals how the Euro crisis in 2010, has pushed European companies to file for bankruptcy, which in turn created opportunities for bargain deals. Just two years earlier, economic ripples from the American financial crash were still being felt. Countries who were riddled in debt opted to sell public assets as well, as a mean to relieve themselves from the pressures caused by the crisis. China, which was motivated to diversify its investments, in addition to being in possession of enormous foreign exchange reserves, was in a good position to take advantage of this situation. As a result, Chinese FDI in Europe surged in both private and public sector (Meunier, 2019).

However, this disparity in FDI wasn't just fuelled by the global financial crisis alone. China's ability to delay and deflect its promises of market liberalization, has shielded Chinese corporations from foreign competition back home, while simultaneously having the ability to enjoy European openness. In fact, research by MERICS and Rhodium reveals how EU-China economic relationship is extremely one sided, when FDI restrictions are taken in consideration.

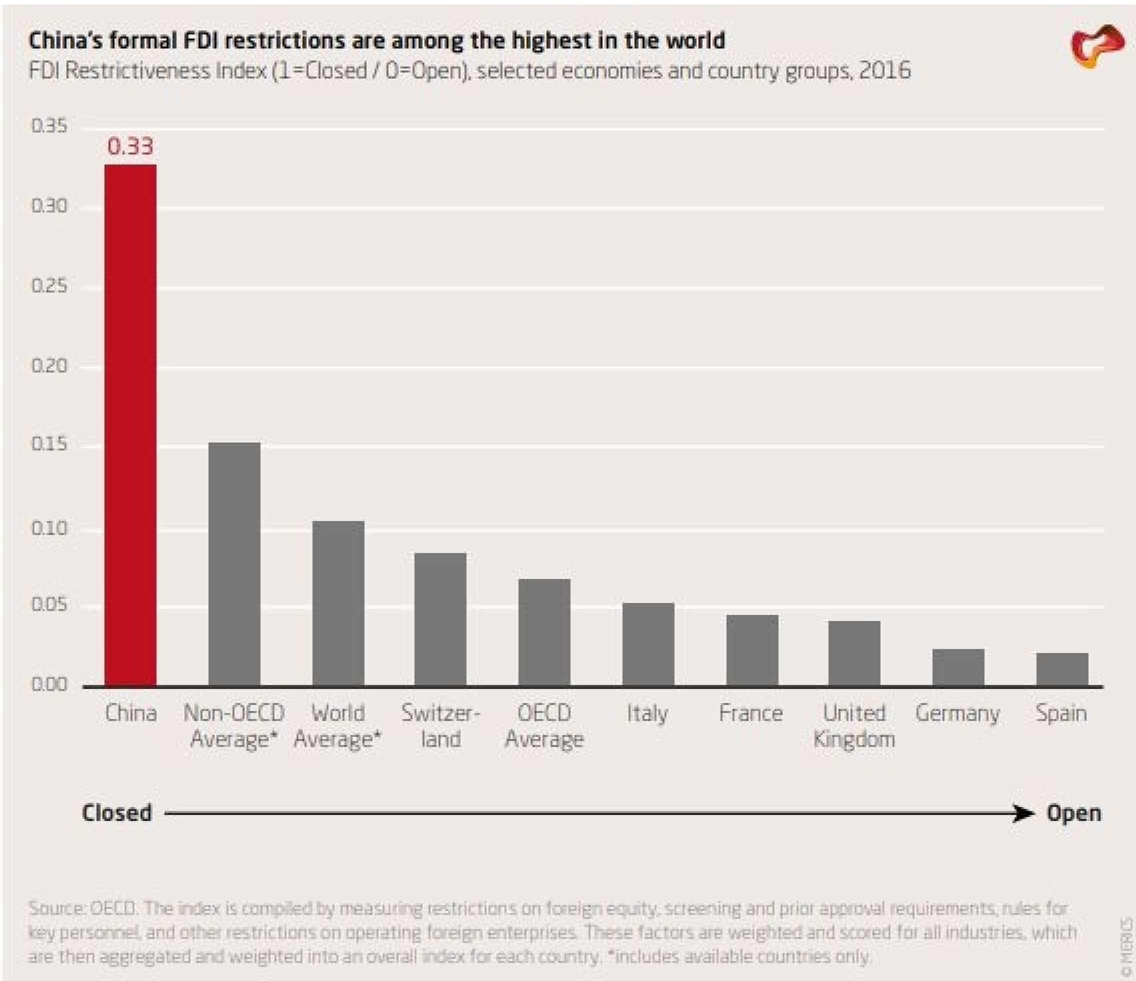


Table 3: FDI Restrictiveness Index (Hanemann & Huotari, 2018)

The Table below illustrates a comparative restriction index by sector, revealing a serious disorientation when contrasting China-EU economic openness.

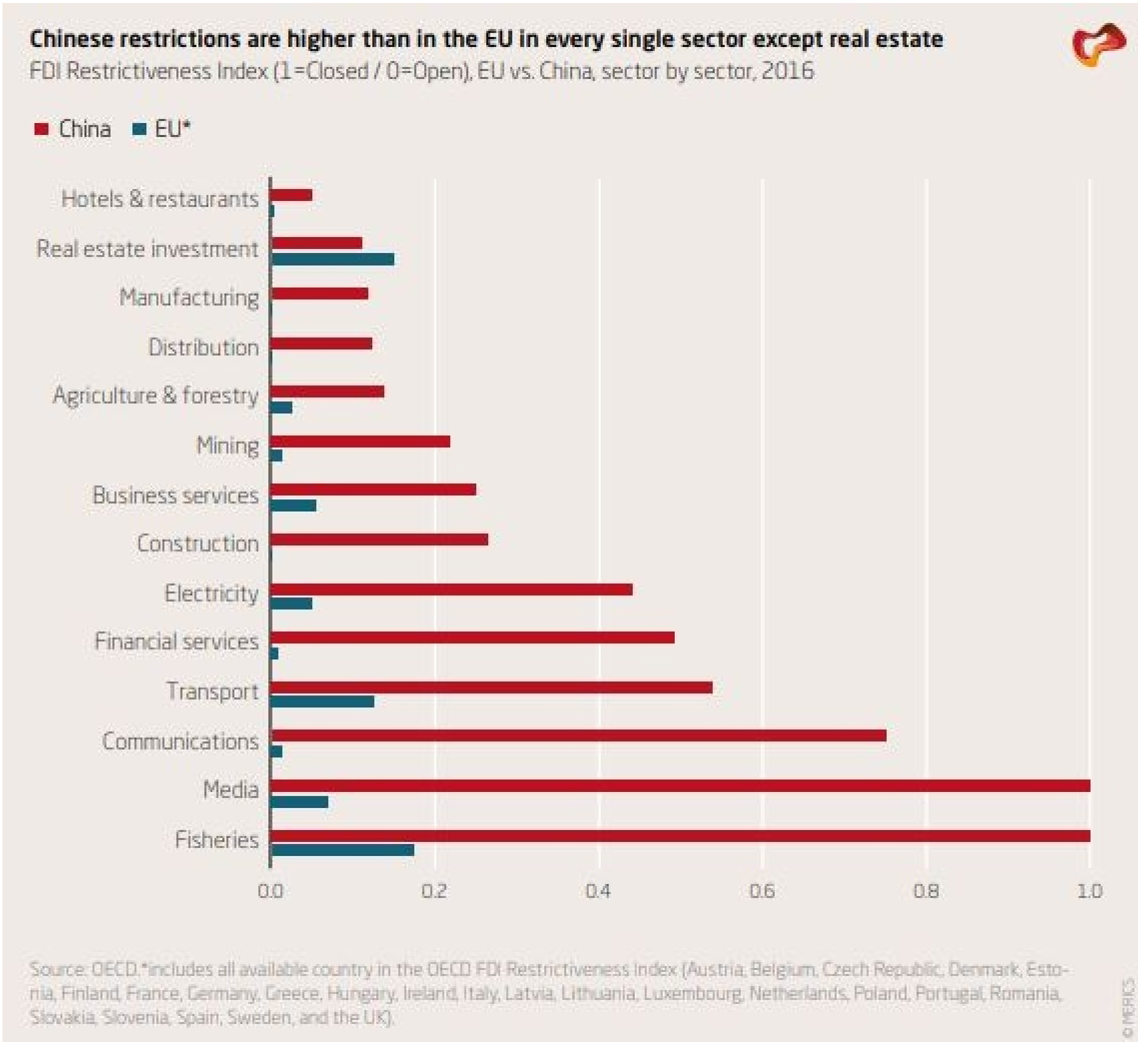


Table 4: FDI Restrictiveness Index, sector by sector (Hanemann & Huotari, 2018)

These imbalances and market distortions between China and Europe, are a serious cause for concern, causing real harm to European economic, political and security interests (Hanemann & Huotari, 2018).

In addition, China's approach to bilateral relations with the EU's member states, in particular the 17+1, as well as it's dismissal of Human rights have been largely interpreted as signs of political and systemic rivalry. The EU signaled a re-assessment towards its approach to China in the 2016 joint communication report, which tried to encourage it's member states to be united and perseverant when negotiating with

China, aiming to achieve a reciprocity with China, in both political and economic terms, while staying in line with the rules-based international order (European Commission, 2016).

In 2014, the EU initiated talks with China, attempting to create a comprehensive agreement on Investment (European Commission, 2020a). 6 years later, this agreement still has not been finalized.

EU attempts at leveraging their position with China, has always been met with encouraging announcements from Beijing, promising further reform and market liberalization. However, China's track record, since it's entry in the WTO back in 2001, shows little signs that the Chinese government is determined to fully implement market reforms (Hanemann & Huotari, 2018).

In Europe, a cohesive common response towards Chinese activity has been very slow. This remained the case until 2019, when the EU took an official stance at Chinese FDI pouring in the connectors and supply chains of European member states, viewing it as a potential security challenge. This has convinced the EU to reaffirm its China strategy, adopting a more realistic and pragmatic approach. The 2019 assessment, re-adopted the 2016 strategy (which could be interpreted as an acknowledgement that the previous 3 years of negotiations have led to nothing), however in more assertive manner, like officially classifying China as a "systemic rival", and the introduction of various tools, aims and regulations aimed at addressing China's synergized economic and political aggression (European Commission, 2019b; Fiott & Parkes, 2019).

The current global context is dominated by a general economic slowdown, International rivalry, as well as the Covid-19 situation, creating an opportunity which if managed properly could yield to favourable outcomes for the EU (Wu, 2020).

At the time being, the EU is trying to balance it's relations with the US and China, amidst their ever increasing rivalry (Esteban & Otero-Inglesias, 2020). While some western European member states seem to want the EU to mount a more assertive stance towards China, it also clear that others aren't as keen on such a reaction. As a result, the EU is navigating it's relationships very carefully, while emphasizing the importance of "values" (Reuters, 2020). With the European Comprehensive Investment agreement still in the pipeline, much is yet to be unfolded. The concern around whether the current EU approach will yield a successful outcome or not, remains to be seen.

5.4) What determines a potential security challenge? An introduction to the EU's FDI screening regulation

In March 2019, the European Parliament and Council, based on a proposal by the Commission, introduced regulation 2019/452, guiding Member States towards the establishment of a Foreign Direct Investment screening framework. This regulation has established a legal pediment for screening mechanisms in Europe, on the basis of security and public order, while attempting to coordinate an EU-wide approach towards inbound direct investment. The issued document mounts the OECD's definition of FDI, in addition, the regulation goes on to provide us with a list of factors which determine potential security challenges. Important to note that it has been stated, that the list of such factors should remain non-exhaustive, as a means to prevent circumventions.

The factors as listed in article 4 of Regulation 2019/452:

Factors that may be taken into consideration by Member States or the Commission *1. In determining whether a foreign direct investment is likely to affect security or public order, Member States and the Commission may consider its potential effects on, inter alia:* *(a) critical infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing or storage, aerospace, defence, electoral or financial infrastructure, and sensitive facilities, as well as land and real estate crucial for the use of such infrastructure;* *(b) critical technologies and dual use items as defined in point 1 of Article 2 of Council Regulation (EC)* *No 428/2009 (15), including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defence, energy storage, quantum and nuclear technologies as well as nanotechnologies and biotechnologies;* *(c) supply of critical inputs, including energy or raw materials, as well as food security;* *(d) access to sensitive information, including personal data, or the ability to control such information; or* *(e) the freedom and pluralism of the media.* *2. In determining whether a foreign direct investment is likely to affect security or public order, Member States and the Commission may also take into account, in particular:* *(a) whether the foreign investor is directly or indirectly controlled by the government, including state bodies or armed forces, of a third country, including through ownership structure or significant funding;* *(b) whether the foreign investor has already been involved in activities affecting security or public order in a Member State; or* *(c) whether there is a serious risk that the foreign investor engages in illegal or criminal activities.*

(Regulation (EU) 2019/452, 2019)

In addition, the framework gave rise to a co-operation mechanism, were one Member State can assist the other, in sharing information, opinions and their assessment of what could affect security and public order. The regulation states very clearly that the final decision in relation to any FDI undergoing screening, remains the sole responsibility of the Member State hosting that investment, however the EU commission has the capacity to provide an opinion on projects which will affect the interests of the Union. While there is a focus on enabling the Member State hosting the Direct Investment, as the final decision maker, the regulation suggests that FDI directed towards critically strategic sectors which may threaten the Union and it's Member State's interests must be given it's due consideration in line with Article 4(3) TEU. (Clause 13, 17, 18, 19, Regulation (EU) 2019/452. 2019).

> *4(3). Pursuant to the principle of sincere cooperation, the Union and the Member States shall, in full mutual respect, assist each other in carrying out tasks which flow from the Treaties.*
>
> *The Member States shall take any appropriate measure, general or particular, to ensure fulfilment of the obligations arising out of the Treaties or resulting from the acts of the institutions of the Union.*
>
> *The Member States shall facilitate the achievement of the Union's tasks and refrain from any measure which could jeopardise the attainment of the Union's objectives.*

(CONSOLIDATED VERSION OF THE TREATY ON EUROPEAN UNION - Article 4 (3), 2012)

The factors laid out in the regulation's article 4 in 2019/452, provides the researcher with a transparent list of factors, which could be employed as a screening lens, with the capacity to be oriented in accord to the different forms FDI could come into. This Regulation also reveals which economic domains are considered to be 'sensitive / at risk', viewed as referent objects, enabling us to synergize them with our understanding of security.

5.5) An overview of Sino-Maltese Diplomatic Relations: From Malta's independence, up to contemporary times

When Malta gained its independence from Britain in 1964, the Maltese government had to charter its own foreign policy strategy for the first time, as an independent nation. One of the most difficult initial choices Malta had to make, was when it came to choosing which China will it acknowledge. During an interview with Gafa, Frendo an ex-foreign affairs minister, pointed out that Malta at that time had been in the crosshairs of American and British Interests. The Americans tried to steer Malta's foreign policy in favor of the Chinese Nationalists in Taiwan, while the British were in favor of the Communists. At the time, Malta was being led by George Borg Olivier, the leader of the Nationalist party, who decided to ignore the British advice, instead opting to follow the American suggestion and recognize Taiwan. This relationship flourished for a short while, with Maltese delegations visiting Taiwan, seeking collaboration on various projects. In 1971, Malta underwent a political shift from right to left, the Labour party headed by Mintoff, decided to reconsider Malta's China strategy, shifting it's allegiance in favor of the People's Republic of China (PRC) (Gafa, 2018).

On the 21st of January 1972, Malta and the People's Republic of China established diplomatic relations, on the basis of mutual respect, equality and mutual benefit. In addition, China has guaranteed its support towards safeguarding Malta's independence and sovereignty (Embassy of the People's Republic of China in the Republic of Malta, 2004; Jiechi, 2012).

During his tenure, Mintoff himself led a number of delegations to China, where he managed to secure Chinese aid via non-interest loans, leading to the initiation of various works, like the Marsaxlokk breakwater, the Red China dock, as well as the completion of the Freeport (Zerafa, 2016).

Through these loans, China had committed itself to support Malta in becoming a more economically independent country, which eventually led to the establishment of a number of factories, aimed at industrializing Malta (Embassy of the People's Republic of China in the Republic of Malta, 2004). Recent research, has revealed that some of these factories were joint venture initiatives, aiming to export the manufactured goods to the European market (S. Dalli, 2014).

At this point in time, the Malta Labour party, through the work of various delegates, managed to broaden Malta's relations with the PRC. Reno Calleja, the president of the Malta-China friendship association, which he himself opened back in 1974, tends to come up often whenever reading about Sino-Maltese relations. During an interview with Zerafa, Calleja stated:

"The Chinese built the Marsaxlokk Breakwater Project the same project of which I was Chairman, so I know what I'm saying I had 4000 workers under my watch, 300 of which were Chinese and they were very exemplary in their work. The Chinese loaned millions to Malta up to date, their idea is to infiltrate Europe, but they saved us how can I not love them?" - Calleja 2016

(Zerafa, 2016)

In 1987, the results of the general election led to a change in government, in which the Nationalist party emerged as the new leader. For a few years, bilateral relations during this period remained cordial, gradually developing over time. The Chinese as well as the Nationalist party, avoided intruding in each other's domestic affairs, while officially maintaining a neutral impression of one another. Throughout the 90's there were several high-level visits from both sides, which led to the establishment of Chinese sole-owned factories in Malta, one of which was Leisure Clothes Company Ltd, in addition to other grants and cultural projects like the Chinese Gardens in Santa Lucia. Agreements around tourism, maritime and air services agreement where also signed under the Nationalist's tenure (N. Cilia, 2018; Gafa, 2018).

By the end of the 20th century, when Malta started to signal its interest in joining the European Union, the Nationalist Foreign Minister at that time, Guido De Marco, invited Chinese Foreign Minister Qian Qichen to Malta, to discuss future prospects in their economic relations, trade and cultural cooperation. Through these discussions, China expressed it's support for Malta's accession to the EU (S. Dalli, 2014). In fact, Chinese Ambassador Yang Guirong, stated that Malta's entry into the EU would attract Chinese investment in Malta, as it would have the ability to facilitate business in Europe (Cachia, 2004). The Chinese saw Malta as an ally, through which they can improve trade and relations with European countries (Gafa, 2018). As evidence of this, Malta was chosen as the first European country to host a China Culture Centre, established in 2003, one year before Malta's entry in the European Union (Embassy of the People's Republic of China in the Republic of Malta, 2012).

Since Malta's accession to the European Union, Sino-Maltese relations continued to strengthen. By 2012 Malta and China signed 35 agreements, 17 of which since the year 2000. In 2012, in a speech in Shanghai, given by the Maltese Foreign Minister Michael Frendo, described Malta as China's "reliable and trusted friend, a credible interlocutor, for China within the EU" (Frendo, 2012).

The 2013 Maltese elections resulted in a shift in government, in which Labour won an unprecedent victory (Debono, 2013). During this same period, on the other side of the world, China was unveiling its newly transformed foreign policy, the Belt and Road Initiative (PRC Ministry of Foreign Affairs, 2013). Right after China's ambitions were made official, the newly elected Prime Minister Joseph Muscat said that the EU must forge closer relations with China, which has pledged to invest billions globally. He went on to say that his vision, lies in a Europe which interferes less, focused on the single market, while removing bureaucratic and unnecessary regulations (Micallef, 2013) During that same year, Malta went on to sign an Memorandum of Understanding that came along with the largest ever foreign direct investment in the country, in addition to agreeing on educational cooperation and student mobility (Gozo News, 2013; C. Mangion, 2013).

In the following years the Muscat administration, went on to join the Asian Infrastructure Initiative Bank (AIIB), a Chinese Bank which finances projects along the

BRI. Malta and China also signed additional agreements for further collaboration in trade and tourism, while paving the way for a Chinese medicinal clinic to be opened at the University of Malta (Malta Independent, 2016; Malta Today, 2016).

Most recent noticeable diplomatic milestone was achieved in 2018, when China and Malta signed a Belt and Road Memorandum of Understanding (Times of Malta, 2018). One of the earliest countries to sign it amongst European member states (Independent, 2019).

On the 5th of November 2018, Malta has officially become a part of the Belt and Road Initiative, when Minister Carmelo Abela signed the BRI co-operation agreement in Shanghai. Paragraph 1 in this agreement illustrates its objectives and guiding principles, emphasizing on common development and the enhancement of their political, economic and security ties. It also states that as a principle both parties will respect the core interests and concerns of one another, while clearly stating that any future action that will be adopted through this memorandum must be respectful of Malta's obligations to the European Union. The BRI agreement recognizes 6 areas of cooperation. Policy coordination, in an attempt to synergize and integrate development strategies and policies. Facilities connectivity, cooperation to achieve infrastructure connectivity in areas of mutual interest, such as roads, bridges, aviation, ports, energy and telecommunications. Promoting two-way trade and deepening investment by encouraging trade and industrial cooperation. Enhancing financial cooperation between both countries, while encouraging their financial institutions to provide financing which supports production capacity, investment, and trade. The fifth area of cooperation is titled as "People-to-People Bond", which aims to promote education, culture, film, health, tourism, etc, in addition to specifically mentioning that both countries should enhance cooperation between local governments, media, think-tanks and the youths in order to promote further development and cooperation. The 6th area is an open clause, once again emphasizing cooperation on whatever the two parties agree on (China - Malta, 2018).

While the specific mention of the BRI is a new concept amongst the treaties signed between Malta & China, the theme of cooperation and promoting trade and investment is something which has been recurring throughout most of the agreements between Malta and China. The main difference in this agreement is that it brings together all areas of Sino-Maltese relations into one document, whether these are around investment, trade or soft power. This document is also broader in terms of laying down areas of cooperation, with the usual focus on main economic drivers like Infrastructure, Tech, R&D, etc, however it interprets "cooperation" very loosely. Nonetheless, this agreement signals further broader and deeper relations in the coming future, laying the grounds for China to be further integrated in the global economy.

In this section we have laid a chronological overview of Sino-Maltese diplomatic relations, going over some of the highlights in relationship. This enables the audience to understand the historical and political dynamics in Sino-Maltese, establishing a context on which we could better interpret and assess their economic relationship in particular when it comes down to FDI.

5.6) Sino-Maltese Economic Relations - In contemporary times

Sino-Maltese economic activity retraces itself to the early days of their diplomatic relations. In this section we will be looking at the forms this relationship took in contemporary times. For the most part of the 21st century, China-Malta economic activity occurs in three economic domains, Trade, Residency / Citizenship by investment programs and Foreign Direct Investment. While there is economic activity in other sectors, like that of education and tourism, with increasing attempts to put more effort into them, till now these attempts are still in their early stages. At this moment in time, there is no evidence suggesting that the Chinese play a vital role in these economic sectors. Hence, in this section the researcher has chosen to introduce other economic domains, in which Sino-Maltese relations have a bigger impact. The researcher will firstly introduce Sino-Maltese activity in Trade, & Residency / Citizenship by investment programs, through the use of publicly available data, leading to an overview of Chinese FDI in Malta, aiming to illustrate the various activities taking place in Sino-Maltese economics. This holistic approach to Sino-Maltese economic relations, will provide us with a clearer picture of this relationship, before narrowing our lens specifically on Foreign Direct Investment.

Sino-Maltese Trade –

When it came to figures around Sino-Maltese trade, this study made use of publicly available data from Malta's National Statistics Office (NSO), assembling the figures together into one table. The table below illustrates the Imports & Exports, as well as the balance in trade.

Year	Imports (From China to Malta)	Exports (From Malta to China)	Negative Trade Balance
2004	62.1	15.5	-46.6
2005	58.1	17.7	-40.4
2006	104.2	53.2	-51.0
2007	94.8	27.4	-67.5
2008	106.9	24.6	-82.2
2009	117.0	27.0	-90.0
2010	117.9	61.2	-56.7
2011	149.7	71.5	-78.2
2012	161.9	61.1	-100.8
2013	136.3	45.6	-90.7
2014	147.7	23.4	-124.3
2015	217.0	43.5	-173.5
2016	202.4	43.7	-158.7
2017	200.3	37.7	-162.7
2018	221.0	32.2	-188.8
2019	270.2	37.0	-233.3

Table 5.1: Malta -China Trade from 2004 – 2019

National Statistics Office News Release Reports: NSO 021/2005, NSO 023/2006, NSO 022/2007, NSO 022/2008, NSO 022/2009, NSO 020/2010, NSO 024/2011, NSO 029/2012, NSO 029/2013, NSO 025/2014, NSO 025/2015, NSO 021/2016, NSO 024/2017, NSO 021/2018, NSO 020.2019, NSO 019/2020. (Pre 2008 figures were converted from Maltese Lira to Euro using 0.4293 as exchange rate).

The Figures in the table above reveal that since Malta's accession into the European Union, overall trade between Malta and China has been steadily growing. Imports to Malta from China continued to increase over the years, seeing a slight decrease in 2007, while reaching an all-time high in 2019.

The figures above show how exports from Malta to China, whether in services or other, were at their best in 2010 and 2011, during which period Malta doubled its exports to China. However, since 2011, exports have been continuously declining reaching very low margins in recent years.

Another table based on the figures above, illustrates the Sino-Maltese trade relationship in graphs, visually revealing how negative balance in trade has also been gradually on the increase. Figures reveal that every year the disparity in their trade relationship has been steadily growing, apart from a decline in 2010 & 2013. Negative balance in trade has reached a new record in 2019.

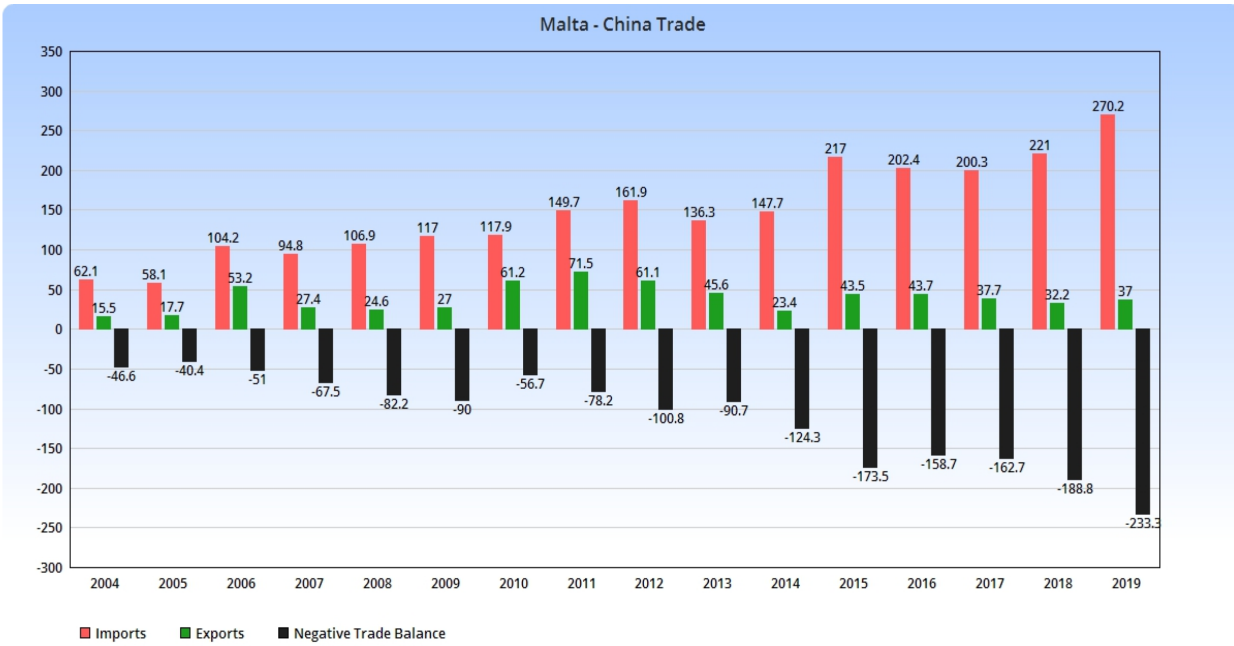


Table 5.2: Malta -China Trade from 2004 - 2019

NSO statistics also reveal that demand in Imports to Malta have noticeably grown with most of its trade partners, revealing various asymmetrical trade relations, like that with Italy, however there are others which are noticeably balanced, like Malta's trade relations with Germany. As expected, Maltese economic relations are well engaged into the European single market, eclipsing Malta – China trade activity, however important to note that figures in NSO 019/2020 reveal how by 2019 China became Malta's second largest importing country from outside the European single market, following Russia.

Overall Sino-Maltese trade relations are quite asymmetrical; however this is quite consistent throughout Malta's trade relations. While it is interesting to notice a stable growth in Sino-Maltese trade relations, Malta's exports to China are in decline, leading to an even bigger growth in negative trade balance. Malta's trade activity is highly engaged in the European Market, however China holds the second largest trading partner from outside of the European Economic Union, making it an important trading partner nonetheless.

It would be interesting to see exactly which sectors are mostly active in between China and Malta when it comes to trade, providing us with a clearer picture of the trade dynamics, as well as the supply and demand from both countries, leading to a better understanding of this trading relationship. However, since this study is mostly interested in Investments, we will delve further into that.

Residency by Investment Schemes –

In this study we are primarily concerned with Foreign Direct Investment, however the economic implications brought by the Residency by Investments schemes is an important one, which cannot be simply overlooked. Firstly, the author would like to make clear that this study differentiates between FDI through the Residency by Investment program and other Foreign Direct Investment. In this research, both of these investment forms are perceived as separate from one another, since Investment through residency schemes, is directed solely at real estate and Government stocks, as a requirement for the applicants when applying for Maltese / European residency permits, hence the motivation behind the investment is a requirement for the residency program. Nonetheless, for those who are observing Sino-Maltese economic relations, it is important to look into the activity occurring in the residency by investment domain, in order to have a better understanding of the overall Sino-Maltese economic picture. In this section we will have an insight in this recently emerged phenomenon, based on past observations and revelations.

In 2015, the Government of Malta spearheaded by Labour, enacted Legal Notice 288 leading to the establishment of the Malta Residence and Visa Program (MRVP). This program is specifically designed for third country nationals who want to invest in Malta, in return granting them permanent Maltese residency permits, enabling them to reside in Malta, as well as other European member states indefinitely (MRVA, n.d.).

Investors opting for this scheme, must pay a contribution fee to the government of Malta, invest in government stocks, & the purchasing of an estate as an "immovable property" of no less than €270,000. It is referred to as "immovable" since the scheme requires the investor to maintain the value of those assets in Malta for a minimum of 5 years. While the investor can sell the acquired property in exchange for acquiring another one, it is a requirement that the applicant keeps the value of the assets required by the scheme in Malta, hence making the value of those assets "immovable" for the stipulated timeframe. The scheme doesn't only enable the investor to reside in Europe and travel Schengen areas freely, but it opens the door to the Maltese market, hence the European single market as well (Malta Justice Services, 2015, 2017).

In 2016, Malta launched its program at a conference in Shanghai, China. During which, the parliamentary secretary for economic growth Jose Herrera, introduced the program to over 400 interested personnel, signaling a high response from Chinese high net worth individuals. During this conference, Shanghai Overseas Chinese Exit – Entry Service Co, Ltd was appointed as the official China concessionaire, to promote the program amongst the Chinese (ToM, 2016).

While the Maltese program welcomes applicants from all over the third world, multiple sources seem to confirm that Chinese applicants dominate the candidate list (IMI, n.d.). While official figures by country are unavailable, media articles and generalized statistics revealed that MRVP scheme by itself received a fair share of its applicants from China. On the other hand, the Golden Passport scheme reached its 2500 confirmed applicant by the end of 2018 (Camilleri, 2018; ToM, 2018).

Chinese applicants are not just interested in Maltese programs, on the contrary they seek all sorts of residency by investment programs throughout the globe. It is important to point out that Chinese candidates make up the biggest share of the global "residency by investment" market. Investment Immigration Insider provided us with the chart below which specifically shows the percentage of successful Chinese applicants in comparison to the rest of the world (Nesheim, 2019).

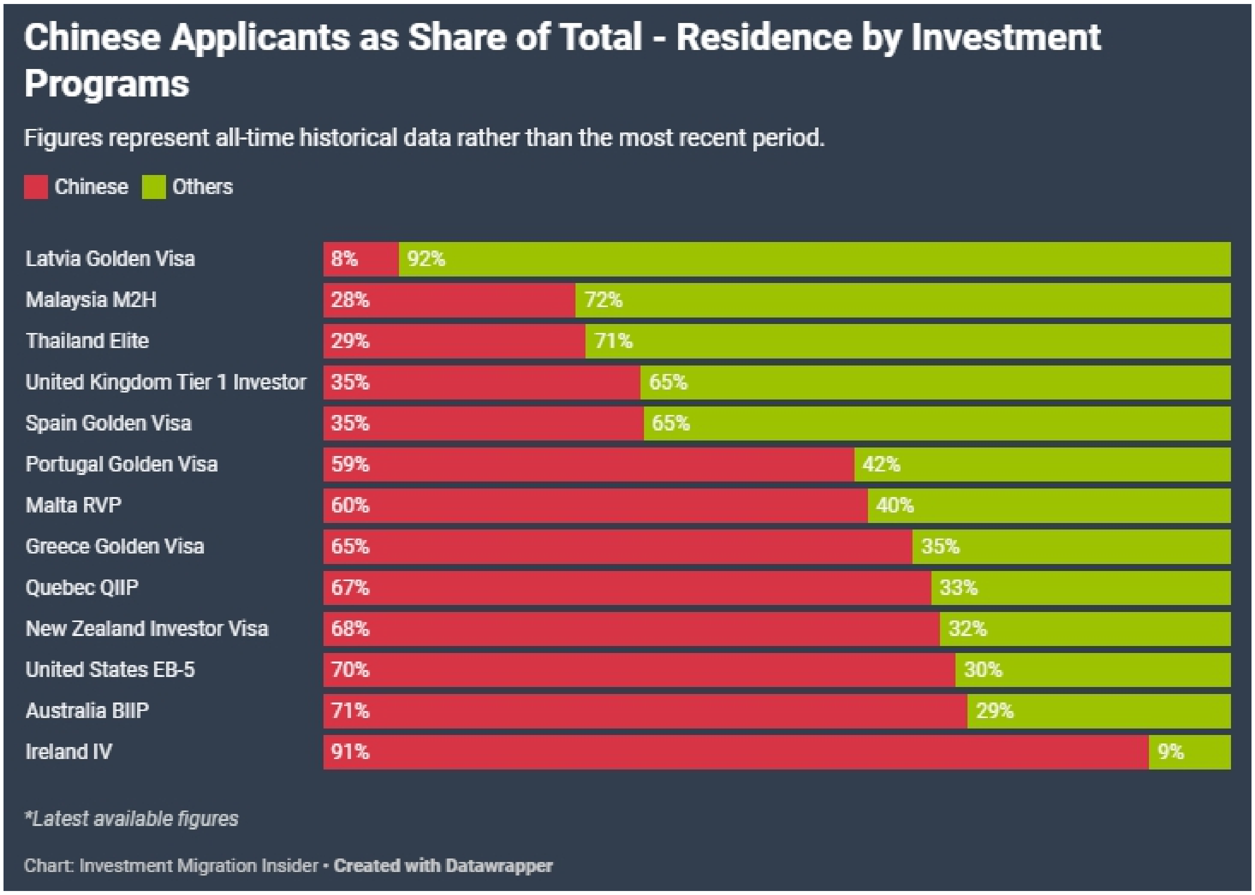


Table 6: Chinese Applicants as Share of Total – Residence by Investment Programs (Nesheim, 2019)

As observed in the chart above, it is not only evident that the Chinese make up the absolute majority of the 'residency by investment' global market share, but it also reveals that Malta is amongst the top 10 appealing countries to the Chinese market. Such figures beg the question " why are they so interested in such programs? ".

According to surveys carried out by Hurun Research Institute in Shanghai, it was revealed that nearly 50% of Chinese high net worth individuals were either emigrating or planning to do so.

Lower taxes, access to better education, ease of property purchases, fewer restrictions on personal freedom or access to better healthcare, have been some of the most common reasons behind Chinese interest. However, it is also true that wealthy Chinese are seeking "safe foreign countries", which allows them to maintain their riches and protect their relatives (Stanton, 2019).

In an article by the New York Times, it was revealed how Chen Tianyong left China for Malta, and publicly urged other wealthy Chinese to make such arrangements as early as possible. The article highlighted how wealthy Chinese migrants where motivated to move their assets, and sometimes distance themselves completely from China, out of their worries, most especially in relation to China's economy. The halt of economic and political liberalization since Xi Jinping took control of the Communist party, has raised doubts amongst the businessmen in the private sector. The migrants illustrate how the lack of rule of law, and accountability by the Chinese Communist Party, as well as the tightly controlled environment in China, instils a sense of pessimism amongst Chinese business circles, fearing that they might be the next ones caught in the crosshairs of the Communist party (Yuan, 2019).

While this might be the case for some of the migrants, another reality was observed in another case which occurred through the Maltese Investment program, revealing other motivations which are worth exploring.

Liu Zhongtian, a Chinese billionaire who is an ex-member of the National People's Congress, managed to get Maltese citizenship through the Maltese program. He was later indicted by the US for avoiding $1.8 billion in aluminum tariffs, and artificially inflating the value of a publicly traded company (Caruana, 2019). Further investigations into his assets in Malta, have revealed that despite his fortune, Mr Liu's registered address in Malta was a modest-looking flat in Naxxar, leading many to question his ties to Malta (Borg, 2016). According to US prosecutors, Liu is believed to be also involved in a massive money-laundering scheme, however his whereabouts are currently unknown (Ko, 2019).

Information and data on residency by investment schemes is highly confidential, limiting the scope of factually based observations of this phenomenon. However, from the few case studies which make it to the public domain, like the once mentioned above, one could notice that such programs can attract both legitimate individuals, as well as others who might have very different motivations behind their interest in acquiring an additional citizenship.

A report by the European Commission illustrated various concerns around such schemes amongst its member states. While the report acknowledged that there are many who are seeking to invest out of legitimate reasons, there are others who do so in a attempt to avoid law enforcement, and bypass freezing and confiscation measures. Other more worrying risks were tied to state security, organized crime and heightened risks of money laundering, tax evasion and corruption. The Commission's report also acknowledged the need to enhance transparency and to put in place further mechanisms which could address some of these concerns (European Commission, 2019a).

While concerns around the scheme have been continuously emerging, the Maltese authorities have shown that they are willing to implement changes in the program, even if on occasion the changes were minor, the fact they have revised the program a few times over the years, highlights that the authorities are willing to adopt, with the most recent amendments announced in July 2020 (Caruana, 2020).

Noteworthy Mentions:

It's important to point out how an energy deal between Malta and China, taking place back in 2013, has recently become embroiled in an alleged corruption scandal (This will be explored further in the FDI section). This Energy deal led to an official enquiry, which brought to light e-mails between Maltese Minister Konrad Mizzi & Cheng Chen an external consultant working for Shanghai Electric Power, revealing plans to establish an entity for promoting China-Malta investment. The report referred to this entity as " The MACHIN Project", which local newspapers reported that if such an entity was to be established it would have been registered in Malta, but 100% controlled by a holding company in the British Virgin Islands. The official enquiry in 2019 revealed that Minister Konrad Mizzi, who was Involved in these negotiations, declared that the MACHIN Project plan was not pursued. The enquiry's report on the e-mails further revealed how the plans were to appoint a person in charge named "Sai", which could be the Minister's own wife Sai Mizzi Liang. The report also highlighted how Cheng Chen and the Maltese counterparts, were also negotiating plans to establish an emigration agency in China, which would act as a value chain for those Chinese interested in submitting their application for Maltese Identity documents (Costa, 2019b). While these plans, which were made in 2013, have been concealed for years and then came to light in 2019, there were other past reports in Maltese media which revealed how in 2014 Sai Mizzi was appointed as Malta's special envoy to China, a Chinese citizen, who had acquired Maltese citizenship a few years back, who also happens to be the wife of Minister Konrad Mizzi (Caruana Galizia, 2014). This highlights the fact that while the "MACHIN project" has been scrapped, Sai Mizzi, was still appointed into roles which are well interwoven into the affairs mentioned in the revealed emails (Cassar, 2020). Over the years Sai's special position raised a variety of concerns, firstly she was the wife of the serving deputy leader of the Labour party at that time, secondly she was born and raised in China for most of her life, with little ties to Malta and European values, and thirdly Chinese law prohibits Chinese citizens from holding additional citizenships, yet during her tenure as a special envoy for Malta in China, she was in possession of both citizenships, leading many to question her allegiance, and how come the Chinese leadership was bending China's citizenship law for Sai Mizzi Liang ? (Malta Independent, 2014). Legitimate observations that raise both Maltese, as well as European security concerns.

While it is true that over the years the Maltese residency by investment schemes have been embroiled in ethical, legal and security concerns, the National Statistics Office has revealed how the biggest contributors to Malta's budget surplus in 2016, was coming from the "cash-for-residency" programs (Costa, 2019a; ToM, 2017b). Further exploration in this industry is still very much depended on access to data, which till now has been very difficult to access cause of the nature of the industry, as well as the confidentiality that comes with such programs. However, based on recent revelations, like those of Chen Tianyong, Liu Zhongtian and other publicly known enquiries, we are able to grasp the broadness behind the applicants' motivations, and gain a limited insight in this seemingly active economic domain between Malta & China.

Sino-Maltese activity around Foreign Direct Investment – Since Malta's accession to the EU

Malta, being a very small country with limited natural resources, perceived the opening up of its economy as a natural step to counterbalance its economic challenges during times of decolonization. Since Malta received its independence in the 1960's, after 150 years of reliance on the British, Malta recognized that Foreign Direct Investment has the potential to play a crucial role in Malta's overall economic development.

Prior to Malta's ascension to the EU, Malta attracted FDI around labour-intensive manufacturing businesses, like the textile and clothing industries, however in the past two decades Malta has been shifting its focus away from such industries, dedicating itself towards knowledge-based industries and high-end manufacturing in an attempt to keep up with global developments while remaining internationally competitive. FDI in Malta plays a crucial role in creating new domestic jobs, hence Malta tries its best to promote itself in this domain. For the most part, attracting FDI into Malta, has been the responsibility of what is today known as Malta Enterprise, however the government often plays an important role as well.

According to Malta Enterprise's website, the national organization which traditionally has acted as the main contact point between potential foreign investors and the State, identifies Advanced Manufacturing, Aviation, Maritime, ICT and Financial Services industries, as robust & well established in Malta, while new sectors are emerging in education, healthcare, life sciences and in R&D, which have been on the receiving end of various Foreign Direct Investment throughout the past years.

When it comes to Chinese FDI in Malta, it has traditionally contributed a lot to Malta's economic growth especially during the Mintoff era, were a number of factories have been set up in an attempt to facilitate Malta's process into becoming an industrialized country (Zerafa, 2016). This golden era of Sino-Maltese relations is still very much echoed today.

In 2019, during the Malta-China Business forum, the President of Malta Marie-Louise Coleiro Preca hailed the excellent diplomatic and political relations between Malta and China, strengthening her point by remarking past Investments like the breakwater and Red China dock, as a tangible manifestation of this great relationship. She went on to justify Malta's ideal geo-strategic position to make part of the "One Belt, One Road", reminding the Chinese of past Sino-Maltese achievements, in a bid to legitimize Malta's stance as a trustworthy partner to China (Coleiro Preca, 2019). While there are lots of studies drawing examples from past Sino-Maltese economic relations, little to no research sheds light on this economic domain since Malta's ascension into the European Union.

Hence in this section we will explore the development of Sino-Maltese FDI from 2004 onwards. This will be done by going over FDI related milestones between the two countries, in addition to mentioning some notable Chinese Foreign Direct Investment, which has been found throughout this research. The research scope is from 2004 onwards and utilizes both primary as well as secondary sources. Data around Sino-Maltese FDI agreements and other relevant milestones have all been retrieved from primary sources, like Government press releases, as well as secondary sources, like newspaper articles.

Since Malta accession into the European Union, Malta and China have signed quite a few agreements, ranging from cultural ones to economic and otherwise. A significant agreement which marked the initiation of the contemporary era of Sino-Maltese Foreign Direct Investment has been the bilateral agreement for promotion and protection of investment, which was signed back in 2009. This agreement seeks to create favorable conditions for investors from both parties. It emphasizes the importance of promoting, protecting and reciprocity, as the basis of stimulating business between both states (China - Malta, 2009). This agreement stated a number of expectations from one another, re-echoing World Trade Organization's laws like those of respecting Intellectual Property rights, as well as setting targets, so they can enhance their co-operation. Such targets were to strengthen financial services regulations, like avoiding double taxation and preventing fiscal evasion.

In fact, just a few months later the Malta Financial Services Authority (MFSA) announced that they have signed an agreement with China Securities Regulatory Commission, establishing a framework for cooperation, which aims to facilitate business between the financial institutions of both countries. Through this agreement, regulators from both countries, who acquire the status as a Qualified Institutional Investor, will be able to invest directly in foreign securities markets (MFSA, 2010). This milestone has been perceived as a major development in Malta's financial services sector.

Just a few months later, in October 2010, China and Malta signed an agreement specifically designed for the avoidance of double taxation and the prevention of fiscal evasion, as aspired by the 2009 agreement (China - Malta, 2010).

Since Malta accession to the European Union, 2009 & 2010 have been the years in which Sino-Maltese relations started to establish a framework through which future FDI could be processed through. These agreements occurred under the Nationalist party's tenure, setting the tune for future investments.

In September 2013, Prime minister Joseph Muscat & Minister Konrad Mizzi, met Lu Qizhou, the General Manager of 国家电投, aka State Power Investment Company (SPIC), together with Li Keqiang, the Vice Premier of the People's Republic of China. During their meeting in Dalian, they unveiled their new "strategic partnership" by signing a Memorandum of Understanding which stated that SPIC, through it's subsidiary Shanghai Electric, will invest in the Maltese state-owned Enemalta, as well as establish a central foothold for its energy operations in the Mediterranean. The Maltese government's press release also included prospects for establishing a new company which will act as an entry point for Chinese solar panels into the European market (Malta Gov, 2013). Upon Joseph Muscat's return to Malta, he issues a public letter to the President of the Republic of Malta, explaining his recent achievements. He illustrated how the labour government inherited Enemalta on the verge of bankruptcy, and how his negotiations with China will not only save Enemalta, but also the jobs of those employed there, while opening up the prospects of new businesses, hence the creation of "green jobs", in the field of renewable energy (J. Muscat, 2013). Konrad Mizzi, explained how SPIC's subsidiary, Shanghai Electric, will convert the Delimara plant from heavy fuel oil to gas based, illustrating that this will reduce electricity bills by 30%, while shifting our dependency on nature-friendly fuel (K. Mizzi, 2013).

The plans for this huge investment were finalized by the end of 2014, which saw the Chinese state-owned company injecting €320 million in the Maltese energy sector, the largest Foreign Direct Investment in the history of Malta (Sansone, 2014). €220 million of the €320 will be used to purchase the plant, while the rest would be used to convert it to a gas-based plant. Through this investment the Chinese state-owned company has also acquired a 33% stake of Enemalta. The finalized agreement also included two joint venture projects, in which the Chinese Subsidiary was ready to inject €100 million. One of the joint-ventures was to produce renewable energy in Montenegro, which will be distributed into European markets. This company will be 70% owed by Shanghai Power Electric while 30% will be owned by the Maltese government. The other joint-venture will be offering the services of its Engineers to maintain the plants owned by Shanghai Electric in Europe. This engineering joint-venture will be 70% owned by the Maltese government (M. Dalli, 2014). In 2019 some other major developments sprouted out of this co-operation. Another Memorandum of Understanding was signed between the Ministry for Energy, headed by Joe Mizzi and Shanghai Electric. This agreement aims to facilitate joint-research when it comes to developing new technology in relation to Energy and Water management between Maltese entities and Shanghai Electric. The press release by specifically mentioned the development of automated energy grids, referred to as "Smart grids", in addition to other tech around the production and management of water (J. Mizzi, 2019).

While these are impressive achievements, the first of their kind in Malta, the Sino-Maltese joint-venture in Montenegro was later embroiled in a murder/corruption enquiry, causing ripples both in Malta, as well as in Montenegro (C. Muscat, 2020).

Back in July 2015, another two major developments took place between China & Malta. Firstly, a bilateral agreement was signed with regards to co-operation in the field of Intellectual property. This agreement laid a framework through which both countries should operate when it comes to Intellectual Property rights, reaffirming a bigger desire for co-operation, while simultaneously re-affirming their respective national laws and international treaties when it comes to Intellectual Property (China - Malta, 2015). A few days later, the Ministry for the Economy, Investment and Small

Businesses held a press release, in which they expressed their gratitude towards Sai Mizzi Liang, Minister Konrad Mizzi's wife, for her work at promoting Malta as an investment destination for the Chinese. During this press release Sai Mizzi Liang said that she will be soon unveiling another major Investment coming from China (Ministry for Economy, Investment & Small Enterprises, 2015). In fact this led to an agreement between Malta and Huawei. Joseph Muscat & his administration presented this as another "strategic investment" with a Chinese ICT global leader. Edward Chan the CEO of Huawei Italy explained how Huawei would like to test 5G fiber-optic technology in Malta, which was still in its experimental period, could lead to another investment in establishing a Huawei center for Research and Development. Muscat, Herrera and Sai, together with Edward Chan, illustrated how Huawei has the ability to revolutionize Malta's IT infrastructure, while supporting Malta in it's digital strategy over the coming years. Muscat compared this investment as on par with a past decision by a previous administration, which partnered with Microsoft to establish Malta's IT infrastructure. Getting a multinational company like Huawei to invest in Malta was presented as an opportunity for local companies to partner and share experience with one another (Barry, 2015). In March 2016, at a summit in Hannover Germany, Jose Herrera signed a joint declaration with Huawei, agreeing to establish a joint center for innovation, which brings together 6 different ICT sectors closer to Huawei's expertise in tech. This was later followed by another agreement of €4.5 million investment has opened the doors for Huawei to initiate the "safe city" pilot project in Malta (Herrera, 2016; Malta Gov, 2016). Two years later, Parliamentary Secretary for Digital Economy Silvio Schembri signed another memorandum of understanding with Huawei, this time aimed at sustaining academic research in areas relating to public safety, video analytics, data processing & ICT systems. Huawei Italia CEO Miao Xiaoyang described this step as a concrete step will result in further cooperation and support for the whole digital ecosystem. Miao said that Malta has already been included in Huawei's global 5G program, which offers a better bandwidth and able to amass much more connections, that will eventually facilitate the creation of smart cities (Schembri, 2018; Xinhua, 2018).

Conclusion:

In this section we managed to delve into the contemporary Sino-Maltese relations, focusing on Investment related activity. Firstly, we have observed the statistics on Trade, as to have an clearer context of the trading dynamic between both countries. Than we have look at the Residency by Investment scheme in Malta, which while it is shrouded in mystery, due to the nature and sensitivity of the industry, we still managed to get a valuable insight of the context of this economic sector. Finally, we have illustrated a chronological timeline to Sino-Maltese relations.

Conjointly, they illustrate a comprehensive picture of Chinese FDI in Malta, in addition to providing us with a well-rounded insight of the agreements relevant to Foreign Direct Investment in Malta, and the dynamic context they are occurring in.

Chapter 6: Identified Chinese FDI in Malta

In this chapter the researcher will illustrate the findings around Chinese FDI in relation to Malta, whether this has been directly injected in Malta, or through another European country leading to the acquisition of assets in Malta. The data also revealed a greenfield investment which was in some way related to Malta.

Sources for this data are all publicly available, retrieved from both primary as well as secondary sources. Primary sources used were official Maltese government press releases, in addition to figures provided by Malta's National Statistics Office. International and National media articles as well as official company websites have been used as secondary sources, including data provided by the China Global Investment tracker database, managed by the American Enterprise Institute (AEI).

A number of limitations and hindrances have been met during data collection. For example, Investment agreements or Memorandums of Understanding involving certain Chinese Foreign Direct Investment in Malta, like those concerning Huawei, have been concealed from the public. Being enabled to consult FDI relevant MoUs would have contributed greatly to this research, however this couldn't be the case since the majority of these agreements have been kept outside of the public domain. The researcher has attempted to enquire on what basis have these agreements been kept outside of the public domain, however there has been no response from the affiliated authorities.

Other attempts were made to gain access to official FDI figures between Malta & China, as of 2004. The NSO, Malta's official statistics office, has provided figures as of 2014 onwards, stating that previous figures are confidential, not available for the public. No further information has been provided.

Although the researcher had to cope with a great lack of transparency and access, the study still managed to gather a considerable amount of data, which has been processed and presented in a number of tables.

We will firstly look at official Sino-Maltese FDI figures obtained from the Maltese National Statistics Office. This will be followed by another two tables which present findings around investments which match the EU's screening framework criteria.

Official Figures of Foreign Direct Investment between Malta & China:

Year	FDI in Malta (China)	FDI in China (Malta)
2004	Confidential	Confidential
2005	Confidential	Confidential
2006	Confidential	Confidential
2007	Confidential	Confidential
2008	Confidential	Confidential
2009	Confidential	Confidential
2010	Confidential	Confidential
2011	Confidential	Confidential
2012	Confidential	Confidential
2013	Confidential	Confidential
2014	115768.3	Confidential
2015	125713.3	4152.004

2016	160868.4	14743.01
2017	178456	14660.01
2018	185479.2	14574
2019	198742.6	14474.02
Accumulative*	965,027.8	62,603.04
*Based on the figures provided by Malta's NSO	Figures are in € '000	Figures are in € '000

Table 7.1: Malta -China FDI Figures from 2004 - 2019

As would be expected, the Economic domain of FDI between Malta and China is not that different from its trade relationship, strongly lopsided in favour of China. While we have not been given access to the official figures of FDI activity taking place before 2014, it is interesting to note how FDI from China to Malta has been on a steady increase for the past 5 years, rounding up to around €1 Billion in very short period of time. On the other hand, Maltese FDI pouring into China has been quite humble in comparison, however constant since 2016, accumulating to around €63 Million in total. Overall, the amount of FDI held by Malta in China, is eclipsed by that held by China in Malta.

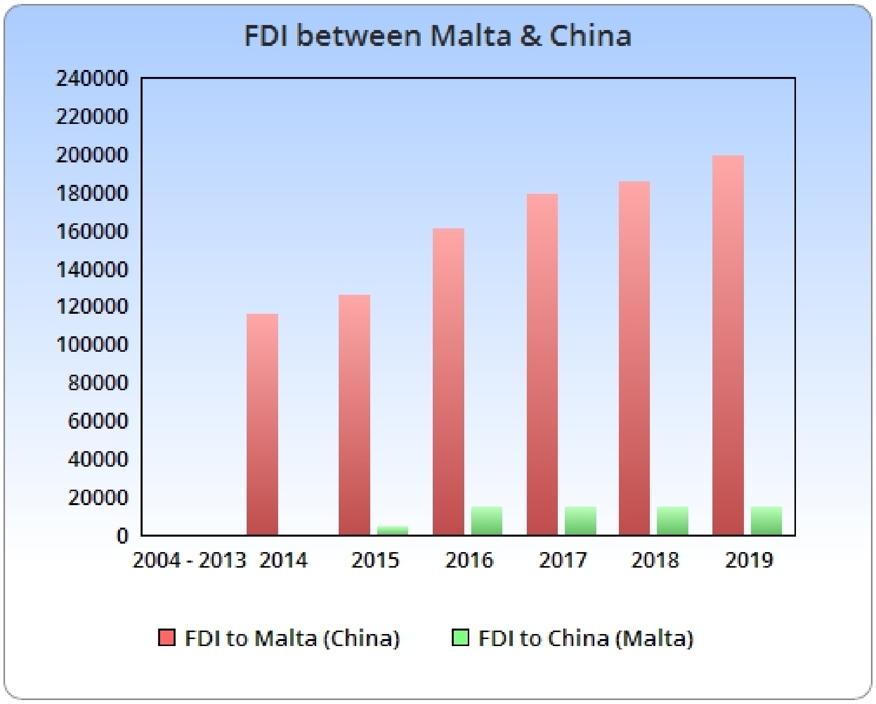


Table 7.2: Malta -China FDI Graph from 2004 - 2019

The Table below illustrates how 94% of the FDI between Malta and China is coming from the Chinese side.

The researcher acknowledges that this might be due to obvious disparities between Malta & China's size, whether in terms of land mass or economic might, however nonetheless we should not simply assume that this asymmetric relationship is the norm. Since there seemed to be no data sets specifying which sectors are on the end of Chinese FDI in Malta, and vice versa, it would be difficult to construct a holistic picture of all the industries which are specifically targeted by Chinese Investors. Further access to such data could enable the researcher to delve deeper into the activity around Sino-Maltese FDI, as a result enabling scholars and policy makers with a better picture as to what sectors are mostly active in this relationship.

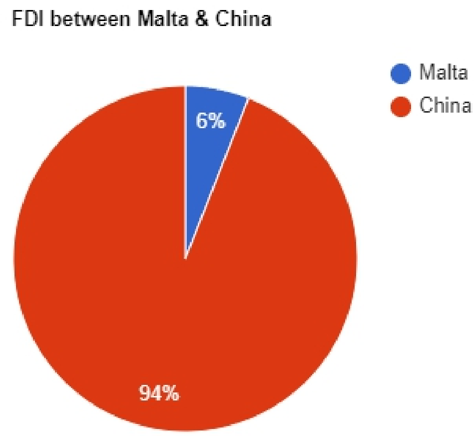


Table 7.3: Malta -China FDI Ownership from 2004 - 2019

While overall Chinese FDI held by Malta is still quite minor in comparison to that held by other European member states, it is noticeable that in recent years Chinese FDI has been constantly on the increase reaching unprecedented heights. During an interview with Malta Enterprise, it has been illustrated how Malta has the capacity to act as an entry point into the European single market, hence providing a natural stepping stone to external businesses, through which they can avoid being susceptible to certain tariffs and constraints if they manufacture commodities inside of the European economic zone, while simultaneously creating jobs and opportunities locally. This might be one explanation behind the seeming surge in Chinese Investment.

The figures provided by NSO enabled us to compile a figurative comparison, however this has only provided us with a generic picture.

6.1) Identified Chinese Foreign Direct Investment:

The researcher constructed an additional two tables, presenting specific FDI which is relevant to Malta. For these tables, a mixture of government press releases (which were mentioned in the previous chapter), media articles, company's official websites and the AEI's Chinese global investment radar database have been used as a means to gather data from. The researcher broke down the identified investments in subcategories, highlighting relevant findings, which the study considers to match the EU screening framework criteria. The tables facilitate a broader illustration of the variety of relevant FDI factors, which have been extracted out of the gathered data, like the year, sector, infrastructure involved in the investment, as well as the ownership structure and other information which has been deemed relevant to our final analysis.

When the researcher contrasted the gathered data with the EU screening framework, there were several aspects which correspond with the framework's criteria. The factors which were deemed relevant to our findings are in relation to:

1) Critical Infrastructure (Whether Physical or virtual): including Energy, Transport, Water, Communications & Aerospace Infrastructure. As per the EC Council Regulation No428/2009(15), this also includes Cybersecurity.

2) Access to sensitive Information, including personal data, or the ability to control such information.

3) Whether the investor is directly or indirectly controlled by the government, state bodies or armed forces of a third country, including ownership structure or significant funding.

4) Whether the investor has already been involved in activities affecting security or public order in a member state, or whether there is a risk that the investor engages in illegal or criminal activities.

Table 8.1: Identified Chinese FDI in Malta:

Year	Place	Chinese Investor	Type of Investment	Infrastructure involved	Sector	Ownership Structure	Notes
2014	Malta	SPIC 国家电投	Merger & Acquisition	Power Plant	Energy	State Owned Enterprise	*Invested through its subsidiary Shanghai Electric *Acquired 33% of Enemalta *90% of the Power Plant
2015	Malta	Huawei	Direct Investment	N/A	Telecommunications	Private enterprise (not publicly traded)	*To begin testing 5G technology *Supporting Malta's digital strategy

2016	Malta	Huawei	Direct Investment	ICT Infrastructure	ICT R&D	Private enterprise (not publicly traded)	*To establish a joint research centre, bringing together 6 different ICT sectors *To explore the prospects for a 'Safe City' pilot project
2018	Malta	Huawei	N/A	Telecom infrastructure + Digital Infrastructure	Telecommunications, Surveillance & Digital Infrastructure	Private enterprise (not publicly traded)	*To launch 5G connectivity *To carry out research and pilot projects in 'public safety', video analytics, data processing and the digital ecosystem
2019	Malta	Shanghai Electric	N/A	Energy and Water management	Energy R&D	Chinese State Owned Enterprise	*Partnership with Maltese entities (not mentioned) *Developing new technology around the management &

							production of Energy and Water *Developing Electricity Smart Grids

Table 8.2: Other Noteworthy Chinese FDI which involves Malta: (Either through Joint-ventures, or by acquiring foreign companies which hold assets in Malta)

Year	State receiving the investment	Investor	Type of Investment	Infrastructure involved	Sector	Ownership Structure	Notes
2013	France	China Merchants Holdings	Acquired a stake in CMACGM	Maritime Infrastructure (Port)	Transnational Shipping + Port Operations	State Owned Enterprise	*Acquired 49% stake of CMACGM's Terminal Link at Malta Freeport, which has been previously handed to CMACGM under a concession, for a total of 65 years
2015	Montenegro	Shanghai Electric +	Joint-	Solar & Wind	Energy	State Owned	*The investors aimed to produce Energy in

		Enemalta +other minor shareholders	venture	Farm		Enterprises + Private Enterprises	Montenegro and sell it to the European market *The project has been embroiled in an alleged corruption case
2016	Switzerland	HNA	Acquired a majority stake in SR Technics from Mubadala Development Co.	Plane Hangers with a direct taxiway to Malta International Airport	Aviation	Company Structure is debatable (with various enquires onto this matter)	*Acquired 80% of SR Technics *As a result, gaining ownership of SR Technics Assets in Malta

These tables lay out a "blueprint" of the relevant, identified Chinese FDI in Malta. This provided the researcher with a tailor-made map which complements the EU FDI screening framework criteria, as a result bringing out any areas of potential security concerns.

6.2) Analyzing Findings:

Findings on the Critical Infrastructure involved-

While Chinese FDI still makes up a small share of the foreign owned investment in Malta, it is interesting to notice that it is very strategically allocated, providing this study with a number of interesting revelations. As illustrated in the tables above, Chinese FDI has a strong foothold in some of Malta's most critical infrastructure. Infrastructure tied to power generation, the management of energy & water, telecommunications, ICT & digital infrastructure, have all been subjected to Chinese direct investment in Malta, while other infrastructure tied to the Maritime and Aviation sectors, have been acquired through acquisitions of foreign companies, who exerted control over these assets.

For example, in 2014 SPIC through its subsidiary Shanghai Electric, acquired 90% of the Delimara powerplant, the only powerplant in the country. They have also acquired a stake in Enemalta, the only Maltese state-owned energy company, which administers affairs related to the Energy sector throughout the country. While Shanghai Electric only owns 33% of Enemalta, hence being only a minor shareholder, its still gets a say in its operations, which govern most of the affairs in relation to other critical infrastructure around Energy in Malta (Sansone, 2014). In fact in 2019, it has partnered with Enemalta in order to develop technology which would govern Energy and Water management on the Island (Giordimaina, 2019; Ministry for Energy and Water Management, 2019). Also important to point out how this partnership between a Chinese state owned giant, and the Maltese state-owned entity, led to another joint investment in Europe. The acquisition of a solar & wind farm in Montenegro, was the first investment of its kind in Maltese history (Malta Gov, 2019; MaltaToday, 2019). While it is clear that Malta lacks the technological knowhow needed in this sector, Malta's minor stake in the Montenegro energy farm, brings along a European stake holder, which could act as an 'intermediary' for the Chinese in the European market. From my analysis, this is the first time that a Maltese & Chinese state-owned joint venture try to penetrate external markets together.

Other interesting observations around critical infrastructure in Malta, emerge from investments brought about by Huawei. Huawei has been operating in Malta since 2015. While it is quite difficult to know what their exact activity in Malta is, as the MoU's have been kept away from the public eye, however official government press releases indicate clearly their intended course for action. Huawei in Malta seems to have partnered with non-specified Maltese entities to carry out research and development in various areas. Their activity seems to cut across most of the ICT and digital infrastructure in Malta, varying from 5G connectivity to the introduction of "safe cities" through research in video analytics, data processing, surveillance and the empowerment to consult local entities with regards to the overall digital ecosystem (Barry, 2015; Bonnici, 2018; Herrera, 2016; Malta Gov, 2016; Schembri, 2018; Xinhua, 2018).

Two other investments, which have been revealed through the data gathered from the American Enterprise Institute database, showed how China Merchants Holdings and HNA, also hold control over other Maltese critical infrastructure, through their acquisition of a French and Swiss company. HNA acquired an 80% stake in SR Technics, an Aviation company which holds plane hangars with a direct taxiway into Malta's international Airport, while China Merchants Holdings acquired a 49% stake of CMACGM, simultaneously proving it with a significant stake in Malta's Freeport, through a 65 year concession, which was previously handed to CMACGM (CMACGM, 2013; Malta Freeport, N/A; Tse & Nair, 2016).

Findings on the industries/sectors involved - A part of "Made in China 2025" ?

The Made in China 2025 (MIC 2025) policy was launched back in 2015 by premier Li Keqiang, in which several key industries have been identified as crucial to China's Industrial aspirations. China is aiming to become an industrial leader in these key industries by 2025, in order to position itself as a true global leader. The policy aims to achieve this "industrial domination", through mobilizing its state-owned enterprises, hand them subsidies, aiming to acquire intellectual property from Western companies, with the ultimate goal of reducing its dependencies on foreign technology, while leapfrogging to the forefront of technological prowess. The policy clearly lays out a number of Key industries, which are perceived as crucial for the establishment of the 4th industrial revolution (Chatzky, 2019).

The International community has reacted very strongly to this policy since China is systematically constraining its domestic market for international companies while simultaneously using state-resources to boost its sectors internationally. This "top-down" decision making goes against China's pledges with the WTO, and is largely interpreted as a systemic approach that threatens the competitive edge of liberal economies (ISDP, 2018). The repercussions of such a policy are of a direct threat to the long-term economic security of WTO member states, who have been compliant with the regulations of this same organization.

Advanced IT (Physical and Digital), Aviation, New Energy vehicles as well as Power Generation equipment, are some of the mentioned industries which correspond with the identified Chinese FDI in Malta. The Sectors identified during the processing of the gathered data, seemed to correspond with the key industries mentioned in the Made in China 2025 policy, begging the question whether Chinese Investment in Malta is part of a bigger picture.

Findings on the Ownership Structure of the identified Chinese organizations with Investments in Malta –

Throughout our findings we identified two sorts of ownership structures, State Owned Enterprises (SPIC & China Merchants Holdings) & Private Enterprises (Huawei & HNA). In the coming paragraphs we will illustrate the structure of Chinese SOE's as per the most recent reforms, in addition to delving into the structure of the identified Chinese private enterprises, Huawei and HNA.

The Structure of Chinese State Owned Enterprises-

The governance of Chinese State Owned Enterprises (SOEs) have always been considered as crucial for China's overall interests, whether these are economic, political or otherwise. As a matter of fact, throughout the years, Chinese SOEs have always been adhered to CCP's leadership, however the means through which the CCP exerts its influence in SOEs has been subjected to various observations throughout the years. The major stakeholders in a Chinese SOE decision-making process have traditionally been the Party Committee, the Board and the Management. The need to modernize China's SOEs corporate governance, while maintaining a degree of CCP control, have been perceived as key to the future of China's economy. This led to the introduction of "mixed ownership" in an attempt to attract private investors. In the excerpt below, we will attempt to illustrate the contemporary SOEs relationship with the state (Lu & Zhu, 2020).

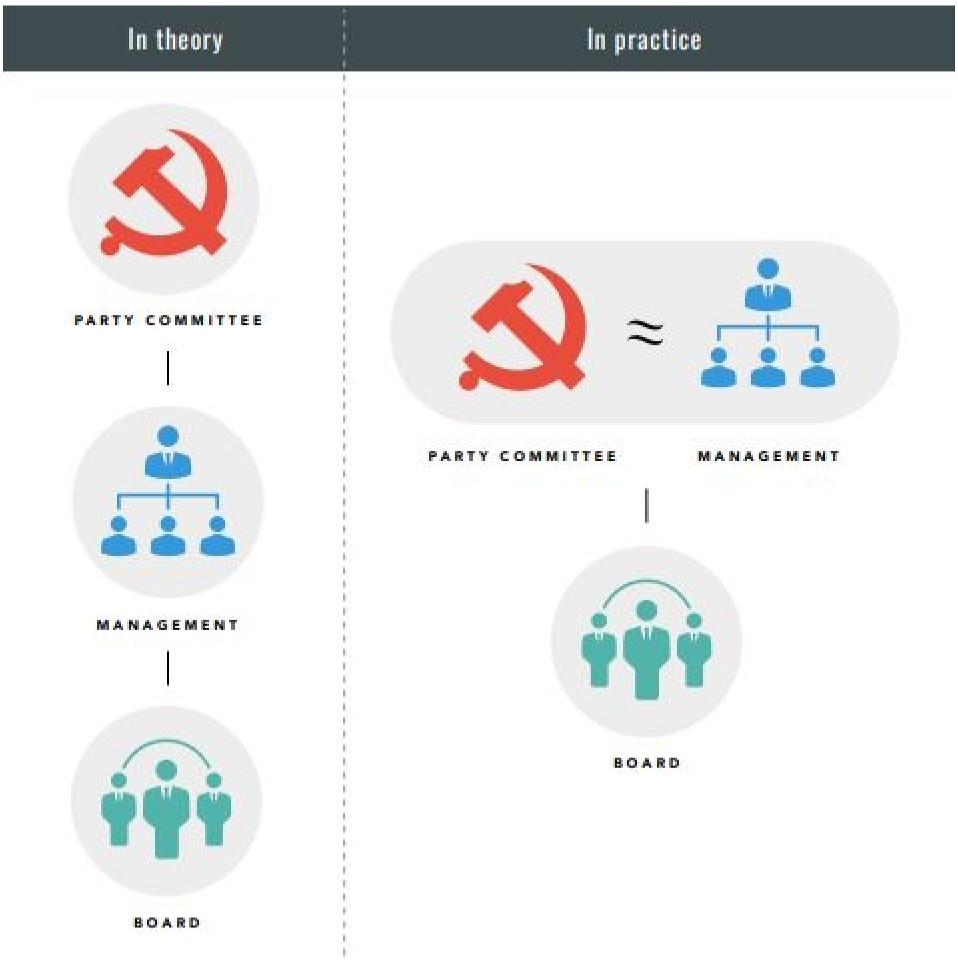
Back in 2017, the constitution of the Chinese Communist Party, was revised and adopted at the 19th National Congress. The official English translation illustrated an interesting article directed towards SOEs:

'' The leading Party members groups or Party committees of state-owned enterprises shall play a leadership role, set the right direction, keep in mind the big picture, ensure the implementation of Party policies and principles, and discuss and decide on major issues of their enterprise in accordance with regulations…….. Primary-level Party organizations in non-public sector entities shall implement the Party's principles and policies, guide and oversee their enterprises……. '' - (CONSTITUTION OF THE COMMUNIST PARTY OF CHINA, 2017).

This article in the Constitution, clearly puts the Party Committee in the SOE's "driver seat", which has the prioritizing duty to pursue the Interests of the Party, while aligning them with the interests of the Board and Management.

According to research, some of the SOE's senior managers, are themselves appointed as Party Committee representatives, carrying out a "dual role". This would mean that some of the SOE executives, who are Party Committee officials are one and the same, enabling them the capacity to over-rule those who are not part of the Committee (Song, 2017).

The table below illustrates the allocation of power in Chinese SOEs, in theory and in practice, in accord to the research carried out by Houze Song in 2017.



Huawei Ownership Structure-

According to Huawei's official website, Huawei is an independent, private company, in which the founder Ren Zhengfei, owns 1.14% of the company, while the remaining shares are owned by its own employees. These shareholding employees elect a representative committee, which then elects the company's Board of Directors and Supervisory Board, who control the company (Huawei, n.d.).

On several occasions, it has been revealed how Huawei benefits from financial state support, leading many to question its ties to the Communist Party, especially since it became known that Ren Zhengfei used to occupy an Engineering post at the People's Liberation Army (Maizland & Chatzky, 2020; Yap, 2019). These revelations have led to a degree of higher scrutiny around Huawei's corporate structure. A paper published by Professors Christopher Balding & Donald Clarke, has looked into Huawei's official claims, and found some interesting revelations which highly contradict Huawei's interpretation.

Firstly, Balding & Clarke's paper recognizes the need to identify who controls the company, in accord to Chinese law, rather than who reaps its profits. They illustrated how the term "Huawei", should be understood as an "umbrella term", covering a number of Huawei's entities. For example, one such entity is "Huawei Technologies, Inc.", which engages in the manufacturing of Huawei products, however this entity is owned by "Huawei Investment & Holding Co., Ltd".

"Huawei Investment & Holding Co., Ltd", is owned by two entities, Ren Zhengfei, who indeed does own 1.14%, while the remaining 98.86% is owned by an entity called "Huawei Investment & Holding Trade Union Committee". While this might sound exactly like the description provided on Huawei's official website, the researchers, who are experts in Chinese law, point out a number of relevant discrepancies worth taking into account. The researchers firstly highlighted that the internal governance procedures of this trade union committee are completely unknown, for example "who are the trade union leaders? who are the committee members?". Secondly, when employee contracts have been explored, it was revealed that what Huawei called "employee shares" were actually profit sharing schemes, especially since as per Chinese law trade union members, have no right to assets held by the trade unions. The researchers were also skeptical about the legal authenticity of this trade union committee, for various reasons, mostly related to the terminology that was being used around this trade union. However, they argued that if it is indeed a genuine trade union, as a result the Union is subjected to the same legal frameworks all Chinese trade unions have to abide by, than this would make Huawei effectively state-owned, since "Huawei Investment & Holding Trade Union Committee" owns 98.86% of 'Huawei Investment & Holding Co., Ltd". The researchers argued that the terminology being used is misleading, only further transparency in the structure and governance of this trade union committee could accurately reveal the true owners, however regardless of the opaqueness around the Union, one thing is for sure, that the employees do not own Huawei (Balding & Clarke, 2019).

Past accusations around Huawei stealing tech from western companies, plus the revelations around its ownership structure have exacerbated security concerns in most western countries. The US, Australia, New Zealand, Japan and most recently the United Kingdom have all decided to ban Huawei from their infrastructure on National security concerns (Chadwick, 2020; Hui, 2019; Maizland & Chatzky, 2020).

HNA Ownership Structure-

HNA is a Chinese conglomerate with international fame for its overseas acquisitions, most noticeably its acquired stakes in Deutsche Bank & Hilton, amongst many other multi-billion deals. HNA's massive international shopping spree has attracted a lot of attention in the past, which motivated Governments and regulators to scrutinize it in attempts to figure out its strategic motivations, as well as where its money was actually coming from. In response HNA has publicly revealed its ownership structure back in 2017, in an attempt to illustrate its transparency internationally. HNA revealed that its total ownership consisted of 15 entities, the biggest of which were 2 charity foundations, which together held 52% of its stakes. The rest of its shares were held by 12 other company officials, including two of its founders, Wang Jian & Chen Feng (Yan, 2017). This opaque corporate structure, has led to a lot of suspicion and allegations, were Bank of America has decided to stop doing business with the Chinese conglomerate, while simultaneously Guo Wengui a Billionaire Chinese tycoon who is currently exiled in the US, alleged that Communist Party Officials, including Wang Qishan, a leading member of the Communist Politburo Committee, held major stakes in HNA. Such allegations were completely dismissed by HNA, and it went on to sue Guo Wengui, but later dropping the lawsuit themselves. (Podkul, 2019; Stevenson, 2017). Important to notice that just a few weeks after Guo's public allegations, Wang Qishan stepped down and gave up his role as the head of the Central Commission for Discipline, aka "the Chinese anti-corruption watchdog" (Choi, 2017).

By the end of 2017, HNA's assets were estimated to be at least 1.2 trillion Yuan, however most of its acquisitions seem to have been funded by debt, amounting to around 707 billion yuan. Most recent revelations around HNA's company structure came to light in March 2020, amidst the Corona outbreak, when HNA acknowledged that the coronavirus has fueled their debt problems. HNA stated that this debt problem has pushed the company to request assistance from the Chinese government, leading to the appointment of two government officials in its top management positions at HNA. Gu Gang, who was appointed as the company's executive chairman & Ren Qinghua who became HNA's co-CEO (He, 2020).

HNA's opaque ownership structure, as well as the recent intervention by the Chinese government, highlights concerns whether HNA can actually be perceived as a Private Enterprise.

Chapter 7: Potential Security Concerns? – Narrowing Down the Scope

Based on the data that has been gathered and processed in this study, the Researcher's analysis gave rise to complex and multifaceted observations, very much influenced by the theories and frameworks employed by the researcher, as well as the contemporary international context. The author would like to emphasize that different theoretical approaches to these findings, could very much lead to different remarks.

Based on the theories illustrated in Chapter 4, the author's approach towards the gathered data in this study, is based on a Realist view towards the notion of "power" within an anarchic, competitive international order, like that illustrated in Mearsheimer's works. The Copenhagen's Security toolbox was also utilized, in an attempt to examine the findings more comprehensively, while illustrating what a potential security concern could look like when utilizing Buzan's approach. Barbieri's revelations on economic interdependency have highlighted how asymmetrical economic relationships could instead lead to dependency, in which case such a relationship could easily become translated into leverage, hence a geo-economic tool. Keeping in mind that a "geo-economic activity" is the systematic use an Investment that was gained through economic means, with the intent of accomplishing geostrategic ends. This research perceives the contemporary international political economy as the means through which geo-economic tools could be exerted and leveraged into influence or some other form of power, benefiting the actor's strategic interests. As a result, when one is attempting to assess potential security challenges, one has to cross-examine the processed gathered data with China's geo-strategic interests and political ambitions, as well as areas of dependency and other vulnerabilities from Malta, which could provide the capacity to channel, or even leverage Malta's interests with those of China's. The presence of such vulnerabilities for Malta, are a de facto potential security concern.

7.1) General Overview:

The Malta-China figures provided by Malta's National Statistics Office, highlight a huge disparity in Sino-Maltese economic relations, whether we are looking at the trade relationship or their Foreign Direct Investment activity (See Tables 8.1 & 8.2). While both economic domains are easily surpassed by the activity of other European Countries, it is interesting to note that Chinese Foreign Direct Investment in Malta is very strategically allocated, on some occasions being the major stakeholder in Malta's critical domains. For example, the purchase of a 90% stake in Delimara powerplant, is a notable acquisition, since it is the only operational power plant in the country. Similar observations are made around the CMA CGM acquisition, and the acquisition of SR technics, giving both Chinese investors exclusive access to critical infrastructure like the only Freeport, as well as the only International airport in the country. Huawei's investments in Malta are also very strategically allocated. The findings around the corporate structures and their ties to the Chinese Communist Party also worth exploring from a security perspective. This strategic allocation of Chinese capital in Malta must be observed in a broader international context, in sync with China's grander-strategy, its interests and aspirations, in an attempt to understand better what a potential security concern for Malta would look like.

In the following sub-chapters the researcher will illustrate what potential security challenges look like based on the analysis of the processed findings, mentioned in the previous chapter.

7.2) Chinese Investment in Malta: Does it pose any concerns?

The Copenhagen School's Security framework has provided us with at least 5 major domains which should be securitized. These are Political, Military, Economic, Societal and the Environmental domains, in addition to the researcher's custom addition, that of Cyber/Digital security as well. As Buzan illustrated, this broad and diverse web of security, cuts across and interlinks all of these domains together, therefore we must perceive them as such when looking at Chinese investment.

When the researcher cross examined the gathered data in Tables 8.1 & 8.2, with the security domains attended to in this study, three domains have emerged as potentially concerning. Firstly, the domain of Cyber/Digital security, which will explore in the following subchapter which is dedicated to Huawei. The other two, were Political and Economic security concerns which we will explore further in the paragraphs below.

The evidence brought to light in this research, seems to suggest that Chinese investment in Malta is motivated by strategic interests, in an attempt to achieve longer-term co-operation. For example, the investments made my SPIC is a perfect example of long-term co-operation, where Enemalta and SPIC's subsidiaries aren't only partners when it comes to domestic affairs, but they are also trying to penetrate other European markets together. From an economic perspective, this has been a "win-win" situation, in which Enemalta's debt has been alleviated through the investment made by SPIC, turning its operations profitable, while at the same time SPIC managed to gain a strong physical foothold in a European member state. Malta is also gaining technical knowhow from Chinese scientists, for example the recent investments aimed at setting up smart electricity grids, as well as other water management tech, will bolster Malta's technical prowess in these domains. However, one can notice that there are also highly sensitive issues which are interlinked with such investments. While these investments are marvelous gains for Malta, these perks bring along other security concerns which are worth addressing.

Whenever a Chinese state-owned enterprise is analyzed in its involvement in a foreign economy, it is important to keep in mind that such enterprises are an extension of China's state-led economic system (Hooijmaaijers, 2019). While SOEs are seeking to make a profit, like any other private enterprise, their primary motives may not always be guided by commercial interests, but rather by China's national interest. Taking in consideration this reality, in addition to the corporate structure of SOEs and their ties to the Communist party, makes it very difficult to identify the motives behind their investments, whether it is driven by standard business practices or by state policy.

While the ties to the state are crystal clear when it comes to Chinese SOEs, a more complex picture emerges when we look into Chinese private companies. Due this, assessments towards Chinese private enterprises should be carried out on a case by case approach. As we have seen while going through the corporate structure of Huawei and HNA, both of these private Chinese companies seem to be also intertwined in China's state-led system. In our research we found how both HNA and Huawei benefitted from a network of state-controlled financial vehicles, leading to some form of direct or indirect party influence in their corporate structure (Balding & Clarke, 2019; He, 2020; Yap, 2019).

When one sees this reality from a broader international scope, while taking in consideration the restrictions for foreign companies in China's domestic market, it is safe to say that outbound Chinese investments which carries direct or indirect ties to the Communist party, are simultaneously exporting China's domestic economic distortions to the European market and beyond. It is also important to point out that if a Chinese SOE is acquiring a stake in a European firm, than the investor has the capacity to install their own representatives in the acquired firm's board, as a result the installed representatives would be directly under the influence of the Chinese Communist party. In fact, research has revealed how such a practice could lead to situations of conflict of interest and possibly be harmful to European businesses and political interests (Kamiński, 2017). When viewed from such a lens, it could be argued that certain Chinese investment in Malta and elsewhere, is potentially undermining the international rules-based trade and investment order, since such an activity is the equivalent to a veiled "political-economic extension", in which these investments through the acquisition/establishment of Chinese-European subsidiaries & joint-projects, can act and operate as regional headquarters, like in the case of Malta's partnership with SPIC, and their ventures abroad. While this study is unable to illustrate whether this has occurred in the past, the research notes that there is definitely the conditions for such an activity to take place.

The evidence also suggests that Chinese investments in Malta corresponds with China's Made in China 2025 initiative, which if it is successful, it has the capacity to shift the most profitable components and global supply chains under the direct influence of the Chinese Communist party (Wubbeke et al., 2016).

Similar observations where made when we look into HNA's acquisition of SR technics, which through the acquisition of a swiss company, from Mubadala (a United Arab Emirate's hedge-fun), HNA managed to acquire a physical foothold in Malta International airport. Similar observations could be made when we look at China Merchants Holdings acquisition of a minority stake in France's CMA CGM. From a security perspective such observations tend to contradict the short-term economic benefits gained through these investments, especially when a shift in control of sensitive assets is taking place.

A main concerning issue when it comes to the ties between the Chinese Communist Party and Chinese enterprises is the very same nature of the political regime under which Chinese investors operate.

When approaching the phenomenon of political security, one must keep in mind that China is not a member of the European security network, while having a record of state-led assertiveness towards its western counterparts, many of which are Malta's traditional allies (European Commission, 2019b). As the European Commission has illustrated, China is a systemic rival with a potentially rivalling military, therefore concerns have been raised around EU member states dependency on Chinese investment, which could provide China with political, economic and security leverage. The observations around the politically guided nature of Chinese investment in Malta, gives rise to the possibility of emerging divisions amongst European member states, when it comes to matters which are at odds with Chinese interests, bringing onwards the reality of political influence through China's economic might.

As was mentioned earlier in this study, the case of Greece vetoing the EU's human rights council, is largely interpreted as a result of Chinese capital flowing into Greece's critical infrastructures (Emmott & Koutantou, 2017).

It is also quite apparent that some Maltese politicians & business elite often speak highly of China, which could be interpreted as a result of ever-growing Chinese influence. For example, Sophie Chen the coordinator of a Chinese Investors delegation, is also the international director at the Malta Trust Foundation, an NGO helmed by the former Maltese president Marie-Louise Coleiro Preca, who is renowned for speaking very highly of China (Azzopardi, 2020; Scerri, 2019). Another recent example is from back in March 2020, when Maltese minister for foreign affairs Evarist Bartolo, praised China for handing Malta 110,000 surgical mask in the form of aid for the battle against Covid-19, while simultaneously criticizing the EU and its members for their lack of solidarity (Hudson, 2020).

Another relevant case study, would be that around the allegations made towards Konrad Mizzi, former Energy minister and his wife Sai Mizzi Liang, who was appointed Shanghai business envoy on behalf of the Maltese state. Konrad and Sai are largely accredited for bringing SPIC and Huawei investments into Malta, however more recently Konrad became embroiled in an investigation for alleged corruption. While the case is still ongoing, the enquiry revealed that Konrad is linked to a few questionable deals with a number of people. Among them there are Chinese entities involved, one of which is Cheng Chen, who the enquiry describes as " *one of the Chinese officials who was a key part of negotiations in the purchase by Shanghai Electric Power of the Delimara power station …* " (Costa, 2019b; Delicata, 2018; The Malta Independent, 2017; ToM, 2017a). While court proceedings are still in the pipeline, it is safe to claim that such revelations, as well as other public statements like those made by Malta Political and Business elite, highlights the reality that Chinese economic might has the capacity to be of an influential factor amongst such circles.

The political & economic concerns brought about by Chinese FDI, are seen as relative depending on who is being questioned. An interesting observation made by Corre, seems to be quite relevant in the case of Malta as well. Corre claimed that Chinese Investment has the ability to impact government decision-making, which sometimes is at odds with grassroots views, leading to tensions between the Political elites and grassroots civil society (Corre, 2017). During the Covid-19 pandemic, the opposition in Malta's parliament proposed a utility bill reduction plan, proposing a 50% cut in electricity prices, as one way of mitigating the economic crisis effecting Maltese residents. The opposition argued that since the price of oil dropped significantly, Enemalta is in a position to do so (R. Cilia, 2020). The Labour government has opposed this idea, citing the fact that their "hands are now tied" when it came to reducing electricity tariffs, since China now owns 33% of Enemalta and 90% of the power plant (Diacono, 2020). As one can imagine such a statement was not well received by Maltese residents.

Huawei in Malta: A cause for Concern?

In July 2020, Mark Schapiro, the United States Chargé d'Affaires in Malta was questioned about his thoughts on Chinese Investment in Malta, he replied by stating that he would not look at Chinese Investment in a vacuum, but rather in a context of a very large competitive landscape (Martin, 2020). A description which perfectly echoes the observations which were made by various scholars which have been referred to in this research and its theoretical framework towards the international political economy.

Schapiro went on to highlight the fact that a company like Huawei has certain obligations under Chinese laws, which the Americans perceive as risks to data integrity, secrecy, privacy as well as matters of sovereignty (Martin, 2020).

The European Union and some of its member states recognize the security vulnerabilities posed by Chinese technology in their 5G infrastructure, issuing their own "5G plan", which even though it is not an all out ban, it encourages national governments to take into account important elements, like where is the investor headquartered, and what surveillance legislation is the investor subjected to (Cerulus, 2020). This has encouraged countries like Latvia, Estonia, Poland, to sign agreements with the US on 5G security, in order to diversify their 5G infrastructure, with some already aiming to excluding it completely from their infrastructure in the coming future. The UK aims to do so by 2027, while France's plans are by 2028 (Sheng, 2020; Tcheyan & Haenle, 2020).

More recently, in an article published by Reuters, a Danish telecom research firm, did an assessment on pre-existing tech gear used in 4G mobile network infrastructure around European states, it has been revealed that only 3 countries in Europe depend fully on Chinese tech, one of which is Malta (Virki, 2020). Since the researcher had no access to the Huawei-Maltese Government MoU, it is difficult to know precisely as to what extant does Huawei impact Malta's telecommunications and digital infrastructure however it is safe to say that its presence is quite significant, at least based on the data gathered from official government press releases and other gathered data.

Apart from concerns surrounding Malta's high degree of dependency on Huawei for their mobile network infrastructure, Huawei also has role in the "safe city" project, an operation of mass surveillance, which little is known about in the public domain (Borg, 2019). In 2019, Robert Strayer, the US deputy assistant secretary for Cyber and International Affairs expressed his concerns around the use of such tech, and the potential risks for the data gathered to end up in other places, such as Beijing. In response to these claims, Joe Cuschieri, the Director of Safe City Malta, stated that the use of facial recognition technology has been ruled out by the Maltese authorities, however they will be employing another advanced surveillance tool, which *" … detects changes in the visual atmosphere to signal the possibility of an act of crime or unrest "*. While Cuschieri assures the public that all risks and necessary precautions have been taken into consideration, insisting that all measures of surveillance will be in line with the necessary legal and regulatory processes, Strayer points out that the biggest cause for concern lies in the fact that Chinese laws compel their companies to cooperate with China's intelligence and security services without any independent judicial controls (Vella, 2019). Strayer's concerns are indeed very much in-line with those echoed by countries like the US, UK and France, as well as China's aspirations around Made in China 2025 and its grander-strategic approach towards the international order. With these affairs in mind, there seems to be the conditions for a potential security concern for Malta, as well as other stakeholders, like EU members or other regional allies who's data, even possibly intellectual property, might end up being gathered by Malta's infrastructures, especially when one takes in consideration warnings and observations made by other countries, as well as other highlighted vulnerabilities like Malta's dependency on China for its digital and telecommunications tech and China's contemporary aspirations.

While this opinion might be wrong, since it is solely constructed on open-sourced data, more transparency around the Memorandums of Understanding with Huawei, could indicate better the risks tied to this investment, however based on the findings in this study it is safe to assume that Huawei does play a significant role in Malta's Digital and Telecommunications Infrastructures. While Malta never had any official confrontations with China for whatever reason, it is increasingly evident that Malta's traditional allies, like the EU, UK and others are increasingly becoming assertive with China. Malta's dependency on China in certain domains, could potentially be used to leverage Malta's political power both domestically and abroad. While this occurrence might seem far-fetched, the conditions for such a phenomenon are definitely there. The reality revealed by this research legitimize the need for further scrutinization and research around the security implications which come along FDI from China.

7.3) Conclusion and Suggestions:

This study was primarily concerned at answering the question " Are there any potential security challenges in relation to Chinese FDI in Malta? " however, this question cannot be addressed properly with a straight forward answer, rather requiring a methodological approach which guides the audience through the study's analytical process. Initially, the researcher provided the audience with an introduction to the context we are engaged in, by drawing bits and pieces from various literature and case studies, in order to construct a holistic picture. The theories and frameworks utilized in this study were various, ranging from International Relations theory, to security and geo-economics, which have played a crucial role during the processing of the gathered data. The diversity and broadness of these theories are a reflection of the interdisciplinary nature of the phenomenon this study has been engaged in, requiring a fluid, inter-linked wide spectrum of tools which could be oriented in accord to the data gathered.

The Methodology utilized to answer the dissertation question, was systematically divided into three objectives. Firstly, the researcher explored EU – Malta – China affairs which are considered to be relevant to this research, in order to gain a holistic picture of their diplomatic and economic relations.

Then the researcher utilized regulation 2019/452's criteria, in an attempt to identify which Chinese investment in Malta would be flagged by the EU's FDI screening mechanism. The data gathered from public sources has been cross-examined with the Regulation's criteria, and the qualified investment has been illustrated in Tables 8.1 & 8.2.

As expected, one of the biggest limitations this study had encountered was around access. As mentioned earlier in this study, the researcher was unable to access data which was considered to be strictly confidential like official FDI figures between China-Malta past 2013, or certain other agreements like the MoU between the Maltese government and Huawei, which would have contributed greatly to this study. Additionally, the researcher has initially attempted to carry out interviews with three governmental institutions, which are well involved between Malta-China economic relations, unfortunately only one institution has expressed interest in participating. There is no doubt that when it comes to Sino-Maltese affairs there is a need for more transparency and access, from the local authorities towards civil society, which could lead to better research and more effective resolutions.

Nonetheless, Primary sources like Government press releases and available MoUs', and Secondary sources like news articles, journals and international think tanks, provided the study with enough data for an analysis to be carried out.

The Identified Investments were thoroughly analysed through this study's theoretical frameworks. The infrastructure involved, the sector, ownership structure, as well as other relevant data which made it into the public domain, were all taken into account on a case by case basis.

This analysis has been based strictly on publicly available data up to beginning of August 2020, as well as the contemporary international context, hence future occurrences or revelations of current inaccessible data, might provide grounds for an ulterior security assessment, rendering the study temporal in nature. Nonetheless, based on the assessment carried out in this research, a number of potential security challenges have been identified, cutting across the Political & Economic domains, as well as Digital/Cyber & Telecommunications, as illustrated in various examples.

One way for Malta, to address its vulnerabilities is to identify its critical areas, assess their dependencies and plan on how to diversify that reliance. The interdisciplinary nature of such assessments requires the input of specialized personnel who have a thorough understanding of the international political economy and geo-economics. While it is understandable that this might not be an easy feat, Malta being a member of the European Union, while also being constitutionally bound to maintain its independence, must channel its dependencies in a manner which reflects the international balance of power, in an attempt to safeguard itself from being in a position which can be leveraged against its interests or obligations.

There are various ways Malta could do that without the need to burden itself with extreme costs. For example, when it comes to its telecommunications, Malta could utilize new innovations like Japan's Rakuten, providing it with alternative channel for 5G, while diversifying its dependency, without the need to invest heavily in its infrastructure (Fildes, 2020). Incentivising the private sector to diversify their suppliers, is another strategy which could address dependency issues. In fact the first initial attempts are already being made by private enterprises (Calleja, 2020). This is just one possible solution for a particular case, however as this research has confirmed, security challenges can come in a variety of forms, each requiring an interdisciplinary tool-kit in order for a solution to be reached.

The analysis also suggests that there is another, and as far as the researcher can see, much less discussed concern which could be linked to Chinese FDI; the potential for corruption between local and Chinese actors (public and private), which is arguably enhanced by the opaque economic and legal systems in which such activity occurs in.

For more elaborate and effective resolutions, there is a definite need for further research around the implications of FDI on the political and economic domain; In the case of Malta, particular attention should be given to research around the porousness between the political and business elite, and their role in such a context.

While much more research needs to be carried out in the field of FDI and Security not only in Malta, but globally, this dissertation has managed to establish a founding base for future scholars interested in researching this phenomenon in Malta. The findings in this study will also be of a relevant contribution to policy makers and think tanks alike, in particular those who in the past had to exclude Malta from their papers due to a lack of research in such affairs.

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