# GATEKEEPING EUROPE: THE EU'S FDI SCREENING MECHANISM IN A SHIFTING GLOBAL ORDER

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***Abstract:***

*This paper examines the development of the European Union's Foreign Direct Investment (FDI) Screening Mechanism as a response to mounting geopolitical tensions and the securitisation of economic policy. It traces the progression from the coordination-based Regulation (EU) 2019/452 to the more assertive 2024 reform proposal, showing how strategic concerns – particularly over Chinese investment – have reshaped the EU's approach to foreign capital. While aiming to balance strategic autonomy with continued openness, the EU has seen declining FDI inflows and a shrinking share of global investment, raising concerns about competitiveness. By assessing policy developments and investment trends, the paper evaluates whether the screening regime can enhance economic security without fragmenting the single market or deterring investment. The findings highlight the EU's effort to reconcile liberal market commitments with growing demands for control, resilience, and geopolitical awareness.*

**Keywords:** foreign direct investment, strategic autonomy, investment policy, economic security, global competition.

## Introduction

The convergence of economic and security policy has become a defining feature of the European Union's governance architecture in the 21st century. As geopolitical rivalries intensify and the liberal international order fractures, the EU has been compelled to reconsider its traditionally open approach to foreign direct investment (FDI). What was once perceived as a politically neutral flow of capital is now increasingly understood as a potential conduit of strategic vulnerability and geopolitical influence.[2,3]

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1 This paper was prepared within the framework of the project *„Contemporary Trends in FDI Regulation and Promotion (CT-FDI-RAP)"* at the Bratislava University of Economics and Business.

2 Rosén, G. & Meunier, S. (2023), *Economic Security and the Politics of Trade and Investment Policy in Europe*, Politics and Governance, Vol. 11, No. 4, Cogitatio Press, Lisbon.

3 Farrell, H. & Newman, A. (2019), *Weaponized Interdependence: How Global Economic Networks Shape State Coercion*, International Security, Vol. 44, No. 1.

At the heart of this transformation lies a fundamental paradox. The EU seeks to remain open yet secure; to attract foreign investment while preserving both national and supranational sovereignty; to uphold interdependence without drifting into strategic dependency. Regulation (EU) 2019/452, which established a framework for the screening of FDI on grounds of security and public order, is the institutional expression of this policy contradiction.[4] Initially introduced to support coordination among Member States in evaluating FDI on security grounds, the mechanism has been evolving into a core element of the Union's economic security agenda – an attempt to reposition the EU as a *strategic gatekeeper* in global investment flows.

This regulatory shift must be understood in the context of the EU's broader pursuit of strategic autonomy.[5] While the Union remains formally committed to market-based principles and openness to global capital, the institutionalisation of investment screening marks a departure from the liberal economic orthodoxy that long underpinned both its internal market and external trade and investment policies. At stake is the EU's capacity to balance competitiveness with security, to shield critical technologies and infrastructure without undermining investor confidence, and to preserve cohesion across a highly diverse regulatory landscape.

This paper addresses a central question: How does the EU's FDI Screening Mechanism navigate the tension between safeguarding strategic autonomy and maintaining openness to foreign capital? It traces the evolution of the screening framework from its 2019 origins to its proposed 2024 reforms, examines its uneven implementation across the Union, and assesses its implications for the EU's role in a more contested and multipolar global economic order.

## The Evolution of the EU's FDI Screening Mechanism

The emergence of a coordinated EU approach to foreign direct investment (FDI) screening is a relatively recent phenomenon, rooted in a broader shift from liberal economic governance to a more security-conscious regulatory paradigm. Until the mid-2010s, the EU remained institutionally committed to open capital markets, and foreign investment was largely seen through the lens of economic efficiency and legal neutrality. However, a confluence of geopolitical pressures – ranging from the increasing global footprint of state-driven investment actors to growing tensions with Russia – catalysed a significant institutional response.

Before 2019, only a subset of EU Member States maintained national-level screening mechanisms, and there was no formal structure for coordination at

[4] Regulation (EU) 2019/452 of the European Parliament and Council, OJ L 79, 21.3.2019.

[5] European Commission (2023) An EU Approach to Enhance Economic Security, IP/23/3358, available at: https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_23_3358/IP_23_3358_EN.pdf

the Union level. The adoption of Regulation (EU) 2019/452 marked the EU's first serious step toward a collective investment screening framework. Rather than creating a centralised authority, the regulation introduced a cooperation mechanism enabling Member States and the European Commission to exchange information and raise concerns about specific transactions that might affect security or public order. Importantly, the Commission gained the ability to issue non-binding opinions on investments impacting projects or programmes of Union interest (such as Galileo or Horizon Europe)[6].

The regulation also laid out a set of screening criteria, including impacts on critical infrastructure, technologies, dual-use items, and access to sensitive data. Although its legal scope was modest, the regulation signalled a new institutional logic in EU trade and investment governance – one that acknowledged FDI as a potential channel for strategic risk.[7]

The framework was quickly tested by a series of crises that exposed the vulnerabilities of Europe's economic openness. The COVID-19 pandemic intensified concerns over foreign acquisitions of firms in sensitive sectors, prompting the Commission to issue guidelines urging Member States to guard against „opportunistic takeovers".[8] Russia's invasion of Ukraine further amplified security concerns, particularly in the energy and defence sectors, reinforcing the rationale for tighter investment scrutiny. Meanwhile, Chinese investments in critical technologies, infrastructure, and manufacturing raised alarms about long-term dependencies and state-driven economic influence. These events contributed to the reframing of FDI screening as not merely a defensive tool, but also a pillar of the EU's evolving economic security strategy and industrial resilience agenda.[9]

Recognising the limitations of the 2019 regulation – chiefly its reliance on voluntary Member State participation, uneven national coverage, and the absence of enforcement mechanisms – the Commission proposed a new regulation in January 2024.[10] This proposal aims to create a more harmonised and effective system across the single market. First, it would make national screening mechanisms mandatory for all Member States, closing gaps in coverage and reducing opportunities for regulatory arbitrage. Second, it standardises the scope of national mechanisms by requiring the screening of investments in sectors and entities listed in two annexes: Annex I (projects and programmes of EU interest)

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[6] Jong, B. & Zwartkruis, W. (2020) The EU Regulation on Screening of Foreign Direct Investment: A Game Changer? European Business Law Review, vol. 31, issue 3, pp. 447-474.

[7] Kim, B.,Choi, H., Jung, H. (2021) The EU's Foreign Direct Investment Screening Framework: Current Status and Future Implications." Korean Journal of European Integration, vol.12, no.1, 2021, 155-176.

[8] European Commission. (2020). Guidance to the Member States concerning foreign direct investment and free movement of capital from third countries, and the protection of Europe's strategic assets. Brussels, C(2020)1981 final.

[9] van Zon, W. (2023). The application of Regulation 452/2019 in response to Chinese foreign direct investment. Legal Issues of Economic Integration, 50(2), 129-164.

[10] Crivoi, A. (2024), *EU FDI Screening - Level Up in Multilevel Governance? The Commission's Proposal for a New Regulation on the Screening of Foreign Direct Investment into the Union*, Zeitschrift für Europäisches Wirtschaftsrecht, 27(2):241-261

and Annex II (critical technologies, infrastructure, and services vital to public order and security). Third, it expands the scope of screening to include indirect control, such as acquisitions conducted through EU-based subsidiaries of non-EU investors – addressing the increasing sophistication of deal structures designed to circumvent scrutiny.[11]

The proposal also enhances procedural coordination. It strengthens the EU-wide cooperation mechanism by mandating information-sharing for „notifiable investments“ and introduces specific rules for managing multi-country transactions. A centralised database and clearer procedural timelines are also included, improving transparency and efficiency. Moreover, while greenfield investments were theoretically covered under the 2019 regulation, the 2024 proposal clarifies their inclusion and encourages Member States to scrutinise such investments – especially where they involve the creation of new facilities in sensitive sectors or represent a lasting and direct link between the investor and the EU economy.[12]

Despite these advances, enforcement power remains with national authorities, preserving Member State autonomy over final decisions. Nevertheless, the Commission is granted stronger oversight capacity, including the ability to issue formal opinions on transactions affecting multiple jurisdictions or projects of EU interest. The reformed regime, though not yet enacted, signals a clear institutional turn: from soft coordination toward a more integrated, rule-based, and security-aware investment governance model.

This transformation catalysed a reconceptualisation of FDI screening – not only as a defensive tool, but as part of a broader strategy to protect the EU’s economic sovereignty and technological leadership.[13] Whether the EU can sustain this balance between openness and control without deterring investment remains to be seen. What is clear, however, is that its role as a strategic gatekeeper is no longer aspirational – it is becoming institutionalised.

## Losing Ground? The EU’s Shrinking Attractiveness for Inward FDI

The development of the European Union’s FDI screening regime must be viewed in light of declining investment trends over the past decade. Since 2015, the EU’s attractiveness to global capital has declined, reflecting broader economic shifts and, to some extent, increased regulatory intervention, including the expansion of investment screening. The adoption of Regulation (EU) 2019/452 and its proposed 2024 revision have introduced additional legal complexity and

[11] European Commission (2024), Proposal for a Regulation of the European Parliament and of the Council on the Screening of Foreign Investments in the Union and Repealing Regulation (EU) 2019/452, COM(2024) 23 final, Brussels.

[12] Ibid.

[13] Draghi, M. (2024). The future of European competitiveness: In-depth analysis and recommendations (Part B). European Commission. Retrieved from: https://commission.europa.eu/publications/future-european-competitiveness_en

administrative burden for international investors. While these reforms aim to strengthen strategic autonomy, they have also contributed to uncertainty and delays, reinforcing the perception that the EU is becoming less welcoming to foreign capital.[14]

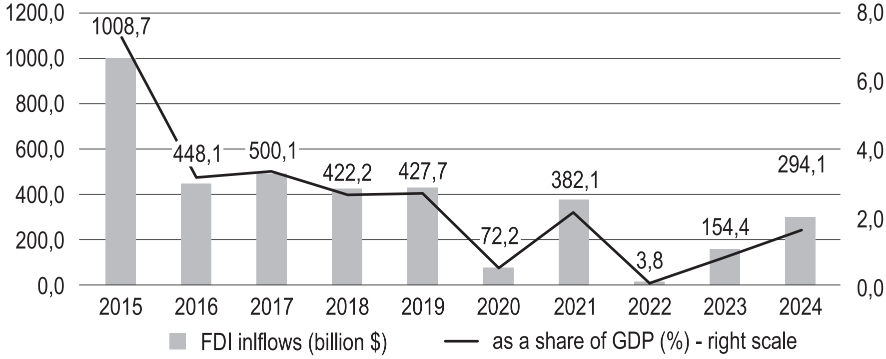


***Fig 1 FDI inflows to the EU*** *(2015-2024, billion USD and % of GDP)*
*Source: OECD*

As shown in Fig. 1, FDI inflows to the EU fell dramatically from $1008.7 billion in 2015 to just $72.2 billion in 2020. Although there was a partial recovery to $294.1 billion by 2024, the overall trend is one of structural decline. Measured as a share of GDP, FDI dropped from 7.8% in 2015 to just 1.7% in 2024, underscoring how foreign capital is playing a diminishing role in the EU economy. The magnitude of this downturn reflects more than pandemic-related volatility – it signals a fundamental shift in the investment climate.

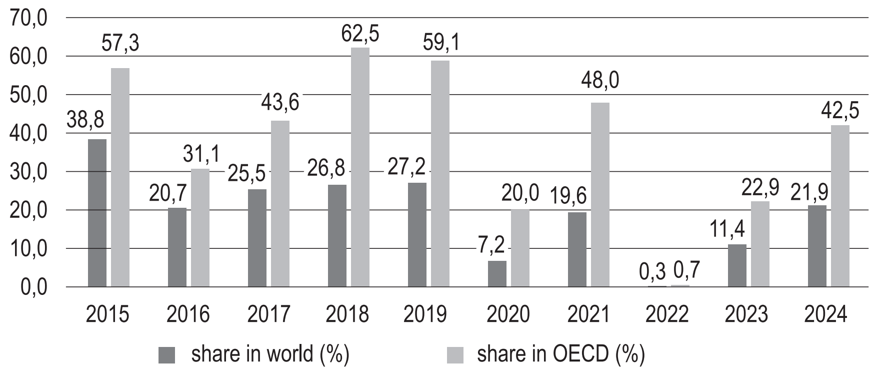


***Fig 2 EU share of global and OECD FDI inflows*** *(2015-2024, %)*
*Source: OECD*

Fig. 2 further highlights the erosion of the EU's global position. The EU's share of global FDI inflows collapsed from 39% in 2015 to just 7.2% in 2020, with a modest recovery to 22% by 2024. Within the OECD, the Union's share

[14] Witkowska, J. (2020). The European Union's screening framework for foreign direct investment: Consequences for external relations. Comparative Economic Research. Central and Eastern Europe, 23(1), 19-36.

plunged from over 60% in 2018-2019 to less than 1% in 2022, before recovering to 42.5% in 2024. These relative declines suggest that the EU is not just receiving less investment but also falling behind its peers in attracting it.

This decline in investment has occurred as regulatory scrutiny has increased, reflected in the growing formalisation of screening processes. In 2023, EU Member States handled 1,808 FDI-related cases, of which 56% were formally screened, up from 21% two years earlier. Of those screened, 85% were approved without conditions, 10% with mitigating measures, 1% were blocked, and 4% were withdrawn by investors, reflecting both increased caution and regulatory reach.[15]

Nowhere are these shifts more evident than in the case of China. Under the current EU screening framework, which came into force in October 2020, an estimated 83% of Chinese M&A transactions in 2018 would have triggered a review.[16] Although the regulation does not explicitly mention China, it was motivated by the challenges posed by Chinese capital flows. Chinese investment has raised a cluster of interrelated concerns, including the risk of technological leakage in strategic sectors, foreign control over critical infrastructure, opaque ownership structures that obscure state influence, and a persistent asymmetry in market access between Chinese and EU firms.[17]

Fig. 3 illustrates the sharp decline in Chinese outbound investment to the EU, which coincided with the introduction of the screening mechanism. Chinese investment surged in the second half of the 2010s, peaking at $10.1 billion in 2020. Between 2016 and 2020, annual flows averaged around $8 billion. However, after 2020, investment volumes declined sharply, falling to just $5.6 billion by 2023 – a cumulative contraction of nearly 45% over three years.

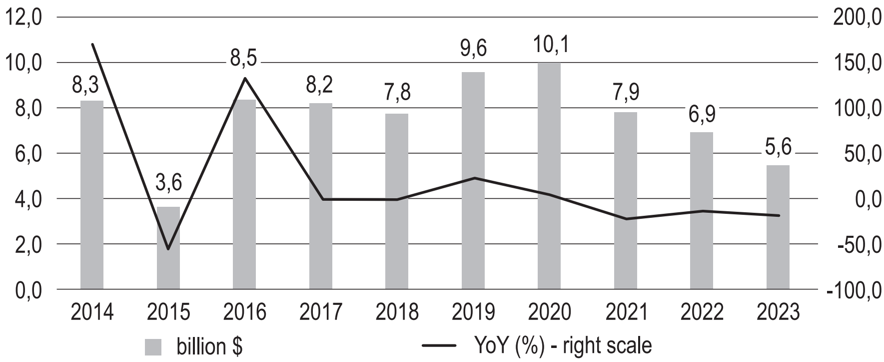


***Fig. 3 Chinese Outbound Investment to the EU***
*(2014-2023, USD billions and year-on-year % change)*
*Source: Bruegel*

[15] European Commission. (2024). *Fourth annual report on the screening of foreign direct investments into the Union* (COM(2024) 464 final). Brussels. p.12

[16] Witkowska, J. (2020). The European Union's screening framework for foreign direct investment: Consequences for external relations. Comparative Economic Research. Central and Eastern Europe, 23(1), p.32

[17] van Zon, W. (2023). The application of Regulation 452/2019 in response to Chinese foreign direct investment. Legal Issues of Economic Integration, 50(2), 129-164

In response to the increased scrutiny, Chinese investors have reoriented toward greenfield investments. By 2023, nearly four out of five Chinese FDI projects in the EU were greenfield in nature – up from just 2% in 2017.[18] These investments are increasingly concentrated in high-growth strategic sectors such as electric vehicles (EVs) and battery manufacturing. Chinese firms, such as BYD, CATL, and Geely, have established production facilities in Hungary, Germany, and France, thereby integrating themselves into European supply chains and circumventing the regulatory constraints associated with acquisitions.

The proposed 2024 reform to the EU's FDI screening framework acknowledges this strategic shift. For the first time, greenfield investments are explicitly included within the scope of examination. This expansion reflects a broader EU policy evolution: from passive openness to active gatekeeping. While security concerns may warrant closer oversight in some cases, there is growing debate over whether screening greenfield projects – especially in politically benign sectors – risks deterring the very investment needed for Europe's green and digital transitions.[19]

## Fragmentation and Internal Tensions in the EU's FDI Screening Architecture

While the EU's FDI screening framework has taken shape around a shared recognition of external risks, its internal architecture remains fractured. Designed as a coordination platform rather than a harmonised regulatory regime, the system reflects persistent asymmetries in institutional capacity, strategic priorities, and political will across Member States. These divergences limit the coherence and effectiveness of screening efforts at the Union level, despite mounting pressures for a more integrated approach.

Member States have adopted widely varying screening mechanisms, with differences in legal scope, administrative sophistication, and sectoral coverage. As of 2024, 23 Member States had implemented national regimes, but these differ significantly in how comprehensively they cover sectors such as critical infrastructure, dual-use technologies, and data security.[20] While countries like France, Germany, and Italy have developed robust regimes with broad mandates and dedicated screening bodies, others have narrower frameworks or rely heavily on inter-ministerial discretion. Smaller states, in particular, often lack the institutional resources to conduct detailed risk assessments or monitor indirect ownership structures effectively.[21]

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18 Ballestracci, E. (2025). The European screening mechanism and its implications for Chinese FDI. IAI Commentaries, 25(07). https://www.iai.it/en/pubblicazioni/european-screening-mechanism-and-its-implications-chinese-fdi

19 Ibid.

20 European Commission. (2024). Proposal for a regulation on the screening of foreign investments in the Union (COM(2024) 23 final). https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52024PC0023

21 Moiseeva, D. E., & Kulinich, A. D. (2024). New architecture of FDI regulation in the European Union. MGIMO Review of International Relations, 17(5), 80-99.

These disparities mirror deeper political-economic asymmetries within the EU. Member States with advanced technological sectors or greater exposure to state-linked foreign investors – especially Chinese – have generally supported more restrictive screening.[22] Conversely, Member States with fewer strategic assets or higher dependence on inward investment have expressed concern about the potential chilling effects of tighter scrutiny.[23] In some cases, political alignment with particular external actors has shaped the openness or caution of national screening decisions, complicating efforts to present a unified strategic posture.

This unevenness is compounded by legal ambiguity and institutional limits. Regulation (EU) 2019/452 allows Member States wide discretion in defining what constitutes a threat to security or public order, without offering a common risk typology. While the regulation establishes a cooperation mechanism requiring information sharing, the Commission's role remains advisory. It can issue non-binding opinions on transactions that may affect Union-wide interests, but it lacks enforcement authority. This legal asymmetry creates a patchwork of national gatekeeping practices, allowing firms to exploit regulatory arbitrage by structuring investments to avoid stricter jurisdictions.[24]

Coordination has improved since 2020, but it remains inconsistent. In 2023, seven Member States (notably Austria, France, Germany, Italy, Spain, Denmark, and Romania) accounted for 85% of notifications to the EU cooperation mechanism. Meanwhile, several Member States with screening regimes in place did not submit a single case in 2023, highlighting persistent gaps in enforcement and coordination.[25]

The proposed 2024 reform aims to reduce this fragmentation by requiring all Member States to establish national screening regimes and comply with minimum procedural and substantive standards. It also introduces explicit coverage of greenfield investments and indirect control, seeking to close loopholes that have allowed strategic investors to bypass existing rules. Yet these proposals have reignited tensions. Some Member States fear that expanded obligations will impose disproportionate burdens, while others view the reforms as creeping centralisation at odds with national sovereignty.[26]

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[22] Chan, Z. T., & Meunier, S. (2022). *Behind the screen: Understanding national support for a foreign investment screening mechanism in the European Union*. The Review of International Organizations, 17, 513-541.

[23] Witkowska, J. (2020). The European Union's screening framework for foreign direct investment: Consequences for external relations. Comparative Economic Research. Central and Eastern Europe, 23(1), p.31

[24] Bian, C. (2021). Foreign direct investment screening and national security: Reducing regulatory hurdles to investors through induced reciprocity. Journal of World Investment & Trade, 22(4), 561-595.

[25] European Commission. (2024). *Fourth annual report on the screening of foreign direct investments into the Union* (COM(2024) 464 final). Brussels. p.14

[26] Chan, Z. T., & Meunier, S. (2022). *Behind the screen: Understanding national support for a foreign investment screening mechanism in the European Union*. The Review of International Organizations, 17, 513-541.

Despite these tensions, investment screening also presents strategic opportunities, particularly for smaller Member States. Enhanced coordination at the EU level can strengthen their analytical and institutional capacities, provide access to shared intelligence, and improve their negotiating leverage vis-a-vis large multinational firms or foreign state-backed investors. Crucially, screening can also support more assertive industrial and innovation policy by enabling governments to shape the terms of market entry. When embedded in a broader strategic framework, investment controls may help extract greater local value from foreign capital through performance requirements, technology-sharing commitments, and linkages to domestic supply chains. In this way, the mechanism can complement, not merely constrain, national development ambitions.

The question now is whether the EU can move beyond a „minimum common denominator" model to a more coherent, rules-based approach capable of addressing systemic vulnerabilities. Such a shift would not require full centralisation but would depend on narrowing interpretive gaps, strengthening institutional support, and building mutual trust. In an increasingly contested global investment environment, strategic convergence within the EU is not merely desirable; it is essential.

## Conclusion

The European Union's turn to investment screening marks a fundamental reappraisal of foreign direct investment – from a vehicle for growth and competitiveness to a potential source of strategic exposure. This redefinition reflects a broader shift in the Union's external economic policy, away from liberal globalism and toward a more security-oriented model of „open strategic autonomy."

This paper has examined the evolution of the EU's FDI screening framework within this changing context. Declining investment inflows have coincided with heightened concerns over strategic dependencies, particularly regarding Chinese state-affiliated capital. These developments have prompted significant institutional change, from the establishment of the 2019 cooperation mechanism to the 2024 proposal mandating screening and promoting greater harmonisation. Screening now forms a central component of the EU's economic security agenda, aligning closely with broader industrial policy priorities, such as technological capacity, supply chain integrity, and control over critical sectors.

More broadly, the institutionalisation of investment screening reflects how EU economic governance is being recalibrated in response to a more contested global environment. It raises unresolved questions about the cohesion of the single market, the limits of regulatory convergence, and the Union's capacity to act as a coherent geopolitical actor. In this context, the long-term success of the screening regime will depend on the EU's ability to reconcile national diversity with effective collective oversight, ensuring that investment control serves not as a fragmented patchwork of national filters, but as a coordinated and legitimate instrument of strategic economic governance.

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