

Article

## Legitimisation of Foreign Direct Investment Screening Among Business Actors: The Danish Case

Anna Vlasiuk Nibe

Department of Political Science and Public Management, University of Southern Denmark, Denmark; [vlasuik@sam.sdu.dk](mailto:vlasuik@sam.sdu.dk)

Submitted: 31 May 2023 | Accepted: 10 October 2023 | Published: 29 November 2023

### Abstract

There has been a conspicuous shift in the European Union's perception of economic interdependence and open markets, manifested in a mushrooming number of screening policies aimed at verifying foreign direct investments raising national security concerns. The introduction of these policies can be viewed as a market constraint that might negatively affect business operations, so it is puzzling that some European business actors did not actively resist their adoption, despite having wide lobbying opportunities in Europe. I explore this puzzle using the case of Denmark by drawing on theories of securitisation and preference formation under uncertainty. I argue that business actors established their policy preferences in the context of uncertainty and the gradual increase in security framing by the European and local political elites. Exposed to these increasing security discourses across different levels and networks, businesses adjusted their policy preferences, balancing between different identities. The flexibility inherent in a multilevel and evolving securitisation process led to the legitimisation of investment screening policies among interest groups and mitigated their resistance to the imposition of market constraints on security grounds.

### Keywords

business interest; foreign direct investment; investment screening; securitisation

### Issue

This article is part of the issue “Economic Security and the Politics of Trade and Investment Policy in Europe” edited by Guri Rosén (Oslo Metropolitan University) and Sophie Meunier (Princeton University).

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### 1. Introduction

In June 2023, the European Commission presented its new Economic Security Strategy based on three key pillars: promoting the competitiveness of the EU to increase economic resilience, protecting the EU from economic security risks, and partnering with countries who share the EU “concerns on economic security,” thereby ensuring “a more resilient and secure economy” (European Commission, 2023, p. 3). This strategy reflects a conspicuous shift in the EU's perception of globalisation, economic interdependence, and open markets. Since the creation of European Communities in 1950s, European leaders worked to establish a liberal economic order based on the idea that economic interdependence both decreases the likelihood of war and increases economic well-being (Bauerle Danzman & Meunier, 2021; De Ville & Siles-Brügge, 2018; Lenihan, 2018; Linsi, 2016),

leading to an explosion of transnational business activity and complex cross-border corporate structures (Baldwin & Venables, 2013; Davies & Markusen, 2021). However, the geopolitical turbulences of the previous decade have led to a reconsideration of this “naiveté” in European commercial policies. One of the earliest manifestations of this shift was the introduction of investment screening policies that permit governments to verify, ban, or condition foreign direct investment (FDI) that potentially threatens national security or public order.

The EU adopted its pan-European Investment Screening Framework (ISF) in 2019, which provides the Commission with advisory competencies, while the member states maintain the decision power to veto proposed FDIs (Regulation of the European Parliament and of the Council of 19 March 2019, 2019). The adoption of this EU ISF led to a proliferation of investment screening mechanisms (ISMs) across member states.

The introduction of investment screening policies can potentially affect business operations. In the short term, they impose material costs and add a regulatory burden; in the long term, they restrict firms' access to alternative investment finance, increase uncertainty, and likely influence business investment decisions (Bauerle Danzman, 2019; Bauerle Danzman & Meunier, 2021; Graham & Marchick, 2006; Wernicke, 2021). Despite these potential negative effects on business activities, the adoption of European screening policies did not seem to face any significant visible resistance from business actors (Schild, 2022; Vlasjuk Nibe et al., 2023; Wernicke, 2021). This is especially puzzling given that business organisations enjoy a favourable environment for lobbying activities in Europe (Dialer & Richter, 2019; Greenwood, 2019) and, thus, allegedly possess wide opportunities to promote their interests. The openness to investment screening expressed by some of the most influential European business interest groups (BusinessEurope, 2018) suggests that the FDI screening policy might have been legitimised among traditionally liberal-minded policy stakeholders. Denmark, in particular, is an interesting case in the European political landscape of liberal actors, because it experienced a radical U-turn in its previous policy with the adoption of its "first ever" cross-sectoral FDI screening legislation in 2021 (Mattlin & Rajavuori, 2023). Given this, the research question posed by this study is whether and how investment screening policies were legitimised among Danish business actors.

Denmark, a long-standing advocate for open markets, was initially sceptical about the idea of FDI screening (Vlasjuk Nibe et al., 2023). However, Denmark not only adopted its own ISM in 2021, but several commentators have suggested that the screening rules are among the most robust in Europe (Danish Business Authority, 2022; Mattlin & Rajavuori, 2023). I draw on the theories of securitisation and preference formation under uncertainty. Theoretically, I follow a dynamic approach to securitisation where the business "audience" is taking part in shaping a perception of "threat" and adjusts its policy stances depending on social mechanisms. Empirically, I show how the necessity of FDI screening has been gradually accepted in liberal-minded Denmark, thus shedding light on possible mechanisms for such acceptance in other liberal member states.

My argument is that businesses shaped their ISM policy preferences in the context of uncertainty and the gradual increase in security framing by European and local political elites. Being exposed to these increasing security discourses across different levels and networks, businesses adjusted their preferences balancing between different identities. The flexibility inherent in a multilevel securitisation process led to the legitimisation of investment screening policies among business groups and mitigated their resistance to the imposition of market constraints on security grounds.

I begin with an overview of the literature on evolving FDI screening practices. I then summarise the analyti-

cal tools used for this study before presenting the empirical findings, followed by a discussion of their theoretical implications. I conclude by summarising the main argument and reflecting upon the significance of the emerging geoeconomic reality for business more broadly.

## 2. Explaining Investment Screening: Do Businesses Play a Role?

A wide range of studies explain why states choose to open economic borders or impose market restrictions. In the light of decades of economic liberalisation, the existing research often looks at commercial policies as a product of cooperation between policymakers and businesses, where governments offer firms access to policy-making in exchange for expertise and support (Dialer & Richter, 2019; Greenwood, 2019; Keller, 2018; Morgan & Ibsen, 2021). Whether such policies result from heavy lobbying and reflect clear business interests (Bauerle Danzman, 2019; Keller, 2018; Young, 2016) or business interests being shaped by governments themselves (Roederer-Rynning et al., 2020; Woll, 2008), the common understanding is that an overall consensus among policymakers and economic interest groups is needed for a policy to be adopted. With regard to FDI regulation, the literature tells us that local business actors tend to (a) push for the restriction of foreign entry to avoid competition and increased labour costs, (b) favour more liberal FDI policies to gain access to foreign technologies or investment financing (Bauerle Danzman, 2019), (c) define their investment policy interests depending on market orientation and structural position (Schneider, 2023), and/or (d) influence concrete investment transactions to advance their commercial interests (Graham & Marchick, 2006). Against this widely accepted perception that domestic firms have clear interests and a strong influence over the outcomes of commercial policies, other scholars emphasise that business actors act reactively under uncertainty and that their interests are shaped depending on institutional and social contexts (Roederer-Rynning et al., 2020; Woll, 2008). Overall, the literature agrees that Western economies have developed under the dominant ideas of open markets and free trade, with business actors playing an important role in this development (Blyth, 2002; De Ville & Siles-Brügge, 2018; Linsi, 2016; Woll, 2010).

However, in the recent decade, researchers have been puzzled by the changing perception of FDI among Western leaders manifested in the widespread adoption or strengthening of FDI screening policies (Bauerle Danzman & Meunier, 2021; Lenihan, 2018). While the scope and extent of investment screenings across advanced economies vary, scholars emphasise common patterns in the proliferation of ISMs, including a broadening of the scope of sector coverage and a lowering of ownership and transaction size thresholds (Bauerle Danzman & Meunier, 2021). There is some debate on the driving forces behind such policies: Some researchers

emphasise the role of the wider public and trade unions (Canes-Wrone et al., 2020) or states' own intentions to secure their power in a peaceful way (Lenihan, 2018), others show how restrictive policies are used by policy-makers to win voters or strengthen authorities (Kang, 1997; Schill, 2019), and still others point to the importance of a perception of "risk" in shaping FDI policymaking (Mattlin & Rajavuori, 2023). In sum, FDI policy studies (a) demonstrate an overwhelming shift in global trends, where the Western world is moving from liberal to restrictive FDI politics; (b) suggest that this shift reflects changing global ideas; and (c) emphasise a complex nature of economic, social, and political reasons affecting government' courses in FDI policymaking.

The problem with these existing explanations is that they have little to say about the role of business actors in emerging FDI regimes, although they assume that businesses might have an interest of their own in this policy domain. Some suggest that governments choose to restrict FDI against the interests of companies, arguing that neither business preferences nor economic competition play a significant role in explaining states' behaviour (Lenihan, 2018). Some scholars mention that businesses can engage in politicising screening processes to advance their commercial interests (Graham & Marchick, 2006). Some say that business actors do not take proactive measures and seem to be uninfluential in bringing about these policies despite some pronouncements against growing interventionism (Bauerle Danzman & Meunier, 2021; Kang, 1997), particularly from firms oriented towards Chinese markets (Schneider, 2023). Some even argue that businesses may be quite open to screening regulations as they allegedly share their goals (Wernicke, 2021) and that some business groups have experienced "ideological reorientation" towards China (Schneider, 2023). Despite these important insights, existing research falls short of explaining how business actors perceive investment screening policies, whether and how they engage with policymakers in their development, and if not, then why? Moreover, researchers recognise this gap and call for more knowledge about the role of companies in shaping international investment policy and particularly screening regulations (Basedow, 2019; Bauerle Danzman & Meunier, 2021).

This study takes a first step in addressing this gap by examining the adoption of investment screening policy in one of the most liberal-minded European countries in the context of a wider regulatory reform in the EU. Existing research tells us that the Danish ISM is a result of changed risk perceptions on Chinese FDI among political elites (Mattlin & Rajavuori, 2023), yet we know little whether economic actors—whose support is allegedly needed in commercial policymaking—share these risk perceptions and what role they played in the policy adoption. It is time to discover business policy stances on ISM as well as their interactions with policymakers on this matter.

### 3. Analytical Tools and Method

The study has been conducted via an abductive approach, starting with exploring the literature in fall 2021 and followed by a "pre-study" with a series of interviews in early 2022. In mid-2022 and early 2023, I moved back and forth between exploring possible theoretical explanations, conducting interviews, and document analysis. As a result, the choice of theory was "data-driven" and emerged in the continuous process of moving back and forth between data collection and theorising (Tavory & Timmermans, 2014).

Existing research often explains business policy stances in investment regulation based on rational choice models (Bauerle Danzman, 2019; Schneider, 2023), where businesses are deemed rational actors with clear "exogenously given" interests. These models are based on a materialist understanding of business "rationality," linked to welfare maximisation, and are well suited to explain economic actors' behaviour in situations of institutional stability and well-functioning markets. However, they often fall short of explaining business behaviour in more complex and uncertain situations, where firms' behaviour does not follow the "rational" economic self-interest predicted by the rational choice models (Blyth, 2002; Campbell, 2004; Roederer-Rynning et al., 2020; Woll, 2008). To explain economic actors' behaviour in the context of complex and uncertain situations, some scholars turn to the social constructivist paradigm, which highlights the role of ideas and discourses, as well as identities and social norms in shaping agents' behaviour. To account for the seemingly "irrational" behaviour of market actors, constructivist scholars do not necessarily claim that firms act against their "basic" economic self-interest; instead, they suggest that "rationality" is constructed in the given institutional and social context, which influences agents' perceptions on themselves, their interests and policy preferences (Abdelal et al., 2010; Roederer-Rynning et al., 2020; Woll, 2008).

Given that the data on the development of the Danish ISM in a complex multilevel setting comprises a variety of policy ideas, actors, and existing conventions, and against the background of growing geopolitical tensions, I relied on the social constructivist paradigm, which seems to be more helpful in understanding businesses' policy stances in such a compound setting. Particularly, I aim to bridge insights between the constructivist framework of "Knightian" uncertainty and securitisation theory. While the theoretical path of uncertainty is an established and recognised approach in international political economy literature and can be helpful in understanding market actors' behaviour in commercial policymaking (Abdelal et al., 2010; Woll, 2008), it might not be sufficient to account for compound policymaking where commercial and security policies merge. The theory of securitisation (Emerson, 2019), which attempts to explain why certain phenomena become accepted as threats, can offer valuable

insights into how new security discourses can enter the commercial policy domain and how they can be accepted and/or modulated by market actors.

While acknowledging that “business” is not a homogeneous group of actors (Boräng & Naurin, 2015; Schneider, 2023), for analytical purposes I use a “generalised perception” with respect to their policy stances. First, the analytical choice is dictated by the research question, which focuses on determining whether there were common patterns in accepting the introduction of security-motivated investment screening among diverse business groups. Second, this choice seems possible due to the structure of the Danish economy dominated by the service sector (O’Neill, 2023) and labelled as a “research and development hub” in the European map of FDI attraction profiles (Reurink & Garcia-Bernardo, 2021). This suggests a relative level of “homogeneity” in the business community and allows for analytical generalisation. Moreover, this choice also follows the data gathered across the most influential business organisations in Denmark that unite a large variety of companies across size and industry and that represented these companies in the policy negotiations based on a “funnelled” common policy position. The data suggest that, regarding FDI screening policy, these business organisations shared common grounds.

### 3.1. Policy Stances Under Uncertainty

“Uncertainty” is an important concept in explaining economic actors’ behaviour, yet there are different understandings of this concept in the literature. Generally, we can distinguish between “probabilistic” and “genuine”—or “Knightian”—uncertainty. The former refers to situations in which economic actors are capable of assigning probabilities to potential outcomes as well as rationally calculating costs and benefits in relation to an anticipated event, often drawing on information from past behaviour. The latter, on the other hand, relates to situations when an outcome is perceived as unique, actors lack information about “means and ends,” and thus are not able to assign probabilities to outcomes to rationally “calculate” their interest (Abdelal et al., 2010; Blyth, 2002; Woll, 2008). As a result, when the future is unknown and there is no past experience to rely upon, actors make sense of their self-interest through social interactions relying on social mechanisms (networks, institutions, identities, and beliefs). Business policy preferences, in turn, are informed by the identities, i.e., role-specific translation of the self-interest (e.g., a “national champion” or a “competitive player”) and context-dependant beliefs on how to achieve this interest via public measures (Woll, 2007, 2008). The concept of “Knightian uncertainty” can help clarify business incentives in the context of a regulatory U-turn where there is no experience in cross-sectoral investment screening.

Chronologically, when facing uncertainty in the form of regulatory reform, businesses undergo a sequence of

phases. In the early stage, firms are typically confused because they have little understanding of the nature and consequences of the policy. Thus, they tend to cooperate with institutional actors and each other to gain and assess the relevant information. During the next phase, businesses need to decide on an action plan, where some will choose to mobilise, while others will remain silent or even lobby against the reform. However, in the process of social interactions, businesses gradually accept the strategic change to be introduced into the market and adjust their preferences according to institutional, social, and normative context, where their interests and identities can be changed or modulated (Woll, 2010).

### 3.2. Securitisation

Securitisation theory focuses on the discursive strategies of a state in its attempts to turn a policy issue into a security problem, highlighting the performative effects of security discourse. It was originally developed by the Copenhagen School based on the key concepts of the “speech act” (a performative act by the “securitiser” framing a political issue as a “threat”), the “securitiser” (typically, a “state”), and the “audience” (a group of policy stakeholders targeted to “accept” the threat; Buzan & Wæver, 1997; Buzan et al., 1998).

Though the theory has been criticised (Anthony et al., 2006; Booth, 1991; Corry, 2012; Hansen, 2000; Salter, 2008), it offered important insights into our understanding of “security” fostering further analytical developments and academic debates. Today, securitisation theory has a variety of schools (Wæver, 2012) and approaches (Carrapico, 2014) and serves as a “fruitful approach” to explain a broad variety of issues from environment and health to cyber-security and interstate rivalries, thus, gaining relevance in a “growing number of political contexts” (Balzacq et al., 2016, p. 507). This study takes the securitisation theory further to probe its explanatory capacity in the field of FDI regulation.

I follow the so-called process-oriented approach to securitisation, which, drawing on the original conceptual “trinity” suggested by the Copenhagen School (securitiser, speech act, audience), expands the analytical toolkit by seeing securitisation as a “process” rather than a single act (Emerson, 2019). This process-oriented approach reconceptualises the “speech act” as a “securitising move” which is “constructed over time through a range of incremental processes and representations” (McDonald, 2008, p. 564). Further, it expands the view of a securitiser seeing this actor as being shaped in the course of securitising move rather than being a fixed rigid subject, and of an audience, which participates in shaping the perception of “threats” rather than passively accepting it (Emerson, 2019).

For analytical purposes, I use the process-oriented approach to securitisation as an epistemological framework. The underlying ontology of this study is a wider constructivist perception of the context-dependent

nature of various policy stances. In other words, I use the theoretical account as a heuristic instrument to build up the best possible explanation of a particular outcome (Beach & Pedersen, 2013).

The process-oriented approach (Emerson, 2019) to securitisation offers a chronology of securitisation as follows. *Before* the securitising move, securitisation is shaped by conventionality, that is, the ideas, beliefs, and expectations of the “audience,” which is thus involved in the identification of the threat. *During* the securitising move, the “securitiser” moves from the undefined content of security to formulating the particular decision. *After* the utterance, securitisation is the mobilisation of the audience, which concerns the audience’s “investment” in the social field and practices (Emerson, 2019).

### 3.3. Summing up: Business Policy Stances in the Context of Securitisation

The two suggested approaches “speak well” to each other in several ways. First, they both look at cooperation between policymakers and policy stakeholders and the co-creation of new “cognitive categories” in the context of policymaking. Second, both approaches highlight the importance of the ideational background that actors rely upon when interpreting the situation. Finally, both approaches see business actors—or the “audience”—as participants in a dialogue rather than passive actors accepting the logic of the states’ framing or powerful lobbyists pushing for their interest.

While sharing these conceptual similarities, these theories can complement each other. Securitisation theory allows us to explain the emergence of the concept of “threat” that justifies market restrictions by looking at the process of states’ utterances on emerging security issues and the modulation of business “audiences” by drawing on existing ideational conventions. Interest formation theory, on the other hand, can help explain how businesses make meaning of new discourses and shape their policy preferences in a new political and regulatory reality.

To sum up, in the context of this study, I treat businesses as an “audience” whose policy preferences are shaped in the context of securitisation. I take the chronology of securitisation as the basic framework for analysis and trace how business policy stances crystallise at each stage of the process.

*Before* the securitising move, states try to formulate a security threat while considering existing conventionality. For businesses, this is shaped by the institutional setting (e.g., an open economy), identities (e.g., liberal profit-makers), and resulting expectations (e.g., keeping markets open). The indication of potential regulatory reforms creates uncertainty and forces businesses to learn about its nature through social interactions.

*During* the securitising move, the states use discourses to formulate their vision of a “threat” and present policy ideas on how to address it. For business,

this stage involves making meaning over new categories and deciding on the plan of action based on their beliefs and identities.

*After* the utterance, states seek to mobilise the business “audience” to support the securitising move. Businesses tend to invest in the “co-creation” of and “self-modulation” in the new reality by making meaning of the new policies and by exercising practices on their implementation and evaluation.

### 3.4. Methodological Considerations

I rely on a qualitative methodology, with process tracing as the main method. I follow Beach and Pedersen (2013), who distinguish between theory testing, theory building, and explaining outcome process tracing based on the purposes of a study, as well as on the distinctive ontological and epistemological premises underlying it (Beach & Pedersen, 2013). Following this distinction, I conduct the “explaining outcome” process tracing, which aligns with the constructivist ontological premise of the article, the explanatory nature of the study, and the abductive way of conducting the research. I trace the development of the Danish ISM to identify the key constitutive stages of this process and explore the evolution of business FDI perception and ISM policy preferences across time (from early debates to implementation) and space (from European to Danish levels). My data sources include policy documents related to the development of the EU and Danish investment screening legislation, media reports, business–government correspondence, and 13 extensive elite semi-structured interviews with representatives of EU and Danish institutions and business groups (for the interviews summary, see Table 1).

## 4. Findings

Below I present the findings on the gradual acceptance of FDI as a “threat” by business actors and their respective policy preferences placed in the context of policy development. The process is traced from early debates on European investment screening until the first attempts to evaluate the implementation of Danish ISM at the time of writing (see Figure 1). The sequential approach chosen to present the findings demonstrates how business policy stances developed over time in the context of evolving security discourses across different political levels.

### 4.1. Emergence of the Debate: “Free Traders” Against “Protectionists” (2010–2017)

#### 4.1.1. Policy Development Context

The EU experienced two waves of discussion on the necessity to screen FDI (in the early 2010s and 2016–2017), both triggered by unusually high bids from Chinese investors aiming to acquire European tech companies. In the 2010s, the Commission put an end to



**Table 1.** Interviews summary.

Code	Date	Length (hours)	Affiliation
1BA1S1	06.01.2022	1	Business association
3EPM1	07.01.2022	1	European Parliament
4BA2S1	07.01.2022	1	Business association
6BA3EUI	18.01.2022	1	Business association
7COM2DGT	20.01.2022	1.5	European Commission (two officials)
8EPM1	27.01.2022	1	European Parliament
9ORG1S1	28.01.2022	1	Ministry
12PR1S1	17.01.2023	2	Governmental authority (two officials)
14ORG1S1	18.01.2023	1	Ministry
17BA1S1	19.01.2023	1	Business association
19BA2S1	07.02.2023	1	Business association

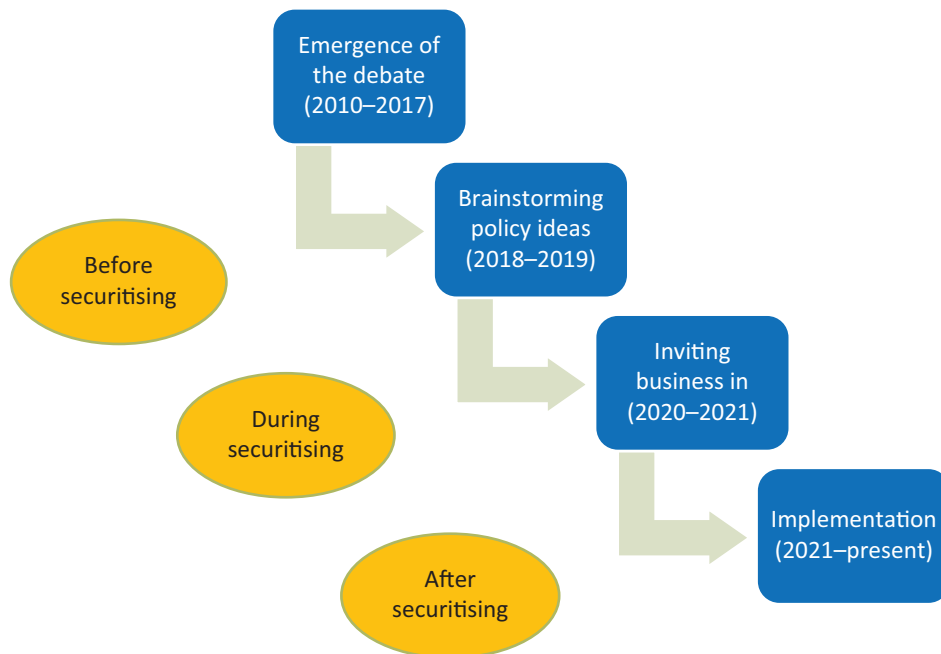
the debate, seeing such policies as protectionist. Later, in 2017, following the call of France, Germany, and Italy to propose pan-European FDI screening legislation, the Commission submitted its proposal on the EU ISF. At the dawn of this policy development, the majority of European policymakers and stakeholders were sceptical about the idea of FDI screening in Europe for various reasons from traditional ideological adherence to “open markets” to an unwillingness to jeopardise FDI flows from China (Vlasiuk Nibe et al., 2023).

At the time of submission of the proposal, the security aspects of FDI in Denmark were addressed by a limited regulation focused on a narrow area of warfare equipment and the energy and climate aspects of the continental shelf (“Investment Screening Act introduced in the Danish Parliament,” 2021). Moreover, Denmark

entered the European debate with little enthusiasm towards FDI screening: Being dependant on foreign markets and global trade, Denmark belonged to the “free traders” camp of member states who advocated for open markets and facilitation of FDIs, which included the UK, Netherlands, Sweden, Finland, and occasionally, Baltic states (Interviews 1BA1S1, 4BA2S1, 9ORG1S1, 14ORG1S1, 17BA1S1, 19BA2S1). Back in 2016–2017, the Danish liberal-minded position was even more pronounced with liberal government at the wheel (Interviews 9ORG1S1).

#### 4.1.2. Business Position

At this stage—“before the securitising move”—the position of Danish businesses on FDI screening was aligned



**Figure 1.** Development of Danish ISM: Key stages.

with the position of the Danish state and was shaped by “existing conventions” in several ways. First, both Danish business and the government perceived Denmark as an open and modern economy dependent on FDI to secure welfare and economic growth. Thus, the idea of market constraints was understood negatively, as potentially harmful for the Danish economy and “not in the interest” of local business. Second, the idea of investment screening was seen as “another” attempt to promote protectionism pushed by the “traditional” proponents of protectionist policies such as France and Italy. Finally, the belief of the necessity of keeping markets open was shared across businesses identifying themselves with member states from the “free traders” camp—the “Northern alliance”—against the protectionist “others” (Interviews 1BA1S1, 4BA2S1, 9ORG1S1, 17BA1S1, 19BA2S1).

#### *4.2. To Screen or not to Screen? Brainstorming Policy Ideas (2018–2019)*

##### 4.2.1. Policy Development Context

The EU ISF proposal was submitted in September 2017 with no impact assessment, yet it was followed by a three-month public consultation held until December 2017. The consultation resulted in only three official responses from business organisations, yet fewer business position papers addressing FDI screening were published in the following years. During policy negotiations in 2018, the Commission organised an outreach campaign involving a variety of interest groups. First, the campaign aimed to explain and clarify the upcoming regulation to policy stakeholders. Second, the Commission tried to gain stakeholders’ support in light of the potential political contestation around the policy proposal. To ensure that business organisations were open to the EU ISF, the Commission particularly advocated for a limited security-oriented screening, confidentiality commitments, tight deadlines, and minimum administrative burden for EU-level filing. While navigating between different actors with various interests, the Commission pursued “light-touch” EU-level regulation, serving as the lowest common denominator for the diverse landscape of EU policymakers and stakeholders (Vlasiuk Nibe et al., 2023).

After a rapid negotiation process in 2018, the EU ISF was adopted in the first reading in March 2019 in a record-short period of 18 months. The legislation aimed to enter into force in October 2020, which coincided with the outbreak of the Covid-19 pandemic. The pandemic raised concerns about supply chains, vulnerabilities in critical infrastructure, and national security, leading the Commission to call upon member states “to set up a fully-fledged screening mechanism” to address potential security risks posed by acquisition or control by a foreign investor of “a particular business, infrastructure or technology” (European Commission, 2020).

In Denmark, a working group entitled to develop a legislative proposal on ISM was established in April 2018, comprised of the Ministry of Justice, Ministry of Finance, Ministry of Foreign Affairs, Ministry of Industry, Business, and Financial Affairs, Ministry of Defence, and Ministry of Climate, Energy, and Utilities (Erhvervsministeriet, 2020; Interview 9ORG1S1). It faced the hard task of developing brand-new legislation with very few ideas on the matter and, thus, organised a two-stage process to learn from the existing screening systems. The first “desktop investigation” stage (Spring–Summer 2018) included a broad examination of the existing screening systems in other states, which were then narrowed down to six: Finland, France, Norway, Germany, the UK, and the US. During the second “in-depth exploration” phase (Autumn 2018–Summer 2019), the working group conducted an in-depth investigation of the chosen ISMs, which included meeting foreign colleagues from respective countries in Denmark and abroad (Interviews 9ORG1S1, 14ORG1S1). From the summer of 2019 until the end of the year, the group summarised and assessed its study. In early 2020, it was ready to present its ideas to stakeholders.

##### 4.2.2. Wider Context: China and “Huawei Storm”

The development of Danish ISM occurred against a wider China-related (cyber)security discussion, which emerged from concerns over Huawei—the biggest provider of telecom equipment in Europe of Chinese origin—and its alleged collaboration with the Chinese government (Cerulus, 2020; Karner, 2020a, 2020b; Kruse & Winther, 2019; Patey, 2019). Since 2013, Huawei has acted as a provider of telecom equipment for the Danish operator TDC, raising the concerns of politicians and security experts (Patey, 2019). In 2019, TDC chose the Swedish telecom operator Ericsson over Huawei, although it claimed that this was a commercially motivated decision (Strand, 2019). In late 2019, Huawei reportedly asked the Danish prime minister for “clear answers” on whether they were still “welcome to participate” in Denmark’s 5G rollout and whether same security measures would be applied to all telecom equipment providers (Cerulus, 2020; Kruse & Winther, 2019). These questions came in a row of a diplomatic storm between China and Denmark, where Chinese ambassador was reported to threaten Faroe Islands, an autonomous Danish territory, to cancel a trade deal between them and China should they choose not to secure the contracts on Huawei 5G (Cerulus, 2020; Kruse & Winther, 2019). The discussions of ISM and the “Huawei storm” overlapped in time and reinforced each other. In December 2019, the Danish parliament expressed the need for the establishment of the ISM to verify FDIs for possible security risks (Erhvervsministeriet, 2020). In early 2020, Danish Prime Minister Mette Frederiksen said in a “decisive” interview that Denmark was working on the legislation to make sure “suppliers...cannot via 5G networks work against Danish security policy interests” and that the

government was also working on legislation to screen potentially dangerous FDI (Mouritzen, 2020).

#### 4.2.3. Business Position

This stage can be characterised as the transition between “before” and “during” the securitising move. The draft legislation on screening FDI had been submitted at the EU level, yet it was uncertain how this would materialise in Denmark. The emerging debates on China and its influence on economic actors indicated increasing attempts from European political elites to formulate the perception of a “security threat” in the commercial policy domain, yet such perceptions differed across member states. Denmark was about to shape a meaning of its own.

In 2017, Danish business groups—similar to previous debates—saw the idea of FDI screening as yet another protectionist move by industrialised countries. However, since the Commission’s proposal left the key decision power within member states, Danish businesses—drawing on shared liberal-minded views with the government—expected to influence the upcoming legislation (Interviews 4BA2S1, 17BA1S1).

In early 2018, Danish policymakers started preparatory work but had little understanding of what the Danish ISM should look like, which created uncertainty for Danish market actors, especially given that there was no previous history of cross-sectoral investment screening in Denmark. The EU-level legislation development, on the other hand, was on the run, and Danish business organisations turned to EU-level policymakers and stakeholders to gain clarity about the new categories of “security threat” entering the commercial policy domain. In Brussels, Danish business groups engaged in a “good dialogue” with European colleagues and the Commission. For Danish business, these early discussions were centred around protectionist rather than security aspects, and they felt jeopardised by a potential protectionist turn in the EU, especially in the light of the upcoming departure of the UK with the “free traders” camp getting smaller and less influential (Interview 1BA1S1). To cope with the increasing uncertainty, businesses mostly tried to clarify the proposed category of “threat” and advocated against economic criteria and reciprocity as grounds for FDI screening, which “we in Nordic countries” saw as “a French word for protectionism” (Interview 4BA2S1).

Later in 2018, and to the beginning of 2019, the discourse around Chinese strategic investments for “non-economic” reasons became stronger and increasingly spread from European political to business domains. The focus of the discussion gradually shifted from economics and protectionism to the security and strategic aspects of potential screening policies. With the heightened political discourses around China and its strategic investments, business groups began reconsidering existing perceptions of Chinese FDIs, embracing a new cate-

gory of “threat” in FDI regulation and gradually accepting the idea of upcoming investment screening (Interviews 4BA2S1, 17BA1S1). In early 2019, powerful German interest groups declared a change of views on China by acknowledging that China might pursue trade and investment for strategic rather than economic reasons (Federation of German Industries, 2019). This “tipped the mood” of the wider—including the Danish—business community and led to the “acknowledgement that we need to react” (Interview 4BA2S1).

Later in 2019, the “Huawei storm” reinforced perceptions of China as a geopolitical rival and the necessity to use caution in economic relations in strategic sectors. The discourses merged: European and local, geoeconomic and cyber security. The new social-democratic government that took the wheel after the 2019 parliamentary elections might have also contributed to a less “liberal” policy orientation. Last but not least, the “corona crisis” contributed to a broader understanding of “critical infrastructure” in Denmark (Mouritzen, 2020). With the increasing discourses on Chinese control of strategic sectors spread across political and media spaces, and in the light of the economic and strategic vulnerabilities revealed at the height of the Covid-19 pandemic, arguably, Danish society experienced a “paradigmatic shift” in its perception of “threats” (Interview 9ORG1S1).

#### 4.3. Prepare for Screening: Inviting Business in (2020–2021)

##### 4.3.1. Policy Development Context

In March 2020, the working group invited the business community to discuss policy ideas on the Danish ISM. The group introduced stakeholders to the topic of investment screening and the reasoning behind its adoption, raised several questions, and presented its comparative study of different screening systems (Erhvervsministeriet, 2020). Business groups responded with their comments. In addition, the working group organised joint meetings and consultations with interest groups “behind closed doors” between March and October 2020 (Interviews 1BA1S1, 4BA2S1, 14ORG1S1, 17BA1S1, 19BA2S1).

In October 2020, the working group presented three possible screening schemes to the government (Erhvervsudvalget, 2020), where a mandatory sector-specific screening supplemented with a voluntary cross-sectoral notification mechanism was chosen “based on the criteria of effectiveness and predictability” (Interview 14ORG1S1). On December 9, 2020, the draft Investment Screening Act was submitted for consultation, where 115 stakeholders were invited to send their feedback. In total, there were 11 official policy feedbacks, followed by comments from the Ministry of Business (Erhvervsministeriet, 2021). The draft law was proposed to the parliament in March and adopted in May 2021.



#### 4.3.2. Business Position

The invitation of business groups to the debate in March 2020 can be seen as a key event of the “securitising move” in Denmark: The stakeholders were clearly presented with the reasoning behind the policy and were invited to participate in the discussion. Arguably, the goal was to let business “invest” in the co-production of new categories and policy ideas and prepare the conditions for having business “on board” upon the submission of the legislation draft. The further publication of the policy proposal for official consultation can be seen as the beginning of the “after utterance” stage, attempting to mobilise business groups around the policy adoption drawing on the previous discussion.

By the time of the invitation, the idea that FDI could potentially pose a security threat and that ISM was necessary to address it, was *generally legitimised* among Danish economic groups, who embraced a two-fold perception of FDI-related “threat.” The first aspect included a narrow understanding of specific sectors deemed vital for the functioning of society, such as critical infrastructure or strategic technologies. The second aspect related to FDI coming from “non-friendly” countries, primarily at that time from China (Interviews 17BA1S1, 19BA2S1). These views were reflected in the business feedback to the consultation where they advocated, among other things, for the narrowing down of sector coverage, excluding FDIs from OECD, EFTA, and EU countries, as well as financial agreements from the review, and lowering shareholding thresholds (Erhvervsministeriet, 2021).

The working group had a broader vision of a “threat” yet represented a fragmented “triangle” of interests. At the first “angle” was the Ministry of Industry, Business, and Financial Affairs represented by the ministerial Business Authority, which is reported to have been “business focused.” At the “second” angle was the Ministry of Foreign Affairs, which accordingly focused on the foreign relations aspects of the law. The third “angle” was taken by the Ministries of Justice and Defence and, reportedly, a representative of the Prime Minister’s Office, which was “security-focused” (Interview 19BA2S1).

Businesses noted that the Business Authority was generally responsive to their feedback. However, the interest representation did not seem to be “balanced”: First, the security-related pressure was “hard,” reflecting bi-partisan consensus among political elites; second, there was almost no direct communication between interest groups and the security-oriented “angle” of the group. As a result, businesses lacked proper argumentation and saw some security-motivated provisions as being poorly justified. The broad Danish ISM was especially contrasting the “soft” EU-level regulation, which promised more freedom to Denmark to shape its own policy and did not meet business expectations for a “liberal-oriented” (i.e., narrow) ISM (Interviews 4BA2S1, 17BA1S1, 19BA2S1).

Partly, business comments were accepted by the legislators. The perception of “threat” was narrowed down and the legal uncertainty on implementation practices was reduced. For instance, special financial agreements where an investor’s final origin is an EU/EFTA country were excluded from the review; the review deadlines were shortened, and certain penalty provisions were modified. Overall, businesses and policymakers assessed their cooperation positively. For the Business Authority, it helped them to mitigate most of the criticism and maintain good relationships with the business community (Interview 14ORG1S1). For businesses, it helped improve legal certainty and promote their interests to the best possible extent (Interview 17BA1S1).

However, upon policy adoption, most business groups in Denmark shared the view that, even though ISM was necessary to address the emerging FDI-related threats, the adopted legislation was “way too broad.” They were concerned not over a potential denial of FDIs but over the heavy administrative and financial burden imposed by the broad screening scheme, where “to catch that one critical investment you might have to screen a lot of benign investment” (Interview 4BA2S1).

#### 4.4. Implementation: Is Securitisation Over?

The Danish ISM entered into force in July 2021 and is subject to an official evaluation by the end of 2023. At the time of writing, an evaluation had not yet been issued. However, the officials from the Business Authority reported that the “numbers in Denmark are following the EU trends” (Interview 14ORG1S1). They referenced the Commission’s report from September 2022, according to which out of 29% of cases that were formally screened, only 1% of FDIs were prohibited, 23% were conditioned, and 73% were authorised without conditions. The reference to European trends suggests that very few transactions in Denmark have been banned. As to businesses, they assess implementation as “reasonable” and “manageable” (Interviews 19BA2S1, 17BA1S1), which to a certain degree mitigates the initial critique of some of the ISM provisions.

While the initial implementation trends indicate that most FDI is “still welcome,” the shared perception of “threat” seems to have been influenced by an “exogenous shock,” particularly a full-scale Russian invasion of Ukraine in 2022. The invasion brought a high-intensity war to the European doorstep, and, followed by Chinese ambiguous position indicating further sliding towards authoritarianism, this widened the split between democratic and authoritarian worlds. These developments have added to further *extension of the perception* of the “threat” by businesses (e.g., including Russia into the category of rival investors, which has not been seen as such before the invasion), *acknowledgement* of political *justifications behind securitisation* of economics (e.g., to have a mechanism to correct market-driven policies based on “short-sighted” business interest), and *expectations* for

*more market restrictions* (e.g., legislation on outward investment screening; Interviews 17BA1S1, 19BA2S1).

Liberal-minded Danish business groups seem to accept the new geopolitical reality in which economic policies are no longer separated from security considerations (Interviews 17BA1S1, 19BA2S1). This new reality increases uncertainty, which is related to the future of doing business in geopolitically rival countries and to the upcoming legislation furthering market restrictions. It is yet to be seen how the European and global markets will be redrawn; however, there is a growing realisation among economic actors that “business as usual” seems no longer possible. The reassessment of commercial policies, the perception of related risks, and, consequently, considerations for adjusting the legal regime remain an ongoing process.

## 5. Discussion

The study suggests several theoretical implications. First, it offers an extension of our view of “securitiser” both “vertically” and “horizontally.” The “vertical” extension refers to the supranational level of the EU. For Denmark and the majority of the other member states, the idea of investment screening came from the EU level, gradually spread, and became legitimised, leading to multilevel and multi-spaced securitisation. The “horizontal” extension refers to the broader composition of the working group, where along with “traditional” securitising actors such as defence and foreign affairs ministries we observe the inclusion of “new” actors such as the Ministry of Industry, Business, and Financial Affairs. Whether this composition contributed well to securitisation remains a question. On the one hand, the fragmented representation did not allow for a full alignment of policy stances between business and government. On the other hand, the Business Authority’s pre-established dialogue with interest groups contributed to businesses’ engagement in the discussion, their acceptance and compliance with the legislation, and their perception of the implementation as “reasonable.”

Second, the study illustrates how business identities enter into play when making meaning of new categories and policy stances under securitisation. During early debates, the initial response was very much shaped by the shared identity of Northern “free traders” against the “others,” i.e., industrialised and protectionist France, Italy, and partly Germany. The new policy instrument was taken as a part of this “traditional” free trade vs. protectionism rivalry. The initial strategic responses—focusing efforts on local politicians—were shaped by the expectations of a narrow mechanism based on the business–government shared perception of the Danish economy. Later in the process, the traditional “free-trader” identities came into play with the wider “European” identities, where France, for instance, was no longer one of the “others,” and “otherness” was assigned to geopolitical rivals that might pursue FDI for strategic reasons.

Both identities were reflected in the policy preferences: The “free-trader” identities account for the narrow sector coverage, whereas wider European identities account for advocating the exclusion of OECD, EFTA, and EU investors from the review.

Finally, the study shows the importance of networks, discourses, and exogenous shocks in shaping security-related policy preferences under uncertainty. Business groups were embedded into various networks of policy-makers and stakeholders across national and European levels being exposed to wider discourses, which shifted their focus from economic to security aspects of the regulation and influenced their own perceptions of FDI and ISM. When faced with (unpredicted) exogenous shocks, such as high-intensity war followed by severe economic sanctions, businesses face even wider uncertainty in terms of upcoming regulatory reforms and doing business in rival regimes. To cope with uncertainty, businesses, again, rely on local and European networks to gain information and turn to “self-modulation” of both practices and discourses.

## 6. Conclusion

In this article, I argue that business policy preferences on ISM were shaped in the multilevel context of securitisation of commercial policies due to the emerging needs of governments to manage geopolitical security issues. Being exposed to increasing security discourses across different levels, businesses gradually embraced the idea that FDI can pose a strategic threat and accepted the necessity of investment screening policies. The multiple identities came into play when formulating policy responses; however, they were only partly accepted by the government in the context of a fragmented securitisation process, and the understanding of “threat” between government and business groups did not fully align. At the same time, due to new security challenges, exogenous shocks, and increasing uncertainty, business groups continue to self-modulate their practices and discourses related to geoeconomic challenges.

Recent policy developments in Europe indicate that we can expect a broad redrawing of global economic borders. The European economic security strategy published by the Commission in June 2023 outlines three interrelated strategic priorities: “promoting,” “protecting,” and “partnering.” While FDI screening is clearly placed within the framework of protecting Europe from “commonly identified economic security risks,” the “promoting” of the EU competitiveness “by making our economy and supply chains more resilient” and “partnering” with countries sharing EU “concerns on economic security” (European Commission, 2023, pp. 2–3) go hand-in-hand with security-motivated market interventions and suggest several implications. First, we can expect further political and legal developments in market regulation and practices, including the diversification of supply and export markets and a reorientation of

trade and capital flows from geopolitically “unfriendly” countries towards geopolitical allies. As a result, we can expect a growing regionalisation of the global economy, where future markets will likely be reshaped to mirror the geopolitical landscape—similar to the decades of the Cold War (Gowa, 1995) before the “end of history” was declared in the 1990s (Babić et al., 2022). Consequently, we can expect growing political and business efforts to increase the camp of geoeconomic allies by pursuing closer ties with the countries of the Global South.

The Commission clearly indicates that implementing the strategy requires cooperation from the side of European business, as “identifying the main risks and designing policy responses should tap into the knowledge of European companies that are already working to mitigate many of these threats” (European Commission, 2023, pp. 3–4). Business groups, on their side, are stepping into the new world of geoeconomics, where security and economic considerations go hand-in-hand and reinforce each other. Future research must determine how market actors adapt to and what role they undertake in this new geoeconomic reality.

### Acknowledgments

This research is part of the project Beauty Contests: The Changing Politics of Foreign Investment in Europe financed by the Independent Research Fund Denmark (1028–00003B). The article has been presented at the 18th Biennial EUSA Conference (May 2023). I would like to express my gratitude to Christilla Roederer for her guidance and support during the research process, Olivier Schmitt and Vincent Keating for their helpful feedback during the work on the manuscript, Guri Rosén and Sophie Meunier for their editorial support, the anonymous reviewers for their constructive comments, and all the interviewees for sharing their insights with me.

### Conflict of Interests

The author declares no conflict of interests.

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### About the Author



**Anna Vlasjuk Nibe** is a PhD candidate at the University of Southern Denmark. She holds an MSc in International Economic Law from Kyiv National Economic University, named after Vadym Hetman, and a BSc in Market and Management Anthropology from the University of Southern Denmark. Anna's professional experience includes legal consultancy in the fields of corporate law, cross-border transactions, and foreign direct investment, and research and teaching in the field of EU policymaking. Anna's research interests include the geo-politicisation of EU commercial policy, globalisation and geoeconomics, and the role of market actors in a changing global order.